Beaumont-Cherry Valley Water District

Annual Financial Report

December 31, 2011 and 2010

Board of Directors as of December 31, 2011

Name	Title	Division	Current Term
Dr. Blair Ball	President	5	12/2010-12/2014
Ryan Woll	Vice-President	1	12/2008-12/2012
John Guldseth	Treasurer	4	12/2010-12/2014
Ken Ross	Secretary	2	12/2008-12/2012
John Halliwill	Director	3	9/2011-12/2012

Eric Fraser, P.E. – General Manager
Beaumont-Cherry Valley Water District
560 Magnolia Avenue
Beaumont, California 92223-2258
(951) 845-9581 – www.bcvwd.org

Beaumont-Cherry Valley Water District

Annual Financial Report

For the Years Ended December 31, 2011 and 2010

Beaumont-Cherry Valley Water District
Annual Financial Report
For the Years Ended December 31, 2011 and 2010

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Financial Section

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An Accountancy Corporation

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Independent Auditor's Report

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

We have audited the accompanying financial statements of the Beaumont-Cherry Valley Water District (District) as of and for the years ended December 31, 2011 and 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

We conducted our audits 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; and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the basic financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the Beaumont-Cherry Valley Water District as of December 31, 2011 and 2010, and the respective changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 10, 2012, 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 read in conjunction with this report in considering the results of our audit. This report can be found on page 28.

Accounting principles generally accepted in the United States of America requires that the management's discussion and analysis on pages 3 through 6 and the required supplemental information on page 27 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

Independent Auditor's Report, continued

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Charles Z. Fedak & Company, CPA's – An Accountancy Corporation
Cypress, California
December 10, 2012

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Beaumont-Cherry Valley Water District (District) provides an introduction to the financial statements of the District for the fiscal years ended December 31, 2011 and 2010. We encourage readers to consider the information presented here in conjunction with the transmittal letter in the Introductory Section and with the basic financial statements and related notes, which follow this section.

Financial Highlights

- In 2011, the District's unrestricted net assets decreased by 25.48% or $1,806,983 due primarily to the recording of previously unrecorded liabilities for post-employment health care and the CalPERS side-fund. In 2010, the District's unrestricted net assets increased by 145.70% or $4,204,465 due primarily to the previously unrecorded receivables and loan proceeds received for a construction note obtained during the year.
- In 2011, the District's total revenues increased by 13.89% or $1,288,251 due primarily to Board approved rate changes as a result of a rate study conducted by an outside party in 2010. In 2010, the District's total revenues increased 1.62% or $147,722 due primarily from one-time non-operating revenues received during the year.
- In 2011, the District's total expenses increased 18.81% or $1,845,012 due primarily from a $713,884 increase in the amount of purchased State water, a $596,194 increase in groundwater purchases and a $689,538 increase in general and administrative expenses. The increase in general and administrative expenses is the result of $1,116,033 in expenses for post-employment health care offset by a savings of $426,495 due primarily to a reduction in bad debt expense. In 2010, the District's total expenses decreased 1.30% or 129,596 due primarily from a $454,151 increase in the amount of purchased water, a $492,083 decrease in the amount of labor costs due to a reduction in District staffing and a furlough program since April 2010 along with a $225,186 decrease in overall depreciation expense.

Required Financial Statements

This annual report consists of a series of financial statements. The Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets and Statement of Cash Flows provide information about the activities and performance of the District using accounting methods similar to those used by private sector companies.

The District's records are maintained on an enterprise basis, as it is the intent of the Board of Directors that the costs of providing water service to the customers of the District are financed primarily through user charges.

The Statement of Net Assets includes all of the District's investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for computing a rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenue and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Assets. This statement measures the success of the District's operations over the past year and can be used to determine if the District has successfully recovered all of its costs through its rates and other charges. This statement can also be used to evaluate profitability and credit worthiness. The final required financial statement is the Statement of Cash Flows, which provides information about the District's cash receipts and cash payments during the reporting period. The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Analysis of the District (Continued)

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report information about the District in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the District's *net assets* and the changes which occurred during the year. You can think of the District's net assets (the difference between assets and liabilities), as one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net assets are one indicator of whether its *financial health* is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, zoning and new or changed government legislation, such as changes in Federal and State water quality standards.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Statement of Net Assets

Condensed Statements of Net Assets

	2011	2010	Change
Assets:			
Current assets	$ 9,227,871	7,931,646	1,296,225
Non-current assets	1,051,969	1,284,281	(232,312)
Capital assets, net	102,779,309	104,330,836	(1,551,527)
Total assets	113,059,149	113,546,763	(487,614)
Liabilities:			
Current liabilities	3,460,175	2,996,100	464,075
Non-current liabilities	5,121,457	3,659,636	1,461,821
Total liabilities	8,581,632	6,655,736	1,925,896
Net assets:			
Net investment in capital assets	99,194,309	99,800,836	(606,527)
Unrestricted	5,283,208	7,090,191	(1,806,983)
Total net assets	104,477,517	106,891,027	(2,413,510)
Total liabilities and net assets	$ 113,059,149	113,546,763	(487,614)

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets of the District exceeded liabilities by $104,477,517 and $106,891,027 as of December 31, 2011 and 2010, respectively.

By far the largest portion of the District's net assets (95% and 93% as of December 31, 2011 and 2010, respectively) reflects the District's investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to customers within the District's service area; consequently, these assets are *not* available for future spending.

Statement of Net Assets (Continued)

At the end of fiscal year 2011 and 2010, the District showed a positive balance in its unrestricted net assets of $5,283,208 and $7,090,191, respectively. See Note 13 to the basic financial statements for further information.

Statement of Revenues, Expenses and Changes in Net Assets

Condensed Statements of Revenues, Expenses and Changes in Net Assets

		2011	2010	Change
Revenues:				
Operating revenues	$	10,313,481	8,965,462	1,348,019
Non-operating revenues		249,795	309,563	(59,768)
Total revenues		10,563,276	9,275,025	1,288,251
Expenses:				
Operating expenses		9,494,400	7,653,063	1,841,337
Depreciation and amortization		2,002,794	1,998,033	4,761
Non-operating expenses		155,593	156,679	(1,086)
Total expenses		11,652,787	9,807,775	1,845,012
Net income(loss) before capital con.		(1,089,511)	(532,750)	(556,761)
Capital contributions		579,869	1,853,106	(1,273,237)
Change in net assets		(509,642)	1,320,356	(1,829,998)
Net assets, beginning of year		106,891,027	106,824,178	66,849
Prior period adjustment		(1,903,868)	(1,253,507)	(650,361)
Net assets, end of year	$	104,477,517	106,891,027	(2,413,510)

The Statement of Revenues, Expenses and Changes of Net Assets shows how the District's net assets changed during the fiscal years. In 2011, net assets decreased by $2,413,510 which includes a prior period adjustment that decreased net assets in the amount of $1,903,868. In 2010, net assets increased by $66,849 which includes a prior period adjustment that decreased net assets in the amount of $1,253,507.

A closer examination of the sources of changes in net assets reveals that:

In 2011, the District's net assets decreased 2.26% or $2,413,510 due primarily to recording of District liabilities of $1,116,033 for post-employment health benefits and $1,426,500 for the CalPERS Side Fund liability. In 2010, the District's net assets increased 0.06% or $66,849 due primarily to previously unrecorded receivables and a significant increase in capital contributions, offset by the issuance of new debt.

Capital Asset Administration

At the end of fiscal year 2011 and 2010, the District's investment in capital assets amounted to $102,779,309 and $104,330,836, respectively, (net of accumulated depreciation). This investment in capital assets includes land, transmission and distribution systems, reservoirs, tanks, pumps, buildings and structures, equipment, and vehicles, etc. Major capital assets additions during 2011 included upgrades to the District's transmission and distribution system. See Note 8 for further information.

Capital Asset Administration, continued

Changes in capital asset amounts for the year were as follows:

		Balance 2010	Additions	Transfers/ Deletions	Balance 2011
Capital assets:					
Non-depreciable assets	$	8,034,682	119,246	(355,925)	7,798,003
Depreciable assets		109,009,594	537,379	-	109,546,973
Accumulated depreciation		(12,713,440)	(2,002,794)	150,567	(14,565,667)
Total capital assets, net	$	104,330,836	(1,346,169)	(205,358)	102,779,309

		Balance 2009	Additions	Transfers/ Deletions	Balance 2010
Capital assets:					
Non-depreciable assets	$	11,357,816	2,369,354	(5,692,488)	8,034,682
Depreciable assets		103,341,810	5,713,551	(45,767)	109,009,594
Accumulated depreciation		(10,761,174)	(1,998,033)	45,767	(12,713,440)
Total capital assets, net	$	103,938,452	6,084,872	(5,692,488)	104,330,836

Long-term Debt

At the end of fiscal year 2011, the District had long-term debt, excluding compensated absences, totaling $3,585,000. See Note 10 for further information.

Changes in long-term debt for the year were as follows:

		Balance 2010	Additions	Principal Payments	Balance 2011
Note payable	$	4,530,000	-	(945,000)	3,585,000
Less current portion		(945,000)			(985,000)
Non-current portion	$	3,585,000			2,600,000

Changes in long-term debt for the year were as follows:

		Balance 2009	Additions	Principal Payments	Balance 2010
Note payable	$	-	5,000,000	(470,000)	4,530,000
Less current portion		-			(945,000)
Non-current portion	$	-			3,585,000

Requests for Information

This financial report is designed to provide the District's funding sources, customers, stakeholders and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the Director of Finance & Administrative Services, Beaumont-Cherry Valley Water District, 560 Magnolia Avenue, Beaumont, CA 92223-2258.

Basic Financial Statements

Beaumont-Cherry Valley Water District
Statements of Net Assets
December 31, 2011 and 2010

Assets		2011	2010
Current assets:			
Cash and cash equivalents (note 3)	$	6,776,214	5,687,027
Accrued interest receivable		49,062	57,210
Accounts receivable – water sales and services, net (note 4)		1,643,027	1,097,764
Accounts receivable – other, net (note 5)		22,998	393,652
Notes receivable – current portion, net (note 6)		188,180	169,787
Materials and supplies inventory		461,037	446,369
Prepaid expenses and deposits		87,353	79,837
Total current assets		9,227,871	7,931,646
Non-current assets:			
Notes receivable, net (note 6)		992,422	1,206,412
Deferred charges, net (note 7)		59,547	77,869
Capital assets, not being depreciated (note 8)		7,798,003	8,034,682
Capital assets, being depreciated, net (note 8)		94,981,306	96,296,154
Total non-current assets		103,831,278	105,615,117
Total assets	$	113,059,149	113,546,763
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and accrued expenses	$	449,769	474,238
Accrued salaries and benefits		81,344	36,465
Contingency payable (note 2)		400,254	-
Customer and other deposits		217,722	117,326
Deferred revenue		1,054,435	1,257,720
Accrued interest on long-term debt		30,293	38,278
Long-term liabilities - due within one year:			
Compensated absences (note 9)		138,213	50,427
Notes payable (note 10)		985,000	945,000
Pension-related debt (note 11)		103,145	-
Total current liabilities		3,460,175	2,919,454
Non-current liabilities:			
Long-term liabilities - due in more than one year:			
Compensated absences (note 9)		82,069	151,282
Other post-employment benefits payable (note 12)		1,116,033	-
Notes payable (note 10)		2,600,000	3,585,000
Pension-related debt (note 11)		1,323,355	-
Total non-current liabilities		5,121,457	3,736,282
Total liabilities		8,581,632	6,655,736
Net assets: (note 13)			
Investment in capital assets, net of related debt		99,194,309	99,800,836
Unrestricted		5,283,208	7,090,191
Total net assets		104,477,517	106,891,027
Total liabilities and net assets	$	113,059,149	113,546,763

See accompanying notes to the basic financial statements

Beaumont-Cherry Valley Water District
Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended December 31, 2011 and 2010

	2011	2010
Operating revenues:		
Water consumption sales	$ 4,766,022	4,170,001
Water service charges	2,188,438	1,810,098
Water importation surcharges	1,326,091	1,025,996
Water pumping power surcharges	1,617,081	1,349,287
Development and installation charges	127,141	228,986
Other charges for services	288,708	381,094
Total operating revenues	10,313,481	8,965,462
Operating expenses:		
Source of supply – State Water purchases	2,529,343	1,815,459
Source of supply – groundwater purchases	596,194	-
Pumping	1,894,700	2,066,259
Transmission and distribution	983,285	984,890
Engineering	196,422	187,758
Customer accounts	199,934	193,713
General and administrative	3,094,522	2,404,984
Total operating expenses	9,494,400	7,653,063
Operating income before depreciation	819,081	1,312,399
Depreciation expense	(2,002,794)	(1,998,033)
Operating loss	(1,183,713)	(685,634)
Non-operating revenue(expense):		
Interest earnings	127,905	89,198
Rental income	20,507	22,031
Other non-operating revenues	101,383	193,834
Gain on sale of assets	-	4,500
Interest expense	(137,271)	(38,278)
Amortization of deferred charges	(18,322)	(13,742)
Other non-operating expenses	-	(104,659)
Total non-operating revenues, net	94,202	152,884
Net gain(loss) before capital contributions	(1,089,511)	(532,750)
Capital contributions:		
Facilities charges	488,169	1,853,106
Front footage fees	91,700	-
Total capital contributions	579,869	1,853,106
Change in net assets	(509,642)	1,320,356
Net assets, beginning of year	106,891,027	106,824,178
Prior period adjustment (note 2)	(1,903,868)	(1,253,507)
Net assets, end of year	$ 104,477,517	106,891,027

See accompanying notes to the basic financial statements

Beaumont-Cherry Valley Water District
Statements of Cash Flows
For the Years Ended December 31, 2011 and 2010

		2011	2010
Cash flows from operating activities:			
Cash receipts from customers for water sales and services	$	10,361,158	8,909,544
Cash paid to employees for salaries and wages		(1,651,023)	(1,643,521)
Cash paid to vendors and suppliers for materials and services		(6,913,830)	(8,390,235)
Net cash provided(used) by operating activities		1,796,305	(1,124,212)
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets		(522,702)	(2,390,417)
Capital contributions		579,869	1,853,106
Proceeds from(issuance of) note receivables		189,918	(1,069,854)
Proceeds from issuance of note payable		-	5,000,000
Principal payments on note payable		(945,000)	(470,000)
Interest payments on note payable		(145,256)	-
Debt issuance costs		-	(91,611)
Net cash provided(used) by capital and related financing activities		(843,171)	2,831,224
Cash flows from investing activities:			
Interest earnings		136,053	35,520
Net cash provided by investing activities		136,053	35,520
Net increase in cash and cash equivalents		1,089,187	1,742,532
Cash and cash equivalents, beginning of year		5,687,027	3,944,495
Cash and cash equivalents, end of year	$	6,776,214	5,687,027

Reconciliation of cash and cash equivalents to statements of financial position:

Cash and cash equivalents	$	6,776,214	5,687,027
Total cash and cash equivalents	$	6,776,214	5,687,027

Continued on next page

See accompanying notes to the basic financial statements

Beaumont-Cherry Valley Water District
Statements of Cash Flows (Continued)
For the Years Ended December 31, 2011 and 2010

		2011	2010
Reconciliation of operating loss to net cash provided(used) by operating activities:			
Operating loss	$	(1,183,713)	(685,634)
Adjustments to reconcile operating loss to net cash provided(used) by operating activities:			
Deprecation expense		2,002,794	1,998,033
Rental income		20,507	22,031
Other non-operating revenues		101,383	193,834
Gain on sale of assets		-	4,500
Other non-operating expenses		-	(104,659)
Changes in assets and liabilities:			
(Increase) Decrease in assets:			
Accounts receivable – water sales and services, net		(545,263)	115,021
Accounts receivable – other, net		370,654	(297,246)
Materials and supplies inventory		(14,668)	(15,611)
Prepaid expenses and deposits		(7,516)	(10,536)
Increase (Decrease) in liabilities:			
Accounts payable and accrued expenses		(24,469)	(2,238,671)
Accrued salaries and benefits		44,879	(10,305)
Customer and other deposits		100,396	(94,058)
Deferred revenue		(203,285)	9,408
Compensated absences		18,573	(10,319)
Other post-employment benefits payable		1,116,033	-
Total adjustments		2,980,018	(438,578)
Net cash provided(used) by operating activities	$	1,796,305	(1,124,212)

See accompanying notes to the basic financial statements

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

The Beaumont Irrigation District was formed in March of 1919 under the Wright Act of 1897. Over the years, both the name and the mission of the District have changed. Today, the Beaumont-Cherry Valley Water District (District) continues to develop programs and policies that ensure a supply of water for the area's growing population. The District is governed by a five-member Board of Directors who serves overlapping four-year terms.

B. Basis of Accounting and Measurement Focus

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 a private business enterprise, where the intent of the District is that the costs of providing water services to its customers on a continuing basis be financed or recovered primarily through user charges (water service fees). Revenues and expenses are recognized on the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place.

Operating revenues and expenses, such as water sales and services as well as water purchases, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Management, administration and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories are reported as non-operating revenues and expenses.

The District recognizes revenue from water service charges based on cycle billings performed every month. The District accrues revenues with respect to water service charges sold but not billed at the end of a fiscal period.

C. Financial Reporting

The District's basic financial statements are presented in conformance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *"Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments"* (GASB No. 34). This statement established revised financial reporting requirements for state and local governments throughout the United States for the purpose of enhancing the understandability and usefulness of financial reports.

GASB No. 34 and its related GASB pronouncements provide for a revised view of financial information and restructure the format of financial information provided prior to its adoption. A statement of net assets replaces the balance sheet and reports assets, liabilities, and the difference between them as net assets, not equity. A statement of revenues, expenses and changes in net assets replaces both the income statement and the statement of changes in retained earnings and contributed capital. GASB No. 34 also requires that the statement of cash flows be prepared using the direct method. Under the direct method, cash flows from operating activities are presented by major categories.

(1) Reporting Entity and Summary of Significant Accounting Policies (Continued)

C. Financial Reporting (Continued)

Under GASB No. 34, enterprise funds, such as the District, have the option of consistently following or not following pronouncements issued by the Financial Accounting Standards Board (FASB) subsequent to November 30, 1989. The District has elected not to follow FASB standards issued after that date, unless such standards are specifically adopted by GASB.

D. Assets, Liabilities and Net Assets

1. Use of Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in net assets during the reporting period.

2. Cash and Cash Equivalents

Substantially all of the District's cash is invested in interest bearing accounts. The District considers all highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents.

3. Investments and Investment Policy

The District has adopted an investment policy to deposit funds in financial institutions. Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

4. Accounts Receivable and Allowance for Uncollectible Accounts

The District extends credit to customers in the normal course of operations. When management deems customer accounts uncollectible, the District uses the allowance method for the reservation.

5. Prepaid Expenses

Certain payments to vendors reflects costs or deposits applicable to future accounting periods and are recorded as prepaid items in the basic financial statements.

6. Materials and Supplies Inventory

Inventory consists primarily of materials used in construction and maintenance of the water system and is stated at cost using the average-cost method.

(1) Reporting Entity and Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities and Net Assets (Continued)

7. Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets at $5,000. Contributed assets are recorded at estimated fair market value at the date of contribution. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

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

8. Compensated Absences

The District's policy is to permit employees to accumulate earned vacation and sick leave according to the number of years of service with the District. The liability for vested vacation and sick leave is recorded as an expense when earned.

Vacation leave is earned from the date of hire and is available for use the following year from ten to a maximum of twenty days per year. Sick leave is accumulated at one day per month. An employee not using any sick leave for twelve consecutive months can convert their twelve accrued days to cash at the rate of two accrued days for 8 hours pay at their regular hourly pay-rate. Upon retirement or death, employees or their beneficiaries are entitled to receive a pay-out of 50% of all accumulated sick leave.

9. Water Sales

The District recognizes water services charges based on cycle billings rendered to the customers on a bi-monthly basis for residential customers and on a monthly basis for our commercial, construction and landscape irrigation customers.

10. Capital Contributions

Capital contributions represent cash and capital asset additions contributed to the District by property owners or real estate developers desiring services that require capital expenditures or capacity commitment.

11. Budgetary Policies

The District adopts a one year non-appropriated budget for planning, control, and evaluation purposes. Budgetary control and evaluation are affected by comparisons of actual revenues and expenses with planned revenues and expenses for the period. Encumbrance accounting is not used to account for commitments related to unperformed contracts for construction and services.

12. Reclassifications

The District has reclassified certain prior year information to conform to current year presentations.

(1) Reporting Entity and Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities and Net Assets (Continued)

13. Net Assets

The financial statements utilize a net assets presentation. Net assets are categorized as follows:

- **Net Investment in Capital Assets** – This component of net assets consists of capital assets, net of accumulated depreciation and reduced by any outstanding debt against the acquisition, construction or improvement of those assets.
- **Restricted Net Assets** – This component of net assets consists of constraints placed on net assets use through external constraints imposed by creditors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted Net Assets** – This component of net assets consists of net assets that do not meet the definition of *restricted* or *net investment in capital assets.*

(2) Prior Period Adjustment

During the fiscal years ended December 31, 2011 and 2010, net assets of the District were restated to adjust balances as of December 31, 2010 and 2009 as follows:

Calculation of prior period adjustment as of December 31, were as follows:

	2011	2010
Prior period adjustment:		
Reconciliation of prior years deferred revenue balance	$ -	(844,420)
Reconciliation of prior years accounts receivable balance	(31,652)	(252,569)
Accrued expenditures batch not included in payables	-	(156,518)
Reconciliation of prior years construction-in-progress balance	(222,002)	-
Reconciliation of prior years depreciation balance	150,567	-
Reconciliation of prior years other deposits balance	53,045	-
Reconciliation of prior years inventory balance	8,699	-
Reconciliation of prior years accrued payroll liability balance	46,145	-
Contingency payable – refund of overbilling of customer accounts	(394,970)	-
Pension-related debt – CalPERS side-fund liability	(1,513,700)	-
Total prior period adjustment	$ (1,903,868)	(1,253,507)

(3) Cash and Investments

Cash and cash equivalents as of December 31, are classified in the accompanying financial statements as follows:

		2011	2010
Cash and cash equivalents	$	6,776,214	5,687,027
Total	$	6,776,214	5,687,027

Cash and cash equivalents as of December 31, consist of the following:

		2011	2010
Petty cash	$	1,400	1,400
Deposits with financial institutions		6,771,253	5,682,078
Local Agency Investment Fund (LAIF)		3,561	3,549
Total cash and cash equivalents	$	6,776,214	5,687,027

As of December 31, the District's authorized deposits had the following maturities:

	2011	2010
Deposits held with California Local Agency Investment Fund (LAIF)	256 Days	215 Days

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. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

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 District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. Of the bank balances, up to $250,000 is federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name.

(3) Cash and Investments (Continued)

Investment in State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by 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.

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. The District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio matures or comes close to maturity evenly over time as necessary to provide requirements for cash flow and liquidity needed for operations.

Credit Risk

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; however, LAIF is not rated.

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.

(4) Accounts Receivable – Water Sales and Services, Net

Accounts receivable – water sales and services consists of the following as of December 31:

		2011	2010
The balance at December 31, consists of the following:			
Accounts receivable – water sales and services	$	1,689,621	1,314,621
Allowance for uncollectible accounts		(46,594)	(216,857)
Accounts receivable – water sales, net	$	1,643,027	1,097,764

(5) Accounts Receivable – Other, Net

Accounts receivable – other is an account holder of other billing outside the normal water sales and services billing for items such as damages to District property or rental of District property.

Accounts receivable – other consists of the following as of December 31:

		2011	2010
The balance at December 31, consists of the following:			
Accounts receivable – other	$	23,503	397,017
Allowance for uncollectible accounts		(505)	(3,365)
Accounts receivable – other, net	$	22,998	393,652

(6) Notes Receivable

Notes receivable – current and long-term portion consists of the following as of December 31:

		2011	2010
The balance at December 31, consists of the following:			
Notes receivable – Fairway Canyon	$	174,648	166,709
Notes receivable – Bonita Vista		13,532	7,078
Allowance for uncollectible accounts		-	(4,000)
Notes receivable – current portion, net	$	188,180	169,787

		2011	2010
The balance at December 31, consists of the following:			
Notes receivable – Fairway Canyon	$	802,898	969,607
Notes receivable – Bonita Vista		203,293	256,805
Allowance for uncollectible accounts		(13,769)	(20,000)
Notes receivable, net	$	992,422	1,206,412

In 2003, the Bonita Vista Mutual Water Company started the annexation process to join the District. The annexation agreement called for the District to install a new water delivery system. The property owners/shareholders in the Bonita Vista Mutual Water Company were responsible for $1/100^{th}$ of the costs of construction of the new system, at $5,500 per meter. The notes are payable over 20 years at a variable interest rate calculated annually at 1.5% above the LAIF interest rate.

(7) Deferred Charges

Deferred charges consist of the amortization of the costs of issuance of the notes payable.

The balance at December 31, consists of the following:		2011	2010
Deferred charges	$	91,611	91,611
Accumulated amortization		(32,064)	(13,742)
Deferred charges, net	$	59,547	77,869

(8) Capital Assets

Changes in capital assets for 2011 were as follows:

	Balance 2010	Additions/ Transfers	Deletions/ Transfers	Balance 2011
Non-depreciable assets:				
Land	$ 7,721,730	-	-	7,721,730
Construction-in-process	312,952	119,246	(355,925)	76,273
Total non-depreciable assets	8,034,682	119,246	(355,925)	7,798,003
Depreciable assets:				
Transmission and distribution system	58,332,352	372,450	-	58,704,802
Structures and improvements	16,393,296	-	-	16,393,296
Reservoirs and tanks	19,986,690	-	-	19,986,690
Pumping and telemetering equipment	12,593,579	49,026	-	12,642,605
Vehicles and equipment	1,703,677	115,903	-	1,819,580
Total depreciable assets	109,009,594	537,379	-	109,546,973
Accumulated depreciation and amortization	(12,713,440)	(2,002,794)	150,567	(14,565,667)
Total depreciable assets, net	96,296,154	(1,465,415)	150,567	94,981,306
Total capital assets, net	$ 104,330,836			102,779,309

Changes in capital assets for 2010 were as follows:

	Balance 2009	Additions/ Transfers	Deletions/ Transfers	Balance 2010
Non-depreciable assets:				
Land	$ 7,721,730	-	-	7,721,730
Construction-in-process	3,636,086	2,369,354	(5,692,488)	312,952
Total non-depreciable assets	11,357,816	2,369,354	(5,692,488)	8,034,682
Depreciable assets:				
Transmission and distribution systems	55,021,682	3,310,670	-	58,332,352
Structures and improvements	16,393,296	-	-	16,393,296
Reservoirs and tanks	17,604,872	2,381,818	-	19,986,690
Pumping and telemetering equipment	12,593,579	-	-	12,593,579
Vehicles and equipment	1,728,381	21,063	(45,767)	1,703,677
Total depreciable assets	103,341,810	5,713,551	(45,767)	109,009,594
Accumulated depreciation and amortization	(10,761,174)	(1,998,033)	45,767	(12,713,440)
Total depreciable assets, net	92,580,636	3,715,518	-	96,296,154
Total capital assets, net	$ 103,938,452			104,330,836

(9) Compensated Absences

Compensated absences comprise unpaid vacation leave, sick leave and compensating time off which is accrued as earned. The District's liability for compensated absences is determined annually.

Changes to compensated absences balances at December 31, were as follows:

Balance 2010	Additions	Deletions	Balance 2011	Current Portion	Long-term Portion
$ 201,709	162,022	(143,449)	220,282	138,213	82,069

Changes to compensated absences balances at December 31, were as follows:

Balance 2009	Additions	Deletions	Balance 2010	Current Portion	Long-term Portion
$ 212,028	122,756	(133,075)	201,709	50,427	151,282

(10) Note Payable

Changes in long-term debt, excluding compensated absences, for the year were as follows:

	Balance 2010	Additions	Principal Payments	Balance 2011
Note payable	$ 4,530,000	-	(945,000)	3,585,000
Less current portion	(945,000)			(985,000)
Non-current portion	$ 3,585,000			2,600,000

Changes in long-term debt, excluding compensated absences, for the year were as follows:

	Balance 2009	Additions	Principal Payments	Balance 2010
Note payable	$ -	5,000,000	(470,000)	4,530,000
Less current portion	-			(945,000)
Non-current portion	$ -			3,585,000

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

Year	Principal	Interest	Total
2012	$ 985,000	112,976	1,097,976
2013	1,015,000	79,430	1,094,430
2014	1,050,000	44,870	1,094,870
2015	535,000	9,041	544,041
Total	$ 3,585,000	246,317	3,831,317
Less: current	(985,000)		
Long-term	$ 2,600,000		

(11) Pension-Related Debt

CalPERS Side-Fund

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

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

Period	Principal	Interest	Total
January 1 to June 30, 2012	$ 47,681	63,264	110,945
July 1, 2012 to June 30, 2013	110,929	95,799	206,728
July 1, 2013 to June 30, 2014	125,464	87,259	212,723
July 1, 2014 to June 30, 2015	141,491	77,614	219,105
July 1, 2015 to June 30, 2016	158,917	66,761	225,678
July 1, 2016 to June 30, 2017	177,856	54,592	232,448
July 1, 2017 to June 30, 2018	198,426	40,996	239,422
July 1, 2018 to June 30, 2019	220,754	25,850	246,604
July 1, 2019 to June 30, 2020	244,982	9,020	254,002
Total	$ 1,426,500	521,155	1,947,655
Less: current	(103,145)		
Total non-current	$ 1,323,355		

(12) Other Post-Employment Benefits Payable

For the year ended December 31, 2011, the District implemented GASB Statement No. 45, which changed the accounting and financial reporting used by local government employers for post employment benefits. Previously, the costs of such benefits were generally recognized as expenses of local government employers on a pay-as-you-go basis. The reporting requirements for these benefit programs as they pertain to the District are set forth below.

(12) Other Post-Employment Benefits Payable (Continued)

Plan Description – Eligibility

The District pays a portion of the cost of health insurance for retirees (including prescription drug benefits) under any group plan offered by the CalPERS Health Program. Membership in the OPEB plan consisted of the following members as of December 31:

	2011
Active plan members	25
Retirees and beneficiaries receiving benefits	2
Separated plan members entitled to but not yet receiving benefits	-
Total plan membership	27

Plan Description – Benefits

The District offers post employment medical benefits to retired employees who satisfy the eligibility rules. Spouses and surviving spouses are also eligible to receive benefits. Retirees may enroll in any medical plan available through the District's CalPERS Health Program, a cost-sharing multiple-employer medical coverage plan. The contribution requirements of eligible retired employees and the District are established and may be amended by the Board of Directors.

Funding Policy

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

Annual Cost

For the year ended December 31, 2011, the District's ARC cost was $1,130,449. The District's net OPEB payable obligation amounted to $1,116,033 for the year. The District paid $6,257 for current retiree OPEB premiums for the year, which is age adjusted to a contribution amount of $14,416. The current ARC rate is 93.0% of the District's annual covered payroll.

The balance at June 30, consists of the following:	2011
Annual OPEB expense:	
Annual required contribution (ARC)	$ 1,130,449
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Total annual OPEB expense	1,130,449
Change in net OPEB payable obligation:	
Age adjusted contributions made	(14,416)
Total change in net OPEB payable obligation	1,116,033
OPEB payable – beginning of year	-
OPEB payable – end of year	$ 1,116,033

(12) Other Post-Employment Benefits Payable (Continued)

The District's annual OPEB cost, the percentage of the annual OPEB cost contributed to the Plan, and the net OPEB obligation for year 2011 and the two preceding years were as follows:

Three-Year History of Net OPEB Obligation

Fiscal Year Ended		Annual OPEB Cost	Annual Contributions	Percentage of Annual OPEB Cost Contributed		Net OPEB Obligation Payable
2011	$	1,130,449	14,416	1.28%	$	1,116,033
2010	*	-	-	0.00%		-
2009	*	-	-	0.00%		-

***** The information for this year is unavailable.

GASB No. 45 was implemented in fiscal year 2011.

Funded Status and Funding Progress of the Plan

The most recent valuation dated December 31, 2011 includes an Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability of $5,908,180. The covered payroll (annual payroll of active employees covered by the plan) for the year ended December 31, 2011 was estimated at $1,214,966. The ratio of the unfunded actuarial accrued liability to annual covered payroll is 486.28%.

Actuarial Methods and Assumptions

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

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

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

(13) Net Assets

Calculation of net assets as of December 31, were as follows:

		2011	2010
Net investment in capital assets:			
Capital assets, not being depreciated	$	7,798,003	8,034,682
Capital assets, being depreciated, net		94,981,306	96,296,154
Note payable – current		(985,000)	(945,000)
Note payable – non-current		(2,600,000)	(3,585,000)
Total net investment in capital assets		99,194,309	99,800,836
Unrestricted net assets:			
Non-spendable net assets:			
Materials and supplies inventory		461,037	446,369
Prepaid expenses and deposits		87,353	79,837
Notes receivable – non-current portion		992,422	1,206,412
Deferred charges, net		59,547	77,869
Total non-spendable net assets		1,600,359	1,810,487
Spendable net assets are designated as follows:			
Designated for State Water importation purchases		-	101,622
Designated for debt service reserve		242,500	232,000
Designated for capital replacement reserve		1,000,000	1,000,000
Designated for operating reserve		2,440,349	3,946,082
Total spendable net assets		3,682,849	5,279,704
Total unrestricted net assets		5,283,208	7,090,191
Total net assets	$	104,477,517	106,891,027

(14) Defined Benefit Pension Plan

Plan Description

The District contributes to the California Public Employees Retirement System (CalPERS), a cost-sharing multi-employer defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public agencies within the State of California. Benefit provisions and all other requirements are established by state statute and the District. Copies of CalPERS annual financial report may be obtained form their executive Office: 400 P Street, Sacramento, CA, 95814.

Funding Policy

The contribution rate for plan members in the CalPERS 2.7% at 55 Risk Pool Retirement Plan is 8% of their annual covered salary. For employees hired prior to January 1, 2001, the District makes these 8.00% contributions required of District employees on their behalf and for their account. Employees hired between January 1, 2001 to June 30, 2011 contribute 7.00% and the District contributes 1.00% to their account. Employees hired after June 30, 2011 contribute 8.00% to their account. Also, the District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The required employer contribution rates for fiscal years 2011, 2010 and 2009 were as follows:

Time Period	2011	2010	2009
Jan. 1 - June 30	24.691%	25.520%	25.964%
July 1 - Dec. 31	29.398%	24.691%	25.520%

(14) Defined Benefit Pension Plan (Continued)

The contribution requirements of the plan members are established by State statute, and the employer contribution rate is established and may be amended by CalPERS. For Fiscal years 2011, 2010 and 2009, the District's annual contributions for the CalPERS plan were equal to the District's required and actual contributions for each fiscal year as follows:

Three Year Trend Information:

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12/31/2011	$ 391,706	100%	-
12/31/2010	426,103	100%	-
12/31/2009	420,235	100%	-

(15) Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of the Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California water agencies. The purpose of the ACWA/JPIA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage. At December 31, 2011, the District participated in the liability, property, and workers' compensation programs of the ACWA/JPIA as follows:

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

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

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

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the District's insurance coverage during the years ending December 31, 2011, 2010 and 2009. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of December 31, 2011, 2010 and 2009, respectively.

(16) Governmental Accounting Standards Board Statements Issued, Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to December 31, 2011, that have effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 60

In November 2010, the GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangement*s. This standard addresses how to account for and report service concession arrangements, a type of public-private or public-public partnership that state and local governments are increasingly entering into. This statement is effective for financial statements for periods beginning after December 15, 2011. The District estimates that this statement will not have a material impact on the presentation of the basic financial statements.

Governmental Accounting Standards Board Statement No. 61

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity, Omnibus.* This standard is designed to improve financial reporting for governmental entities by amending the requirements of GASB Statement No. 14, *The Financial Reporting Entity,* and GASB Statement No. 34, *Basic Financial Statement and Management's Discussion and Analysis for State and local Governments*. This statement is effective for financial statements for periods beginning after June 15, 2012. The District estimates that this statement will not have a material impact on the presentation of the basic financial statements.

Governmental Accounting Standards Board Statement No. 62

In December 2010, The GASB issued Statement No. 62 – *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

Hereinafter, these pronouncements collectively are referred to as the "FASB and AICPA pronouncements." This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting,* thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. The provisions of this Statement generally are required to be applied retroactively for all periods presented.

Governmental Accounting Standards Board Statement No. 63

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* This standard is designed to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. This statement is effective for financial statements for periods beginning after December 15, 2011. The District estimates that this statement will not have a material impact on the presentation of the basic financial statements.

(16) Governmental Accounting Standards Board Statements Issued, Not Yet Effective (Continued)

Governmental Accounting Standards Board Statement No. 64

In June 2011, the GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53.* This standard is designed to improve financial reporting by clarifying the circumstances in which hedge accounting should continue when a swap counterparty, or swap counterparty's credit support provider, is replaced. This statement is effective for financial statements for periods beginning after December 15, 2011. The District estimates that this statement will not have a material impact on the presentation of the basic financial statements.

(17) Commitments and Contingencies

Joint Venture Agreements

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

Litigation

In the ordinary course of operations, the District is subject to claims and litigation from outside parties. After consultation with legal counsel, the District believes the ultimate outcome of such matters, if any, will not materially affect its financial condition.

(18) Subsequent Events

Deferred Compensation Program

In December 2012, the District has elected to participate in a 457 Deferred Compensation Program.

Events occurring after December 31, 2011 have been evaluated for possible adjustment to the financial statements or disclosure as of December 10, 2012, which is the date the financial statements were available to be issued.

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Required Supplementary Information

Beaumont-Cherry Valley Water District
Schedule of Funding Status – Other Post-Employment Benefits Obligation
For the Years Ended December 31, 2011 and 2010

Funded Status and Funding Progress of the Plan

Required Supplemental Information - Schedule of Funding Progress

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

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

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Report on Internal Controls and Compliance

Charles Z. Fedak & Company
Certified Public Accountants
An Accountancy Corporation

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Independent Auditor's Report on Internal Control Over Financial Reporting And on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

We have audited the basic financial statements of the Beaumont-Cherry Valley Water District (District) as of and for the year ended December 31, 2011, and have issued our report thereon dated December 10, 2012. We conducted our audits 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.

Internal Control Over Financial Reporting

In planning and performing our audits, 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 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. 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. Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties.

Charles Z. Fedak & Company CPA's - An Accountancy Corporation

Charles Z. Fedak & Company, CPA's – An Accountancy Corporation
Cypress, California
December 10, 2012