Annual Financial Report

For the Fiscal Year Ended December 31, 2014

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, 2014

Director	Title	Division	Current Term
Ken Ross	President	2	12/2012 – 12/2016
Jeffrey Cottrell	Vice-President	1	11/2014 – 12/2016
John Covington	Treasurer	4	12/2014 – 12/2018
Daniel Slawson	Secretary	3	12/2014 – 12/2018
David Hoffman	Director	5	12/2014 – 12/2018

Eric Fraser, P.E.
General Manager

This page intentionally left blank

Table of Contents

This page intentionally left blank

Introductory

Beaumont-Cherry Valley Water District
Phone: (951) 845-9581 Fax: (951) 845-0159
www.bcvwd.org

July 2, 2015

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, 2014, following guidelines set forth by the Government Accounting Standards Board (GASB). 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 Company, LLP, 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, 2014, 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, 2014, 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 to 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.

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 46,843 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 2014, the District had a total of 16,535 connections, an increase of 399 connections over 2013. Approximately 311 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 and the Finance & Audit Committee meets on the first Thursday of each month. Meetings are publically noticed and citizens are encouraged to attend.

Local Economy

The Inland Empire, east of Los Angeles, is projected to be one of the fastest growing large metropolitan area economies in the country over the next six years, according to a forecast from the United States Conference of Mayors.

Economic growth estimates in the Riverside/San Bernardino economy will be the highest in California, for an average of 4.2% through 2020.

Riverside County was the states sixth fastest growing county out of 58. Its population rose 1.2%, from 2,280,191 to 2,308,441.

Two inland cities had the fastest growth rates. Beaumont, California's sixth fastest growing city in 2014, grew 4% and Chino at number ten on the list saw its population rise 3.4%.

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	1990	2000	2010	2014
Population	9,685	11,407	36,837	40,853
Households	3,718	3,887	11,801	12,039
People/Household	2.60	2.93	3.12	3.39

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

In 2014, the District continued to experience increased interest from land developers in completing tract developments that were put on hold during the economic slowdown and beginning new developments that were previously delayed.

The future growth anticipated for the local economy is reflected in the planned construction by area land developers of approximately 13,806 housing units. Approximately 10,806 of these planned housing units are approved.

The District staff anticipates that in 2015 the growth in the District's service area related to residential, commercial and industrial development will again increase incrementally.

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, 2014, there was one significant amendment made to the original budget. Of significance was the CalPERS Side Fund payoff of $1,072,886.

The year 2014 was another transitional year for the District in many regards but still resulted in operating revenues being in line with operating expenses and a balanced budget.

Major Initiatives

Major goals for the District continue to be the conservation and efficient use of urban water supplies, providing the means to meet increasing demands for water, and providing an accurate accounting of all business operations including District infrastructure. The following paragraphs summarize the status of the District's completed and on-going initiatives identified in the 2014 Annual Financial Report as well as briefly describing new projects initiated to meet those goals.

Developing the facilities to provide water for future growth continues to be a priority and therefore District staff continued the 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 Noble Creek Recharge Facility to enable the District to meet current and near-future demand through groundwater recharge. Phase 1 facilities were completed and went on line in late summer of 2006 for recharging storm flow and imported water from the State Water Project. Phase 2 of the Noble Creek Recharge Facility project is on-going and designed to enable the District to meet ultimate development and overall community demand for additional water via groundwater recharge. Completion of Phase 2 construction is expected in 2016.

Upon completion of the Urban Water Management Plan, the District directed its efforts to a needed update of the Water Master Plan. Essentially, the Water Master Plan provides an overview of present, planned and probable future development trends; a review of development densities; the City of Beaumont's General Plan; the County of Riverside's General Plan; a review of historical supply and demand, present trends, future trends and water requirements; estimated demands that could be met with recycled water; a review of plans and system capacities for imported water; the development of water resource and supply scenarios for dry, average and wet years; and project needed facilities and costs needed to meet future demands. The District's Water Master Plan is estimated to be completed in 2015.

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 implemented the new "Springbrook" accounting system during the period of April through June of 2013. System modules for capital assets, inventory, accounts receivable and work order processing were deployed in 2014 to enhance support staff efficiencies and internal controls. The District will be directing its efforts toward enhancing system reporting including "dashboard" development in 2015.

Water Restrictions

On January 17, 2014, Governor Brown issued a proclamation of a state of emergency under the California Emergency Services Act based on drought conditions. On April 25, 2014, Governor Brown issued a proclamation of a continued state of emergency based on continued drought. As a result of two or more consecutive dry years, the State Water Resources Control Board implemented emergency regulations on July 15, 2014, effective

July 29, 2014, intended to limit outdoor irrigation and other wasteful water practices for a period of 270 days.

The District's Board of Directors declared on August 13, 2014 that conditions exist to implement water usage restrictions in accordance with the Urban Water Management Plan adopted by the Board of Directors. Board declarations are available as part of Resolution 2014-04 and available on the District's website.

On March 17, 2015, the State Water Resources Control Board issued Urban Water Conservation Emergency Regulations which included additional restrictions as well as those already in place. On March 27, 2015 the Office of Administrative Law approved the regulations, extending the restrictions for another 270 days. On April 8, 2015 the Board of Directors adopted Resolution 2015-02 implementing new water use restrictions. For example, item 11 of the Resolution 2015-02 is as follow:

> *"Lawn watering, park, school, and street median landscape watering is restricted to Monday, Wednesday, and Friday for addresses ending in odd numbers, and Sunday, Tuesday, and Thursday for addresses ending in even numbers during the months of May through October. For the months of November through April, odd addresses are limited to Monday and Friday and even addresses are limited to Tuesday and Saturday."*

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.

This report is prepared in remembrance of Melissa Bender, our friend and colleague. Her dedication, leadership and warm personality helped reshape our District culture.

Eric Fraser
General Manager

Yolanda Rodriguez
Director of Finance &
Administrative Services

This page intentionally left blank

Financial

Independent Auditor's Report

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

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Beaumont-Cherry Valley Water District (the District), as of and for the year ended December 31, 2014, 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 the 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, 2014, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Mailing Address: P. O. Box 20439 Riverside, CA 92516
6370 Magnolia Avenue, Suite 330 Riverside, CA 92506 Tel: 951.367.3000 Fax: 951.367.3010 www.vtdcpa.com
FRESNO • LAGUNA HILLS • PALO ALTO • PLEASANTON • RANCHO CUCAMONGA • RIVERSIDE • SACRAMENTO

Emphasis of Matter

As disclosed in Note 17 to the financial statements, the District recognized a Special Item resulting from a change in actuarial assumptions used in the calculation of the District's Other Post-Employment Benefits obligations as of December 31, 2014. 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 on pages 8 through 13 and the schedule of funding status on page 35 to 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 July 2, 2015, 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
July 2, 2015

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, 2014. 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, 2014, 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 $131,692,144 (net position). Of this amount, $13,498,835 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 $8,267,830 from the prior fiscal year. The increase is a result of the combined effects of increased revenues (e.g. water sales) of $198,278; decreased operating expenses of $1,414,344 primarily due to a decrease in water purchases of $1,211,232; capital contributions from developer activities of $2,677,180; and a revision of assumptions regarding OPEB costs amounting to $2,964,502.

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, 2014 was $131,692,144 an increase of $8,267,830 from the $123,424,314 reported in 2013. 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 reporting period and can be used to determine if the District has successfully recovered all of its costs through its rates and other charges. More succinctly, this *Statement* can be used to evaluate the District's financial condition over the last year. It can also be used as a basis for determining 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 the 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 sources of cash, uses of cash and the change in the 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 the data provided in the basic financial statements. The notes to the financial statements are included immediately following the *Basic Financial Statements* and can be found on pages 17-34 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 for future retirees health care benefits (OPEB). *Required Supplementary Information* can be found on page 35 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 $131,692,144 for the fiscal year ending December 31, 2014.

	2014	2013
Current assets	$ 18,781,794	$ 12,479,279
Non-current assets	230,157	458,383
Capital assets	116,054,562	117,924,668
Total assets	135,066,513	130,862,330
Current liabilities	2,773,346	2,792,543
Non-current liabilities	601,023	4,645,473
Total liabilities	3,374,369	7,438,016
Net investment in capital assets	116,054,562	117,924,668
Restricted	2,138,747	-
Unrestricted	13,498,835	5,499,646
Total Net Position	$ 131,692,144	$ 123,424,314

The largest portion of the District's net position $116,054,562 (88.1%) reflects its investment in capital assets (e.g., land, transmission and distribution systems, reservoirs, tanks, pumps, buildings and structures, equipment and vehicles) net of depreciation. The 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.

The restricted net position of $2,138,747 (1.6%) represents funds to be used for future infrastructure construction. The remaining unrestricted net position of $13,498,835 (10.3%) is designated according to board policy to meet the ongoing needs of the District. See Note 12 on pages 31 for more details on the District's net position.

The District's net position increased $8,267,830 from the prior fiscal year, details of which were discussed in the Financial Highlights section on page 8.

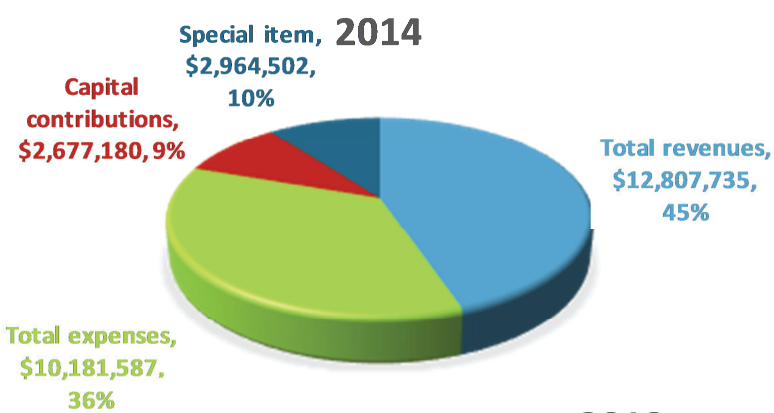
Statement of Revenues, Expenses and Changes in Net Position

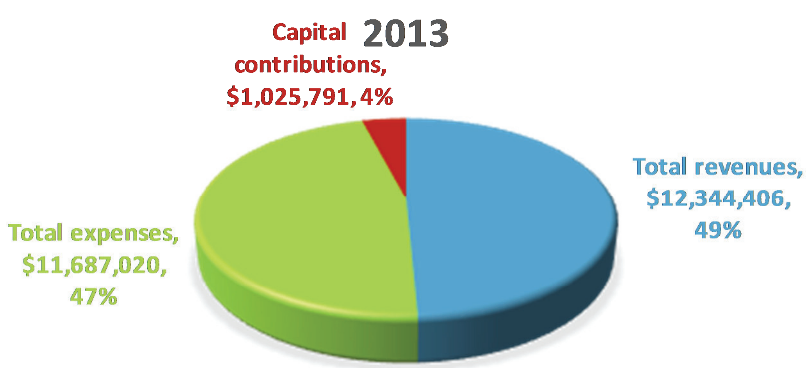
The increase in operating revenue was primarily attributable to an increase in water consumption (11,922 acre feet sold in 2014 versus 11,829 acre feet sold in 2013). Furthermore, there was an increase in overall customers served by the District (16,535 active customers (meters) in 2014 versus 16,136 active customers (meters) in 2013).

Operating expenses decreased in 2014 by $1,414,344 primarily due to a decrease in water purchases of $1,211,232. Capital contributions in 2014 of $2,677,180 increased from

$1,025,791 in 2013 due to an increase in development activity and the resulting facilities fees and front footage fees paid by developers. Capital contributions from developers are expected to continue to increase in 2015.

	2014	2013
Operating revenues	$ 12,436,150	$ 12,237,872
Non-operating revenues	371,585	106,534
Total revenues	12,807,735	12,344,406
Operating expenses	10,181,287	11,595,631
Non-operating expenses	300	91,389
Total expenses	10,181,587	11,687,020
Income (loss) before contributions & special item	2,626,148	657,386
Capital contributions	2,677,180	1,025,791
Special item (Note 17)	2,964,502	-
Net position - beginning	123,424,314	121,741,137
Net position - ending	$ 131,692,144	$ 123,424,314





Capital Assets

Capital Assets (Net of Accumulated Depreciation)

	Balance December 31, 2014	Balance December 31, 2013
Land	$ 7,721,730	$ 7,721,730
Construction in progress	1,791,723	1,591,960
Transmission and distribution system	64,322,496	65,287,743
Structures and improvements	13,863,814	14,143,675
Reservoirs and tanks	17,827,225	18,267,166
Pumping and telemetry equipment	9,832,997	10,055,202
Vehicles and equipment	694,577	857,192
Capital assets, net of depreciation	$ 116,054,562	$ 117,924,668

Beaumont-Cherry Valley Water District's investment in capital assets as of December 31, 2014 was $116,054,562, 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 $292,522 due to work performed on the following projects: Water Masterplan Update, Recycled Water Connection, Noble Creek Recharge Facility Phase II, GIS Software Project and Grand Ave. Storm Drain Project.

Construction in progress decreased during the year by $92,759, reflecting the capitalization of the Lower Edgar Stormwater Project.

Direct capital asset additions of $351,741 were primarily due to new meter installations amounting to $265,386. New meter installations include the cost of employee labor, as well as meter parts. Meters are currently replaced every 10-15 years as part of the District's meter change out program. The remaining additions of $86,355 represent charges to the State Water Project Permanent Connection.

Information on the District's capital assets activity for the year ending December 31, 2014 can be found in Note 5 on page 26 of this report.

Long-term Debt

At December 31, 2014, the District had no long-term debt.

Side Fund

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.

On December 1, 2014, the Board of Directors approved the payoff of the CalPERS Side Fund in the amount of $1,072,886. The payoff resulted in a decrease of the District's employer contribution rate to CalPERS from 32.048% to 18.858%. The District was earning less than 1% return on its investment in the Local Agency Investment Fund (LAIF) while paying financing costs of 7.75% to CalPERS.

Economic Factors and Next Year's Budgets & Rates

California is in its fourth straight year of drought, prompting Governor Jerry Brown to impose mandatory water conservation measures for the first time in state history. Effective July 29, 2014, the State Water Resources Control Board implemented emergency regulations intended to limit outdoor irrigation and other wasteful water practices. Effective August 13, 2014, the District's Board of Directors adopted Resolution 2014-04 implementing water usage restrictions in accordance with the Urban Water Management Plan adopted by the Board. Effective April 8, 2015, the Board of Director's adopted Resolution 2015-02 implementing enhanced water use restrictions. These Resolutions can be found on the District's website.

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

Beaumont-Cherry Valley Water District

Statement of Net Position

December 31, 2014

ASSETS	
Current Assets:	
Cash and investments (Note 2)	$ 11,909,155
Restricted cash and investments - funds held for others (Note 2)	2,112,394
Restricted cash and investments - capital commitments (Note 2)	2,138,747
Interest receivable	32,559
Accounts receivable, net of allowance for uncollectibles (Note 3)	1,719,190
Notes receivable (Note 4)	262,691
Inventories	482,698
Prepaid items	124,360
Total Current Assets	18,781,794
Non-Current Assets:	
Notes receivable (Note 4)	230,157
Capital assets, net of accumulated depreciation (Note 5)	116,054,562
Total Non-Current Assets	116,284,719
TOTAL ASSETS	135,066,513
LIABILITIES	
Current Liabilities:	
Accounts payable and other accrued liabilities (Note 6)	406,401
Customer account credit balances (Note 7)	217,144
Customer deposits payable	313,355
Unearned revenues (Note 8)	1,581,895
Current portion of long-term liabilities:	
Compensated absences (Note 9)	254,551
Total Current Liabilities	2,773,346
Non-Current Liabilities:	
Compensated absences (Note 9)	118,615
Other post-employment benefits obligations (Note 11)	482,408
Total Non-Current Liabilities	601,023
TOTAL LIABILITIES	3,374,369
NET POSITION	
Net investment in capital assets (Note 12)	116,054,562
Restricted (Note 12)	2,138,747
Unrestricted (Note 12)	13,498,835
TOTAL NET POSITION	$ 131,692,144

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, 2014

OPERATING REVENUES	
Metered water sales	$ 5,174,292
Water service charges	2,623,140
Water importation pass-through charges	2,334,731
Water pumping power pass-through charges	1,674,936
Development and installation charges	315,244
Other revenue	313,807
Total Operating Revenues	12,436,150
OPERATING EXPENSES	
Salaries and employee benefits	2,985,138
Energy expenses	1,772,112
Water purchases	1,396,410
Administration	173,873
Operations	468,345
Maintenance and repairs	469,552
Depreciation	2,514,369
Insurance	80,162
Professional fees	310,590
Other expenses	10,736
Total Operating Expenses	10,181,287
Operating Income	2,254,863
NON-OPERATING REVENUES (EXPENSES)	
Interest earnings	55,597
Rental income	21,007
Other revenue	291,671
Gain on disposal of capital assets	3,310
Interest expense	(300)
Total Non-Operating Revenues, Net	371,285
Income Before Contributions & Special Item	2,626,148
CONTRIBUTIONS	
Capital contributions	2,677,180
SPECIAL ITEM	
Change in Assumptions - OPEB (Note 17)	2,964,502
Change in Net Position	8,267,830
Net Position, Beginning of Year	123,424,314
Net Position, End of Year	$ 131,692,144

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, 2014

CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$	12,984,067
Payments to suppliers and service providers		(4,823,559)
Payments to employees for salaries and benefits		(4,104,963)
Return of customer deposits		16,696
Net Cash Provided by Operating Activities		4,072,241
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Rental income and other receipts		312,678
Net Cash Provided by Non-Capital Financing Activities		312,678
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets		(644,263)
Proceeds from disposal of capital assets		3,310
Capital contributions		2,677,180
Interest paid on capital debt		(300)
Net Cash Used for Capital and Related Financing Activities		2,035,927
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received		50,764
Net Cash Provided by Investing Activities		50,764
Net Increase in Cash and Cash Equivalents		6,471,610
Balance, Beginning of Year		9,688,686
Balance, End of Year	$	16,160,296
Reconciliation to Statement of Net Position:		
Cash and investments	$	11,909,155
Restricted cash and investments - funds held for others		2,112,394
Restricted cash and investments - capital commitments		2,138,747
Total Cash and Investments	$	16,160,296
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES		
Operating Income	$	2,254,863
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:		
Depreciation expense		2,514,369
(Increase) decrease in accounts receivable		160,684
(Increase) decrease in notes receivable		223,515
(Increase) decrease in inventories		47,468
(Increase) decrease in prepaid items		(29,869)
Increase (decrease) in accounts payable and other accrued liabilities		(159,378)
Increase (decrease) in customer credits payable		2,026
Increase (decrease) in customer deposits payable		16,696
Increase (decrease) in unearned revenues		161,692
Increase (decrease) in compensated absences		7,534
Increase (decrease) in pension related debt		(1,206,227)
Increase (decrease) in other post-employment benefit obligations		78,868
Total Adjustments		1,817,378
Net Cash Provided by Operating Activities	$	4,072,241

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 46,843 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, 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. Restricted Cash and Investments

Restricted cash and investments are cash and investments that are segregated and can only be used for specific purposes. The District's restricted cash and investments consist of funds held for others, including refundable or prepaid customer deposits. The District also restricts cash and investments for capital commitments in the amount of developer facility fees collected during the year to ensure that fees are set aside to provide for the expansion of the domestic and non-potable water system.

Please refer to *Note 2 Cash and Investments* for additional details.

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

E. 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.

F. 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:

Pumphouse Structures	25 to 40 years
Well Casings & Development	10 to 40 years
Pumping Equipment	10 to 50 years
Chlorinators	15 to 30 years
Reservoirs & Tanks	15 to 50 years
Telemetering Equipment	10 to 20 years
Transmission & Distribution Mains	40 to 75 years
Meters & Meter Services	10 to 15 years
Fire Hydrants	30 to 50 years
Structures & Improvements	10 to 75 years
Office Furniture & Equipment	5 to 20 years
Automobile Equipment:	
Vehicles	5 to 15 years
Heavy Equipment	7 to 15 years
Light Equipment	5 to 7 years
General Equipment	5 to 15 years

Please refer to *Note 5 Capital Assets* for additional details.

G. 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.

Please refer to *Note 8 Unearned Revenues* for additional details.

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

H. 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 paid at their regular hourly rate. 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 dissolves when employees separate from the District in any other manner.

Please refer to *Note 9 Compensated Absences* for additional details.

I. 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.

J. Uncollectible Accounts

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

Please refer to *Note 3 Accounts Receivable* for additional detail.

K. Credit/Market Risk

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

L. 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.

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

M. New Accounting Pronouncements

Effective This Fiscal Year

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 determined there is no 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 has determined there is no 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 determined there is no effect on the financial statements.

Effective in Future Fiscal Years

GASB Statement No. 68 – In June 2012, GASB issued Statement 68, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement No. 27.* The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The Statement is effective for periods beginning after June 15, 2014. The District has not determined the effect on the financial statements.

GASB Statement No. 71 – In November 2013, GASB issued Statement 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68.* The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions.* The provisions of this Statement should be applied simultaneously with the provisions of Statement No. 68. The District has not determined the effect on the financial statements.

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

GASB Statement No. 72 – In November 2015, GASB issued Statement No. 72, *Fair Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The District has not determined the effect of this on the financial statement.

NOTE 2 – CASH AND INVESTMENTS

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

Cash and investments	$ 11,909,155
Restricted cash and investments - funds held for others	2,112,394
Restricted cash and investments - capital commitments	2,138,747
Total Cash and Investments	$ 16,160,296

Cash and investments consist of the following:

Cash on hand (petty cash and change drawers)	$ 1,400
Demand deposits (cash in bank)	5,351,223
Investments	10,807,673
Total Cash and Investments	$ 16,160,296

NOTE 2 – CASH AND INVESTMENTS, (Continued)

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	Maturity Limit	Percent Limit Per Type	Percent Limit Per Issuer
U.S. Treasuries	5 years	100%	None
Federal Agencies:			
GNMA	5 years	100%	50%
Farm Credit	5 years	100%	30%
FHLB	5 years	100%	30%
FHLMC	5 years	100%	30%
FNMA	5 years	100%	30%
FDIC – Guaranteed	5 years	100%	30%
Tennessee Valley Authority	5 years	100%	30%
Other Agencies:			
State of California, LAIF	Not applicable	Allowable Maximum	None
California State and Local Agencies Obligations	5 years	Allowable Maximum 20%	5%
Bankers' Acceptances	180 days	40%	5%
Commercial Paper	270 days	25%	5%
Negotiable Certificates of Deposits	5 years	30%	5%
Corporate Medium Term Notes	5 years	30%	5%
Time Certificates of Deposit	5 years	40%	5%
Government Money Market Mutual Funds	5 years	20%	5%
Repurchase Agreements	1 year	10%	5%
Collateralized Mortgage Obligations, Mortgage-Backed Securities and Asset-Backed Securities	5 years	20% combined	5%

NOTE 2 – CASH AND INVESTMENTS, (Continued)

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:

Investment Type	Fair Value	Maturity 12 Months or Less
LAIF	$ 10,807,673	$ 10,807,673

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. The District only has investment in LAIF and LAIF is unrated.

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.

As of December 31, 2014, the District's deposits are insured in accordance with FDIC guidelines. District funds in excess of the deposits covered by FDIC insurance are collateralized at 110 percent by the depository bank as required by California Government Code. Of the District's deposits with financial institutions, $5,101,224 was in excess of federal depository insurance limits and subject to custodial credit risk as described above.

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

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	$ 1,549,570	$ 62,452	$ 378,851	$ 1,990,873
Less: Allowance for Uncollectible Accounts	-	(3,959)	(267,724)	(271,683)
Net Receivables	$ 1,549,570	$ 58,493	$ 111,127	$ 1,719,190

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 due from Bonita Vista and Fairway Canyon are combined and are separated into current and non-current portions on the *Statement of Net Position* on page 14.

	Bonita Vista	Fairway Canyon	Totals
Receivables			
Current	$ 11,834	$ 250,857	$ 262,691
Non-current	140,475	89,682	230,157
Total Receivables	$ 152,309	$ 340,539	$ 492,848

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 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 - CAPITAL ASSETS

The following table summarizes capital asset activity during the year:

	Balance December 31, 2013	Increases	Decreases	Transfers	Balance December 31, 2014
Capital assets not being depreciated:					
Land	$ 7,721,730	$ -	$ -		$ 7,721,730
Construction in progress	1,591,960	292,522		(92,759)	1,791,723
Total capital assets not being depreciated	9,313,690	292,522	-	(92,759)	9,513,453
Capital assets being depreciated:					
Transmission and distribution system	77,011,736	351,741			77,363,477
Structures and improvements	16,393,296			92,759	16,486,055
Reservoirs and tanks	22,274,959	-			22,274,959
Pumping and telemetry equipment	12,642,605	-			12,642,605
Vehicles and equipment	2,068,174				2,068,174
Total capital assets being depreciated	130,390,770	351,741	-	92,759	130,835,270
Less accumulated depreciation for:					
Transmission and distribution system	(11,723,993)	(1,316,988)			(13,040,981)
Structures and improvements	(2,249,621)	(372,620)			(2,622,241)
Reservoirs and tanks	(4,007,793)	(439,941)			(4,447,734)
Pumping and telemetry equipment	(2,587,403)	(222,205)			(2,809,608)
Vehicles and equipment	(1,210,982)	(162,615)			(1,373,597)
Total accumulated depreciation	(21,779,792)	(2,514,369)	-	-	(24,294,161)
Total capital assets being depreciated, net	108,610,978	(2,162,628)	-	92,759	106,541,109
Capital assets, net of depreciation	$ 117,924,668	$ (1,870,106)	$ -	$ -	$ 116,054,562

NOTE 6 – ACCOUNTS PAYABLE AND OTHER ACCRUED LIABILITIES

Accounts payable and other accrued liabilities were as follows:

Accounts Payable	$	339,717
Salaries and Employee Benefits		58,213
Other		8,471
	$	406,401

NOTE 7 – CUSTOMER ACCOUNT CREDIT BALANCES

Credit balances on customer utility accounts in 2014 are to be used against future billings or refunded upon request. As of December 31, 2014, the balance was $217,144.

NOTE 8 – UNEARNED REVENUES

Developers make payments in advance of the District providing services, including items such as meter installations, development plan checks and development inspections. As the District provides these services, revenues are recognized and the unearned revenues balance is reduced. As of December 31, 2014, the balance was $1,581,895.

NOTE 9 – COMPENSATED ABSENCES

Compensated absences comprise unpaid vacation, sick, holiday 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, 2013	Increases	Decreases	Balance December 31, 2014	Current Portion	Non-current Portion
$ 365,632	$ 294,724	$ (287,190)	$ 373,166	$ 254,551	$ 118,615

NOTE 10 - 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.

NOTE 10 - PENSION RELATED DEBT, *(Continued)*

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.

On December 1, 2014, the District approved to payoff the CalPERS Side Fund in the amount of $1,072,886. The payoff resulted in a decrease of the District's employer contribution rate from 32.048% to 18.858%.

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

Balance December 31, 2013	Decreases	Balance December 31, 2014
$ 1,072,886	$ (1,072,886)	$ -

NOTE 11 – 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 Program enrollment. The current District contribution is fixed at $379.20 per month and is scheduled to increase by 5% per year up to a maximum of $474.00 per month. 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 not required to contribute the Annual Required Contribution (ARC), 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 entry age normal actuarial cost 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 an amount 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 expense cost.

NOTE 11 – OTHER POST-EMPLOYMENT BENEFITS OBLIGATIONS, (*Continued)*

Annual Cost

The District's ARC for the year was $109,809. The District's annual OPEB cost amounted to $89,888. The District paid $11,376 for current retiree OPEB premiums for the year.

Annual Required Contribution	$ 109,809
Interest on Net OPEB Obligation	15,146
Adjustment to Annual Required Contribution	(35,067)
Annual OPEB Expense	89,888
Less Contributions	-0-
Less Benefits paid	(11,376)
Less Revision of calculations and changes in assumptions	(2,964,502)
Change in Net OPEB Obligation	(2,885,990)
Net OPEB Obligation - 12/31/2013	3,368,398
Net OPEB Obligation - 12/31/2014	$ 482,408

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 & Benefits	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2012	$ 1,152,726	$ 17,037	1.50%	$ 2,251,722
12/31/2013	$ 1,135,132	$ 18,456	1.60%	$ 3,368,398
12/31/2014	$ 89,888	$ 11,376	12.66%	$ 482,408

Funded Status and Funding Progress of the Plan

The most recent valuation dated December 31, 2014 includes an Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability of $843,352. The covered payroll (annual payroll of active employees covered by the plan) for the year was estimated at $1,835,790. The ratio of the unfunded actuarial accrued liability to annual covered payroll is 45.94%. The plan does not have any assets since the plan is funded pay-as-you-go.

NOTE 11 – OTHER POST-EMPLOYMENT BENEFITS OBLIGATIONS, (*Continued)*

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 funding approaches that are designed to reduce short-term volatility in the incidence of benefit costs and in the growth of unfunded accrued actuarial liability (UAAL).

BCVWD's actuarial review and analysis of the post-employment benefits (OPEB) expense, liability and funding status will be actuarially reviewed and updated annually. A complete actuarial study will be performed every three years or annually if there are significant changes in the plan.

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

Valuation date:	December 31, 2014
Cost method:	Entry age normal actuarial cost method
Amortization method:	Level annual dollar amount
Remaining amortization period:	30 Years as of the valuation date on an open basis
Actuarial assumptions	
Discount rate:	3.75%
Projected salary increase:	2.50%
Medical cost increases:	
1/1/15	0%
1/1/16	5%
1/1/17	5%
1/1/18	5%
1/1/19	5%
1/1/20	2.84%
5/15/20 + later	0

The required schedule of funding progress presented as required supplementary information on page 35 provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

NOTE 12 – NET POSITION

Net Position:	
Net investment in capital assets	$ 116,054,562
Restricted - capital commitments	2,138,747
Unrestricted	13,498,835
Total Net Position	$ 131,692,144

Net investment in capital assets is the value of the District's assets, less accumulated depreciation.

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

Unrestricted Net Position	$ 13,498,835
Non-spendable assets:	
Inventories	482,698
Prepaid items	124,360
Non-current portion of notes receivable	230,157
Total Non-spendable assets	837,215
Board of Directors' designations:	
Capital replacement reserve	6,952,493
Operating reserve	4,391,636
Emergency reserve	1,317,491
Total Designations	12,661,620
Total Unrestricted Net Position	$ 13,498,835

NOTE 13 – 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.

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 after July 1, 2011 do not receive a contribution amount from the District. During the year, the District contributed $27,910 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 2013-2014 and FY 2014-2015 were 31.318 and 32.048 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 contributed $1,732,565 which was equal to the District's required contributions of $659,679, and the payoff of the CalPERS side fund obligation of $1,072,886.

Three Year Trend Information for the Plan

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed
12/31/2012	$ 481,401	100%
12/31/2013	$ 547,775	100%
12/31/2014	$ 659,679	100%

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

NOTE 14 – 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 $44,489 during the year.

NOTE 15 – 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 16 – 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, 2014, 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 limits of $2,000,000, combined single limit at $2,000,000 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 $1,000 deductible per occurrence. Mobile equipment and vehicles have a $1,000 deductible and $500 deductible per occurrence, respectively.
- 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 was no reduction in the District's insurance coverage during the year ended December 31, 2014. 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.

NOTE 17 – SPECIAL ITEM

As specifically described in NOTE 11, the District pays a portion of the cost of health insurance as post-employment medical benefits to retired employees, spouses, and surviving spouses who satisfy the eligibility rules as required by CalPERS Health Program enrollment. The District is not required to contribute an amount actuarially determined in accordance with the parameters of GASB Statement No. 45.

During the year, the District decided to re-examine the actuarial assumptions and revise the calculation used as a basis for determining the annual OPEB cost and OPEB liability which resulted in a change of the OPEB liability in the amount of $2,964,502. The revised assumptions are reflected in the amounts recognized in the Basic Financial Statements.

This page intentionally left blank

Required Supplementary Information

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%	$ 1,892,911	312.12%
12/31/2014	$ -	$ 843,352	$ 843,352	0.00%	$ 1,835,790	45.94%

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. Additional data will be provided as future valuations are performed.

* Using the Alternate Measurement Method

This page intentionally left blank

Report on Internal Controls and Compliance

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

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*

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, 2014, and the related notes to the financial statements, which comprise the District's basic financial statements, and have issued our report thereon dated July 2, 2015. Our report included an emphasis of matter regarding the District's Other Post-Employment Benefits.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our 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*.

Mailing Address: P. O. Box 20439 Riverside, CA 92516
6370 Magnolia Avenue, Suite 330 Riverside, CA 92506 Tel: 951.367.3000 Fax: 951.367.3010 www.vtdcpa.com
FRESNO • LAGUNA HILLS • PALO ALTO • PLEASANTON • RANCHO CUCAMONGA • RIVERSIDE • SACRAMENTO

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
July 2, 2015