Annual Financial Report

For the Year Ended December 31, 2016

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, 2016

Director	Title	Division	Current Term
Daniel Slawson	President	3	12/2014 – 12/2018
John Covington	Vice-President	4	12/2014 – 12/2018
David Hoffman	Treasurer	5	12/2014 – 12/2018
Nathan Douglass	Secretary	2	12/2016 – 12/2020
Andy Ramirez	Director	1	12/2016 – 12/2020

Eric Fraser, P.E.
General Manager

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.

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
Email: info@bcvwd.org

http://www.bcvwd.org

August 9, 2017

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 (the District) for the year ended December 31, 2016, 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, 2016, 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, 2016, 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 10.

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 12.

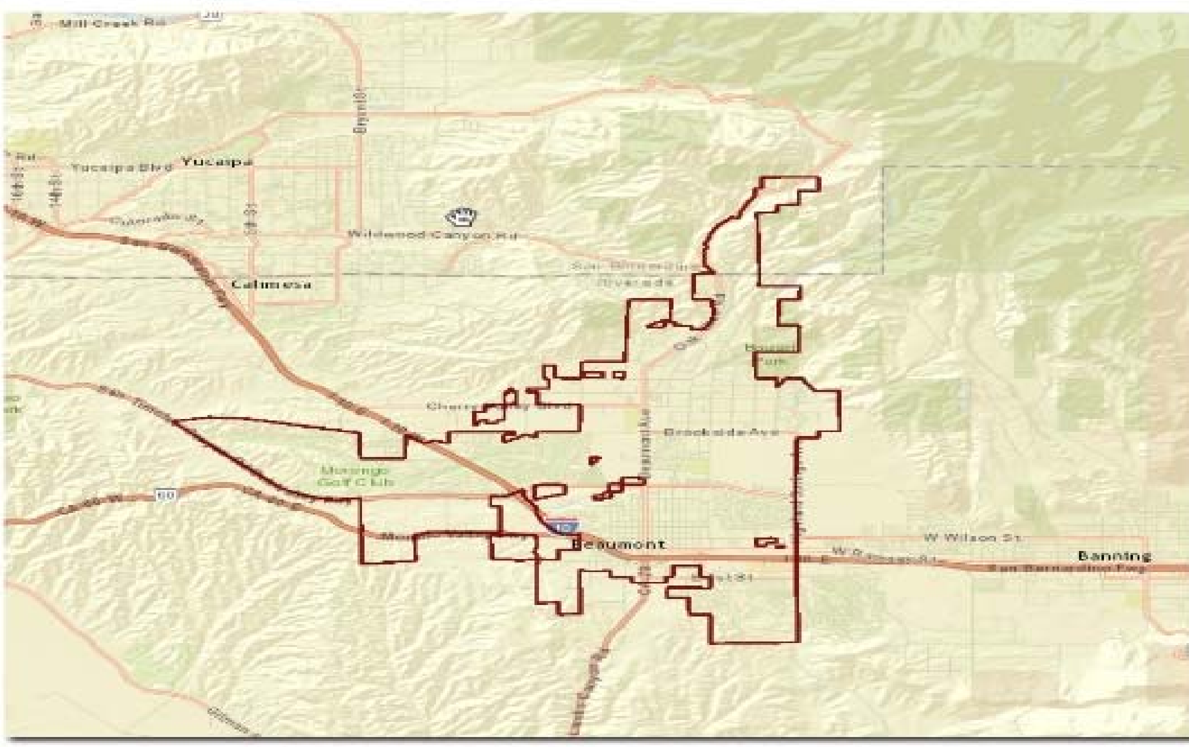
District Profile

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 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. The District owns 575 acres of watershed land in Edgar Canyon in San Bernardino County and 949 acres of watershed in Riverside County. Edgar Canyon is named after Dr. William F. Edgar, a military doctor who was in charge of a number of hospitals during the Civil War. Dr. Edgar appreciated the beauty of the land and purchased it in 1859, he planted fruits and vineyards and later established the first winery.

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 51,400 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.



District Profile cont'd

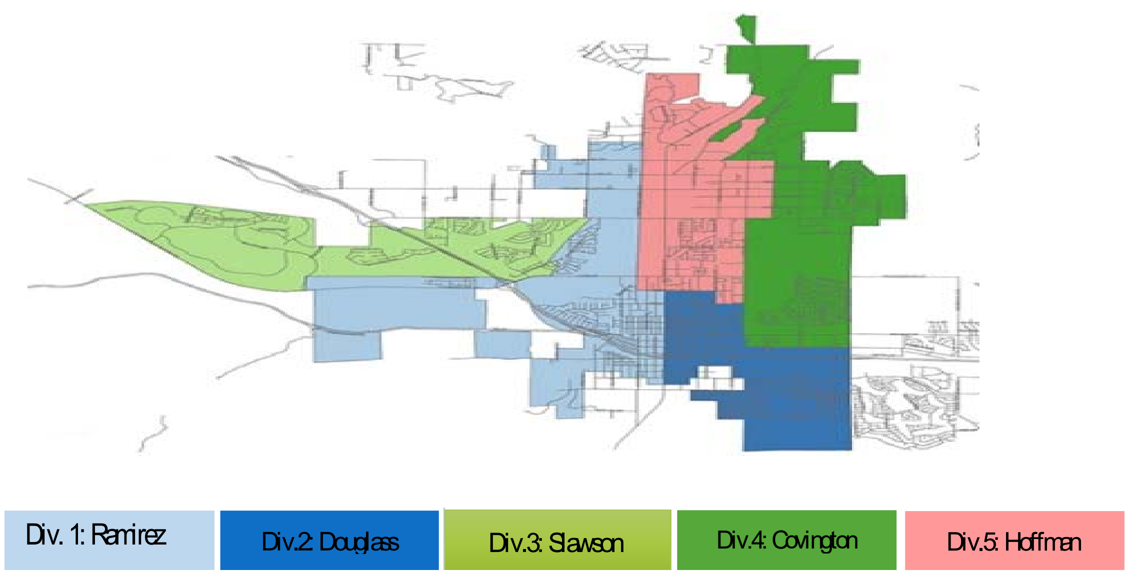
The District has both a potable and non-potable water distribution system. At the end of 2016, the District had a total of 17,372 connections, an increase of 382 connections over 2015. Approximately 326 of these total connections are landscape irrigation connections to the non-potable (recycled) water system and approximately 89 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 15 reservoirs ranging in size from 0.5 million gallons (MG) to 5 MG. Total storage is approximately 22 MG.

Today, the 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 Board authorized the purchase of 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, which 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.



District Profile cont'd

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-six employees. The District's Board of Directors meets on the second Wednesday of each month. Finance & Audit Committee meets on the first Thursday of each month and the Personnel Committee meets on the fourth Wednesday of every other 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 five 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 continues to be one of the fastest growing counties in California, trailing the County of Placer. The Riverside population growth rate rose 1.6%, from 2,348,213 to 2,384,783, according to estimates from the California Department of Finance. The City of Beaumont ranked sixth in the state's top 10 fastest-growing cities with populations over 30,000, with the City of Menlo Park ranking first, and the City of Vista ranked seventh.

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 as follows:

City of Beaumont	1990	2000	2010	2016
Population	9,685	11,407	36,837	44,821
Households	3,718	3,887	11,801	13,560
People/Household	2.60	2.93	3.12	3.30

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

In 2016, 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 13,355 housing units of which approximately 10,659 of these planned housing units are approved.

The District staff anticipates that in 2017 the growth within 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.

The year 2016 was another progressive year for the District in many regards, and continued with 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. Planning for and developing facilities to provide water for future growth continues to be a District priority.

Following are highlights of the District's completed and on-going initiatives identified in the 2016 Annual Financial Report as well as highlights of major projects to be initiated in 2017 to meet the District's goals.

- District staff continued the expansion of the District's Noble Creek Recharge Facility in 2016. Phase 2 of the Noble Creek Recharge Facility Project was placed on line in 2015 and is designed to enable the District to meet ultimate development and overall community demand for additional water via groundwater recharge. The Phase 2 Project was completed in 2016. Minor enhancements and adjustments will continue throughout 2017.

- The District completed the 2650 PZ to 2750 PZ Interconnect Project in 2016 enabling Well 29 output to be directed to either Pressure Zone.

- The Grand Avenue Storm Drain Project, which is being developed in conjunction with Riverside County Flood Control and Water Conservation District and partially funded utilizing grant funding from Proposition 84, will capture storm water and recharge it at the Noble Creek Recharge Facility Phase II Ponds. The Project continued in 2016 and likely will be on-going through 2021.

- The District has converted approximately 90% of the current landscape irrigation customers to the non-potable (recycled water) system, which means large water consumption customers and newly developed communities are now being irrigated with non-potable water supplies. The 2800 Zone reservoir, located at the north end of Noble Creek Recharge Phase II Facility, is being supplied by water pumped from District Well No. 26. The Well 26 connection to the non-potable system was completed in 2016.

Major Initiatives cont'd

- Upon completion of the Urban Water Management Plan in 2013, the District directed its planning efforts to the much needed Potable Water System Master Plan update. The Potable Water System Master Plan update was completed in 2016 and 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.
        - Historical supply and demand of potable water, present trends, projected future trends and water requirements.
        - Plans and system capacities for imported water

    - Projected demands that could be met with recycled water.
    - The development of water resource and supply scenarios for dry, average and wet years.
    - Projects, facilities and related costs needed to meet future demands.

- With the completion of the Potable Water System Master Plan in 2016, the District directed its planning focus to the Recycled Water Masterplan Update and the Urban Water Management Plan Update. Both Plan Updates are expected to be completed in 2017.

- The revised Capacity Fee (Facility Fee) Study was initiated in 2016 and is expected to be completed by the end of 2017.

- The GIS System Mapping Project is on-going with the majority of the system completely mapped and accessible to District personnel.

- The District's main accounting system, Springbrook (Accela), implemented in 2013 has allowed District staff to enhance reporting and internal controls. The District continued to direct its efforts in 2016 towards enhanced system reporting capabilities as well as focusing on the design and implementation of the remaining system modules for Project Costing & Tracking and Remote Time Entry.

- During 2016, the District's Information Technology (IT) Department completed the implementation of the Disaster Recovery Plan, the deployment of both offline and offsite backup systems to increase data protection, and upgrades to workstation operating systems. Workstation operating systems will be upgraded again in 2017.

Major Initiatives cont'd

In 2017, the District intends to initiate the planning and construction of the following infrastructure projects and initiate the following IT projects:

- Moving forward, the District intends to initiate the planning and construction on a number of potable water system infrastructure projects including:
    - Noble Tank No. 2 and related pipeline.
    - Re-drilling of Wells 1 and 2.
    - The drilling of Noble Creek Park and Sundance North wells.

- The District will continue with the development of the non-potable water system by constructing additional facilities necessary to complete the conversion of the remaining 10% of landscape irrigation users as well as satisfy additional demand. The District's focus in 2017 will be on pressure regulator projects, PZ 2520 to PZ 2370 and PZ 2600 to PZ 2520, as well as the Raw Water Filter System Project at the 2800 PZ Tank.

- The District will initiate the IT workstation upgrade program that is based on the three-year replacement plan.

- The District will also continue with the water meter system upgrade and Phases 1 and 2 of the District's Supervisory Control and Data Acquisition (SCADA) Project. The SCADA Project enables automated controls to gain better visibility into and management of the District's water infrastructure and related data, such as tanks, wells and transmission flows.

- IT completed the installation of the District's Interactive Voice Response (IVR) system to enhance customer service features including the ability for customers to make fee payments over the phone without assistance from a customer service representative.

- Additionally, the District will initiate a number of IT security related projects.

Water Conservation: A Chronology

On January 17, 2014, Governor Brown issued a proclamation of a state of emergency under the California Emergency Services Act based on drought conditions.

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.

As required by the actions of the Governor, the District's Board of Directors adopted Resolution 2014-04 on August 13, 2014 declaring that conditions exist to implement water usage restrictions in accordance with the Urban Water Management Plan adopted by the Board of Directors.

Water Conservation: A Chronology cont'd

On May 5, 2015, the State Water Resources Control Board adopted updated emergency water use regulations intended to safeguard urban water supplies in the event of continued drought, minimize the potential for waste and unreasonable use of water, and to achieve a 25 percent statewide potable water usage reduction.

On July 8, 2015, the District's Board of Directors adopted Resolution 2015-05 implementing updated water use restrictions and penalties for non-compliance.

On May 9, 2016, Governor Edmund G. Brown Jr. issued Executive Order B-37-16, requiring the Board to adjust its emergency water conservation regulations through the end of January 2017 in recognition of the differing water supply conditions across the state and separately, take action to make some of the requirements of the regulation permanent. The California State Water Board adopted the revised regulation on May 18. Outdoor water use restrictions shall be based on the District's specific circumstances as it relates to water supply and demands.

On June 8, 2016 the District's Board of Directors adopted Resolution 2016-05 declaring that conditions continue to exist to implement water usage restrictions in accordance with the Urban Water Management Plan and additional outdoor water use restrictions adopted by the State Water Board that will be based on the District's specific circumstances as it relates to water supply and demands. Details of the restrictions and resulting penalties for non-compliance are incorporated in the body of the Resolution. Examples of the restrictions include but are not limited to the following:

- "The application of potable water to outdoor landscaped in a manner that causes runoff such that water flows onto adjacent property, non-irrigated areas, private and public walkways, roadways, parking lots, or structures is prohibited."

- "The use of a hose that dispenses potable water to wash a motor vehicle, except where the hose is fitted with a shut-off nozzle, is prohibited."

- "The application of potable water to sidewalks and driveways is prohibited."

- "The use of potable water in a fountain or other decorative water feature, except where the water is part of a recirculating system, is prohibited."

Governor Brown issued Executive Order B-40-17 on April 7, 2017 which ended the drought state of emergency in most California counties. It maintains water reporting requirements and prohibitions on wasteful practices. The order was built on actions taken in Executive Order B-37-16, which remains in effect. Clearly the plan going forward is to continue "making water conservation a way of life".

Although these severe restrictions created revenue impacts, the District was able to maintain its level of service and contribution toward reserves within the current rate structure.

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 the planning and implementation of the Beaumont-Cherry Valley Water District's financial and operating policies.

Yolanda Rodriguez **Director of Finance and** **Administrative Services**	**William Clayton** **Senior Finance and** **Administrative Analyst**

Financial

This page intentionally left blank

Independent Auditors’ Report

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 (District), California, as of and for the year ended December 31, 2016, 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 respective financial position of the District, as of December 31, 2016, and the changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the District adopted Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application* as of January 1, 2016. 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 12 through 18, the Schedule of the District's Proportionate Share of the Net Pension Liability on page 47, the Schedule of Plan Contributions on page 48 and the Other Post-Employment Benefits Schedule of Funding Progress on page 49 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.

The introductory section 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.

Prior-Year Comparative Information

The financial statements include partial prior-year comparative financial information. Such information does not include all of the information required to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended December 31, 2015, from which such partial information was derived. We have audited the District's financial statements as of and for the year ended December 31, 2015 and our report dated July 13, 2016 expressed an unmodified opinion on the financial statements.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 9, 2017, 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

Rancho Cucamonga, California
August 9, 2017

Management's Discussion and Analysis

As management of the Beaumont-Cherry Valley Water District (the "District" or "BCVWD"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal years ended December 31, 2016 and 2015. 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 1-9.

FINANCIAL HIGHLIGHTS

Based on the financial information for the year ended December 31, 2016, the following financial highlights are noted for the District:

- The assets and deferred outflows of resources of the District exceeded its liabilities and deferred inflows of resources at year end by $149,761,817 (net position). Of this amount, $25,294,018 represents unrestricted net position, which may be used to meet the District's ongoing obligations to customers and creditors and maintain designated reserves approved by the District's Board of Directors.
- The District's total net position increased $10,951,220 from the prior fiscal year. The increase is mainly a result of capital contributions from developer activities of $9,541,491, which is comprised of $1,004,624 in donated capital assets and $8,536,867 in capacity charges.

Based on the financial information for the year ended December 31, 2015, the following financial highlights are noted for the District:

- The assets and deferred outflows of resources of the District exceeded its liabilities and deferred inflows of resources at year end by $138,810,597 (net position). Of this amount, $14,338,676 represents unrestricted net position, which may be used to meet the District's ongoing obligations to customers and creditors and maintain designated reserves approved by the District's Board of Directors.
- The District's total net position increased $8,639,909 from the prior fiscal year. The increase is a result of the combined effects of decreased operating expenses of $459,614 and capital contributions from developer activities of $7,389,402, which is comprised of $1,092,505 in donated capital assets and $6,296,897 in capacity charges.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the 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:
    - Statements of Net Position;
    - Statements of Revenues, Expenses and Changes in Net Position;
    - Statements of Cash Flows;
    - Notes to the Basic Financial Statements;
- Required Supplementary Information; and
- Report on Internal Controls & Compliance.

The *Statements of Net Position* present financial information on all of the District's assets and deferred outflows of resources, and liabilities and deferred inflows of resources, 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. The *Statements of Net Position* can be found on page 19.

The *Statements of Revenues, Expenses and Changes in Net Position* present information illustrating how net position changed during the fiscal year. These *Statements* measure the success of the District's operations over the past reporting periods and can be used to determine if the District has successfully recovered all of its costs through its rates and other charges. More succinctly, these *Statements* can be used to evaluate the District's financial condition over the last two years. It can also be used as a basis for determining credit worthiness. The *Statements of Revenues, Expenses and Changes in Net Position* can be found on page 20.

The *Statements of Cash Flows* present information relating to the District's cash receipts and cash disbursements during the year. When used with related disclosures and information in the other financial statements, the information in these *Statements* 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 years. These *Statements* answer questions such as sources of cash, uses of cash, and the change in the cash balance during the reporting periods. The *Statements of Cash Flows* can be found on page 21.

Notes to the Basic 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 23-46 of this report.

OVERVIEW OF THE FINANCIAL STATEMENTS (*Continued)*

In addition to the *Basic Financial Statements* and accompanying notes, this report also presents *Required Supplementary Information* which includes the schedule of the District's proportionate share of the net pension liability, schedule of pension contributions, and the schedule of funding progress on the other post-employment benefit (OPEB) plan. *Required Supplementary Information* can be found on pages 47-49 of this report.

FINANCIAL ANALYSIS OF THE DISTRICT

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.

Condensed Statements of Net Position

	2016	2015	2014
Assets			
Current assets	$ 41,545,467	$ 29,151,714	$ 18,781,794
Non-current assets	99,265	120,516	230,157
Capital assets	114,241,568	115,246,313	116,054,562
Total assets	155,886,300	144,518,543	135,066,513
Deferred outflows of resources	631,124	824,839	-
Total assets and deferred outflows of resources	$ 156,517,424	$ 145,343,382	$ 135,066,513
Liabilities			
Current liabilities	$ 3,796,063	$ 3,088,212	$ 2,773,346
Non-current liabilities	2,538,800	2,126,138	601,023
Total liabilities	6,334,863	5,214,350	3,374,369
Deferred inflows of resources	420,744	1,318,435	-
Net position			
Net investment in capital assets	114,241,568	115,246,313	116,054,562
Restricted	10,226,231	9,225,608	2,138,747
Unrestricted	25,294,018	14,338,676	13,498,835
Total net position	149,761,817	138,810,597	131,692,144
Total liabilities, deferred inflows of resources, and net position	$ 156,517,424	$ 145,343,382	$ 135,066,513

FINANCIAL ANALYSIS OF THE DISTRICT (CONTINUED)

Assets and Deferred Outflows of Resources

2016 compared to 2015 Total assets and deferred outflows of resources were $156,517,424, reflecting an increase of $11,174,042 primarily due to the following:

- Current assets, comprised of restricted and unrestricted assets, increased by $12,393, 753. This change is primarily reflective of net cash from operations of $4,218,657, and capital contributions of $8,536,867 less $527,172 for construction of capital assets.
- Capital assets decreased by $1,004,745 primarily due to $1,356,965 in completed transmission and distribution system assets offset by current year depreciation. Additional capital asset information can be found in the "Capital Assets" section.

2015 compared to 2014 Total assets and deferred outflows of resources were $145,343,382 reflecting an increase of $10,276,869. Current assets, comprised of restricted and unrestricted assets, increased by $10,369,920. This change is primarily reflective of net cash from operations of $4,431,154, and capital contributions of $6,296,897 less $616,630 for construction of capital assets.

Net Position

2016 compared to 2015 Total net position, which represents the difference between total assets and deferred outflows of resources less total liabilities and deferred inflows of resources was $149,761,817, reflecting an increase of $10,951,220.

- The largest portion of the District's net position, which is its investment in capital assets of $114,241,568 (76.3%) had a decrease of $1,004,745 from the prior year. Investment in capital assets reflects its investment in land, transmission and distribution systems, reservoirs, tanks, pumps, buildings and structures, and 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 portion of net position was $10,226,231 (6.8%), an increase of $1,000,623 from the prior year. Restricted net position is subject to external restrictions on its use, such as for future infrastructure construction.

- The remaining unrestricted net position of $25,294,018 (16.9%), an increase of $10,955,342, is non-spendable ($919,600) and designated ($24,374,418), according to Board policy, to meet the ongoing needs of the District. See Note 11 on page 40 for more details on the District's net position.

2015 compared to 2014 Total net position increased by $8,639,909 primarily due to the increase of $7,086,861 in restricted net position resulting from capacity charges collected.

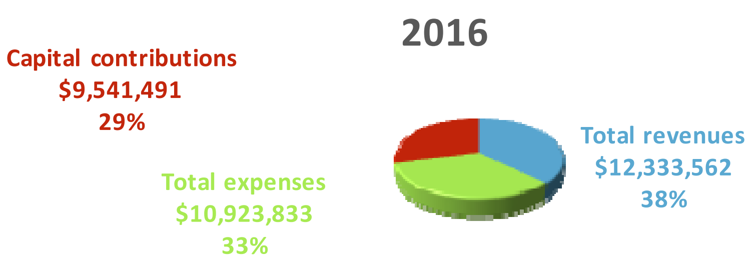
The details of both increases were discussed in the Financial Highlights section on page 12.

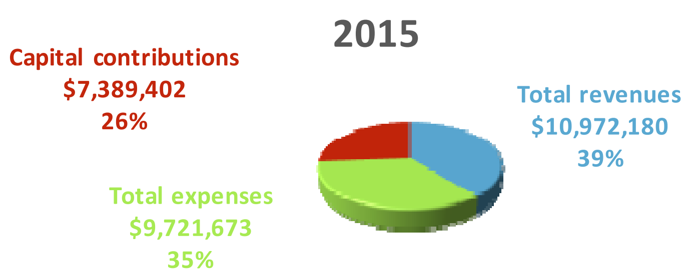
FINANCIAL ANALYSIS OF THE DISTRICT (CONTINUED)

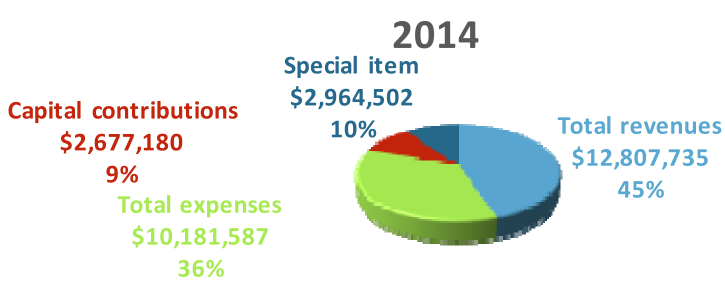
Condensed Statements of Revenues, Expenses and Changes in Net Position

	2016	2015	2014
Operating revenues	$ 12,139,440	$ 10,832,295	$ 12,436,150
Non-operating revenues	194,122	139,885	371,585
Total revenues	12,333,562	10,972,180	12,807,735
Operating expenses	10,923,833	9,721,673	10,181,287
Non-operating expenses	-	-	300
Total expenses	10,923,833	9,721,673	10,181,587
Income (loss) before contributions & special item	1,409,729	1,250,507	2,626,148
Capital contributions	9,541,491	7,389,402	2,677,180
Special item	-	-	2,964,502
Change in net position	$ 10,951,220	$ 8,639,909	$ 8,267,830

REVENUES BY SOURCE







FINANCIAL ANALYSIS OF THE DISTRICT (CONTINUED)

2016 compared to 2015 Total operating revenues of $12,139,440 increased by $1,307,145 primarily due to the following:

- Metered water sales and the corresponding water importation charges and water pumping pass-through charges totaling $8,267,037 increased by $856,522 mainly due to a twelve percent increase in water consumption resulting from an easing of water conservation mandates due to drought conditions.
- Development and installation charges of $653,251 increased by $304,421, mainly due to an increase in the fee charged for new meters at the end of 2015.

2015 compared to 2014 Total operating revenues of $10,832,295 decreased by $1,603,855 primarily due to the following:

- Metered water sales and the corresponding water importation charges and water pumping pass-through charges totaling $7,410,515 decreased by $1,773,444 mainly due to a decrease in water consumption resulting from a nineteen percent decrease in water consumption from water conservation mandates due to drought conditions.

Capital Assets

Capital Assets (Net of Accumulated Depreciation)

	Balance December 31, 2016	Balance December 31, 2015	Balance December 31, 2014
Land	$ 7,721,730	$ 7,721,730	$ 7,721,730
Construction in progress	296,555	1,941,074	1,791,723
Transmission and distribution system	64,552,041	64,403,958	64,322,496
Structures and improvements	14,531,008	13,490,201	13,863,814
Reservoirs and tanks	17,215,523	17,387,284	17,827,225
Pumping and telemetry equipment	9,412,938	9,629,051	9,832,997
Vehicles and equipment	511,773	673,015	694,577
Capital assets, net of depreciation	$ 114,241,568	$ 115,246,313	$ 116,054,562

Beaumont-Cherry Valley Water District's investment in capital assets includes land, transmission and distribution systems, reservoirs, tanks, pumps, buildings and structures, equipment and vehicles, and construction in progress.

FINANCIAL ANALYSIS OF THE DISTRICT (CONTINUED)

2016 compared to 2015 The District's investment in capital assets, net of accumulated depreciation, is $114,241,568, a decrease of $1,004,745. The decrease resulted mainly from the following significant capital additions, offset by current year depreciation of $2,528,643:

- Water system improvements contributed by two development tracts totaling $1,004,624.
- New meter installations amounting to $352,341.

2015 compared to 2014 The District's investment in capital assets, net of accumulated depreciation, is $116,054,562 a decrease of $808,249. The increase resulted mainly from water system improvements and recycled water system improvements contributed by four development tracts totaling $1,092,505 and new meter installations amounting to $303,241, offset by current year depreciation of $2,517,384.

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. More information on the District's capital assets activity for the years ending December 31, 2016 and 2015 can be found in Note 5 beginning on page 35 of this report.

Long-term Debt

At December 31, 2016, the District had no long-term debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

After five years of unprecedented drought conditions across the state resulting in severe impacts to California's water supplies and mandated conversation requirements, the District has experienced drastic declines in water sales. In spite of declining revenues due to conservation efforts there have been no increases in the District's basic domestic water charges since July 1, 2012. In April 2017, Governor Brown announced the end of the state's drought emergency, but stressed that water conservation must be a permanent part of life. As such, the District anticipates that future revenues will continue to be lower.

Requests for Information

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

This page intentionally left blank

Basic Financial Statements

This page intentionally left blank

Beaumont-Cherry Valley Water District

Statement of Net Position

December 31, 2016 with Comparative Information as of December 31, 2015

	2016	2015
ASSETS		
Current Assets:		
Cash and investments (Note 2)	$ 25,748,942	$ 14,816,785
Restricted cash and investments - funds held for others (Note 2)	2,857,850	2,379,627
Restricted cash and investments - capital commitments (Note 2)	10,226,231	9,225,608
Interest receivable	41,510	22,141
Accounts receivable, net of allowance for uncollectibles (Note 3)	1,840,317	1,855,506
Notes receivable (Note 4)	10,282	100,835
Inventories	668,705	608,800
Prepaid items	151,630	142,412
Total Current Assets	41,545,467	29,151,714
Non-Current Assets:		
Notes receivable (Note 4)	99,265	120,516
Capital assets, net of accumulated depreciation (Note 5)	114,241,568	115,246,313
Total Non-Current Assets	114,340,833	115,366,829
TOTAL ASSETS	155,886,300	$ 144,518,543
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount related to pensions (Note 12)	631,124	824,839
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 156,517,424	$ 145,343,382
LIABILITIES		
Current Liabilities:		
Accounts payable and other accrued liabilities (Note 6)	$ 682,844	$ 503,971
Customer account credit balances (Note 7)	193,857	181,411
Customer deposits payable	372,682	342,876
Unearned revenues (Note 8)	2,291,311	1,855,340
Current portion of long-term liabilities:		
Compensated absences (Note 9)	255,369	204,614
Total Current Liabilities	3,796,063	3,088,212
Non-Current Liabilities:		
Compensated absences (Note 9)	91,868	125,262
Other post-employment benefits obligations (Note 10)	668,088	578,749
Net Pension Liability (Note 12)	1,778,844	1,422,127
Total Non-Current Liabilities	2,538,800	2,126,138
TOTAL LIABILITIES	6,334,863	$ 5,214,350
DEFERRED INFLOWS OF RESOURCES		
Deferred amount related to pensions (Note 12)	420,744	1,318,435
NET POSITION		
Net investment in capital assets (Note 11)	114,241,568	115,246,313
Restricted (Note 11)	10,226,231	9,225,608
Unrestricted (Note 11)	25,294,018	14,338,676
TOTAL NET POSITION	149,761,817	$ 138,810,597
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	$ 156,517,424	$ 145,343,382

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, 2016 with Comparative Information as of December 31, 2015

	2016	2015
OPERATING REVENUES		
Metered water sales	$ 4,655,883	$ 4,165,087
Water service charges	2,865,733	2,756,998
Water importation pass-through charges	2,102,694	1,889,751
Water pumping power pass-through charges	1,508,460	1,355,677
Development and installation charges	653,251	348,830
Other revenue	353,419	315,952
Total Operating Revenues	12,139,440	10,832,295
OPERATING EXPENSES		
Salaries and employee benefits	2,974,987	3,076,232
Pension expense (credit)	(225,040)	394,267
Energy expenses	1,344,733	1,371,858
Water purchases	2,954,123	879,066
Administration	193,382	381,598
Operations	234,245	236,757
Maintenance and repairs	604,118	591,554
Depreciation	2,528,643	2,517,384
Insurance	75,502	78,285
Professional fees	228,162	184,169
Other expenses	10,978	10,503
Total Operating Expenses	10,923,833	9,721,673
Operating Income	1,215,607	1,110,622
NON-OPERATING REVENUES (EXPENSES)		
Interest earnings	180,342	84,254
Rental income	20,577	20,103
Other revenue	1,101	35,528
Loss on disposal of capital assets	(7,898)	-
Total Non-Operating Revenues, Net	194,122	139,885
Income Before Contributions	1,409,729	1,250,507
CAPITAL CONTRIBUTIONS		
Donated capital assets	1,004,624	1,092,505
Capacity charges	8,536,867	6,296,897
Total Capital Contributions	9,541,491	7,389,402
Change in Net Position	10,951,220	8,639,909
Net Position, Beginning of Year	138,810,597	130,170,688
Net Position, End of Year	$ 149,761,817	$ 138,810,597

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, 2016 with Comparative Information as of December 31, 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 12,718,056	$ 11,234,639
Payments to employees for salaries and benefits	(3,105,783)	(3,104,440)
Payments to suppliers and service providers	(5,423,422)	(3,728,566)
Receipt of customer deposits	29,806	29,521
Net Cash Provided by Operating Activities	4,218,657	4,431,154
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Rental income and other receipts	21,678	55,631
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(527,172)	(616,630)
Capital contributions	8,536,867	6,296,897
Net Cash Provided by Capital and Related Financing Activities	8,009,695	5,680,267
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	160,973	94,672
Net Increase in Cash and Cash Equivalents	12,411,003	10,261,724
Balance, Beginning of Year	26,422,020	16,160,296
Balance, End of Year	$ 38,833,023	$ 26,422,020
Reconciliation to Statement of Net Position:		
Cash and investments	$ 25,748,942	$ 14,816,785
Restricted cash and investments - funds held for others	2,857,850	2,379,627
Restricted cash and investments - capital commitments	10,226,231	9,225,608
Total Cash and Investments	$ 38,833,023	$ 26,422,020

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

Beaumont-Cherry Valley Water District

Statement of Cash Flows, Continued

For the Year Ended December 31, 2016 with Comparative Information as of December 31, 2015

	2016	2015
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES		
Operating Income	$ 1,215,607	$ 1,110,622
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:		
Depreciation expense	2,528,643	2,517,384
(Increase) decrease in accounts receivable	15,189	(136,316)
(Increase) decrease in notes receivable	111,804	271,497
(Increase) decrease in inventories	(59,905)	(126,102)
(Increase) decrease in prepaid items	(9,218)	(18,052)
(Increase) decrease in deferred outflows	193,715	496,135
Increase (decrease) in accounts payable and other accrued liabilities	178,873	97,570
Increase (decrease) in customer credits payable	12,446	(35,733)
Increase (decrease) in customer deposits payable	29,806	29,521
Increase (decrease) in unearned revenues	435,971	273,445
Increase (decrease) in compensated absences	17,361	(43,290)
Increase (decrease) in other post-employment benefit obligations	89,339	96,341
Increase (decrease) in net pension liability	356,717	(946,862)
(Increase) decrease in deferred inflows	(897,691)	844,994
Total Adjustments	3,003,050	3,320,532
Net Cash Provided by Operating Activities	$ 4,218,657	$ 4,431,154
SCHEDULE OF NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Capital contributions - Donated capital assets	1,004,624	1,092,505

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 48,000 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, 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.

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

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 capacity charges collected during the year to ensure that funds 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.

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). The capitalization threshold is $5,000. Contributed assets are stated at estimated acquisition 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.

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

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.

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. Any unpaid debt is deemed a lien against the real property to which service is rendered in accordance with applicable law.

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.

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

L. Fair Value Measurement

The District has applied Governmental Accounting Standards Board ("GASB") Statement No. 72, Fair Value Measurement and Application. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements. The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

M. 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.

N. Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the district's California Public Employees Retirement System (CalPERS) Plans and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

O. New Accounting Pronouncements

During fiscal year ended December 31, 2016, the District implemented the following GASB pronouncements:

GASB Statement No. 72 – In February 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 provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This Statement was implemented as of January 1, 2016.

GASB Statement No. 76 – In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.* The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. The accompanying financial statements reflect the implementation of GASB Statement No. 76.

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

O. New Accounting Pronouncements *(Continued)*

GASB Statement No. 82 – In March 2016, GASB issued Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73.* The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. This Statement was implemented as of January 1, 2016.

Effective in Future Fiscal Years

GASB Statement No. 74 – In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement is effective for financial statements for fiscal years beginning after June 15, 2016. The District has not determined the effect on the financial statements.

GASB Statement No. 75 – In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. The provisions in Statement 75 are effective for fiscal years beginning after June 15, 2017. The District has not determined the effect on the financial statements.

GASB Statement No. 80 – In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14.* The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, The Financial Reporting Entity, as amended. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. Earlier application is encouraged. The District has not determined the effect on the financial statements.

GASB Statement No. 81 – In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements.* The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. The District has not determined the effect on the financial statements.

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

O. New Accounting Pronouncements *(Continued)*

GASB Statement No. 83 – In December 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. The objective of this Statement is to set clear and consistent accounting and financial reporting guidance for certain asset retirement obligations, where little guidance existed before for state and local governments. The new standard presents guidance for determining the timing and pattern of recognition for liabilities and corresponding deferred outflow of resources related to asset retirement obligations. It requires that recognition occur when the liability is both incurred and reasonably estimable. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged. The District has not determined the effect on the financial statements.

GASB Statement No. 84 – In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. *This Statement supersedes Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, paragraph 116; Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, paragraphs 18 and 59.* The objective of this Statement is to enhance the consistency and comparability of fiduciary activity reporting by state and local governments. This Statement also is intended to improve the usefulness of fiduciary activity information primarily for assessing the accountability of governments in their roles as fiduciaries. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The District has not determined the effect on the financial statements.

GASB Statement No. 85 - In March 2017, GASB issued Statement No. 85, *OMNIBUS 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged. The District has not determined the effect on the financial statements.

GASB Statement No. 86 - In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged. The District has not determined the effect on the financial statements.

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

O. New Accounting Pronouncements *(Continued)*

GASB Statement No. 87 - In June 2017, GASB issued Statement No. 87, *Leases*. The primary objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The District has not determined the effect on the financial statements.

P. Prior Year Data

Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the District's prior year financial statements from which this selected financial information was derived.

NOTE 2 – CASH AND INVESTMENTS

Cash and investments as of December 31 are classified in the accompanying financial statements as follows:

Description	2016	2015
Cash and investments	$ 25,748,942	$ 14,816,785
Restricted cash and investments - funds held for others	2,857,850	2,379,627
Restricted cash and investments - capital commitments	10,226,231	9,225,608
Total Cash and Investments	$ 38,833,023	$ 26,422,020

Cash and investments as of December 31 consist of the following:

Description	2016	2015
Cash on hand (petty cash and change drawers)	$ 1,400	$ 1,400
Demand deposits (cash in bank)	14,904,402	9,580,775
Investments	23,927,221	16,839,845
Total Cash and Investments	$ 38,833,023	$ 26,422,020

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%

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.

NOTE 2 – CASH AND INVESTMENTS *(Continued)*

The District's investment policy follows the Code as it relates to limits on investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates.

The District's investments as of December 31, 2016 were as follows:

Investment Type	Fair Value	Maturity 12 Months or Less
LAIF	$ 23,927,221	$ 23,927,221

The District's investments as of December 31, 2015 were as follows:

Investment Type	Fair Value	Maturity 12 Months or Less
LAIF	$ 16,839,845	$ 16,839,845

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.

NOTE 2 – CASH AND INVESTMENTS *(Continued)*

Custodial Credit Risk *(Continued)*

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. The District may waive collateral requirements for deposits which are fully insured by federal depository insurance.

As of December 31, 2016 and 2015, the District had deposits with financial Institutions of $14,654,377 and $9,332,551, respectively, in excess of federal depository insurance limits and subject to custodial credit risk as described above.

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. 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 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. Accordingly, under the fair value hierarchy, the measurement of the District's investment is based on uncategorized inputs not defined as Level 1, Level 2, or Level 3 inputs. Further information about LAIF is available on the California State Controller's website: www.treasurer.ca.gov/pmia-laif/.

NOTE 3 – ACCOUNTS RECEIVABLE

Water Sales and Services are reported net of uncollectible amounts based on actual collections as of the preparation date of the statements. The General Manager or his or her designee is authorized to file a lien against real property serviced with the Assessor-Clerk-Recorder of the County of Riverside for any charges 60 days past due. The amount of charges of unpaid bills are included as a lien against the debtor's property until the unpaid charges are collected and the account is brought current. 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. Amounts are aggregated into a single accounts receivable (net of allowance for uncollectible) amount on the financial statements.

NOTE 3 – ACCOUNTS RECEIVABLE *(Continued)*

The detail of the receivables, including applicable allowances for uncollectible amounts as of December 31, 2016 is as follows:

	Water Sales and Services	Other	Developer	Totals
Receivables	$ 1,690,759	$ 30,053	$ 388,499	$ 2,109,311
Less: Allowance for Uncollectible Accounts	-	(1,270)	(267,724)	(268,994)
Net Receivables	$ 1,690,759	$ 28,783	$ 120,775	$ 1,840,317

The detail of the receivables, including applicable allowances for uncollectible amounts as of December 31, 2015 is as follows:

	Water Sales and Services	Other	Developer	Totals
Receivables	$ 1,640,472	$ 108,227	$ 377,362	$ 2,126,061
Less: Allowance for Uncollectible Accounts	-	(2,831)	(267,724)	(270,555)
Net Receivables	$ 1,640,472	$ 105,396	$ 109,638	$ 1,855,506

NOTE 4 – NOTES RECEIVABLE

In 2003, the Bonita Vista Mutual Water Company (Bonita Vista) 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 Bonita Vista 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 (Fairway Canyon) for payment of the new water component of the water main extension and capacity charges. The notes are payable over 10 years at an annual interest rate of 10%. There are no outstanding notes due from Fairway Canyon as of June 30, 2016.

Amounts due from Bonita Vista separated into current and non-current portions on the *Statement of Net Position* on page 19.

The detail of the notes, including applicable allowances for uncollectible amounts as of December 31, 2016 is as follows:

	Bonita Vista	Fairway Canyon	Totals
Receivables			
Current	$ 10,282	$ -	$ 10,282
Non-current	99,265	-	99,265
Total Receivables	$ 109,547	$ -	$ 109,547

The detail of the notes, including applicable allowances for uncollectible amounts as of December 31, 2015 is as follows:

	Bonita Vista	Fairway Canyon	Totals
Receivables			
Current	$ 11,153	$ 89,682	$ 100,835
Non-current	120,516	-	120,516
Total Receivables	$ 131,669	$ 89,682	$ 221,351

NOTE 5 – CAPITAL ASSETS

The following table summarizes capital asset activity during the year ended December 31, 2016:

	Balance December 31, 2015	Increases	Decreases	Transfers	Balance December 31, 2016
Capital assets not being depreciated:					
Land	$ 7,721,730	$ -	$ -	$ -	$ 7,721,730
Construction in progress	1,941,074	174,113	(6,169)	(1,812,463)	296,555
Total capital assets not being depreciated	9,662,804	174,113	(6,169)	(1,812,463)	8,018,285
Capital assets being depreciated:					
Transmission and distribution system	78,759,223	1,356,965	(1,976,667)	107,382	78,246,903
Structures and improvements	16,486,055	-	-	1,433,373	17,919,428
Reservoirs and tanks	22,274,959	-	-	271,708	22,546,667
Pumping and telemetry equipment	12,654,512	-	-	-	12,654,512
Vehicles and equipment	2,088,085	6,887	(27,856)	-	2,067,116
Total capital assets being depreciated	132,262,834	1,363,852	(2,004,523)	1,812,463	133,434,626
Less accumulated depreciation for:					
Transmission and distribution system	(14,355,265)	(1,316,264)	1,976,667	-	(13,694,862)
Structures and improvements	(2,995,854)	(392,566)	-	-	(3,388,420)
Reservoirs and tanks	(4,887,675)	(443,469)	-	-	(5,331,144)
Pumping and telemetry equipment	(3,025,461)	(216,113)	-	-	(3,241,574)
Vehicles and equipment	(1,415,070)	(160,231)	19,958	-	(1,555,343)
Total accumulated depreciation	(26,679,325)	(2,528,643)	1,996,625	-	(27,211,343)
Total capital assets being depreciated, net	105,583,509	(1,164,791)	(7,898)	1,812,463	106,223,283
Capital assets, net of depreciation	$ 115,246,313	$ (990,678)	$ (14,067)	$ -	$ 114,241,568

NOTE 5 – CAPITAL ASSETS *(Continued)*

The following table summarizes capital asset activity during the year ended December 31, 2015:

	Balance December 31, 2014	Increases	Decreases	Balance December 31, 2015
Capital assets not being depreciated:				
Land	$ 7,721,730	$ -	$ -	$ 7,721,730
Construction in progress	1,791,723	149,351	-	1,941,074
Total capital assets not being depreciated	9,513,453	149,351	-	9,662,804
Capital assets being depreciated:				
Transmission and distribution system	77,363,477	1,395,746	-	78,759,223
Structures and improvements	16,486,055	-	-	16,486,055
Reservoirs and tanks	22,274,959	-	-	22,274,959
Pumping and telemetry equipment	12,642,605	11,907	-	12,654,512
Vehicles and equipment	2,068,174	152,131	(132,220)	2,088,085
Total capital assets being depreciated	130,835,270	1,559,784	(132,220)	132,262,834
Less accumulated depreciation for:				
Transmission and distribution system	(13,040,981)	(1,314,284)	-	(14,355,265)
Structures and improvements	(2,622,241)	(373,613)	-	(2,995,854)
Reservoirs and tanks	(4,447,734)	(439,941)	-	(4,887,675)
Pumping and telemetry equipment	(2,809,608)	(215,853)	-	(3,025,461)
Vehicles and equipment	(1,373,597)	(173,693)	132,220	(1,415,070)
Total accumulated depreciation	(24,294,161)	(2,517,384)	132,220	(26,679,325)
Total capital assets being depreciated, net	106,541,109	(957,600)	-	105,583,509
Capital assets, net of depreciation	$ 116,054,562	$ (808,249)	$ -	$ 115,246,313

NOTE 6 – ACCOUNTS PAYABLE AND OTHER ACCRUED LIABILITIES

Accounts payable and other accrued liabilities as of December 31 were as follows:

Description	2016	2015
Accounts Payable	$ 594,359	$ 392,754
Salaries and Employee Benefits	47,357	73,295
Other	41,128	37,922
	$ 682,844	$ 503,971

NOTE 7 – CUSTOMER ACCOUNT CREDIT BALANCES

Credit balances on customer utility accounts are to be used against future billings or refunded upon request. As of December 31, 2016 and 2015, the balance was $193,857 and $181,411, respectively.

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, 2016 and 2015, the balance was $2,291,311 and $1,855,340, respectively.

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 ended December 31, 2016 was as follows:

Balance December 31, 2015	Increases	Decreases	Balance December 31, 2016	Current Portion	Non-current Portion
$ 329,876	$ 267,226	$ (249,865)	$ 347,237	$ 255,369	$ 91,868

The activity for the year ended December 31, 2015 was as follows:

Balance December 31, 2014	Increases	Decreases	Balance December 31, 2015	Current Portion	Non-current Portion
$ 373,166	$ 277,898	$ (321,188)	$ 329,876	$ 204,614	$ 125,262

NOTE 10 – OTHER POST-EMPLOYMENT BENEFITS OBLIGATION

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 $426.60 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.

NOTE 10 – OTHER POST-EMPLOYMENT BENEFITS OBLIGATION *(Continued)*

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 ARC cost.

Annual Cost

For the years ended December 31, 2016 and 2015, the District's annual OPEB cost was $99,008 and $105,442, respectively. The District's net OPEB obligation amounted to $668,087 and $578,749 for the years ended December 31, 2016 and 2015, respectively. The District paid $9,669 and $9,101 for retiree healthcare OPEB premiums, for the years ended December 31, 2016 and 2015, respectively.

	December 31, 2016	December 31, 2015
Annual Required Contribution	$ 108,533	$ 113,431
Interest on Net OPEB Obligation	21,567	18,090
Adjustment to Annual Required Contribution	(31,092)	(26,079)
Annual OPEB Cost	99,008	105,442
Less Contributions	-0-	-0-
Less Benefits paid	(9,669)	(9,101)
Change in Net OPEB Obligation	89,339	96,341
Net OPEB Obligation - 12/31/2015	578,749	482,408
Net OPEB Obligation - 12/31/2016	$ 668,088	$ 578,749

The District's annual OPEB cost, the percentage of the annual OPEB cost contributed to the Plan, and the net OPEB obligation for the 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
12/31/2014	$ 89,888	$ 11,376	12.66%	$ 482,408
12/31/2015	$ 105,442	$ 9,101	8.63%	$ 578,749
12/31/2016	$ 99,008	$ 9,669	9.77%	$ 668,088

NOTE 10 – OTHER POST-EMPLOYMENT BENEFITS OBLIGATION *(Continued)*

Funded Status and Funding Progress of the Plan

The most recent valuation dated December 31, 2016 includes an Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability of $983,638. The covered payroll (annual payroll of active employees covered by the plan) for the year was estimated at $1,806,897. The ratio of the unfunded actuarial accrued liability to annual covered payroll is 54.44%. The plan does not have any assets since the plan is funded on pay-as-you-go basis.

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 two to 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, 2016
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:	
1/1/17	5%
1/1/18	5%
1/1/19	5%
1/1/20 & later	0%

The required schedule of funding progress presented as required supplementary information on page 49 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 11 – NET POSITION

Net Position:	December 31, 2016	December 31, 2015
Net investment in capital assets	$ 114,241,568	$ 115,246,313
Restricted - capital commitments	10,226,231	9,225,608
Unrestricted	25,294,018	14,338,676
Total Net Position	$ 149,761,817	$ 138,810,597

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:

	December 31, 2016	December 31, 2015
Unrestricted Net Position	$ 25,294,018	$ 14,338,676
Non-spendable assets:		
Inventories	668,705	608,800
Prepaid items	151,630	142,412
Non-current portion of notes receivable	99,265	120,516
Total Non-spendable assets	919,600	871,728
Board of Directors' designations:		
Capital replacement reserve	20,769,815	7,999,767
Operating reserve	2,252,877	4,205,524
Emergency reserve	1,351,726	1,261,657
Total Designations	24,374,418	13,466,948
Total Unrestricted Net Position	$ 25,294,018	$ 14,338,676

NOTE 12 – DEFINED BENEFIT PENSION PLAN

Plan Description

All qualified permanent and probationary employees are eligible to participate in the District's Miscellaneous Employee Pension Plan (Plan), a cost-sharing multiple employer defined benefit pension plan administered by the California Public Employees Retirement System (CalPERS). Benefit provisions under the Plan are established by State statute and may be amended by District resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information. These reports can be found on the CalPERS website.

Benefits Provided

CalPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees, and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 60 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plan's provisions and benefits in effect at December 31, 2016, are summarized as follows:

	Miscellaneous	**PEPRA - Miscellaneous**
Hire Date	Prior to January 1, 2013	On or after January 1, 2013
Formula	2.7% @ 55	2.0% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 55	52 - 67
Monthly benefits, as a % of annual salary	2.0% - 2.7%	1.0% - 2.5%
Required employee contribution rates	8.0%	7.0%
Required employer contribution rates	13.673%	7.191%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in rate. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rates of employees. Contributions to the pension plan from the District were $387,485 and $422,076 for the years ended December 31, 2016 and 2015, respectively.

NOTE 12 – DEFINED BENEFIT PENSION PLAN *(Continued)*

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of December 31, 2016 and 2015, the District reported net pension liabilities for its proportionate share of the collective net pension liability as $1,778,844 and $1,422,127, respectively. The District's net pension liabilities were measured as of June 30, 2016, and 2015, respectively, and the total pension liabilities used to calculate the net pension liabilities were determined by actuarial valuations as of June 30, 2015, rolled forward to June 30, 2016, and June 30, 2014, rolled forward to June 30, 2015, respectively, using standard actuarial update procedures. The District's proportion of the net pension liabilities were based on a projection of the District's long-term share of contributions to the pension plans relative to the actuarially determined projected contributions of all participating employers. The changes in the District's proportionate share of the collective net pension liabilities were as follows:

December 31, 2016	**Proportion**
Proportion - December 31, 2015 (measurement date June 30, 2015)	0.02072%
Proportion - December 31, 2016 (measurement date June 30, 2016)	0.02056%
Change - Increase (Decrease)	-0.00016%

December 31, 2015	
Proportion - December 31, 2014 (measurement date June 30, 2014)	0.03807%
Proportion - December 31, 2015 (measurement date June 30, 2015)	0.02072%
Change - Increase (Decrease)	-0.01735%

For the years ended December 31, 2016 and 2015, the District recognized pension credit and expense of $225,040 and $394,267, respectively. At December 31, 2016 and 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	December 31, 2016		**December 31, 2015**	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to the measurement date	$ 122,220		$ 190,071	
Difference between actual contributions and proportionate share of contributions and changes in proportion		(324,473)		(351,736)
Differences between expected and actual experience	7,844		25,139	
Changes in assumptions		(96,271)		(237,840)
Net difference between projected and actual earnings on pension plan investments	501,060	-	609,629	(728,859)
	$ 631,124	$ (420,744)	$ 824,839	$ (1,318,435)

NOTE 12 – DEFINED BENEFIT PENSION PLAN *(Continued)*

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions *(Continued)*

$122,220 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30,		
2017	$	(69,535)
2018		(44,411)
2019		76,839
2020		125,265
Total	$	88,158

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

Actuarial Assumptions

The total pension liabilities in the June 30, 2015 and 2014 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2015	June 30, 2014
Measurement Date	June 30, 2016	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:		
Discount Rate	7.65%	7.65%
Inflation	2.75%	2.75%
Payroll Growth	3.0%	3.0%
Projected Salary Increase (1)	3.2% - 12.2%	3.2% - 12.2%
Investment Rate of Return (2)	7.5%	7.5%
Mortality (3)	-	-

(1) Depending on age, service and type of employment
(2) Net of pension plan investment expenses, net of inflation
(3) Derived using CalPERS' Membership Data

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2015 valuation were based on the results of an April 2014 actuarial experience study for the period of 1997 to 2011. Further details of the Experience Study can be found on the CalPERS website.

NOTE 12 – DEFINED BENEFIT PENSION PLAN *(Continued)*

Discount Rate

The discount rate used to measure the total pension liability was 7.65 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that the District's contributions will be made at rates equal to the difference between actuarially determined contributions rates and the employee rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the total pension liability.

In determining the long-term expected 7.65 percent rate of return on pension plan investments, CalPERS took into account both short and long-term market return expectations as well as the expected pension fund cash flows. Based on the expected benefit payments of the Public Employees' Retirement Fund, CalPERS indicated that a 19 year horizon was ideal in determining the level equivalent discount rate assumption. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long term, the present value of benefits was calculated for each fund. The expected rate for return was set by calculating the single equivalent expected return of return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent. The target allocation and best estimates of arithmetic real rates of return for each major asset class are the same for each Plan. These geometric rates of return are net of administrative expenses and are summarized in the following table:

Asset Class	Target Allocation	Expected Real Rate of Return Years 1-10[1]	Expected Real Rate of Return Years 11+[2]
Global Equity	51%	5.25%	5.71%
Global Debt Securities	19%	0.99%	2.43%
Inflation Assets	6%	0.45%	3.36%
Private Equity	10%	6.83%	6.95%
Real Estate	10%	4.50%	5.13%
Infrastructure and Forestland	2%	4.50%	5.09%
Liquidity	2%	-0.55%	-1.05%
Total	100%		

[1] An expected inflation of 2.50% used for this period
[2] An expected inflation of 3.00% used for this period

NOTE 12 – DEFINED BENEFIT PENSION PLAN *(Continued)*

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the collective net pension liability, calculated using the discount rate of 7.65 percent and 7.50 percent for 2016 and 2015 respectively, as well as what the District's proportionate share of the net pension liability would be if it was calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	December 31, 2016	December 31, 2015
1% Decrease	6.65%	6.65%
Net Pension Liability	2,706,786	2,385,006
Current Discount Rate	7.65%	7.65%
Net Pension Liability	1,778,844	1,422,127
1% Increase	8.65%	8.65%
Net Pension Liability	1,015,176	627,158

NOTE 13 – 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. For the year ended December 31, 2016 the District contributed $28,144 and $27,844, respectively.

NOTE 14 – 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 15 – 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, 2016, 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, computer fraud, disappearance and destruction coverages, subject to a $1,000 deductible per occurrence.
- 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, 2016. 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.

Required Supplementary Information

Miscellaneous Plan – Cost Sharing Multiple Employer Benefit Plan
Schedule of Proportionate Share of the Net Pension Liability
As of December 31, 2016

Last Ten Fiscal Years[1]	2016	2015
Proportion of the collective Net Pension Liability		
All Plans	0.02056%	0.02072%
Proportionate Share of the collective Net Pension Liability		
All Plans	$ 1,778,844	$ 1,422,127
Covered Payroll[2]		
All Plans	$ 1,946,447	$ 1,796,745
Proportionate share of the collective Net Pension Liability as a percentage of Covered Payroll		
All Plans	109.42%	126.34%
Plan's proportion of the Fiduciary Net Position	0.06078%	0.05970%
Plan's proportionate share of the Fiduciary Net Position	$ 6,639,289	$ 6,504,607
Plan's proportionate share of the Fiduciary Net Position as a percentage of the Plan's Total Pension Liability[3]	78.86890%	82.05910%

Note to Schedule:
Benefit Changes:
None.

Changes of Assumptions:
Discount rate changed from 7.5% at the June 30, 2014, measurement date, to 7.65% at the June 30, 2015, measurement date.

[1] Historical information is required only for measurment to which GASB 68 is applicable. 2015 was the first year of implementation, therefore only two years are shown. Amounts presented above were determined as of June 30. Additional years will be presented as they become available.

[2] In accordance with GASB Statement No. 82, we have restated the schedule to show covered payroll based on pensionable earnings received by CalPERS.

[3] Plan represents the total CalPERS risk pool.

Miscellaneous Plan - Cost Sharing Multiple Employer Benefit Plan
Schedule of Plan Contributions
As of December 31, 2016

Last Ten Fiscal Years[1]

	2016	2015
All Plans		
Actuarially Determined Contribution	$ 387,485	$ 422,076
Contribution in Relation to the Actuarially Determined Contribution	387,485	422,076
Contribution Deficiency (Excess)	$ -	$ -
Covered Payroll[2]	$ 1,985,446	$ 1,914,001
Contributions as a Percentage of Covered Payroll	19.52%	22.05%

[1]Historical information is required only for measurment to which GASB 68 is applicable. 2015 was the first year of implementation, therefore only two years are shown. Amounts presented above were determined as of June 30. Additional years will be presented as they become available.

[2]In accordance with GASB Statement No. 82, we have restated the schedule to show covered payroll based on pensionable earnings received by CalPERS.

Beaumont-Cherry Valley Water District Other Post-Employment Benefits
Schedule of Funding Progress

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%
12/31/2016	$ -	$ 983,638	$ 983,638	0.00%	$ 1,806,897	54.44%

* Using the Alternative Measurement Method

Report on Internal Controls and Compliance

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, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated August 9, 2017. As described in our report, the District adopted Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application* as of January 1, 2016.

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 opinions 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*.

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

Rancho Cucamonga, California
August 9, 2017