BEAUMONT CHERRY VALLEY WATER DISTRICT
AGENDA
SPECIAL MEETING OF THE BOARD OF DIRECTORS
Wednesday, April 2, 2008 – 7:00PM
560 Magnolia Avenue, Beaumont, CA 92223

Assistance for the Disabled: If you are disabled in any way and need accommodation to participate in the meeting, please call Blanca Marin Administrative Assistant, at (951) 845-9581 Ext. 23 for assistance so the necessary arrangements can be made.

1. Call to Order, Pledge of Allegiance, Invocation, Roll Call- President Chatigny

2. Adoption and Adjustment of Agenda (additions and/or deletions)

3. Public Input

PUBLIC COMMENT: Anyone wishing to address the Board of Directors on any matter not on the agenda of this meeting may do so now. Anyone wishing to speak on an item on the agenda may do so at the time the Board considers that item. All persons wishing to speak must fill out a "Request to Speak" form and give it to the Secretary at the beginning of the meeting. The forms are available on the table at the back of the room. There is a three (3) minute limit on public comments. Sharing or passing time to another speaker is not permitted. Please do not repeat what was said by a previous speaker except to note agreement with that speaker. Thank you for your cooperation.

4. Action Items

a. Acceptance of the 2004 Audit

BALL	M	S	A	N
DOPP	M	S	A	N
LASH	M	S	A	N
PARKS	M	S	A	N
CHATIGNY	M	S	A	N

b. Acceptance of the 2005 Audit

BALL	M	S	A	N
DOPP	M	S	A	N
LASH	M	S	A	N
PARKS	M	S	A	N
CHATIGNY	M	S	A	N

c. Acceptance of the 2006 Audit

BALL	M	S	A	N
DOPP	M	S	A	N
LASH	M	S	A	N
PARKS	M	S	A	N
CHATIGNY	M	S	A	N

d. Resolution 2008-04 Adopting a Reimbursement Resolution as Official Intent of the District in Order to Comply with the Internal Revenue Service Relating to the Qualification for Reimbursement of Project Costs for the Recycle Water Project

BALL	M	S	A	N
DOPP	M	S	A	N
LASH	M	S	A	N
PARKS	M	S	A	N
CHATIGNY	M	S	A	N

5. Adjournment

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

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

We have audited the accompanying statement of net assets of the Beaumont-Cherry Valley Water District ("the District") as of December 31, 2004, 2005, and 2006, and the related statement of revenues, expenses and changes in net assets and cash flows for the years then ended, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 24, 2008. 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.

Compliance and Other Matters

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is defined to be a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. Matters conforming to this definition are those matters set forth below.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

(1) Education and Travel Policy

According to the education and travel policy adopted on June 4th 1998, item 10 indicates that "the District shall no longer provide credit cards for the individual use of employees". There is a list of eight to ten employees who currently have District issued credit cards. It should be noted that Board Resolution 2002-07 authorizes the General Manager to designate persons that may use District issued credit cards. The Education and Travel policy should be updated to reflect this usage.

Recommendation

We recommend that the District review and modify its Education and Travel Policy to incorporate specific policies regarding the use of credit cards.

District's Comments Regarding Corrective Actions Planned

Current policy is under revision by District Legal Counsel. Staff is also drafting a new credit card policy for Board consideration.

(2) Credit Card and Travel Transaction Documentation

Although we found no evidence that credit cards were used for other than valid District business, we found that the documented description of the business purpose of each credit card transaction could be improved upon.

Recommendation

We recommend the District review and modify its Education and Travel Policy to include specific written requirements regarding documentation involving the use of credit cards. Receipts should be maintained and attached to a simple form that is completed by the user that clearly describes the business purpose/benefit of the transaction (i.e., how the item was used for District operations or how the item provided a valid business benefit to the District). The completed form and supporting receipts should be reviewed by a knowledgeable individual in the department other than the initiator of the transaction.

The stated policies should also address the appropriate level of documentation for the various types of travel expenses. For example, the policy might require an itemized hotel bill for all out of town lodging and supporting documentation for all travel expenses in excess of $25.

The District may wish to allow the use of a flat meal allowance per day for travel-related meals when out of town on District business. If this were elected, then no supporting documentation would need to be provided for travel-related meals. Non-travel meals (for meetings, etc.) would not be subject to this flat allowance and would need to be supported by documentation. In all cases, the business purpose of the expense, meeting, or trip should be clearly described.

<u>District's Comments Regarding Corrective Actions Planned</u>

The District has acknowledged the recommendation presented in regards to updating its Education and Travel Policy specifically regarding documenting the use of credits cards. The District has also acknowledged the recommendation regarding documentation for various types of reimbursable expenses. Currently, Legal Council is reviewing and updating existing policy. Policies will address issues such as: (1) a formal credit card usage form and (2) a formal District expense report. It is the intent of each form to provide the District with:

Credit Cards
The credit card receipt, along with a brief notation that clearly describes the business purpose/benefit of the transaction.

Each transaction will be reviewed by a knowledgeable individual in a department other than the initiator of the transaction.

District Expense Report
The expense report will be used by individuals seeking reimbursement from transactions pertaining, but not limited too: hotel fare, transportation, meals, mileage, etc.

The District will need to make a determination on the minimum amount of a transaction before a receipt is required.

The District will need to make a determination on either a flat rate daily meal per diem, or choose to set individual meal allowances.

The District Expense Report will require a brief notation that clearly describes the business purpose/benefit of the transaction.

Each expense report will be reviewed by a knowledgeable individual in a department other than the initiator of the transaction.

(3) Cash Disbursement Process

During our review of internal controls over the cash disbursement process, we noted that the Accounts Payable/Payroll Clerk opens invoices, enters invoices into the system, prints the checks, is an authorized check signer and also mails the signed checks. Currently, a check register detail is provided to Board members three weeks prior to each Board meeting to provide Board members with an opportunity to select invoices for their review.

Recommendation

The person involved in data entry for cash disbursements should not be a check signer. Internal controls are also maximized when the persons involved in data entry for cash disbursements are not also involved in printing or mailing the checks. Ideally the persons involved in data entry for cash disbursements should have no access to checks once they have been printed. Internal controls are maximized when an individual other than the accounts payable clerk matches the printed checks to adequate supporting documentation prior to the check register being provided to the Board for the Board's review of transactions listed on the check register. We also recommend that a budget to actual expenditure report be provided and explained to the Board each month to assist the Board in its oversight responsibilities for the District.

District's Comments Regarding Corrective Actions Planned

Changes at the staff level have occurred since the adoption of the budget on February 2nd, 2008. One of these changes was the promotion of Mary Martin from Account Clerk II to Commercial Office Supervisor. Her duties of data entry for cash disbursement have been assigned to Account Clerk I Brandi Hollstein. Brandi is currently training her replacement in billing and will begin training in A/P on April 7th. Furthermore, Julie Salinas has been removed as a signer on all three bank accounts at Wells Fargo and LAIF (request pending (See attachment 1). The General Manager will now be the first signer and the Vice President of the Board of Directors will now be secondary signers on all checks. Either Mary Martin and/or the Assistant General Manager, Anthony Lara, could act as a signer in the event either principle signer is unavailable.

The month end financial report format is currently under review.

(4) Purchasing Policies and Procedures

The District does not have formal written policies and procedures addressing when purchase orders are required. Written policies and procedures provide documented guidelines for employees.

Recommendation

We recommend that the District establish policies and procedures for the procurement and purchase of goods and services with appropriate thresholds and approvals. It is recommended that reasonable thresholds be used to avoid unnecessary paperwork. Generally, agencies the size of the District do not require purchase orders for transactions under $1,000.

District's Comments Regarding Corrective Actions Planned

In order to maximize internal control, the District has acknowledged the recommendation presented, and has found it beneficial to draft and implement a Purchase Order Policy and Procedures document. A formal Purchase Order Policy and Procedures request for resolution will be presented to the Board for approval. Within this request, various items will be addressed such as:

- ***Purchase orders will be issued by the following persons, in the following order: Inventory Control Specialist, Commercial Office Supervisor, and Business Manager.***

- ***All purchase order requests, prior to being issued will be approved by the following persons; in the following order: Assistant General Manager, Field Superintendent, and General Manager.***

- ***During the approval process the Assistant General Manager, Field Superintendent, or General Manager will assign GL account numbers to reference when issuing purchase order.***

- ***Purchase orders will be required for procurements of goods and services that are greater than, or equal to $1000.00 (one thousand dollars) before any applicable sales tax, shipping, fuel surcharge, etc.***

- ***Purchase orders number will be referenced when issuing payment for goods and services that are greater than, or equal to $1000.00 (one thousand dollars) before any applicable sales tax, shipping, fuel surcharge, etc.***

(5) Payroll Processing

During our review of internal controls over the payroll process, we noted that the Accounts Payable/Payroll Clerk, who maintains the employee payroll files, also processes payroll and is an authorized check signer.

Recommendation

In order to maximize internal control, the Accounts Payable/Payroll Clerk ("Clerk") should not be a check signer. We also recommend that direct deposit records be reviewed along with the payroll register by someone other than the Clerk. In addition, someone other than the Clerk should print the direct deposit slips and distribute the same to employees.

District's Comments Regarding Corrective Actions Planned

As stated under item 3, Julie Salinas has been removed as signer on the payroll account and the Assistant General Manager, Anthony Lara has been added in her place.

Timesheets are still being processed by Mary Martin. Both the payroll register and direct deposit records are being reviewed and approved by Emanuel Salinas. Mr. Salinas has undertaken the printing of the direct deposit slips and distributes them to the Supervisors who in turn distribute them to the individual employees on pay day. Ms. Martin still prepares the various reports and checks, which are then signed by the General Manager and Assistant Manager. Once the checks are signed, they are matched to adequate supporting documentation and mailed by Mr. Salinas. Ms. Salinas has been removed from the process in its entirety.

(6) Backup Tapes

The District has excellent IT back-up procedures that include a nightly back up for files. The nightly back up of files is kept on site. This is appropriate. However, it is also recommended that agencies supplement this on-site nightly back-up with an off-site back-up of files at least once a month. This provides a reasonable additional layer of protection in the event of the total destruction of district offices.

Recommendation

We recommend that backup tapes should be maintained offsite on a monthly basis to limit loss due to fire.

District's Comments Regarding Corrective Actions Planned

Commercial Office Supervisor, Mary Martin, has obtained a safe deposit box at Wells Fargo Bank located at 499 E. 6th Street, Beaumont, CA 92223. The District was assigned box 473. Both Ms. Martin and Ms. Diaz (an Account Clerk II) have access to the box where backup tapes can be placed weekly and/or monthly in the event of a natural disaster or other unforeseen events.

(7) Authorized Users

During our audit of cash and investments, we noted that a former employee was still listed as an authorized user on the LAIF account.

Recommendation

We recommend that records be updated in a timely manner when employees depart from the District.

District's Comments Regarding Corrective Actions Planned

The former employee has been removed from the LAIF account (see attachment #2). The termination/separation check list has been updated to include prompt removal of employees once they are no longer employed with the District or no longer in a position which requires such rights.

(8) Documentation of Support and Approval of Transactions

The District had difficulty providing supporting documentation during the audit process due to unusual circumstances such as employee turnover and the temporary location of the District with limited storage space.

Recommendation

We recommend that the District maintain files that provide for the adequate retrieval of supporting documentation. We also recommend that the District establish procedures to ensure that in all cases the support for every transaction clearly document the approval by a knowledgeable individual in the affected department that was other than the initiator of the transaction.

District's Comments Regarding Corrective Actions Planned

There are currently documents stored in six different locations. All of these documents are set to be placed under one roof in one location in the new administrative headquarters (see attachment 3). The "record" room has been organized in the following manner: (1) all administrative files are placed against the south wall of the room, (2) all of the Utility billing files are located in the center of the room, (3) the historical documents such as minutes and deeds will be stored in fire proof cabinets lined up against the east wall and, (4) all accounts payable and payroll files will be located on the north side of the room. Network cables have been brought into the room and eventually, two scanning workstations will be added to the west side of the room for the scanning of Utility billing records.

We firmly believe that the addition of an executive secretary, which will be responsible for the management of the administrative files, will bring more order to the organization. In the latter part of 2007, daily operating procedures were developed and entered into the Vadim Software. This addition allows all employees to view and print all procedures. These procedures include the scanning and filing of supporting documentation for every transaction be it administrative, Accounts Receivable, Utility Billing, Accounts Payable or Payroll.

While the District lost three key commercial office employees in 2006, it has not experienced any losses in 2007 or thus far in 2008.

(9) Adjustments Detected by Audit Process

Paragraph 19 of *Statement on Auditing Standards No. 112* requires that the auditor communicate to the Board of Directors any material adjustments that were detected by the audit process. Material adjustments detected by the audit process involved the following:

- An adjustment to record revenue earned for services delivered but not billed as of year end
- The recording of a liability for unearned capital fees received in advance of connection to the system
- An adjustment of the liability recorded for accrued vacation

- Adjustment to record investments at fair value as required by accounting standards

Recommendation

An important element of controls over financial reporting is for management to identify adjustments necessary for the financial statements to be fairly stated. Whenever possible, adjustments should be reflected in the accounting records prior to the start of the audit. When this is not possible, management should identify and communicate to the auditors any potential areas of adjustment that may need to be addressed during the audit process. This is an important element of internal control to reduce the risk of material misstatement.

District's Comments Regarding Corrective Actions Planned

We will be responsive to creating checklists of any adjustments that needed to be made by staff, or left to our auditors. The District plans to hire a trained accountant to oversee the accounting system and prepare year-end adjustments.

(10) Investment Policy

The District does not have s formal investment policy. Although not required by state law, investment policies formalize the Board's approval of the types of investments to be used by the District. Currently, the District invests solely in the Local Agency Investment Fund ("LAIF"). This is a common and acceptable practice.

Recommendation

We recommend that the District memorialize the Board's approval of the investment types currently in use by the District.

District's Comments Regarding Corrective Actions Planned

Currently this policy is under review by staff. Once all historic documentation is located staff will draft a new investment policy for Board review.

(11) Capital Asset Records

During our audit of capital assets, we noted that assets are removed from the books when they have become fully depreciated even though the assets may still be in use. Although this is an acceptable method, we recommend that assets in use not be removed from the capital asset records in order to provide better accountability for all assets currently owned by the District.

Recommendation

We recommend that a complete capital asset listing be maintained for all assets that are still in use by the District. Assets should be deleted from the detailed capital asset records when they have been replaced or disposed of.

District's Comments Regarding Corrective Actions Planned

We do not agree that any corrective action is needed. As stated above, The District is using an acceptable method. Depreciation is used to match the cost of capitalized assets to revenues generated over future periods. The great majority of assets are underground, and have a very long useful lives. The District does not attempt to match the cost every section of transmission or distribution main once the pipe is installed. The District does maintain records of the location and size of pipe for purposes of repairs and efficient delivery of water. It would serve no useful purpose to maintain an inventory of fully depreciated assets with descriptions such as "1000 feet, 12 inch, Beaumont Ave, $100,000." What is needed is to know the exact location of the pipe, the size, depth, location of shutoff values, etc. After 35 to 75 years, the original cost would not add any valuable information to ratepayers, insurers or management.

(12) Bank Reconciliation Preparation

The bank reconciliation process is one of the most important controls with respect to the accounting records. Bank reconciliations are most effective when they are performed by persons with no ties to individuals that are either responsible for the maintenance of the accounting records or that have direct or indirect access to District bank accounts (for example, persons with the ability to execute bank transfers, investment transactions, cash disbursements, or that have access to bank deposits). Currently, bank reconciliations are performed by the Inventory Control Specialist who does not have a formal accounting background and is also the spouse of the District's Business Manager who is responsible for the maintenance of the District's accounting records. Currently, the bank reconciliation process consists primarily of generating a report from the general ledger and comparing it to the bank statement (after taking into account outstanding checks and deposits in transit).

Recommendation

If possible, it is best for bank reconciliations to be performed by an individual unrelated to the Business Manager. If the District has limited personnel, one solution would be to contract with a local accountant or bookkeeper to perform the bank reconciliation function. The reconciliation should include examining the front of cleared checks to ensure that only the persons specified by the Board to sign checks have in fact signed the cleared checks. Banks no longer perform this function and it is incumbent upon the owner of the bank account to ensure that only authorized persons are signing checks.

District's Comments Regarding Corrective Actions Planned

Ms. Salinas has been removed from all financial accounting responsibility including check signing and maintenance of accounting records. The financial accounting and reconciliation responsibility will remain with Mr. Salinas who will report directly to the District Treasurer (who will be a Certified Public Accountant).

The District's written responses to the matters identified in our audit are described above. We have not audited the District's responses, and accordingly, we express no opinion on them. Corrective actions taken to resolve the matters identified above are addressed during the following year's audit.

This report is intended solely for the information and use of the Board of Directors and management of the District and is not intended to be used by other parties.

Mayer Hoffman McCann P.C.

Irvine, California
March 24, 2008

**BEAUMONT-CHERRY VALLEY
WATER DISTRICT**

BASIC FINANCIAL STATEMENTS

Year ended December 31, 2004

BEAUMONT-CHERRY VALLEY
WATER DISTRICT

Basic Financial Statements

Year ended December 31, 2004

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

Independent Auditors' Report

We have audited the accompanying basic financial statements of the Beaumont-Cherry Valley Water District ("District"), as of and for the year ended December 31, 2004 as listed in the table of contents. These financial statements are the responsibility of the management of the District. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Beaumont-Cherry Valley Water District, as of December 31, 2004, and the respective changes in financial position and cash flows of Beaumont-Cherry Valley Water District for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The District has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 24, 2008 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Mayer Hoffman McCann P.C.

Irvine, California
March 24, 2008

BEAUMONT-CHERRY VALLEY WATER DISTRICT

Statement of Net Assets

December 31, 2004

Assets	
Current assets:	
Cash and investments (note 2)	$ 13,049,259
Accounts receivable	922,403
Accrued interest receivable	57,686
Inventory	868,839
Prepaid expenses	35,568
Total current assets	14,933,755
Noncurrent assets:	
Notes receivable (note 9)	480,318
Capital assets, net of accumulated depreciation (note 3)	33,867,768
Total noncurrent assets	34,348,086
Total assets	49,281,841
Liabilities	
Current liabilities:	
Accounts payable	1,435,173
Deposits payable	34,300
Accrued salaries and benefits	44,355
Unearned revenue	178,186
Total current liabilities	1,692,014
Noncurrent liabilities:	
Compensated absences (note 1i)	89,111
Total noncurrent liabilities	89,111
Total liabilities	1,781,125
Net Assets	
Net assets:	
Invested in capital assets, net of related debt	33,867,768
Restricted (note 11)	5,439,117
Unrestricted	8,193,831
Total net assets	$ 47,500,716

See accompanying notes to basic financial statements.

BEAUMONT-CHERRY VALLEY WATER DISTRICT

Statement of Revenues, Expenses and Changes in Net Assets

Year ended December 31, 2004

Operating revenues:	
Water sales	$ 2,716,809
Water services:	
Service connections	547,930
Development reimbursement	511,816
Inspection reimbursement	646,596
Private fire service	360,531
Other services	21,105
Penalties	32,332
Total water services	2,120,310
Total operating revenues	4,837,119
Operating expenses:	
Pumping expenses	1,271,511
Transmission and distribution	773,407
Customer accounts	56,332
General and administrative	2,182,028
San Timoteo Watershed	335,419
Depreciation	573,024
Total operating expenses	5,191,721
Income (loss) from operations	(354,602)
Nonoperating revenues (expenses):	
Standby charges	878,485
Rent and utilities reimbursement	3,546
Miscellaneous expense	(31,740)
Investment income	151,075
Total nonoperating revenues	1,001,366
Income before contributions	646,764
Capital contributions:	
Facilities charges	12,823,677
Front footage fees and other reimbursements	3,138,697
Total capital contributions	15,962,374
Change in net assets	16,609,138
Net assets at beginning of year, as restated (note 10)	30,891,578
Total net assets at end of year	$ 47,500,716

See accompanying notes to basic financial statements.

BEAUMONT-CHERRY VALLEY WATER DISTRICT

Statement of Cash Flows

Year Ended December 31, 2004

Cash flows from operating activities:	
Cash received from customers	$ 9,195,379
Cash payments to employees for services	(1,219,740)
Cash payments to suppliers for goods and services	(2,611,032)
Proceeds from standby charges	878,485
Rental income received	3,546
Miscellaneous expenses paid	(31,740)
Net cash provided by (used for) operating activities	6,214,898
Cash flows from capital and related financing activities:	
Acquisitions and construction of capital assets	(10,594,370)
Repayment of notes payable	(483,874)
Proceeds from water connection fees	15,962,374
Net cash provided by (used for) capital and related financing activities	4,884,130
Cash flows from investing activities:	
Interest income received	110,002
Net cash provided by (used for) investing activities	110,002
Total increase (decrease) in cash and cash equivalents	11,209,030
Cash and cash equivalents at beginning of year	1,840,229
Cash and cash equivalents at end of year	$ 13,049,259

(Continued)

BEAUMONT-CHERRY VALLEY WATER DISTRICT

Statement of Cash Flows

(Continued)

Reconciliation of loss from operations to net cash provided by operating activities:

Loss from operations	$	(354,602)
Adjustments to reconcile loss from operations to net cash provided by operating activities:		
Operating activities:		
Depreciation		573,024
Rental income received		3,546
Standby charges and other revenues		878,485
Miscellaneous expense		(31,740)
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable		(102,435)
Decrease (increase) in prepaid expenses		1,804
Decrease (increase) in inventory		(414,456)
Decrease (increase) in deferred compensation assets		71,113
Decrease (increase) in development fees		4,389,582
Increase (decrease) in accounts payable		1,246,728
Increase (decrease) in accrued salaries and benefits		(91,860)
Increase (decrease) in deposits payable		7,618
Increase (decrease) in compensated absences		38,091
Net cash provided by operating activities	$	6,214,898

Noncash capital, financing, and investing activities -

There were no significant noncash capital, financing, and investing activities for the year ended December 31, 2004.

See accompanying notes to basic financial statements.

(1) Summary of Significant Accounting Policies

(a) Description of the Reporting Entity

The Beaumont Irrigation District was formed in March of 1919 under the Wright Act of 1897. In the early 1970's, the Beaumont Irrigation District's name was changed to the Beaumont-Cherry Valley Water District for political reasons. However, the District today is still the original Irrigation District which was formed under the Wright Act of 1897.

Through the 1960's, 1970's and into the 1980's, irrigation of crop lands began to diminish and domestic use of water began to increase. In 1982, the Board of Directors rewrote all of the irrigation rules and regulations which, originally, were based on total number of acres irrigated, assuming a fruit crop with adult trees. With the change in the rules and regulations from a contracted amount per acre to the payment of irrigation water per 100 cubic feet, irrigation demand greatly decreased within the District's service area, to the point where there are currently 141 irrigation accounts remaining of which only about half actually consume water.

Recognizing the continuing decline in water level in the Beaumont Basin, the Board of Directors began in the middle 1980's to look at the possibility of utilizing reclaimed wastewater as a way of offsetting the overdraft problems.

(b) Basis of Accounting, Measurement Focus, and Financial Statement Presentation

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to business enterprises, where the intent of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges.

The basic financial statements are prepared using the economic resource measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or non-current) are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Changes in Net Assets presents increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which liability is incurred.

The District distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and delivering water in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets.

(1) Summary of Significant Accounting Policies, (Continued)

(b) Basis of Accounting, Measurement Focus, and Financial Statement Presentation, (Continued)

All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Capital contributions are reported as a separate line item in the Statement of Revenues, Expenses and Changes in Net Assets.

Private-sector standards of accounting and financial reporting issued after November 30, 1989 are generally followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities, subject to some limitations. The District has elected not to follow subsequent private-sector guidance.

(c) Cash and Investments

Investments are carried at fair value, except for guaranteed investment contracts, which are carried at cost because they are not transferable and they have terms that are not affected by changes in market interest rates. In the financial statements, changes in fair value that occur during a fiscal year are recognized as *Investment income* reported for the fiscal year. *Investment income* includes interest earnings, changes in fair value and any gains or losses realized upon the liquidation or sale of investments.

(d) Statement of Cash Flows

For purposes of the statement of cash flows, the District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. At December 31, 2004, cash and cash equivalents consisted of demand deposits and deposits in the Local Agency Investment Fund (LAIF).

(e) Revenues

The District receives its revenues primarily from the sales of water and related services. Other income is derived from interest earned on investments and developers fees.

(f) Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

(1) Summary of Significant Accounting Policies, (Continued)

(g) Revenue Recognition

Revenues are recognized when earned. Metered water accounts are read and billed the second half of every month on 30-day cycles. Unbilled water charges are accrued for the period from the last meter reading through year-end and are included in accounts receivable. Unbilled accounts receivable amounted to $366,109 at December 31, 2004.

(h) Capital Assets

Capital assets are stated at cost. The District has set the capitalization threshold for reporting capital assets at $1,000 with a useful life of two years or more. Depreciation of all exhaustible capital assets used by the District is charged as an expense against their operations using a straight-line method, based on the average useful life of the asset.

Depreciation is computed using the straight-line method over the estimated useful lives of the capital assets as follows:

Wells: development and casings	75 years
Fire hydrants	50 years
Reservoirs and tanks	50 years
Pumping plant	10-50 years
Transmission and distribution plant:	
Pipelines	40-75 years
Services and meters	40-50 years
Pumping plant – buildings	40 years
Buildings	40 years
Water treatment plant	30 years
Telemetry	15 years
Office furniture and equipment	10 years
General equipment	5-10 years
Truck and automotive equipment	4 years

(1) Summary of Significant Accounting Policies, (Continued)

(i) Compensated Absences

The District has a policy whereby an employee can accumulate sick leave and vacation. The sick leave is accumulated at one day per month. An employee not using any sick leave for twelve consecutive months could convert their twelve accrued days to cash at a rate of two accrued days for each hour's pay at their regular hourly rate. Upon retirement or death, employees or their beneficiaries are entitled to receive 50% of all accumulated sick leave.

Vacation is earned from the date of hire and is available for use the following year from ten working days to the maximum of 20 working days. The District has provided for these future costs by accruing earned and unused sick leave and vacation were $89,111, which has been included in compensated absences in the accompanying statement of net assets.

(j) Net Assets

In the statement of net assets, net assets are classified in the following categories:

Investment in Capital Assets, Net of Related Debt – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

Restricted Net Assets – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted Net Assets – This amount is all net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net assets."

(k) 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.

(2) Cash and Investments

Cash and investments as of December 31, 2004 consist of the following:

Cash on hand	$ 822
Deposits with financial institution	1,003,851
Investments	12,044,586
Total cash and investments	$13,049,259

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 investment policy. The table also identifies certain provisions of the California Government Code (or the District's investment policy, if more restrictive) that address *interest rate risk* and *concentration of credit risk.*

Investment Types Authorized by State Law	Authorized by Investment Policy**	Maximum Maturity*	Maximum Percentage of Portfolio*	Maximum Investment In One Issuer*
Local Agency Bonds	No	5 years	None	None
U.S. Treasury Obligations	No	5 years	None	None
U.S. Agency Securities	No	5 years	None	None
Banker's Acceptances	No	180 days	40%	30%
Commercial Paper	No	270 days	25%	10%
Negotiable Certificates of Deposit	No	5 years	30%	None
Repurchase Agreements	No	1 year	None	None
Reverse Repurchase Agreements	No	92 days	20% of base value	None
Medium-Term Notes	No	5 years	30%	None
Mutual Funds	No	N/A	20%	10%
Money Market Mutual Funds	No	N/A	20%	10%
Mortgage Pass-Through Securities	No	5 years	20%	None
County Pooled Investment Funds	No	N/A	None	None
Local Agency Investment Fund	Yes	N/A	None	None
JPA Pools (other investment pools)	No	N/A	None	None

* Based on state law requirements or investment policy requirements, whichever is more restrictive.

** District does not have an investment policy. However, District Board of Directors had approved investments only in the Local Agency Investment Fund.

(2) Cash and Investments, (Continued)

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by investing only in the Local Agency Investment Fund to provide the cash flow and liquidity needed for operations.

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

		Remaining Maturing (in Months)			
Investment Type	Total	6 Months Or Less	7 to 12 Months	13 to 24 Months	More Than 24 Months
Local Agency Investment Fund (LAIF)	$12,044,586	12,044,586	-	-	-
Total	$12,044,586	12,044,586	-	-	-

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code or the District's investment policy, and the actual rating as of year end for each investment type.

				Rating as of Year End	
Investment Type	Total	Minimum Legal Rating	Exempt From Disclosure	AAA	Not Rated
Local Agency Investment Fund (LAIF)	$12,044,586	N/A	-	-	12,044,586
Total	$12,044,586		-	-	12,044,586

(2) Cash and Investments, (Continued)

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. There are no investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District investments.

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% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of December 31, 2004, $986,937 of the District's deposits with financial institutions in excess of federal depository insurance limits was held in collateralized accounts.

Investment in State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

(3) Capital Assets

Changes in capital assets for the year ended December 31, 2004 were as follows:

	Balance at Dec 31, 2003	Additions	Deletions	Balance at Dec 31, 2004
Capital assets, nondepreciable:				
Land	$ 973,899	-	-	973,899
Construction in progress	6,642,143	10,523,257	(2,939,734)	14,225,666
Total capital assets, nondepreciable	7,616,042	10,523,257	(2,939,734)	15,199,565
Capital assets, depreciable:				
Pumphouse structures	69,802	-	-	69,802
Well casings and development	673,066	-	-	673,066
Pumping equipment	917,899	410,944	(73,460)	1,255,383
Chlorinators	350,452	-	(250,187)	100,265
Reservoirs and tanks	2,202,252	130,073	-	2,332,325
Telemetering equipment	227,689	174,890	-	402,579
Transmission and distribution mains	14,389,157	1,577,858	-	15,967,015
Meters and meter services	1,210,564	280,608	-	1,491,172
Fire hydrants	3,884	-	-	3,884
Structures and improvements	296,266	149,525	-	445,791
Office furniture and equipment	309,581	-	(9,067)	300,514
Automobile equipment	224,049	215,836	(64,159)	375,726
General equipment	62,345	-	(1,984)	60,361
Total capital assets, depreciable	20,937,006	2,939,734	(398,857)	23,477,883
Total capital assets	28,553,048	13,462,991	(3,338,591)	38,677,448
Accumulated depreciation	(4,635,513)	(573,024)	398,857	(4,809,680)
Total capital assets, net	$23,917,535	12,889,967	(2,939,734)	33,867,768

Depreciation expense for the depreciable capital assets was $573,024 for the year ended December 31, 2004 is as follows:

Water	$573,024

(4) Investment in Joint Venture

In 2002, the City of Beaumont, the Beaumont-Cherry Valley Water District ("District"), the South Mesa Mutual Water Company and the Yucaipa Valley Water District (collectively referred to as Joint Venture) entered into a joint powers agreement creating the San Timoteo Watershed Management Authority ("Authority"). The purpose of the Authority is to prepare and implement a Water Resources Management Plan for the San Timoteo Watershed and the waters tributary in order to conserve local water supplies, improve surface and subsurface water quality and quantity, protect and enhance groundwater storage and recreational resources, preserve open space, protect wildlife habitat and wetlands, protect and enhance agriculture, and develop and enhance the region's water resources for the benefit of the public.

(5) Defined Benefit Pension Plan

Plan Description

The District contributes to the California Public Employees Retirement System (PERS), a cost sharing multiple-employer public employee defined benefit pension plan. PERS provides retirement, disability benefits, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Copies of PERS' annual financial report may be obtained from its executive office at 400 "P" Street, Sacramento, California 95814.

Contributions

Participants are required to contribute 7% of their annual covered salary. The District makes the contributions required of District employees on their behalf and for their account. Benefit provisions and all other requirements are established by state statute and town contract with employee bargaining groups.

Under GASB 27, an employer reports an annual pension cost (APC) equal to the annual required contribution (ARC) plus an adjustment for the cumulative difference between the APC and the employer's actual plan contributions for the year. The cumulative difference is called the net pension obligation (NPO). The ARC for the period has been determined by an actuarial valuation of the plan as of June 30, 2001. The contribution rate indicated for the period is 18.25% of payroll for the miscellaneous plan. The District's covered payroll for PERS was $163,992 for the year ended December 31, 2004, while the District's total payroll for all employees was $884,763. In order to calculate the dollar value of the ARC for inclusion in financial statements prepared as of December 31, 2004, this contribution rate would be multiplied by the payroll of covered employees that was actually paid during the period.

(5) Defined Benefit Pension Plan (Continued)

Three-Year Trend Information

Annual Pension Cost (Employer Contribution) - Miscellaneous

Fiscal Year	Annual Pension cost	Percentage of APC Contributed	Net Pension Obligation
12/31/04	$163,992	100%	-

(6) Deferred Compensation

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code 457. The plan, available to all permanent employees, permits them to defer a portion of their current salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts and all income attributable to those amounts, property or rights are, until paid or made available to the employee or other beneficiary, solely the property and rights of the District, without being restricted to the provisions of benefits under the plan, subject only to the claim of the District's general creditors. Participant rights under the plan are equal to those of general creditors of the District in an amount equal to the fair market value of the deferred account for each participant

It is the District's position that it has a fiduciary obligation for the due care required of a prudent investor in the management of the plan's resources but is not responsible for any loss due to the investment or failure of investment funds and assets of the plan, nor shall the District be required to replace any loss which may result from such investments.

(7) Risk Management

The District is exposed to various risks of loss related to torts, theft, damage to and destruction of assets, errors and omissions, injuries to employees and natural disasters. In an effort to manage its risk exposure, the District is a member of the Association of California Water Agencies Joint Powers Insurance Authority (Authority).

The Authority is a risk-pooling self-insurance authority, created under provisions of California Government Code Section 6500 et seq. The purpose of the Authority is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage.

(7) Risk Management, (Continued)

At December 31, 2004, as a member of the Authority, the District participated in the insurance programs as follows:

Property Loss – The District retains risk of loss up to $1,000 (deductible amount); the Authority is self-insured up to $50,000 and insurance coverage has been purchased to cover losses ranging from $50,000 to $100,000,000.

Auto and General Liability – The District is insured up to $60,000,000 per occurrence with no deductible; the Authority is self-insured up to $1,000,000 and excess insurance coverage has been purchased to cover losses ranging from $1,000,000 to $60,000,000.

Public Official's Errors and Omissions – The District is insured up to $60,000,000 per occurrence with no deductible; the Authority is self-insured up to $1,000,000 and excess insurance coverage has been purchased to cover losses ranging from $1,000,000 to $60,000,000.

Underground Storage Tank Pollution Liability – The District is insured up to $1,000,000 annual aggregate per incident with $10,000 deductible per incident; the Authority is self-insured up to $500,000 and excess insurance coverage has been purchased to cover losses ranging from $500,000 to $1,000,000.

Fidelity Coverage - The District is insured up to $100,000 per occurrence with $1,000 deductible for employee dishonesty, forgery or alteration, and computer fraud.

Workers' Compensation – The District is insured for statutory limits. The District is insured up to $4,000,000 per accident and $4,000,000 per disease; the Authority is self-insured up to $2,000,000 and excess insurance coverage had been purchased.

Roy Bradt Dam Failure Liability - The District is insured up to $5,000,000 per occurrence with $50,000 deductible.

There have been no settlements that have exceeded its insurance coverage for the past three years.

(8) Contingencies and Commitments

Lawsuits – The District is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the District's management that resolution of these matters will not have a material adverse effect on the financial condition of the District.

(9) Notes Receivable – Bonita Vista

During 2003 the Bonita Vista Mutual Water Company started the annexation process to join the District. The annexation agreement calls for the District to install a new water delivery system (transmission lines and approximately 102 services) at an estimated cost of $500,000. Former Bonita Vista members are to pay a maximum of $5,500 per meter. Notes are payable over 20 years at a variable interest rate calculated quarterly at 1.5 percent above the District's LAIF savings rate. At December 31, 2004, the balance of the notes is $480,318.

(10) Prior Period Adjustments

During the fiscal year ended December 31, 2004, the District recorded the following prior period adjustments.

Net assets, as previously reported	$30,754,674
To adjust for unbilled receivable	366,109
To adjust for unearned revenue associated with development and inspection deposits	(178,186)
To adjust for accrued vacation	(51,019)
Net assets, as restated	$30,891,578

(11) Restricted Net Assets

Unexpended net assets restricted for capital constructions as of year end are estimated as follows:

Capital restricted fees:	
Facilities charges	$ 12,823,677
Front footage fees and other reimbursements	3,138,697
Total capital restricted fees	15,962,374
Less qualifying capital expenditures	(10,523,257)
Unexpended balance as of July 1, 2003	-
Unexpended balance as of June 30, 2004	$ 5,439,117

(12) Subsequent Events

On July 11, 2006, the Court made a judgment for the District to pay the defendants in the amount of $6,003,000 in an eminent domain case. The property is for the public purpose of constructing, reconstructing and maintaining a water spreading, percolation, storage and recreational facility.

BEAUMONT-CHERRY VALLEY WATER DISTRICT

BASIC FINANCIAL STATEMENTS

Year ended December 31, 2005

BEAUMONT-CHERRY VALLEY
WATER DISTRICT

Basic Financial Statements

Year ended December 31, 2005

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

Independent Auditors' Report

We have audited the accompanying basic financial statements of the Beaumont-Cherry Valley Water District ("District"), as of and for the year ended December 31, 2005 as listed in the table of contents. These financial statements are the responsibility of the management of the District. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative information has been derived from the financial statements of the District for the year ended December 31, 2004 and, in our report dated March 24, 2008, we expressed an unqualified opinion on those financial statements.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Beaumont-Cherry Valley Water District, as of December 31, 2005, and the respective changes in financial position and cash flows of Beaumont-Cherry Valley Water District for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The District has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 24, 2008 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Mayer Hoffman McCann P.C.

Irvine, California
March 24, 2008

BEAUMONT-CHERRY VALLEY WATER DISTRICT

Statement of Net Assets

December 31, 2005
(with prior year data for comparison purposes only)

Assets	2005	2004
Current assets:		
Cash and investments (note 2)	$ 17,212,528	$ 13,049,259
Accounts receivable	2,011,670	922,403
Accrued interest receivable	163,158	57,686
Inventory	1,197,314	868,839
Prepaid expenses	51,956	35,568
Total current assets	20,636,626	14,933,755
Noncurrent assets:		
Notes receivable (note 9)	480,318	480,318
Capital assets, net of accumulated depreciation (note 3)	50,228,648	33,867,768
Total noncurrent assets	50,708,966	34,348,086
Total assets	71,345,592	49,281,841
Liabilities		
Current liabilities:		
Accounts payable	1,323,269	1,435,173
Deposits payable	83,889	34,300
Accrued salaries and benefits	67,634	44,355
Unearned revenue	1,045,258	178,186
Total current liabilities	2,520,050	1,692,014
Noncurrent liabilities:		
Compensated absences (note 1i)	100,198	89,111
Total noncurrent liabilities	100,198	89,111
Total liabilities	2,620,248	1,781,125
Net Assets		
Net assets:		
Invested in capital assets, net of related debt	50,228,648	33,867,768
Restricted (note 10)	7,094,009	5,439,117
Unrestricted	11,402,687	8,193,831
Total net assets	$ 68,725,344	$ 47,500,716

See accompanying notes to basic financial statements.

BEAUMONT-CHERRY VALLEY WATER DISTRICT

Statement of Revenues, Expenses and Changes in Net Assets

Year ended December 31, 2005
(with prior year data for comparison purposes only)

	2005	2004
Operating revenues:		
Water sales	$ 3,436,947	$ 2,716,809
Water services:		
Service connections	1,126,307	547,930
Development reimbursement	784,125	511,816
Inspection reimbursement	680,784	646,596
Private fire service	-	360,531
Other	615,722	53,437
Total water services	3,206,938	2,120,310
Total operating revenues	6,643,885	4,837,119
Operating expenses:		
Pumping expenses	1,222,663	1,271,511
Transmission and distribution	771,318	773,407
Customer accounts	108,121	56,332
General and administrative	2,268,095	2,182,028
San Timoteo Watershed	228,400	335,419
Depreciation	698,427	573,024
Total operating expenses	5,297,024	5,191,721
Income (loss) from operations	1,346,861	(354,602)
Nonoperating revenues (expenses):		
Standby charges	1,008,814	878,485
Rent and utilities reimbursement	400	3,546
Miscellaneous expense	(223,637)	(31,740)
Investment income	564,411	151,075
Income before contributions	2,696,849	646,764
Capital contributions:		
Facilities charges	16,866,792	12,823,677
Front footage fees and other reimbursements	1,660,987	3,138,697
Total capital contributions	18,527,779	15,962,374
Change in net assets	21,224,628	16,609,138
Net assets at beginning of year	47,500,716	30,891,578
Total net assets at end of year	$ 68,725,344	$ 47,500,716

See accompanying notes to basic financial statements.

BEAUMONT-CHERRY VALLEY WATER DISTRICT

Statement of Cash Flows

Year ended December 31, 2005
(with prior year data for comparison purposes only)

	2005	2004
Cash flows from operating activities:		
Cash received from customers	$6,421,690	$9,195,379
Cash payments to employees for services	(1,629,727)	(1,219,740)
Cash payments to suppliers for goods and services	(3,341,682)	(2,611,032)
Proceeds from standby charges	1,008,814	878,485
Rental income received	400	3,546
Miscellaneous expense	(223,637)	(31,740)
Net cash provided by (used for) operating activities	2,235,858	6,214,898
Cash flows from capital and related financing activities:		
Acquisitions and construction of capital assets, net	(17,059,307)	(10,594,370)
Repayment of notes payable	-	(483,874)
Proceeds from water connection fees	18,527,779	15,962,374
Net cash provided by (used for) capital and related financing activities	1,468,472	4,884,130
Cash flows from investing activities:		
Interest income received	458,939	110,002
Net cash provided by (used for) investing activities	458,939	110,002
Total increase (decrease) in cash and cash equivalents	4,163,269	11,209,030
Cash and cash equivalents at beginning of year	13,049,259	1,840,229
Cash and cash equivalents at end of year	$ 17,212,528	$ 13,049,259

(Continued)

BEAUMONT-CHERRY VALLEY WATER DISTRICT

Statement of Cash Flows

(Continued)

	2005	2004
Reconciliation of loss from operations to net cash provided by operating activities:		
Income (loss) from operations	$ 1,346,861	$ (354,602)
Adjustments to reconcile loss from operations to net cash provided by operating activities:		
Operating activities:		
Depreciation	698,427	573,024
Rental income received	400	3,546
Standby charges and other revenues	1,008,814	878,485
Miscellaneous expense	(223,637)	(31,740)
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	(1,089,267)	(102,435)
Decrease (increase) in prepaid expenses	(16,388)	1,804
Decrease (increase) in materials and supplies inventory	(328,475)	(414,456)
Decrease (increase) in deferred compensation assets	-	71,113
Decrease (increase) in development fees	-	4,389,582
Increase (decrease) in accounts payable	(111,904)	1,246,728
Increase (decrease) in accrued salaries and benefits	23,279	(91,860)
Increase (decrease) in deposits payable	49,589	7,618
Increase (decrease) in unearned revenue	867,072	-
Increase (decrease) in compensated absences	11,087	38,091
Net cash provided by operating activities	$ 2,235,858	$ 6,214,898

Noncash capital, financing, and investing activities -

There were no significant noncash capital, financing, and investing activities for the years ended December 31, 2005 and 2004.

See accompanying notes to the basic financial statements.

(1) Summary of Significant Accounting Policies

(a) Description of the Reporting Entity

The Beaumont Irrigation District was formed in March of 1919 under the Wright Act of 1897. In the early 1970's, the Beaumont Irrigation District's name was changed to the Beaumont-Cherry Valley Water District for political reasons. However, the District today is still the original Irrigation District which was formed under the Wright Act of 1897.

Through the 1960's, 1970's and into the 1980's, irrigation of crop lands began to diminish, and domestic use of water began to increase. In 1982, the Board of Directors rewrote all of the irrigation rules and regulations which, originally, were based on total number of acres irrigated, assuming a fruit crop with adult trees. With the change in the rules and regulations from a contracted amount per acre to the payment of irrigation water per 100 cubic feet, irrigation demand greatly decreased within the District's service area, to the point where there are currently 141 irrigation accounts remaining of which only about half actually consume water.

Recognizing the continuing decline in water level in the Beaumont Basin, the Board of Directors began in the middle 1980's to look at the possibility of utilizing reclaimed wastewater as a way of offsetting the overdraft problems.

(b) Basis of Accounting, Measurement Focus, and Financial Statement Presentation

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to business enterprises, where the intent of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges.

The basic financial statements are prepared using the economic resource measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or non-current) are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Changes in Net Assets presents increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which liability is incurred.

The District distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and delivering water in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets.

(1) Summary of Significant Accounting Policies, (Continued)

(b) Basis of Accounting, Measurement Focus, and Financial Statement Presentation, (Continued)

All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Capital contributions are reported as a separate line item in the Statement of Revenues, Expenses and Changes in Net Assets.

Private-sector standards of accounting and financial reporting issued after November 30, 1989 are generally followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities, subject to some limitations. The District has elected not to follow subsequent private-sector guidance.

(c) Cash and Investments

Investments are carried at fair value, except for guaranteed investment contracts, which are carried at cost because they are not transferable and they have terms that are not affected by changes in market interest rates. In the financial statements, changes in fair value that occur during a fiscal year are recognized as *Investment income* reported for the fiscal year. *Investment income* includes interest earnings, changes in fair value and any gains or losses realized upon the liquidation or sale of investments.

(d) Statement of Cash Flows

For purposes of the statement of cash flows, the District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. At December 31, 2005, cash and cash equivalents consisted of demand deposits and deposits in the Local Agency Investment Fund (LAIF).

(e) Revenues

The District receives its revenues primarily from the sales of water and related services. Other income is derived from interest earned on investments and developers fees.

(f) Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

(1) Summary of Significant Accounting Policies, (Continued)

(g) Revenue Recognition

Revenues are recognized when earned. Metered water accounts are read and billed bi-monthly on 30-day cycles. Unbilled water charges are accrued for the period from the last meter reading through year-end and are included in accounts receivable. Unbilled accounts receivable amounted to $366,109 at December 31, 2005.

(h) Capital Assets

Capital assets are stated at cost. The District has set the capitalization threshold for reporting capital assets at $1,000 with a useful life of two years or more. Depreciation of all exhaustible capital assets used by the District is charged as an expense against their operations using a straight-line method, based on the average useful life of the asset.

Depreciation is computed using the straight-line method over the estimated useful lives of the capital assets as follows:

Wells: development and casings	75 years
Fire hydrants	50 years
Reservoirs and tanks	50 years
Pumping plant	10-50 years
Transmission and distribution plant:	
Pipelines	40-75 years
Services and meters	40-50 years
Pumping plant – buildings	40 years
Buildings	40 years
Water treatment plant	30 years
Telemetry	15 years
Office furniture and equipment	10 years
General equipment	5-10 years
Truck and automotive equipment	4 years

(1) Summary of Significant Accounting Policies, (Continued)

(i) Compensated Absences

The District has a policy whereby an employee can accumulate sick leave and vacation. The sick leave is accumulated at one day per month. An employee not using any sick leave for twelve consecutive months could convert their twelve accrued days to cash at a rate of two accrued days for each hour's pay at their regular hourly rate. Upon retirement or death, employees or their beneficiaries are entitled to receive 50% of all accumulated sick leave.

Vacation is earned from the date of hire and is available for use the following year from ten working days to the maximum of 20 working days. The District has provided for these future costs by accruing earned and unused sick leave and vacation were $100,198, which has been included in compensated absences in the accompanying statement of net assets.

(j) Net Assets

In the statement of net assets, net assets are classified in the following categories:

Investment in Capital Assets, Net of Related Debt – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

Restricted Net Assets – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted Net Assets – This amount is all net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net assets."

(k) 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.

(l) 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 government's prior year financial statements, from which this selected financial data was derived.

BEAUMONT-CHERRY VALLEY WATER DISTRICT

Notes to Basic Financial Statements

(Continued)

(2) Cash and Investments

Cash and investments as of December 31, 2005 consist of the following:

Cash on hand	$ 822
Deposits with financial institution	593,496
Investments	16,618,210
Total cash and investments	$17,212,528

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 investment policy. The table also identifies certain provisions of the California Government Code (or the District's investment policy, if more restrictive) that address *interest rate risk* and *concentration of credit risk*

Investment Types Authorized by State Law	Authorized by Investment Policy**	Maximum Maturity*	Maximum Percentage of Portfolio*	Maximum Investment In One Issuer*
Local Agency Bonds	No	5 years	None	None
U.S. Treasury Obligations	No	5 years	None	None
U.S. Agency Securities	No	5 years	None	None
Banker's Acceptances	No	180 days	40%	30%
Commercial Paper	No	270 days	25%	10%
Negotiable Certificates of Deposit	No	5 years	30%	None
Repurchase Agreements	No	1 year	None	None
Reverse Repurchase Agreements	No	92 days	20% of base value	None
Medium-Term Notes	No	5 years	30%	None
Mutual Funds	No	N/A	20%	10%
Money Market Mutual Funds	No	N/A	20%	10%
Mortgage Pass-Through Securities	No	5 years	20%	None
County Pooled Investment Funds	No	N/A	None	None
Local Agency Investment Fund	Yes	N/A	None	None
JPA Pools (other investment pools)	No	N/A	None	None

* Based on state law requirements or investment policy requirements, whichever is more restrictive.

** District does not have an investment policy. However, District Board of Directors had approved investments only in the Local Agency Investment Fund.

(2) Cash and Investments, (Continued)

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by only investing in the Local Agency Investment Fund to provide the cash flow and liquidity needed for operations.

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

		Remaining Maturing (in Months)			
Investment Type	Total	6 Months Or Less	7 to 12 Months	13 to 24 Months	More Than 24 Months
Local Agency Investment Fund (LAIF)	$16,618,210	16,618,210	-	-	-
Total	$16,618,210	16,618,210	-	-	-

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code or the District's investment policy, and the actual rating as of year end for each investment type.

				Rating as of Year End	
Investment Type	Total	Minimum Legal Rating	Exempt From Disclosure	AAA	Not Rated
Local Agency Investment Fund (LAIF)	$16,618,210	N/A	-	-	16,618,210
Total	$16,618,210		-	-	16,618,210

(2) Cash and Investments, (Continued)

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. There are no investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District investments.

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% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of December 31, 2005, $692,057 of the District's deposits with financial institutions in excess of federal depository insurance limits was held in collateralized accounts.

Investment in State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

(3) Capital Assets

Changes in capital assets for the year ended December 31, 2005 were as follows:

	Balance at Dec 31, 2004	Additions	Deletions	Balance at Dec 31, 2005
Capital assets, nondepreciable:				
Land	$ 973,899	186,420	-	1,160,319
Construction in progress	14,225,666	16,872,887	(7,074,902)	24,023,651
Total capital assets, nondepreciable	15,199,565	17,059,307	(7,074,902)	25,183,970
Capital assets, depreciable:				
Pumphouse structures	69,802	-	-	69,802
Well casings and development	673,066	-	(7,392)	665,674
Pumping equipment	1,255,383	-	(44,800)	1,210,583
Chlorinators	100,265	7,100	-	107,365
Reservoirs and tanks	2,332,325	21,180	-	2,353,505
Telemetering equipment	402,579	-	-	402,579
Transmission and distribution mains	15,967,015	6,053,233	-	22,020,248
Meters and meter services	1,491,172	940,474	-	2,431,646
Fire hydrants	3,884	-	-	3,884
Structures and improvements	445,791	-	-	445,791
Office furniture and equipment	300,514	1,173	-	301,687
Automobile equipment	375,726	51,742	-	427,468
General equipment	60,361	-	-	60,361
Total capital assets, depreciable	23,477,883	7,074,902	(52,192)	30,500,593
Total capital assets	38,677,448	24,134,209	(7,127,094)	55,684,563
Accumulated depreciation	(4,809,680)	(698,427)	52,192	(5,455,915)
Total capital assets, net	$33,867,768	23,435,782	(7,074,902)	50,228,648

Depreciation expense for the depreciable capital assets was $698,427 for the year ended December 31, 2005 is as follows:

Water	$698,427

(4) Investment in Joint Venture

In 2002, the City of Beaumont, the Beaumont-Cherry Valley Water District ("District"), the South Mesa Mutual Water Company and the Yucaipa Valley Water District (collectively referred to as Joint Venture) entered into a joint powers agreement creating the San Timoteo Watershed Management Authority ("Authority"). The purpose of the Authority is to prepare and implement a Water Resources Management Plan for the San Timoteo Watershed and the waters tributary in order to conserve local water supplies, improve surface and subsurface water quality and quantity, protect and enhance groundwater storage and recreational resources, preserve open space, protect wildlife habitat and wetlands, protect and enhance agriculture, and develop and enhance the region's water resources for the benefit of the public.

(5) Defined Benefit Pension Plan

Plan Description

The District contributes to the California Public Employees Retirement System (PERS), a cost sharing multiple-employer public employee defined benefit pension plan. PERS provides retirement, disability benefits, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Copies of PERS' annual financial report may be obtained from its executive office at 400 "P" Street, Sacramento, California 95814.

Contributions

Participants are required to contribute 7% of their annual covered salary. The District makes the contributions required of District employees on their behalf and for their account. Benefit provisions and all other requirements are established by state statute and town contract with employee bargaining groups.

Under GASB 27, an employer reports an annual pension cost (APC) equal to the annual required contribution (ARC) plus an adjustment for the cumulative difference between the APC and the employer's actual plan contributions for the year. The cumulative difference is called the net pension obligation (NPO). The ARC for the period has been determined by an actuarial valuation of the plan as of June 30, 2002. The contribution rate indicated for the period is 18.95% of payroll for the miscellaneous plan. The District's covered payroll for PERS was $186,378 for the year ended December 31, 2005, while the District's total payroll for all employees was $1,007,571. In order to calculate the dollar value of the ARC for inclusion in financial statements prepared as of December 31, 2005, this contribution rate would be multiplied by the payroll of covered employees that was actually paid during the period.

(5) Defined Benefit Pension Plan (Continued)

Three-Year Trend Information

Annual Pension Cost (Employer Contribution) - Miscellaneous

Fiscal Year	Annual Pension cost	Percentage of APC Contributed	Net Pension Obligation
12/31/04	$163,992	100%	-
12/31/05	186,378	100%	-

(6) Deferred Compensation

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code 457. The plan, available to all permanent employees, permits them to defer a portion of their current salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts and all income attributable to those amounts, property or rights are, until paid or made available to the employee or other beneficiary, solely the property and rights of the District, without being restricted to the provisions of benefits under the plan, subject only to the claim of the District's general creditors. Participant rights under the plan are equal to those of general creditors of the District in an amount equal to the fair market value of the deferred account for each participant

It is the District's position that it has a fiduciary obligation for the due care required of a prudent investor in the management of the plan's resources but is not responsible for any loss due to the investment or failure of investment funds and assets of the plan, nor shall the District be required to replace any loss which may result from such investments.

(7) Risk Management

The District is exposed to various risks of loss related to torts, theft, damage to and destruction of assets, errors and omissions, injuries to employees and natural disasters. In an effort to manage its risk exposure, the District is a member of the Association of California Water Agencies Joint Powers Insurance Authority (Authority).

The Authority is a risk-pooling self-insurance authority, created under provisions of California Government Code Section 6500 et seq. The purpose of the Authority is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage.

(7) Risk Management, (Continued)

At December 31, 2005, as a member of the Authority, the District participated in the insurance programs as follows:

Property Loss – The District retains risk of loss up to $1,000 (deductible amount); the Authority is self-insured up to $50,000 and insurance coverage has been purchased to cover losses ranging from $50,000 to $500,000,000. For boiler and machinery coverage, deductibles vary depending on the type of equipment ranging from $10,000 to $25,000.

Auto and General Liability – The District is insured up to $45,000,000 per occurrence with no deductible; the Authority is self-insured up to $1,000,000 and excess insurance coverage has been purchased to cover losses ranging from $1,000,000 to $45,000,000.

Public Official's Errors and Omissions – The District is insured up to $45,000,000 per occurrence with no deductible; the Authority is self-insured up to $1,000,000 and excess insurance coverage has been purchased to cover losses ranging from $1,000,000 to $45,000,000.

Fidelity Coverage - The District is insured up to $100,000 per occurrence with $1,000 deductible for employee dishonesty, forgery or alteration, computer fraud and ERISA.

Workers' Compensation – The District is insured for statutory limits. The District is insured up to $2,000,000 per accident and $2,000,000 per disease; the Authority is self-insured up to $2,000,000 and excess insurance coverage had been purchased.

There have been no settlements that have exceeded its insurance coverage for the past three years.

(8) Contingencies and Commitments

Lawsuits – The District is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the District's management that resolution of these matters will not have a material adverse effect on the financial condition of the District.

(9) Notes Receivable – Bonita Vista

During 2003 the Bonita Vista Mutual Water Company started the annexation process to join the District. The annexation agreement calls for the District to install a new water delivery system (transmission lines and approximately 102 services) at an estimated cost of $500,000. Former Bonita Vista members are to pay a maximum of $5,500 per meter. Notes are payable over 20 years at a variable interest rate calculated quarterly at 1.5 percent above the District's LAIF savings rate. At December 31, 2005, the balance of the notes is $480,318.

(10) Restricted Net Assets

Unexpended net assets restricted for capital constructions as of year end are estimated as follows:

Capital restricted fees:	
Facilities charges	$16,866,792
Front footage fees and other reimbursements	1,660,987
Total capital restricted fees	18,527,779
Less qualifying capital expenditures	(16,872,887)
Unexpended balance as of July 1, 2004	5,439,117
Unexpended balance as of June 30, 2005	$ 7,094,009

(11) Subsequent Events

On July 11, 2006, the Court made a judgment for the District to pay the defendants in the amount of $6,003,000 in an eminent domain case. The property is for the public purpose of constructing, reconstructing and maintaining a water spreading, percolation, storage and recreational facility.

BEAUMONT-CHERRY VALLEY WATER DISTRICT

BASIC FINANCIAL STATEMENTS

Year ended December 31, 2006

BEAUMONT-CHERRY VALLEY
WATER DISTRICT

Basic Financial Statements

Year ended December 31, 2006

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

Independent Auditors' Report

We have audited the accompanying basic financial statements of the Beaumont-Cherry Valley Water District ("District"), as of and for the year ended December 31, 2006 as listed in the table of contents. These financial statements are the responsibility of the management of the District. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative information has been derived from the financial statements of the District for the year ended December 31, 2005 and, in our report dated March 24, 2008, we expressed an unqualified opinion on those financial statements.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Beaumont-Cherry Valley Water District, as of December 31, 2006, and the respective changes in financial position and cash flows of Beaumont-Cherry Valley Water District for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The District has not presented the Management's Discussion and Analysis that the Government Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 24, 2008 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Mayer Hoffman McCann P.C.

Irvine, California
March 24, 2008

BEAUMONT-CHERRY VALLEY WATER DISTRICT

Statement of Net Assets

December 31, 2006
(with prior year data for comparison purposes only)

Assets	2006	2005
Current assets:		
Cash and investments (note 2)	$ 12,784,088	$ 17,212,528
Accounts receivable	3,109,161	2,011,670
Accrued interest receivable	182,810	163,158
Inventory	1,139,419	1,197,314
Prepaid expenses	59,127	51,956
Total current assets	17,274,605	20,636,626
Noncurrent assets:		
Notes receivable (note 9)	474,818	480,318
Capital assets, net of accumulated depreciation (note 3)	85,339,151	50,228,648
Total noncurrent assets	85,813,969	50,708,966
Total assets	103,088,574	71,345,592
Liabilities		
Current liabilities:		
Accounts payable	1,813,967	1,323,269
Deposits payable	91,839	83,889
Accrued salaries and benefits	71,263	67,634
Unearned revenue	819,182	1,045,258
Total current liabilities	2,796,251	2,520,050
Noncurrent liabilities:		
Compensated absences (note 1j)	109,264	100,198
Total noncurrent liabilities	109,264	100,198
Total liabilities	2,905,515	2,620,248
Net Assets		
Net assets:		
Invested in capital assets, net of related debt	85,339,151	50,228,648
Restricted (note 11)	-	7,094,009
Unrestricted	14,843,908	11,402,687
Total net assets	$ 100,183,059	$ 68,725,344

See accompanying notes to basic financial statements.

BEAUMONT-CHERRY VALLEY WATER DISTRICT

Statement of Revenues, Expenses and Changes in Net Assets

Year ended December 31, 2006
(with prior year data for comparison purposes only)

	2006	2005
Operating revenues:		
Water sales	$ 5,490,413	$ 3,436,947
Water services:		
Service connections	2,405,035	1,126,307
Development reimbursement	471,207	784,125
Inspection reimbursement	1,941,626	680,784
Other	1,034,438	615,722
Total water services	5,852,306	3,206,938
Total operating revenues	11,342,719	6,643,885
Operating expenses:		
Pumping expenses	1,583,416	1,222,663
Transmission and distribution	955,636	771,318
Customer accounts	194,824	108,121
General and administrative	2,301,548	2,268,095
San Timoteo Watershed	581,597	228,400
Depreciation	749,218	698,427
Total operating expenses	6,366,239	5,297,024
Income (loss) from operations	4,976,480	1,346,861
Nonoperating revenues (expenses):		
Standby charges	-	1,008,814
Rent and utilities reimbursement	700	400
Miscellaneous expense	(313,388)	(223,637)
Investment income	798,288	564,411
Total nonoperating revenues	485,600	1,349,988
Income before contributions	5,462,080	2,696,849
Capital contributions:		
Facilities charges	23,886,927	16,866,792
Front footage fees and other reimbursements	2,108,708	1,660,987
Total capital contributions	25,995,635	18,527,779
Change in net assets	31,457,715	21,224,628
Net assets at beginning of year	68,725,344	47,500,716
Total net assets at end of year	$ 100,183,059	$ 68,725,344

See accompanying notes to basic financial statements.

BEAUMONT-CHERRY VALLEY WATER DISTRICT

Statement of Cash Flows

Year ended December 31, 2006
(with prior year data for comparison purposes only)

	2006	2005
Cash flows from operating activities:		
Cash received from customers	$10,024,652	$6,421,690
Cash payments to employees for services	(1,430,308)	(1,629,727)
Cash payments to suppliers for goods and services	(3,624,646)	(3,341,682)
Proceeds from standby charges	-	1,008,814
Rental income received	700	400
Miscellaneous expense	(313,388)	(223,637)
Net cash provided by (used for) operating activities	4,657,010	2,235,858
Cash flows from capital and related financing activities:		
Acquisitions and construction of capital assets, net	(35,859,721)	(17,059,307)
Proceeds from water connection fees	25,995,635	18,527,779
Net cash provided by (used for) capital and related financing activities	(9,864,086)	1,468,472
Cash flows from investing activities:		
Interest income received	778,636	458,939
Net cash provided by (used for) investing activities	778,636	458,939
Total increase (decrease) in cash and cash equivalents	(4,428,440)	4,163,269
Cash and cash equivalents at beginning of year	17,212,528	13,049,259
Cash and cash equivalents at end of year	$ 12,784,088	$ 17,212,528

(Continued)

BEAUMONT-CHERRY VALLEY WATER DISTRICT

Statement of Cash Flows

(Continued)

	2006	2005
Reconciliation of loss from operations to net cash provided by operating activities:		
Income from operations	$ 4,976,480	$ 1,346,861
Adjustments to reconcile loss from operations to net cash provided by operating activities:		
Operating activities:		
Depreciation	749,218	698,427
Rental income	700	400
Standby charges and other revenues	-	1,008,814
Miscellaneous expense	(313,388)	(223,637)
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	(1,097,491)	(1,089,267)
Decrease (increase) in prepaid expenses	(7,171)	(16,388)
Decrease (increase) in materials and supplies inventory	57,895	(328,475)
Decrease (increase) in notes receivable	5,500	-
Increase (decrease) in accounts payable	490,698	(111,904)
Increase (decrease) in accrued salaries and benefits	3,629	23,279
Increase (decrease) in deposits payable	7,950	49,589
Increase (decrease) in unearned revenue	(226,076)	867,072
Increase (decrease) in compensated absences	9,066	11,087
Net cash provided by operating activities	$ 4,657,010	$ 2,235,858

Noncash capital, financing, and investing activities -

There were no significant noncash capital, financing, and investing activities for the years ended December 31, 2006 and 2005.

See accompanying notes to basic financial statements.

BEAUMONT-CHERRY VALLEY WATER DISTRICT

Notes to Basic Financial Statements

Year ended December 31, 2006

(1) Summary of Significant Accounting Policies

(a) Description of the Reporting Entity

The Beaumont Irrigation District was formed in March of 1919 under the Wright Act of 1897. In the early 1970's, the Beaumont Irrigation District's name was changed to the Beaumont-Cherry Valley Water District for political reasons. However, the District today is still the original Irrigation District which was formed under the Wright Act of 1897.

Through the 1960's, 1970's and into the 1980's, irrigation of crop lands began to diminish, and domestic use of water began to increase. In 1982, the Board of Directors rewrote all of the irrigation rules and regulations which, originally, were based on total number of acres irrigated, assuming a fruit crop with adult trees. With the change in the rules and regulations from a contracted amount per acre to the payment of irrigation water per 100 cubic feet, irrigation demand greatly decreased within the District's service area, to the point where there are currently 141 irrigation accounts remaining of which only about half actually consume water.

Recognizing the continuing decline in water level in the Beaumont Basin, the Board of Directors began in the middle 1980's to look at the possibility of utilizing reclaimed wastewater as a way of offsetting the overdraft problems.

(b) Basis of Accounting, Measurement Focus, and Financial Statement Presentation

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to business enterprises, where the intent of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges.

The basic financial statements are prepared using the economic resource measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or non-current) are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Changes in Net Assets presents increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which liability is incurred.

The District distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and delivering water in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets.

(1) Summary of Significant Accounting Policies, (Continued)

(b) Basis of Accounting, Measurement Focus, and Financial Statement Presentation, (Continued)

All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Capital contributions are reported as a separate line item in the Statement of Revenues, Expenses and Changes in Net Assets.

Private-sector standards of accounting and financial reporting issued after November 30, 1989 are generally followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities, subject to some limitations. The District has elected not to follow subsequent private-sector guidance.

(c) Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

(d) Cash and Investments

Investments are carried at fair value, except for guaranteed investment contracts, which are carried at cost because they are not transferable and they have terms that are not affected by changes in market interest rates. In the financial statements, changes in fair value that occur during a fiscal year are recognized as *Investment income* reported for the fiscal year. *Investment income* includes interest earnings, changes in fair value and any gains or losses realized upon the liquidation or sale of investments.

(e) Statement of Cash Flows

For purposes of the statement of cash flows, the District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. At December 31, 2006, cash and cash equivalents consisted of demand deposits and deposits in the Local Agency Investment Fund (LAIF).

(f) Revenues

The District receives its revenues primarily from the sales of water and related services. Other income is derived from interest earned on investments and developers fees.

(1) Summary of Significant Accounting Policies, (Continued)

(g) Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

(h) Revenue Recognition

Revenues are recognized when earned. Metered water accounts are read and billed bi-monthly on 30-day cycles. Unbilled water charges are accrued for the period from the last meter reading through year-end and are included in accounts receivable. Unbilled accounts receivable amounted to $467,399 at December 31, 2006.

(i) Capital Assets

Capital assets are stated at cost. The District has set the capitalization threshold for reporting capital assets at $1,000 with a useful life of two years or more.. Depreciation of all exhaustible capital assets used by the District is charged as an expense against their operations using a straight-line method, based on the average useful life of the asset.

Depreciation is computed using the straight-line method over the estimated useful lives of the capital assets as follows:

Wells: development and casings	75 years
Fire hydrants	50 years
Reservoirs and tanks	50 years
Pumping plant	10-50 years
Transmission and distribution plant:	
Pipelines	40-75 years
Services and meters	40-50 years
Pumping plant – buildings	40 years
Buildings	40 years
Water treatment plant	30 years
Telemetry	15 years
Office furniture and equipment	10 years
General equipment	5-10 years
Truck and automotive equipment	4 years

(1) Summary of Significant Accounting Policies, (Continued)

(j) Compensated Absences

The District has a policy whereby an employee can accumulate sick leave and vacation. The sick leave is accumulated at one day per month. An employee not using any sick leave for twelve consecutive months could convert their twelve accrued days to cash at a rate of two accrued days for each hour's pay at their regular hourly rate. Upon retirement or death, employees or their beneficiaries are entitled to receive 50% of all accumulated sick leave.

Vacation is earned from the date of hire and is available for use the following year from ten working days to the maximum of 20 working days. The District has provided for these future costs by accruing earned and unused sick leave and vacation were $109,264, which has been included in compensated absences in the accompanying statement of net assets.

(k) Net Assets

In the statement of net assets, net assets are classified in the following categories:

Investment in Capital Assets, Net of Related Debt – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

Restricted Net Assets – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted Net Assets – This amount is all net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net assets."

(l) 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.

(m) 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 government's prior year financial statements, from which this selected financial data was derived.

(2) Cash and Investments

Cash and investments as of December 31, 2006 consist of the following:

Cash on hand	$ 922
Deposits with financial institution	365,199
Investments	12,417,967
Total cash and investments	$12,784,088

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 investment policy. The table also identifies certain provisions of the California Government Code (or the District's investment policy, if more restrictive) that address *interest rate risk* and *concentration of credit risk*. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's investment policy.

Investment Types Authorized by State Law	Authorized by Investment Policy**	Maximum Maturity*	Maximum Percentage of Portfolio*	Maximum Investment In One Issuer*
Local Agency Bonds	No	5 years	None	None
U.S. Treasury Obligations	No	5 years	None	None
U.S. Agency Securities	No	5 years	None	None
Banker's Acceptances	No	180 days	40%	30%
Commercial Paper	No	270 days	25%	10%
Negotiable Certificates of Deposit	No	5 years	30%	None
Repurchase Agreements	No	1 year	None	None
Reverse Repurchase Agreements	No	92 days	20% of base value	None
Medium-Term Notes	No	5 years	30%	None
Mutual Funds	No	N/A	20%	10%
Money Market Mutual Funds	No	N/A	20%	10%
Mortgage Pass-Through Securities	No	5 years	20%	None
County Pooled Investment Funds	No	N/A	None	None
Local Agency Investment Fund	Yes	N/A	None	None
JPA Pools (other investment pools)	No	N/A	None	None

* Based on state law requirements or investment policy requirements, whichever is more restrictive.

** District does not have an investment policy. However, District Board of Directors had approved investments only in the Local Agency Investment Fund.

(2) Cash and Investments, (Continued)

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by investing in Local Agency Investment Fund to provide the cash flow and liquidity needed for operations.

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

		Remaining Maturing (in Months)			
Investment Type	Total	6 Months Or Less	7 to 12 Months	13 to 24 Months	More Than 24 Months
Local Agency Investment Fund (LAIF)	$12,417,967	12,417,967	-	-	-
Total	$12,417,967	12,417,967	-	-	-

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code or the District's investment policy, and the actual rating as of year end for each investment type.

				Rating as of Year End	
Investment Type	Total	Minimum Legal Rating	Exempt From Disclosure	AAA	Not Rated
Local Agency Investment Fund (LAIF)	$12,417,967	N/A	-	-	12,417,967
Total	$12,417,967		-	-	12,417,967

(2) Cash and Investments, (Continued)

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. There are no investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District investments.

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% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of December 31, 2006, $534,097 of the District's deposits with financial institutions in excess of federal depository insurance limits was held in collateralized accounts.

Investment in State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

(3) Capital Assets

Changes in capital assets for the year ended December 31, 2006 were as follows:

	Balance at Dec 31, 2005	Additions	Deletions	Balance at Dec 31, 2006
Capital assets, nondepreciable:				
Land	$ 1,160,319	-	-	1,160,319
Construction in progress	24,023,651	35,880,972	(8,973,003)	50,931,620
Total capital assets, nondepreciable	25,183,970	35,880,972	(8,973,003)	52,091,939
Capital assets, depreciable:				
Pumphouse structures	69,802	10,620	-	80,422
Well casings and development	665,674	-	-	665,674
Pumping equipment	1,210,583	15,544	(1,937)	1,224,190
Chlorinators	107,365	8,438	-	115,803
Reservoirs and tanks	2,353,505	1,152,499	(50,000)	3,456,004
Telemetering equipment	402,579	-	-	402,579
Transmission and distribution mains	22,020,248	6,068,645	(21,251)	28,067,642
Meters and meter services	2,431,646	1,056,316	-	3,487,962
Fire hydrants	3,884	-	-	3,884
Structures and improvements	445,791	3,588	-	449,379
Office furniture and equipment	301,687	249,751	(259,340)	292,098
Automobile equipment	427,468	37,850	-	465,318
General equipment	60,361	369,752	(6,267)	423,846
Total capital assets, depreciable	30,500,593	8,973,003	(338,795)	39,134,801
Total capital assets	55,684,563	44,853,975	(9,311,798)	91,226,740
Accumulated depreciation	(5,455,915)	(749,218)	317,544	(5,887,589)
Total capital assets, net	$50,228,648	44,104,757	(8,994,254)	85,339,151

Depreciation expense for the depreciable capital assets was $749,218 for the year ended December 31, 2006 is as follows:

Water	$749,218

(4) Investment in Joint Venture

In 2002, the City of Beaumont, the Beaumont-Cherry Valley Water District ("District"), the South Mesa Mutual Water Company and the Yucaipa Valley Water District (collectively referred to as Joint Venture) entered into a joint powers agreement creating the San Timoteo Watershed Management Authority ("Authority"). The purpose of the Authority is to prepare and implement a Water Resources Management Plan for the San Timoteo Watershed and the waters tributary in order to conserve local water supplies, improve surface and subsurface water quality and quantity, protect and enhance groundwater storage and recreational resources, preserve open space, protect wildlife habitat and wetlands, protect and enhance agriculture, and develop and enhance the region's water resources for the benefit of the public.

(5) Defined Benefit Pension Plan

Plan Description

The District contributes to the California Public Employees Retirement System (PERS), a cost sharing multiple-employer public employee defined benefit pension plan. PERS provides retirement, disability benefits, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Copies of PERS' annual financial report may be obtained from its executive office at 400 "P" Street, Sacramento, California 95814.

Contributions

Participants are required to contribute 7% of their annual covered salary. The District makes the contributions required of District employees on their behalf and for their account. Benefit provisions and all other requirements are established by state statute and town contract with employee bargaining groups.

Under GASB 27, an employer reports an annual pension cost (APC) equal to the annual required contribution (ARC) plus an adjustment for the cumulative difference between the APC and the employer's actual plan contributions for the year. The cumulative difference is called the net pension obligation (NPO). The ARC for the period has been determined by an actuarial valuation of the plan as of June 30, 2003. The contribution rate indicated for the period is 9.3% of payroll for the miscellaneous plan. The District's covered payroll for PERS was $359,285 for the year ended December 31, 2006, while the District's total payroll for all employees was $1,126,957. In order to calculate the dollar value of the ARC for inclusion in financial statements prepared as of December 31, 2006, this contribution rate would be multiplied by the payroll of covered employees that was actually paid during the period.

(5) Defined Benefit Pension Plan (Continued)

Three-Year Trend Information

Annual Pension Cost (Employer Contribution) - Miscellaneous

Fiscal Year	Annual Pension cost	Percentage of APC Contributed	Net Pension Obligation
12/31/04	$163,992	100%	-
12/31/05	186,378	100%	-
12/31/06	359,285	100%	-

(6) Deferred Compensation

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code 457. The plan, available to all permanent employees, permits them to defer a portion of their current salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts and all income attributable to those amounts, property or rights are, until paid or made available to the employee or other beneficiary, solely the property and rights of the District, without being restricted to the provisions of benefits under the plan, subject only to the claim of the District's general creditors. Participant rights under the plan are equal to those of general creditors of the District in an amount equal to the fair market value of the deferred account for each participant

It is the District's position that it has a fiduciary obligation for the due care required of a prudent investor in the management of the plan's resources but is not responsible for any loss due to the investment or failure of investment funds and assets of the plan, nor shall the District be required to replace any loss which may result from such investments.

(7) Risk Management

The District is exposed to various risks of loss related to torts, theft, damage to and destruction of assets, errors and omissions, injuries to employees and natural disasters. In an effort to manage its risk exposure, the District is a member of the Association of California Water Agencies Joint Powers Insurance Authority (Authority).

The Authority is a risk-pooling self-insurance authority, created under provisions of California Government Code Section 6500 et seq. The purpose of the Authority is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage.

(7) Risk Management, (Continued)

At December 31, 2006, as a member of the Authority, the District participated in the insurance programs as follows:

Property Loss – The District retains risk of loss up to $1,000 (deductible amount); the Authority is self-insured up to $50,000 and insurance coverage has been purchased to cover losses ranging from $50,000 to $50,000,000. For boiler and machinery coverage, deductibles vary depending on the type of equipment ranging from $10,000 to $25,000.

Auto and General Liability – The District is insured up to $20,000,000 per occurrence with no deductible; the Authority is self-insured up to $1,000,000 and excess insurance coverage has been purchased to cover losses ranging from $1,000,000 to $60,000,000.

Public Official's Errors and Omissions – The District is insured up to $20,000,000 per occurrence with no deductible; the Authority is self-insured up to $1,000,000 and excess insurance coverage has been purchased to cover losses ranging from $1,000,000 to $60,000,000.

Fidelity Coverage - The District is insured up to $100,000 per occurrence with $1,000 deductible for employee dishonesty, forgery or alteration, computer fraud and ERISA.

Workers' Compensation – The District is insured for statutory limits. The District is insured up to $2,000,000 per accident. The Authority is self-insured up to $2,000,000 and excess insurance coverage had been purchased.

(8) Contingencies and Commitments

Lawsuits – The District is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the District's management that resolution of these matters will not have a material adverse effect on the financial condition of the District.

(9) Notes Receivable – Bonita Vista

During 2003 the Bonita Vista Mutual Water Company started the annexation process to join the District. The annexation agreement calls for the District to install a new water delivery system (transmission lines and approximately 102 services) at an estimated cost of $500,000. Former Bonita Vista members are to pay a maximum of $5,500 per meter. Notes are payable over 20 years at a variable interest rate calculated quarterly at 1.5 percent above the District's LAIF savings rate. At December 31, 2006, the balance of the notes is $474,818.

(10) Related Party Transactions

The District entered into an agreement with Tom Lara Landscaping ("Contractor") to provide landscaping services and maintenance for the District's properties. The father of one of the District's employee is the owner of the Contractor. At December 31, 2006, the District paid the Contractor $515,564 for services rendered. In 2006, the District purchased 80 acres of land, for which the Contractor has been contracted for maintenance. The amount payable at December 31, 2006 was $27,758.

(11) Restricted Net Assets

Unexpended net assets restricted for capital constructions as of year end are estimated as follows:

Capital restricted fees:	
Facilities charges	$23,886,927
Front footage fees and other reimbursements	2,108,708
Total capital restricted fees	25,995,635
Less qualifying capital expenditures	(35,880,972)
Unexpended balance as of July 1, 2005	7,094,009
Unexpended balance as of June 30, 2006	$ -

RESOLUTION NO 2008-04

RESOLUTION OF THE BOARD OF DIRECTORS OF THE BEAUMONT CHERRY VALLEY WATER DISTRICT ADOPTING A RESOLUTION AS OFFICIAL INTENT OF THE DISTRICT IN ORDER TO COMPLY WITH TREASURY REGULATION §1.150-2 AND ANY OTHER REGULATIONS OF THE INTERNAL REVENUE SERVICE RELATING TO THE QUALIFICATION FOR REIMBURSEMENT OF PROJECT COSTS FOR THE RECYCLED WATER PROJECT

WHEREAS, the Beaumont Cherry Valley Water District (the "District ") desires to finance the costs of constructing and/or reconstructing certain public facilities and improvements relating to its water and recycled water system, including certain pipelines and other infrastructure (the "Project"); and

WHEREAS, the District intends to finance the Project or portions thereof with monies ("Project Funds") provided by the State of California, acting by and through the State Water Resources Control Board (the "Board"); and

WHEREAS, the Board may fund the Project Funds with proceeds from the sale of obligations the interest upon which is excluded from gross income for federal income tax purposes (the "Obligations"), and

WHEREAS, prior to either the issuance of the Obligations or the approval by the Board of the Project Funds the District desires to incur certain capital expenditures (the "Expenditures") with respect to the Project from available monies of the District; and

WHEREAS, the District has determined that those monies to be advanced on and after the date hereof to pay the Expenditures are available only for a temporary period and it is necessary to reimburse the District for the Expenditures from the proceeds of the Obligations;

NOW, THEREFORE, THE DISTRICT DOES HEREBY RESOLVE, ORDER AND DETERMINE AS FOLLOWS:

<u>SECTION 1</u>. The District hereby states its intention and reasonably expects to reimburse Expenditures paid prior to the issuance of the Obligations or the approval by the Board of the Project Funds.

<u>SECTION 2</u>. The reasonably expected maximum principal amount of the Project Funds is Sixteen Million Three Hundred Seventy Thousand Dollars ($16,370,000.00).

<u>SECTION 3</u>. This resolution is being adopted no later than sixty (60) days after the date on which the District will expend monies for the portion of the Project costs to be reimbursed with Project Funds.

<u>SECTION 4</u>. Each Expenditure by the District will be of a type properly chargeable to a capital account under general federal income tax principles.

<u>SECTION 5</u>. To the best of the actual knowledge of the Board of Directors of the District, the District is not aware of the previous adoption of official intents by the District that have been made as a matter of course for the purpose of reimbursing expenditures and for which tax-exempt obligations have not been issued.

SECTION 6. This resolution is adopted as official intent of the District in order to comply with Treasury Regulation §1.150-2 and any other regulations of the Internal Revenue Service relating to the qualification for reimbursement of Project costs.

SECTION 7. All the recitals in this Resolution are true and correct and this District so finds, determines and represents.

AYES:
NOES:
ABSENT:
ABSTAIN:

ADOPTED, SIGNED AND APPROVED THIS 2nd DAY OF APRIL, 2008

____
Albert Chatigny, President of the
Board of Directors of the
Beaumont Cherry Valley Water District

ATTEST:

____
Charles J. Butcher, General Manager
And Secretary/Treasurer

CERTIFICATION

I do hereby certify that the foregoing is a full, true, and correct copy of a resolution duly and regularly adopted at a meeting of the *Board of Directors of the Beaumont Cherry Valley Water District* held on April 2, 2008.

APPROVED:

____
Albert Chatigny, President of the
Board of Directors of the
Beaumont Cherry Valley Water District

ATTEST:

____
Charles J. Butcher, Secretary to the
Board of Directors of the
Beaumont Cherry Valley Water District