# Annual Financial Report

**For the Fiscal Year Ended December 31, 2012**
**Beaumont-Cherry Valley Water District**

# Beaumont-Cherry Valley Water District

560 Magnolia Avenue Beaumont CA 92223
951.845-9581 www.bcvwd.org


## Board of Directors as of December 31, 2012

| Director | Title | Division | Current Term |
|---|---|---|---|
| Ryan Woll | President | 1 | 12/2012 – 12/2016 |
| Ken Ross | Vice-President | 2 | 12/2012 – 12/2016 |
| John Guldseth | Treasurer | 4 | 12/2010 – 12/2014 |
| Dr. Blair Ball | Secretary | 5 | 12/2010 – 12/2014 |
| Daniel Slawson | Director | 3 | 12/2012 – 12/2014 |

Eric Fraser, P.E.
General Manager

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# Introductory

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Beaumont-Cherry Valley Water District

Phone: (951) 845-9581 Fax: (951) 845-0159

www.bcvwd.org



July 10, 2013

Honorable Board of Directors
Beaumont-Cherry Valley Water District

**Introduction**

It is our pleasure to submit the Annual Financial Report for the Beaumont-Cherry Valley Water District for the year ended December 31, 2012, following guidelines set forth by the Government Accounting Standards Board. District staff prepared this financial report. District management is ultimately responsible for both the accuracy of the data and the completeness and fairness of presentation, including all disclosures in this financial report. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the District. All disclosures necessary to enable the reader to gain an understanding of the District's financial activities have been included.

The District's financial statements have been audited by Vavrinek, Trine, Day and Co., a firm of licensed certified public accountants. The purpose of their independent audit was to provide reasonable assurance that the financial statements of the District, for the year ended December 31, 2012, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used; and evaluating the overall financial statement presentation. The audit included obtaining an understanding of the District and its environment, including internal controls, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures.

The independent auditors concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that the District's financial statements for the year ended December 31, 2012, are fairly presented, in all material respects, in conformity with Generally Accepted Accounting Principles (GAAP). The independent auditors' report is presented as the first component of the financial section of this report, beginning on page 6.

GAAP requires management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The District's MD&A can be found immediately following the report of the independent auditor, beginning on page 8.

Beaumont-Cherry Valley Water District

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**District Profile**

The goal of the District is to provide for a healthy, safe and enriched quality of life throughout the District boundaries through watershed stewardship and thorough management of water resources in a practical, cost-effective and environmentally sensitive manner for current and future generations.

The origin of the Beaumont-Cherry Valley Water District dates back to the latter part of the 1800's when the Southern California Investment Company was the owner of the land that currently is the City of Beaumont and the community of Cherry Valley. The Company intended to build a system of water lines for the purpose of developing subdivisions throughout the Beaumont and Cherry Valley areas.

Over many decades, the water system of the Beaumont-Cherry Valley Water District has evolved from a small privately owned company that was started to support development in the District's service area, to the system today that serves over 40,000 people in both the City of Beaumont and the community of Cherry Valley.

The District's present service area covers approximately 28 square miles, virtually all of which is in Riverside County, and includes the City of Beaumont, the community of Cherry Valley and some small areas of Calimesa. The District does, however, own 539 acres of watershed land in Edgar Canyon in San Bernardino County located just north of the Riverside-San Bernardino County line where the District operates a number of wells and several reservoirs.

The District has both a potable and non-potable water distribution system. At the end of 2012, the District had a total of 15,128 connections. Approximately 300 of these total connections are landscape irrigation connections to the non-potable (recycled) water system and approximately 45 of these total connections are for agricultural irrigation which is connected to the potable water system. The number of connections increased from 5,600 in the year 2000 before the housing market boom that encompassed Western Riverside County and particularly Beaumont.

The District has a total of 24 wells and 14 reservoirs ranging in size from 0.5 million gallons (MG) to 5 MG. Total storage is approximately 22 MG.

Today, the Beaumont-Cherry Valley Water District continues to develop programs and policies that ensure a supply of water for the area's growing population and include recharge of local area storm water and imported water from the State Water Project.

Of significance to its programs and goals, the District's Board purchased 78.8 acres of land and eventually constructed the Noble Creek Recharge Facility for the recharge of imported water from the State Water Project. In the future, storm runoff and possibly highly treated recycled water will be recharged at the facility. These water sources are in the untreated state which means the water will be naturally treated as it recharges the groundwater much like rain and runoff are naturally treated as they seep into the ground to become groundwater.

The District is governed by a five-member Board of Directors representing five divisions. The General Manager administers the day-to-day operations of the District in accordance with policies and procedures established by the Board of Directors. The District currently employs thirty-three employees. The District's Board of Directors meets on the second Wednesday of each month. Meetings are publically noticed and citizens are encouraged to attend.

**Local Economy (see acknowledgements note on page 5)**

The City of Beaumont experienced very rapid growth from the year 2000 to 2010 and about two-thirds of this growth occurred between 2000 and 2005. The high rate of growth continued until mid-2008 when development slowed markedly following the economic downturn in the US and California.

The historic growth of the local economy is set forth by the recent population and household data for the District's service area are as follows:

| City of Beaumont | 1980 | 1990 | 2000 | 2010 |
|---|---|---|---|---|
| Population | 6,818 | 9,685 | 11,407 | 36,837 |
| Households | 2,852 | 3,718 | 3,887 | 12,950 |
| People/Household | 2.39 | 2.60 | 2.93 | 2.84 |

The population in Cherry Valley has remained relatively constant since 1980.

The future growth anticipated for the local economy is reflected in the planned construction by area land developers of approximately 10,500 housing units. Approximately 7,600 of these planned housing units are approved and these developments were commencing construction prior to the economic downturn that commenced in the mid to late calendar year of 2006.

The following comments and data are offered as economic trend indicators for Southern California's Inland Empire which encompasses the District's service area. The majority of the comments and data were either quoted or paraphrased from the noted economist, Dr. John Husing, through his Quarterly Reports that are available on his website noted in the Acknowledgement Section at the end of this letter.

From 2000-2010, the Inland Empire, which includes the District service area, "added 1,035,970 people to reach 4,291,496, up 31.8% including 21,846 people from 2011-2012." The area had four of the State's 20 fastest growth rates including Beaumont (2.1%, 14$^{th}$).

"Taxable sales are a major revenue source for cities" and a good economic indicator for the region. "Sales are beginning to recover from the steep downturn. In the calendar year 2011, Riverside County's sales increased 10.1%. Inland Empire growth was well above California's growth of 8.7%. During the first six months of 2012, Inland Empire sales expanded by another 9.5% versus 8.0% for the State."

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The District is seeing improving trends in the local economy, consistent with the trends of the Inland Empire. Most staff agrees that a slow recovery is in process and will continue over the next several years. The District has experienced an increased interest from developers in completing tract developments that have been on hold during the slowdown. The interest is continuing to escalate in 2013.

The District staff anticipates that in 2013 the Inland Empire's growth will again increase incrementally. "In 2013 The Inland Empire economy should gain 28,300 jobs (2.4%) after adding 23,025 in 2012 and 4,633 in 2011. The inland area's population serving sectors will grow again in 2013 but modestly."

**Relevant Financial Policies**

*Budgetary Controls*

The District maintains budgetary controls, the objectives of which are to ensure compliance with legal provisions, embodied in the annually appropriated budget approved by the Board of Directors.

During the budget year ending December 31, 2012, there were no significant amendments made to the original budget, although some appropriations were reallocated to other expense classifications. The year 2012 was a transitional year for the District in many regards and resulted in operating revenues being in line with operating expenses, a balanced budget, and the ending of employee furloughs.

**Major Initiatives**

Major goals for the District include supporting future area growth, providing the means to meet increasing demands for water and provide accurate accounting of all business operations. The following three paragraphs set forth the District's major initiatives to meet those goals and are as follows:

Comprehensive water planning for future District area growth was performed as part of the District's Urban Water Management planning effort as required by the California Water Code. Specifically, the Code requires all urban water suppliers within the State to complete urban water management plans and update them every five years. A draft update was recently completed and is available as the "2013 Draft Update". Staff anticipates the Urban Water Management Plan will be adopted in mid-2013. The 2013 Urban Water Management Plan update includes plans: for conservation and effective use of urban water supplies; for long-term, reliable supplies of water; to ensure the appropriate level of reliability of the District's water service; and plans to manage urban water demands and efficient use of water that will be a guiding criterion in public decisions.

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Providing additional facilities to provide water for future growth was also necessary, therefore District staff commenced expansion of the District's Noble Creek Recharge Facility. Specifically, in the year 2000, the District began investigating a 78.8 acre site as a location for a facility to recharge captured storm flow and other water sources. The District eventually purchased the site and developed Phase 1 of the recharge facility which enabled importing water from the State Water Project. Phase 1 facilities were completed and went on line in late summer of 2006. Part of the District's major initiatives, Phase 2 of the Recharge Facility, is to provide for additional water supply via groundwater recharge. Phase 2 construction has commenced with anticipated completion in 2013.

Providing the ability for District staff to provide an accurate accounting and reporting of all business operations now and going forward is the third major initiative implemented by the District. Specifically, the District recognized the need to upgrade its main accounting system in order to improve the efficiency of day-to-day operations and provide an accurate accounting of all business operations. The District solicited proposals with the objective of finding an accounting system that is more user-friendly, has enhanced reporting capabilities, has efficient run times to improve billing sequence times and a system backed with an effective support group. The District's current or legacy accounting system does not have effective support which leads to decreased efficiency. The District evaluated alternatives in the last quarter of 2012 and is currently implementing the new accounting system. Deployment of the new system will be completed by the third quarter of 2013.

**Acknowledgements**

Preparation of this report was accomplished by the combined efforts of District staff. We appreciate the dedicated efforts and professionalism that these staff members contribute to the District. We would also like to thank the members of the Board of Directors for their continued support in planning and the implementation of the Beaumont-Cherry Valley Water District's financial and operating policies.

The majority of the comments and data included in the Local Economy section above were either quoted from or paraphrased from Dr. John Husing's Quarterly Reports for October 2011 and April 2013 available on his website, www.johnhusing.com. Mr. Husing is a noted economist with vast knowledge of the Inland Empire and whose reliable expertise is recognized throughout the region.

**Eric Fraser**
**General Manager**

Melissa Bender

**Melissa Bender**
**Director of Finance &**
**Administrative Services**

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# Financial

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# Independent Auditors' Report

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Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

VALUE THE DIFFERENCE

# INDEPENDENT AUDITORS' REPORT

Board of Directors
Beaumont-Cherry Valley Water District
Beaumont, California

We have audited the accompanying financial statements of the Beaumont-Cherry Valley Water District (District) as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

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

**Auditors' Responsibility**

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District, as of December 31, 2012, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



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FRESNO • LAGUNA HILLS • PALO ALTO • PLEASANTON • RANCHO CUCAMONGA • RIVERSIDE • SACRAMENTO

**Emphasis of Matter**

As discussed in Note 1(K) to the financial statements, in 2012 the District adopted new accounting guidance, Statement of Governmental Accounting Standard (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Our opinion is not modified with respect to this matter.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedule of funding status on pages 8–12 and 31, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the District's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2013, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co., LLP

Riverside, California
June 28, 2013

# Management's Discussion & Analysis

As management of the Beaumont-Cherry Valley Water District, we offer readers of the Beaumont-Cherry Valley Water District's financial statements this narrative overview and analysis of the financial activities of the Beaumont-Cherry Valley Water District for the fiscal year ended December 31, 2012. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our transmittal letter which can be found on pages 1-5.

**Financial Highlights**

Based on the financial information for the year ended December 31, 2012, the following financial highlights are noted for the Beaumont-Cherry Valley Water District:

- The assets of the District exceeded its liabilities at year end by $104,619,219 (net position). Of this amount, $5,827,344 represents unrestricted net position, which may be used to meet the District's ongoing obligations to customers and creditors.
- The District's total net position increased $376,396 in comparison with the prior year primarily due to increased revenues from a Board approved rate increase which was based on a study conducted by an outside party in 2010, combined with a decrease in State Project Water purchases.

**Overview of Required Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Beaumont-Cherry Valley Water District's annual financial report. The annual financial report is comprised of the following:

- Transmittal Letter;
- Independent Auditors' Report;
- Management's Discussion and Analysis;
- Basic Financial Statements:
    - Statement of Net Position;
    - Statement of Revenues, Expenses and Changes in Net Position;
    - Statement of Cash Flows;
- Notes to the Basic Financial Statements;
- Required Supplementary Information; and
- Report on Internal Controls & Compliance.

The *Statement of Net Position* presents financial information on all of the Beaumont-Cherry Valley Water District's assets and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Beaumont-Cherry Valley Water District is improving or deteriorating. Beaumont-Cherry Valley Water District's net position as of December 31, 2012 was $104,619,219 an increase of $141,702 from the $104,477,517 reported in 2011. The *Statement of Net Position* can be found on page 14.

The *Statement of Revenues, Expenses and Changes in Net Position* presents information illustrating how net position changed during the fiscal year. This *Statement* measures the success of the District's operations over the past year and can be used to determine if the District has successfully recovered all of its costs through its rates and other charges. This statement can also be used to evaluate profitability and credit worthiness. The *Statement of Revenues, Expenses & Changes in Net Position* can be found on page 15.

The *Statement of Cash Flows* presents information relating to the District's cash receipts and cash payments for the year. When used with related disclosures and information in other financial statements, the information in this *Statement* should help readers assess the District's ability to generate future net cash flows, its ability to meet its obligations as they come due and its need for external financing. It also provides insight into the reasons for differences between operating income and associated cash receipts and payments; and the effects of the District's financial position of its cash and non-cash investing for capital and related transactions during the year. This *Statement* answers questions such as where did cash come from, what was cash used for and what was the change in cash balance during the reporting period. The *Statement of Cash Flows* can be found on page 16.

*Notes to the Financial Statements*. The notes provide additional information that is necessary to understand all of the data provided in the basic financial statements. The notes to the financial statements are included immediately following the financial statements and can be found on pages 17-31 of this report.

In addition to the basic financial statements and accompanying notes, this report also presents *Required Supplementary Information* concerning the Beaumont-Cherry Valley Water District's progress in funding its obligation to provide pension and Other Post-Employment Benefits (OPEB) to its employees. *Required Supplementary Information* can be found on page 32 of this report.

## Financial Analysis

The following condensed schedules contain a summary of financial information that was taken from the basic financial statements to assist readers in assessing the District's overall financial position and operating results as discussed in this MD&A.

**Statement of Net Position**

As noted earlier, net position over time, may serve as a useful indicator of a government's financial position. Beaumont-Cherry Valley Water District's assets exceeded liabilities by $104,619,219 for the fiscal year ending December 31, 2012.

| | 2012 | 2011 |
|---|---|---|
| Current assets | $ 11,536,381 | $ 9,227,871 |
| Non-current assets | 810,342 | 1,051,969 |
| Capital assets | 101,350,650 | 102,779,309 |
| Total assets | 113,697,373 | 113,059,149 |
| Current liabilities | 3,923,322 | 3,460,175 |
| Non-current liabilities | 5,154,832 | 5,121,457 |
| Total liabilities | 9,078,154 | 8,581,632 |
| Net investment in capital assets | 98,791,875 | 99,194,309 |
| Unrestricted | 5,827,344 | 5,283,208 |
| Total Net Position | $ 104,619,219 | $ 104,477,517 |

The largest portion of the Beaumont-Cherry Valley Water District's net position (94.4%) reflects its investment in capital assets (e.g., land, transmission and distributions systems, reservoirs, tanks, pumps, buildings and structures, equipment and vehicles) net of related outstanding debt used to acquire those assets. Beaumont-Cherry Valley Water District uses its capital assets to provide water service to the residents of Beaumont, Cherry Valley and some portions of Calimesa. As such, these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to repay the debt.

The remaining net position of $5,827,344 (5.6%) is unrestricted and may be used at the Board's discretion to continue meeting the needs of the District. See Note 14 on pages 28-29 for more details on the District's net position.

The District's net position increased $141,702 from the prior fiscal year. The increase is a result of the combined effects of increased revenues from a Board approved rate increase, decreased State Project Water expenses, and a restatement of the prior year's unearned revenues liability. See Note 15 on page 29 for more details on the restatement. State Project Water expenses were decreased due to limited deliveries because of the extended State Water Project system shut-down for maintenance, repairs and modifications.

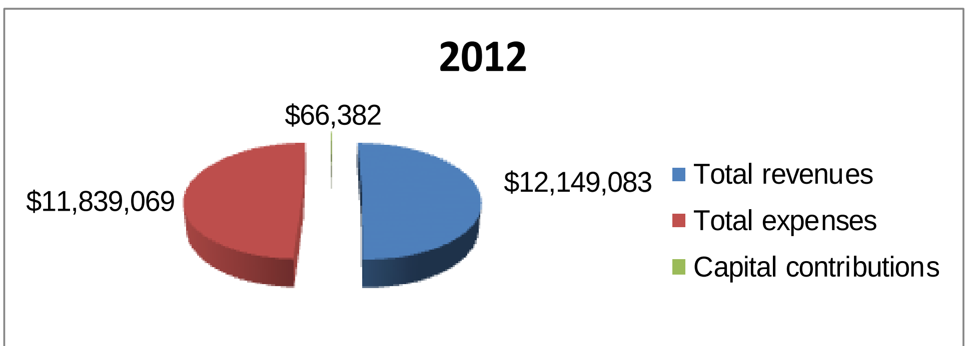
**Statement of Revenues, Expenses and Changes in Net Position**

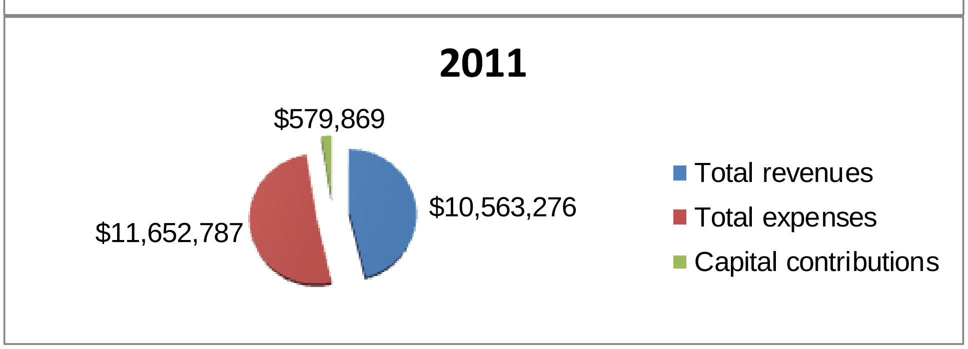
The increase in operating revenue was primarily attributable to an increase in water consumption (11,040 acre feet sold in 2011 versus 11,599 acre feet sold in 2012), as well as a Board approved rate increase. Furthermore, there was an increase in overall customers served by the District (from 14,944 active customers in 2011 to 15,128 active customers in 2012).

Operating expenses are comparable to 2011 expenses. District staff returned to a regular work schedule on January 1, 2012, after being furloughed since April 12, 2010.

Capital contributions of $66,382 decreased significantly from $579,869 in 2011 due to a decrease in facilities fees paid by developers. Capital contributions from developers are expected to remain flat during 2013.

| | 2012 | 2011 |
|---|---|---|
| Operating revenues | $ 11,972,596 | $ 10,313,481 |
| Non-operating revenues | 176,487 | 249,795 |
| Total revenues | 12,149,083 | 10,563,276 |
| Operating expenses | 11,716,094 | 11,497,194 |
| Non-operating expenses | 122,975 | 155,593 |
| Total expenses | 11,839,069 | 11,652,787 |
| Income (loss) before contributions | 310,014 | (1,089,511) |
| Capital contributions | 66,382 | 579,869 |
| Net position - beginning as restated | 104,242,823 | 104,987,159 |
| Net position - ending | $ 104,619,219 | $ 104,477,517 |



**Capital Assets & Debt Administration**

**BCVWD's Capital Assets (Net of Depreciation)**

| | Balance December 31, 2012 | Balance December 31, 2011 |
|---|---|---|
| Land | $ 7,721,730 | $ 7,721,730 |
| Transmission and Distribution System | 50,772,810 | 51,419,122 |
| Structures and Improvements | 14,516,192 | 14,888,709 |
| Reservoirs and Tanks | 16,846,225 | 17,315,812 |
| Pumping and Telemetry Equipment | 10,297,124 | 10,540,090 |
| Construction in Progress | 537,474 | 76,273 |
| Vehicles and Equipment | 659,095 | 817,573 |
| Capital assets, net of depreciation | $ 101,350,650 | $ 102,779,309 |

Beaumont-Cherry Valley Water District's investment in capital assets as of December 31, 2012 was $101,350,650, net of accumulated depreciation. This investment in capital assets includes land, transmission and distributions systems, reservoirs, tanks, pumps, buildings and structures, equipment and vehicles. Construction in progress increased by $461,201 due to work performed on the following projects: Water Masterplan Update, Urban Water Management Plan, Recycled Water Connection, Recycled Water Planning Grant, BM2 Anti-degradation Project, Noble Creek Recharge Facility Phase II, Brookside Pipeline Relocation, Lower Edgar Canyon Stormwater Project and Financial Software Conversion Project.

Capital assets additions of $182,542 were due to new meter installations. New meter installations include the cost of employee labor, as well as meter parts. Meters are currently replaced every 10-12 years as part of the District's meter change out program.

Information on the District's capital assets activity for the year ending December 31, 2012 can be found in Note 6 on page 24 of this report.

**Long-term Debt**

At December 31, 2012, the District had long-term debt, excluding pension related debt, totaling $2,600,000. The debt decreased by $985,000 as a result of the payments made during 2012. The District did not issue any new debt during fiscal year 2012. See Note 10 on page 25 for further details.

| Balance December 31, 2011 | Decreases | Balance December 31, 2012 | Current Portion | Non-current Portion |
|---|---|---|---|---|
| $ 3,585,000 | $ (985,000) | $ 2,600,000 | $1,015,000 | $1,585,000 |

**Economic Factors and Next Year's Budgets & Rates**

One of the District's largest expenses is the purchase of water from the State Water Project. Legally the District is required to replenish the water used which results in the need to purchase water from the State Water Project. There are additional costs as a result of purchasing water which makes it more costly than that of other sources of groundwater. Costs include electricity for pumping the imported water throughout the system.

Recognizing the need for long-term financial planning, the Board of Directors adopted the District's reserves policy in July 2010 to provide the foundation for strengthening the financial position of the District. The policy identifies and quantifies the working capital and contingency needs required to mitigate the costs associated with emergencies and disasters, as well as provide for expected future capital needs.

There were no rate increases planned for 2013. The Board of Director's approved a balanced budget for 2013.

**Requests for Information**

This financial report is designed to provide a general overview of the Beaumont-Cherry Valley Water District's finances. Questions regarding the content provided in this report or request for additional information should be addressed to the Director of Finance & Administrative Services, Beaumont-Cherry Valley Water District, 560 Magnolia Avenue, Beaumont, CA, 92223.

# Basic Financial Statements

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# Beaumont-Cherry Valley Water District

Statement of Net Position

December 31, 2012

| | |
|---|---|
| **ASSETS** | |
| Current Assets: | |
| Cash and investments (Note 2) | $ 8,379,689 |
| Restricted cash and investments - customer deposits (Note 2) | 181,066 |
| Interest receivable | 43,977 |
| Accounts receivable, net of allowance for uncollectibles (Note 3) | 1,834,624 |
| Notes receivable, net of allowance for uncollectibles (Note 4) | 206,239 |
| Inventories | 532,012 |
| Prepaid items | 340,452 |
| Deferred charges (Note 5) | 18,322 |
| Total Current Assets | 11,536,381 |
| Non-Current Assets: | |
| Deferred charges (Note 5) | 22,903 |
| Notes receivable, net of allowance for uncollectibles (Note 4) | 787,439 |
| Capital assets, net of accumulated depreciation (Note 6) | 101,350,650 |
| Total Non-Current Assets | 102,160,992 |
| **TOTAL ASSETS** | 113,697,373 |
| **LIABILITIES** | |
| Current Liabilities: | |
| Accounts payable and other accrued liabilities (Note 7) | 428,510 |
| Accrued interest payable | 21,970 |
| Customer account credit balances (Note 8) | 404,067 |
| Customer deposits payable | 181,066 |
| Unearned revenues | 1,622,188 |
| Current portion of long-term liabilities: | |
| Compensated absences (Note 9) | 131,379 |
| Notes payable (Note 10) | 1,015,000 |
| Pension related debt (Note 12) | 119,142 |
| Total Current Liabilities | 3,923,322 |
| Non-Current Liabilities: | |
| Compensated absences (Note 9) | 112,952 |
| Notes payable (Note 10) | 1,585,000 |
| Pension related debt (Note 12) | 1,205,158 |
| Other post-employment benefits obligations (Note 13) | 2,251,722 |
| Total Non-Current Liabilities | 5,154,832 |
| **TOTAL LIABILITIES** | 9,078,154 |
| **NET POSITION** | |
| Net investment in capital assets (Note 14) | 98,791,875 |
| Unrestricted (Note 14) | 5,827,344 |
| **TOTAL NET POSITION** | $ 104,619,219 |

The accompanying notes are an integral part of these financial statements.

## Beaumont-Cherry Valley Water District

Statement of Revenues, Expenses and Changes in Net Position

For the Year Ended December 31, 2012

| | |
|---|---|
| **OPERATING REVENUES** | |
| Metered water sales | $ 5,139,923 |
| Water service charges | 2,339,128 |
| Water importation pass-through charges | 2,318,837 |
| Water pumping power pass-through charges | 1,663,191 |
| Development and installation charges | 146,889 |
| Other revenue | 364,628 |
| Total Operating Revenues | 11,972,596 |
| **OPERATING EXPENSES** | |
| Salaries and employee benefits | 4,040,757 |
| Energy expenses | 1,231,156 |
| Water purchases | 2,642,003 |
| Administration | 552,707 |
| Operations | 281,110 |
| Maintenance and repairs | 577,422 |
| Depreciation | 2,072,402 |
| Insurance | 95,208 |
| Professional fees | 211,580 |
| Other expenses | 11,749 |
| Total Operating Expenses | 11,716,094 |
| Operating Income | 256,502 |
| **NON-OPERATING REVENUES (EXPENSES)** | |
| Interest earnings | 110,426 |
| Rental income | 22,969 |
| Other revenue | 43,092 |
| Interest expense | (122,975) |
| Total Non-Operating Revenues, Net | 53,512 |
| Income Before Contributions | 310,014 |
| **CONTRIBUTIONS** | |
| Capital contributions | 66,382 |
| Change in Net Assets | 376,396 |
| Net Assets, Beginning of Year | 104,477,517 |
| Prior Period Adjustments (Note 15) | (234,694) |
| Net Assets, End of Year | $ 104,619,219 |

The accompanying notes are an integral part of these financial statements.

# Beaumont-Cherry Valley Water District

Statement of Cash Flows

For the Year Ended December 31, 2012

| | |
|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | |
| Receipts from customers | $ 12,327,793 |
| Payments to suppliers and service providers | (7,262,246) |
| Payments to employees for salaries and benefits | (1,750,585) |
| Return of customer deposits | (36,656) |
| Net Cash Provided by Operating Activities | 3,278,306 |
| **CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES** | |
| Other receipts | 66,061 |
| Net Cash Provided by Non-Capital Financing Activities | 66,061 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | |
| Acquisition and construction of capital assets | (577,361) |
| Principal paid on capital debt | (985,000) |
| Interest paid on capital debt | (112,976) |
| Net Cash Used for Capital and Related Financing Activities | (1,675,337) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | |
| Interest earnings | 115,511 |
| Net Cash Provided by Investing Activities | 115,511 |
| Net Increase in Cash and Cash Equivalents | 1,784,541 |
| Balance, Beginning of Year | 6,776,214 |
| Balance, End of Year | $ 8,560,755 |
| Reconciliation to Statement of Net Assets: | |
| Cash and investments | $ 8,379,689 |
| Restricted cash and investments | 181,066 |
| Total Cash and Investments | $ 8,560,755 |
| **RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES** | |
| Operating Income | $ 256,502 |
| Adjustments to reconcile operating income to net cash provided by (used for) operating activities: | |
| Depreciation expense | 2,072,402 |
| (Increase) decrease in accounts receivable | (168,599) |
| (Increase) decrease in notes receivable | 186,924 |
| (Increase) decrease in inventories | (70,975) |
| (Increase) decrease in prepaid items | (253,099) |
| Increase (decrease) in accounts payable and other accrued liabilities | (102,603) |
| Increase (decrease) in customer credits payable | 3,813 |
| Increase (decrease) in customer deposits payable | (36,656) |
| Increase (decrease) in unearned revenues | 333,059 |
| Increase (decrease) in compensated absences | 24,049 |
| Increase (decrease) in pension related debt | (102,200) |
| Increase (decrease) in other post-employment benefit obligations | 1,135,689 |
| Total Adjustments | 3,021,804 |
| Net Cash Provided by Operating Activities | $ 3,278,306 |

The accompanying notes are an integral part of these financial statements.

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### A. Reporting Entity and Basis of Presentation

The Beaumont-Cherry Valley Water District (the District) is a special-purpose government district supplying and distributing water to over 40,000 people in both the City of Beaumont and the community of Cherry Valley. The District is governed by a five-member Board of Directors who serve overlapping four-year terms. The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applied to enterprise funds. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District solely operates as a special-purpose government which means it is only engaged in business-type activities; accordingly activities are reported in the District's proprietary fund.

### B. Measurement Focus and Basis of Accounting

Proprietary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the District receives value without directly giving equal value in return, would include grants, entitlements and donations. Revenue from grants, entitlements and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services, and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses include the costs of sales and services, the costs of employee benefits, maintenance of capital assets, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

### C. Cash and Cash Equivalents

The District's cash and investments are considered to be cash on hand, demand deposits and investments with maturities less than 90 days. Therefore, for purposes of the statement of cash flows, the District considers the cash and investment balance to be cash and cash equivalents.

### D. Inventories and prepaid items

Inventories are stated at cost using the average-cost method, and consist of materials used in construction and maintenance of the water system.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. The costs of the prepaid items are recorded as expenses when consumed rather than when purchased.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (*Continued*)**

**E. Capital Assets**

Capital assets purchased or constructed are carried at historical cost. Constructed costs include labor, materials and construction period interest expense (net of interest income, where applicable). Capitalization threshold is $5,000. Contributed assets are stated at estimated fair market value at the time received by the District. Land and construction in progress are not depreciated. Depreciation on the other assets is calculated on the straight-line method over the following estimated useful lives of the assets:

| | |
|---|---|
| Transmission and distribution system | 40 to 75 years |
| Structures and improvements | 40 years |
| Reservoirs and tanks | 50 to 75 years |
| Pumping and telemetry equipment | 10 to 50 years |
| Vehicles and equipment | 5 to 10 years |

**F. Unearned Revenues**

Unearned revenues arise when resources are received by the District before revenues are earned, as when developers pay in advance for services to be provided by the District at a later date. When the District has provided the services, the amounts will be recognized as revenue.

**G. Compensated Absences**

Vacation

The District's policy permits employees to accumulate earned but unused vacation benefits, which are eligible for payment upon separation from the District. The liability for such leave is reported as an expense when incurred.

Sick Leave

Employees who are part of the District's Employee Association not using any sick leave for twelve consecutive months can convert their twelve accrued 8-hour sick days to cash at the rate of two accrued days for 8 hours regular hourly pay-out. Upon retirement or death, all employees or their beneficiaries are entitled to receive a pay-out of 50% of all accumulated sick leave. Accumulated sick leave lapses when employees separate from the District in any other manner.

**H. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (*Continued*)**

**I. Uncollectible Accounts**

The District provides an allowance for doubtful accounts for all accounts deemed uncollectible.

**J. Credit/Market Risk**

The District provides water services to local residential and commercial customers. As part of normal operating practices, credit is granted to customers, on an unsecured basis.

**K. Use of Restricted Resources**

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources as they are needed.

**L. New Accounting Pronouncements**

***Effective This Fiscal Year***

**GASB Statement No. 62** – In December 2010, GASB issued Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement incorporates FASB and AICPA pronouncements into the GASB's authoritative literature containing certain accounting and financial reporting guidance. This Statement was implemented January 1, 2012.

**GASB Statement No. 63** – In June 2011, GASB issued Statement 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. This statement provides financial reporting guidance on deferred outflows of resources and deferred inflows of resources. This Statement was implemented January 1, 2012.

***Effective in Future Fiscal Years***

**GASB Statement No. 65** – In March 2012, GASB issued Statement 65 *Items Previously Reported as Assets and Liabilities*. This Statement provides guidance on proper classification of certain items previously reported as assets and liabilities as deferred outflows or inflows of resources. This Statement also provides guidance on recognition of certain items that were previously reported as assets and liabilities as outflows or inflows of resources. This statement is effective for periods beginning after December 15, 2012. The District has not determined the effect on the financial statements.

**GASB Statement No. 66** – In March 2012, GASB issued Statement 66 *Technical Corrections—2012—an Amendment of GASB Statements No. 10 and No. 62.* The objective of this Statement is to resolve conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* This Statement is effective for periods beginning after December 15, 2012. The District has not determined the effect on the financial statements.

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (*Continued*)

### K. New Accounting Pronouncements, (*Continued)*

**GASB Statement No. 67** – In June 2012, GASB issued Statement 67, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement No. 25.* This Statement establishes accounting and financial reporting requirements related to pensions for governments whose employees are provided with pensions through pension plans that are covered by the scope of this Statement, as well as for nonemployer governments that have a legal obligation to contribute to those plans. This Statement also addresses accounting and financial reporting for the activities of pension plans that are administered through trusts. This Statement is effective for periods beginning after June 15, 2013. The District has not determined the effect on the financial statements.

**GASB Statement No. 68** – In June 2012, GASB issued Statement 67, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement No. 27.* This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. This Statement is effective for periods beginning after June 15, 2014. The District has not determined the effect on the financial statements.

**GASB Statement No. 69** – In January 2013, GASB issued Statement 69, *Government Combinations and Disposals of Government Operations.* This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. This Statement is effective for periods beginning after December 15, 2013. The District estimates that this Statement will not have a material effect on the financial statements.

**GASB Statement No. 70 –** In April 2013, GASB issued Statement 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees.* This Statement improves accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. This Statement is effective for periods beginning after June 15, 2013. The District has not determined the effect on the financial statements.

## NOTE 2 – CASH AND INVESTMENTS

Cash and investments are classified in the accompanying financial statements as follows:

| | |
|---|---|
| Cash and investments | $ 8,379,689 |
| Restricted cash and investments - customer deposits | 181,066 |
| Total Cash and Investments | $ 8,560,755 |

**NOTE 2 – CASH AND INVESTMENTS, *(Continued)***

Cash and investments consist of the following:

| | |
|---|---|
| Cash on hand (petty cash and change drawers) | $ 1,400 |
| Demand deposits (cash in bank) | 3,776,746 |
| Investments | 4,782,609 |
| Total Cash and Investments | $ 8,560,755 |

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

The table below identifies the investment types that are authorized for the District by the California Government Code and the District's policy, where more restrictive. The table also identifies certain provisions of the California Government Code that address interest rate risk, credit risk, and concentration of credit risk.

| Authorized Investment Type | Maximum Maturity | Maximum Percentage of Portfolio | Maximum Investment in One Issuer |
|---|---|---|---|
| U.S. Treasury Obligations | 5 years | None | None |
| U.S. Agency Securities | 5 years | None | None |
| Money Market Mutual Accounts | 5 years | 15% | None |
| Local Agency Investment Fund (LAIF) | N/A | None | None |

**Disclosures Relating to Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity:

| | | Maturity |
|---|---|---|
| Investment Type | Fair Value | 12 Months or Less |
| LAIF | $ 4,530,846 | $ 4,530,846 |
| Money Market Account | 251,763 | 251,763 |
| Total | $ 4,782,609 | $ 4,782,609 |

**NOTE 2 – CASH AND INVESTMENTS, *(Continued)***

**Disclosures Relating to Credit Risk**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the rating as of year-end for each investment type:

| | Fair Value | Rating at December 31, 2012 |
|---|---|---|
| LAIF | $ 4,530,846 | Unrated |
| Money Market Account | 251,763 | Unrated |
| Total | $ 4,782,609 | |

**Concentration of Credit Risk**

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code.

**Custodial Credit Risk**

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits.

**Investment in State Investment Pool**

The District 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 the District's investment in this pool is reported in the accompanying financial statements, at amounts based upon the District's pro-rata share of the fair value provided by LAIF, for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

LAIF is a governmental investment pool managed and directed by the California State Treasurer and is not registered with the Securities and Exchange Commission. An oversight committee comprised of California State officials and various participants provide oversight to the management of the fund. The daily operations and responsibilities of LAIF fall under the auspices of the State Treasurer's office. The District is a voluntary participant in the investment pool.

## NOTE 3 – ACCOUNTS RECEIVABLE

Amounts are aggregated into a single accounts receivable (net of allowance for uncollectibles) amount on the financial statements. Below is the detail of the receivables, including applicable allowances for uncollectible amounts:

| | Water Sales and Services | Other | Developer | Totals |
|---|---|---|---|---|
| Receivables | $ 1,759,915 | $ 25,179 | $ 334,614 | $ 2,119,708 |
| Less: Allowance for Uncollectible Accounts | (60,811) | (16,671) | (207,602) | (285,084) |
| Net Receivables | $ 1,699,104 | $ 8,508 | $ 127,012 | $ 1,834,624 |

Water sales and services are reported net of uncollectible amounts based on actual collections as of the preparation date of the statements. Other Receivables, those billings outside of the normal water sales and services billings, include items such as damages to District property and rental of District property. Amounts not expected to be collected within the next year have been included in the allowance for uncollectible amounts. Developer Receivables are those receivables due from developers for development activity that has exceeded deposits collected to-date. The amount included in the allowance for uncollectible accounts is an estimate based on other refundable accounts held for the developer that the District feels they can use to negotiate settlement on balances due to the District.

## NOTE 4 – NOTES RECEIVABLE

Amounts are aggregated into a single notes receivable (net of allowance for uncollectibles) amount on the financial statements. Below is the detail of the receivables, including applicable allowances for uncollectible amounts:

| | Bonita Vista | Fairway Canyon | Totals |
|---|---|---|---|
| Receivables | | | |
| Current | $ 14,711 | $ 192,112 | $ 206,823 |
| Non-current | 180,815 | 610,786 | 791,601 |
| Total Receivables | 195,526 | 802,898 | 998,424 |
| Less: Allowance for Uncollectible Amounts | | | |
| Current | (584) | - | (584) |
| Non-current | (4,162) | - | (4,162) |
| Total Allowance for Uncollectible Amounts | (4,746) | - | (4,746) |
| Net Receivables | | | |
| Current | 14,127 | 192,112 | 206,239 |
| Non-current | 176,653 | 610,786 | 787,439 |
| Total Net Receivables | $ 190,780 | $ 802,898 | $ 993,678 |

In 2003, the Bonita Vista Mutual Water Company started the annexation process to join the District. The annexation agreement called for the District to install a new water delivery system. The property owners/shareholders in the Bonita Vista Mutual Water Company were responsible for 1/100th of the costs of construction of the new system, at $5,500 per meter. The notes are payable over 20 years at a

## NOTE 4 – NOTES RECEIVABLE, *(Continued)*

variable interest rate calculated annually at 1.5% above the LAIF interest rate. The notes are due to mature as of February 15, 2028.

The District has entered into various agreements with the developers of the Fairway Canyon Community Association for payment of water main extension and facilities construction fees. The notes are payable over 10 years at an annual interest rate of 10%.

## NOTE 5 – DEFERRED CHARGES

Deferred charges consist of the amortization of the costs of issuance of the notes payable over the life of the note. The following schedules show the activity for the year:

| Balance December 31, 2011 | Decreases | Balance December 31, 2012 | Current Portion | Non-current Portion |
|---|---|---|---|---|
| $ 59,547 | $ (18,322) | $ 41,225 | $ 18,322 | $ 22,903 |

## NOTE 6 – CAPITAL ASSETS

The following table summarizes capital asset activity during the year:

| | Balance December 31, 2011 | Increases | Decreases | Balance December 31, 2012 |
|---|---|---|---|---|
| Capital assets not being depreciated: | | | | |
| Land | $ 7,721,730 | $ - | $ - | $ 7,721,730 |
| Construction in progress | 76,273 | 643,743 | (182,542) | 537,474 |
| Total capital assets not being depreciated | 7,798,003 | 643,743 | (182,542) | 8,259,204 |
| Capital assets being depreciated: | | | | |
| Transmission and distribution syste | 58,704,802 | 182,542 | - | 58,887,344 |
| Structures and improvements | 16,393,296 | - | - | 16,393,296 |
| Reservoirs and tanks | 19,986,690 | - | - | 19,986,690 |
| Pumping and telemetry equipment | 12,642,605 | - | - | 12,642,605 |
| Vehicles and equipment | 1,819,580 | - | - | 1,819,580 |
| Total capital assets being depreciated | 109,546,973 | 182,542 | - | 109,729,515 |
| Less accumulated depreciation for: | | | | |
| Transmission and distribution syste | (7,285,680) | (828,854) | - | (8,114,534) |
| Structures and improvements | (1,504,587) | (372,517) | - | (1,877,104) |
| Reservoirs and tanks | (2,670,878) | (469,587) | - | (3,140,465) |
| Pumping and telemetry equipment | (2,102,515) | (242,966) | - | (2,345,481) |
| Vehicles and equipment | (1,002,007) | (158,478) | - | (1,160,485) |
| Total accumulated depreciation | (14,565,667) | (2,072,402) | - | (16,638,069) |
| Total capital assets being depreciated, net | 94,981,306 | (1,889,860) | - | 93,091,446 |
| Capital assets, net of depreciation | $ 102,779,309 | $ (1,246,117) | $ (182,542) | $ 101,350,650 |

## NOTE 7 – ACCOUNTS PAYABLE AND OTHER ACCRUED LIABILITIES

Accounts payable and other accrued liabilities were as follows:

| | |
|---|---|
| Accounts Payable | $ 343,224 |
| Salaries and Employee Benefits | 84,076 |
| Other | 1,210 |
| | $ 428,510 |

## NOTE 8 – CUSTOMER ACCOUNT CREDIT BALANCES

Customer credits identified were applied to customer utility accounts in 2013 to be used against future billings or refunded upon request.

## NOTE 9 – COMPENSATED ABSENCES

Compensated absences comprise unpaid vacation, sick and administrative leave which is accrued as earned. The liability for compensated absences is determined annually. The activity for the year was as follows:

| Balance December 31, 2011 | Increases | Decreases | Balance December 31, 2012 | Current Portion | Non-current Portion |
|---|---|---|---|---|---|
| $ 220,282 | $ 147,042 | $ (122,993) | $ 244,331 | $ 131,379 | $ 112,952 |

## NOTE 10 – NOTES PAYABLE

On March 26, 2010, the Board of Directors approved a $5.0 million loan payable at a 3.380% interest rate from Bank of America to finance the District's share of certain design and construction costs related to the expansion of the Recycled Water Facilities project. The loan is to be repaid by April 1, 2015 with principal and interest payments due on October 1st and April 1st of each year. Debt service requirements are as follows:

| Year | Principal | Interest | Total |
|---|---|---|---|
| 2013 | $1,015,000 | $ 79,430 | $1,094,430 |
| 2014 | 1,050,000 | 44,870 | 1,094,870 |
| 2015 | 535,000 | 9,041 | 544,041 |
| | $2,600,000 | $ 133,341 | $2,733,341 |

Changes in Notes Payable for the year were as follows:

| Balance December 31, 2011 | Decreases | Balance December 31, 2012 | Current Portion | Non-current Portion |
|---|---|---|---|---|
| $ 3,585,000 | $ (985,000) | $ 2,600,000 | $1,015,000 | $1,585,000 |

## NOTE 11 – PLEDGED REVENUES

The District has pledged future revenues, along with existing unencumbered cash and cash equivalents, equal to 115% of the aggregate principal and interest to repay the Bank of America Notes Payable issued in March 2010 as disclosed in Note 10. Net revenues are defined in the loan agreement as all gross income and revenue received less maintenance and operation expenses, excluding debt service payments and depreciation. Principal and interest paid during the current year and net revenues were $1,097,976 and $2,571,773, respectively.

## NOTE 12 - PENSION RELATED DEBT

As of June 30, 2003, CalPERS implemented risk-pooling for the District's agent multiple-employer public employee defined benefit pension plan. As a result, the District's defined benefit pension plan with CalPERS converted from an agent multiple-employer plan to a cost sharing multiple-employer plan. This change in the type of plan created the CalPERS Side Fund, which CalPERS financed at a 7.75% interest rate. CalPERS actuarially calculated the amount needed to bring the District into the cost sharing multiple-employer plan on an equal basis with other governmental agencies that all had less than 100 active and retired employees combined.

A portion of the District's annual required contributions to CalPERS are actuarially determined and shared by all governmental agencies within the cost sharing risk pool. In addition, the District is required to make annual payments to pay down the CalPERS Side Fund. The responsibility for paying down the District's CalPERS Side Fund is specific to the District and is not shared by all governmental agencies within the cost sharing risk pool. Therefore, the Side Fund falls under the definition of pension related debt, as described in GASB Statement No. 27 and is recorded as a liability on the District's financial statements.

The debt service requirements are as follows:

| Period | Principal | Interest | Total |
|---|---|---|---|
| 01/2013 - 06/2013 | $ 56,410 | $ 47,900 | $ 104,310 |
| 07/2013 - 06/2014 | 125,464 | 87,259 | 212,723 |
| 07/2014 - 06/2015 | 141,491 | 77,614 | 219,105 |
| 07/2015 - 06/2016 | 158,917 | 66,761 | 225,678 |
| 07/2016 - 06/2017 | 177,856 | 54,592 | 232,448 |
| 07/2017 - 06/2018 | 198,426 | 40,996 | 239,422 |
| 07/2018 - 06/2019 | 220,754 | 25,850 | 246,604 |
| 07/2019 - 06/2020 | 244,982 | 9,020 | 254,002 |
| | $ 1,324,300 | $ 409,992 | $ 1,734,292 |

Changes in Pension Related Debt during the year were as follows:

| Balance December 31, 2011 | Decreases | Balance December 31, 2012 | Current Portion | Non-current Portion |
|---|---|---|---|---|
| $1,426,500 | $ (102,200) | $1,324,300 | $ 119,142 | $1,205,158 |

## NOTE 13 – OTHER POST-EMPLOYMENT BENEFITS OBLIGATIONS

### *Plan Description*

The District pays a portion of the cost of health insurance (including prescription drug benefits) as post-employment medical benefits to retired employees who satisfy the eligibility rules as required by CalPERS Health Care enrollment. Spouses and surviving spouses are also eligible to receive benefits. Retirees may enroll in any medical plan available through the District's CalPERS Health Program, a cost-sharing multiple-employer medical coverage plan. The contribution requirements of eligible retired employees and the District are established and may be amended by the Board of Directors.

### *Funding Policy*

The District is required to contribute the Annual Required Contribution (ARC) of the Employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The District has elected to calculate the ARC and related information using the alternative measurement method. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The District will pay a fixed contribution towards the cost of the post-employment benefit plan for those employees who meet the required service years for retirement from the District. The District funds the plan on a pay-as-you-go basis and records a liability for the difference between pay-as-you-go and the actuarially determined ARC cost.

### *Annual Cost*

The District's ARC for the year was $1,170,015. The District's net OPEB payable obligation amounted to $1,135,689 for the year. The District paid $7,394 for current retiree OPEB premiums for the year, which was age adjusted to a contribution amount of $17,037.

| | |
|---|---|
| Annual Required Contribution | $ 1,170,015 |
| Interest on Net OPEB Obligation | 5,524 |
| Adjustment to Annual Required Contribution | (22,813) |
| Annual OPEB Expense | 1,152,726 |
| Age Adjusted Contributions Made | (17,037) |
| Change in Net OPEB Obligation | 1,135,689 |
| Net OPEB Obligation - Beginning of Year | 1,116,033 |
| Net OPEB Obligation - End of Year | $ 2,251,722 |

The District's annual OPEB cost, the percentage of the annual OPEB cost contributed to the Plan, and the net OPEB obligation for year and the two preceding years were as follows:

| Fiscal Year Ending | Annual OPEB Cost | Annual Contributions | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|---|---|---|---|---|
| 12/31/2010 | * | * | * | * |
| 12/31/2011 | $1,130,449 | 14,416 | 1.28% | $1,116,033 |
| 12/31/2012 | $1,152,726 | 17,037 | 1.50% | $2,251,722 |

* The information for this year is unavailable. GASB No. 45 was first implemented during fiscal year 2011.

## NOTE 13 – OTHER POST-EMPLOYMENT BENEFITS OBLIGATIONS, (*Continued)*

### *Funded Status and Funding Progress of the Plan*

The most recent valuation dated December 31, 2011 includes an Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability of $5,908,180. The covered payroll (annual payroll of active employees covered by the plan) for the year was estimated at $1,645,835. The ratio of the unfunded actuarial accrued liability to annual covered payroll is 358.98%.

### *Actuarial Methods and Assumptions*

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and the pattern of sharing of costs between the employer and plan members to that point. Consistent with the long-term perspective of actuarial calculations, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities for benefits.

The following is a summary of the actuarial assumptions and methods:

| | |
|---|---|
| Valuation date | December 31, 2011 |
| Actuarial cost method | Entry age normal cost method |
| Amortization method | Level percent of payroll amortization |
| Remaining amortization period | 30 Years as of the valuation date |
| Asset Valuation method | 30 Years smoothed market |
| Actuarial assumptions: | |
| Discount rate | 0.50% |
| Projected salary increase | 3.50% |
| Inflation – discount rate | 3.00% |

## NOTE 14 – NET POSITION

Calculation of the net investment in capital assets was as follows:

| Investment in capital assets, net of related debt: | |
|---|---|
| Capital assets, net of accumulated depreciation | $ 101,350,650 |
| Add: Deferred charge on issuance of debt | 41,225 |
| Less: Current Notes Payable | (1,015,000) |
| Less: Non-current Notes Payable | (1,585,000) |
| | $ 98,791,875 |

**NOTE 14 – NET POSITION, *(Continued)***

Unrestricted net position includes non-spendable assets and spending designations set by the Board of Directors:

| NET POSITION | |
|---|---|
| Unrestricted Net Position | $ 5,827,344 |
| Non-spendable assets: | |
| Inventories | $ 532,012 |
| Prepaid items | 340,452 |
| Non-current portion of deferred charges | 22,903 |
| Non-current portion of notes receivable | 787,439 |
| Total Non-spendable assets | 1,682,806 |
| Board of Directors' designations: | |
| Debt service reserve | 271,970 |
| Capital replacement reserve | 1,000,000 |
| Operating reserve | 2,872,568 |
| Total Designations | 4,144,538 |
| Total Unrestricted Net Position | $ 5,827,344 |

**NOTE 15 – PRIOR PERIOD ADJUSTMENTS**

During the year, the District discovered that the unearned revenues in the amount of $234,694 were previously understated. To correct this error, an adjustment was made to increase the amount of unearned revenues and reduce the beginning net position of the District.

**NOTE 16 – DEFINED BENEFIT PENSION PLAN**

**Plan Description**

The District's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Plan is part of the Public Agency portion of the California Public Employees Retirement System (CalPERS), a cost-sharing multiple-employer plan administrated by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. State statutes, within the Public Employees' Retirement Law, establish benefit provisions and other requirements. The Board of Directors selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through a Board Resolution. Benefit provisions selected may be amended or modified by the District's Board of Directors. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office – 400 P Street, Sacramento, California, 95814.

**NOTE 16 – DEFINED BENEFIT PENSION PLAN, *(Continued)***

**Funding Policy**

An employee contribution of 8 percent of annual covered salary is required for each active plan member. For employees hired prior to January 1, 2001, the District pays the contribution required of the employees on their behalf. For employees hired between January 1, 2001 and June 30, 2011, the District pays 1% of the contribution required of the employees on their behalf. Employees hired between July 1, 2011 and December 31, 2012 do not receive a contribution amount from the District. During the year, the District contributed $31,029 on behalf of its employees.

Additionally, the District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rates for FY 2011-2012 and FY 2012-2013 were 29.398 and 29.610 percent, respectively, of annual covered payroll. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established on an actuarially determined basis and may be amended by CalPERS.

**Annual Pension Cost**

During the year, the District's annual pension cost of $481,401 was equal to the District's required contributions.

**Three Year Trend Information for the Plan**

| Fiscal Year Ending | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation |
|---|---|---|---|
| 12/31/2010 | $ 426,103 | 100% | $ - |
| 12/31/2011 | $ 391,706 | 100% | $ - |
| 12/31/2012 | $ 481,401 | 100% | $ - |

The funded status of the pooled plan may be obtained from CalPERS.

**NOTE 17 – COMMITMENTS**

In 2004, the Beaumont Basin Watermaster (Watermaster) was created to manage the groundwater excavations, replenishment thereof, and storage of supplemental water within the Beaumont Basin. The Watermaster consists of representatives from the Beaumont-Cherry Valley Water District, the City of Banning, the City of Beaumont, the South Mesa Water Company, and the Yucaipa Valley Water District. The District is a member agency of the Watermaster and contributes a varied annual amount to the Watermaster to fund its operations. The District contributed $15,161 during the year 2012.

**NOTE 18 – CONTINGENCIES**

In the ordinary course of operations, the District is subject to claims and litigation from outside parties. After consultation with legal counsel, the District believes the ultimate outcome of such matters, if any, will not have a material adverse effect on the financial position of the District.

**NOTE 19 – RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of the Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California water agencies. The purpose of the ACWA/JPIA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage. At December 31, 2012, the District participated in the liability, property, and workers' compensation programs of the ACWA/JPIA as follows:

- General and auto liability, public officials and employees' errors and omissions: Total risk financing self-insurance limits of $1,000,000, combined single limit at $1,000,000 per occurrence. The District purchased additional excess coverage layers: $60 million for general, auto and public officials liability, which increases the limits on the insurance coverage noted above.

In addition to the above, the District also has the following insurance coverage:

- Employee dishonesty coverage up to $100,000 per loss includes public employee dishonesty, forgery or alteration and theft, disappearance and destruction coverages.
- Property loss is paid at the replacement cost for property on file, if replaced within two years after the loss, otherwise paid on an actual cash value basis, to a combined total of $100 million per occurrence, subject to a $2,500 deductible per occurrence. Mobile equipment and vehicles have a $1,000 deductible per occurrence.
- Boiler and machinery coverage for the replacement cost up to $100 million per occurrence, subject to various deductibles depending on the type of equipment.
- Workers' compensation insurance up to California statutory limits for all work related injuries/illnesses covered by California law.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the District's insurance coverage during the years ending December 31, 2012, 2011 and 2010. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of December 31, 2012, 2011 and 2010, respectively.

# Required Supplementary Information

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# Beaumont-Cherry Valley Water District

Schedule of Funding Status – Other Post-Employment Benefits Obligations

For the Year Ended December 31, 2012

***Funded Status and Funding Progress of the Plan***

| Actuarial Valuation Date | Actuarial Value of Plan Assets (a) | Actuarial Accrued Liability (b) | Unfunded Actuarial Accrued Liability (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|---|---|---|---|---|---|---|
| 12/31/2011 | $ - | $ 5,908,180 | $ 5,908,180 | 0.00% | $ 1,214,966 | 486.28% |

Funding progress is presented for the year(s) that an actuarial study has been prepared since the effective date of GASB Statement 45. The District implemented GASB 45 during fiscal year 2011. Actuarial review and analysis of the post-employment benefits liability and funding status is performed every three years or annually if there are significant changes in the plan. The next scheduled actuarial review and analysis of the post-employment benefits liability and funding status will be performed in calendar year 2014 based on the year ending December 31, 2013.

# Report on Internal Controls and Compliance

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# INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Beaumont-Cherry Valley Water District
Beaumont, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Beaumont-Cherry Valley Water District (District) as of and for the year ended December 31, 2012 and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated June 28, 2013. Our report included an emphasis of matter regarding the District's adoption of Statement of Governmental Accounting Standard (GASB) Statement No. 62, and GASB Statement No. 63 effective January 1, 2012.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



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**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vavrinek, Trine, Day & Co., LLP

Riverside, California
June 28, 2013