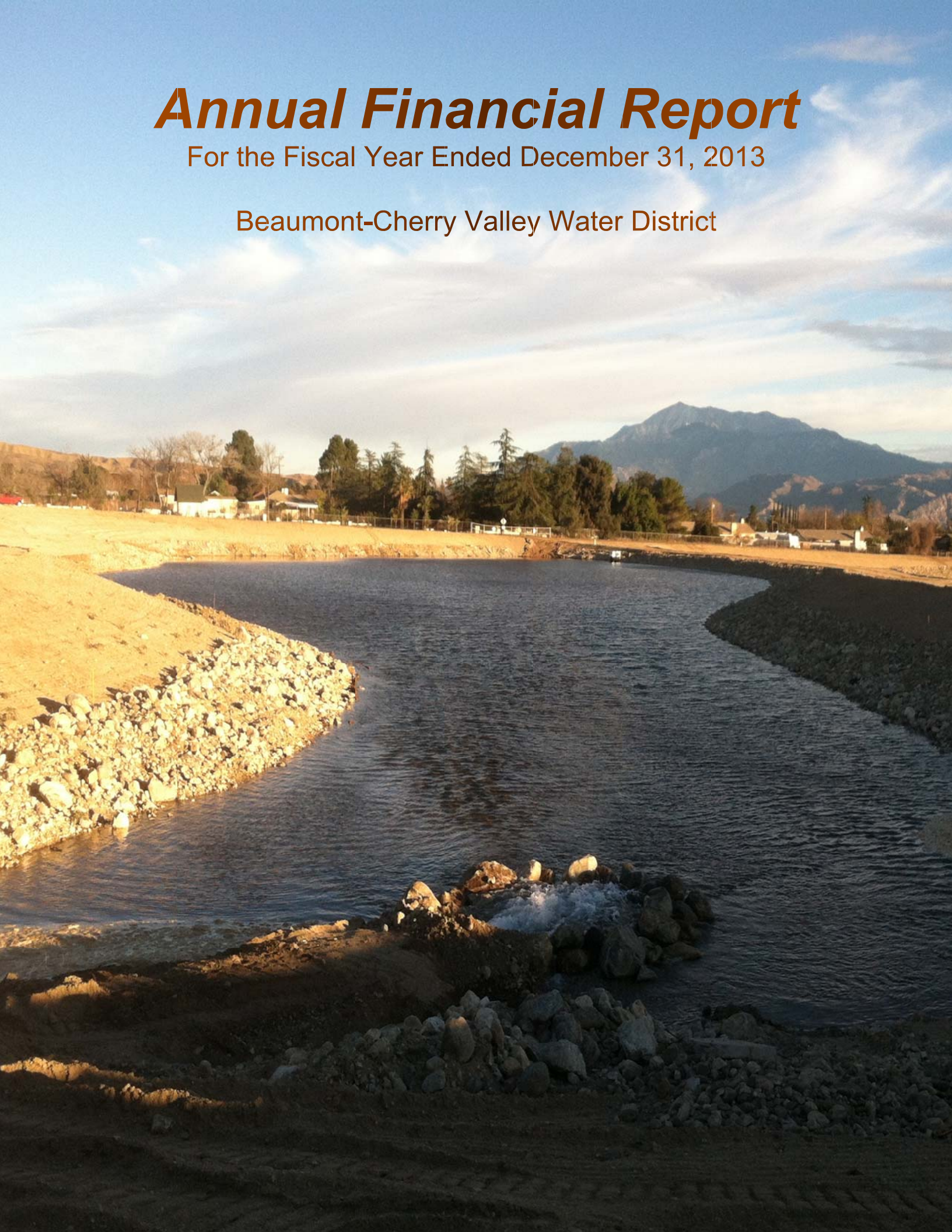


Annual Financial Report

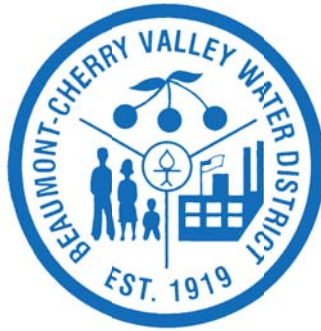
For the Fiscal Year Ended December 31, 2013

Beaumont-Cherry Valley Water District



Beaumont-Cherry Valley Water District

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



Board of Directors as of December 31, 2013

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

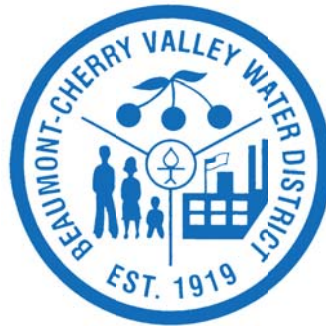
Eric Fraser, P.E.
General Manager

Beaumont-Cherry Valley Water District
Annual Financial Report
For the Year Ended December 31, 2013

Table of Contents

	Page
Introductory Section	
Transmittal Letter	1
Financial Section	
Independent Auditors' Report	7
Management's Discussion & Analysis	9
Basic Financial Statements:	
Statement of Net Position	15
Statement of Revenues, Expenses and Changes in Net Position	16
Statement of Cash Flows	17
Notes to the Basic Financial Statements	18
Required Supplementary Information:	
Schedule of Funding Status – Other Post-Employment Benefits Obligations	37
Report on Internal Controls and Compliance	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	38

This page intentionally left blank



Introductory

This page intentionally left blank



www.bcvwd.org

Beaumont-Cherry Valley Water District

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

Board of Directors

Dr. Blair Ball
Division 5

John Guldseth
Division 4

Daniel Slawson
Division 3

Kenneth Ross
Division 2

Ryan Woll
Division 1

June 18, 2014

Honorable Board of Directors
Beaumont-Cherry Valley Water District

Introduction

It is our pleasure to submit the Annual Financial Report for the Beaumont-Cherry Valley Water District for the year ended December 31, 2013, following guidelines set forth by the Government Accounting Standards Board. District staff prepared this financial report. District management is ultimately responsible for both the accuracy of the data and the completeness and fairness of presentation, including all disclosures in this financial report. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the District. All disclosures necessary to enable the reader to gain an understanding of the District's financial activities have been included.

The District's financial statements have been audited by Vavrinek, Trine, Day & Company, LLP, a firm of licensed certified public accountants. The purpose of their independent audit was to provide reasonable assurance that the financial statements of the District, for the year ended December 31, 2013, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used; and evaluating the overall financial statement presentation. The audit also included obtaining an understanding of the District and its environment, including internal controls, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures.

The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that the District's financial statements for the year ended December 31, 2013, are fairly presented, in all material respects, in conformity with Generally Accepted Accounting Principles (GAAP). The independent auditor's report is presented as the first component of the financial section of this report, beginning on page 7.

GAAP requires management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The District's MD&A can be found immediately following the report of the independent auditor, beginning on page 9.

District Profile

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



www.bcvwd.org

Beaumont-Cherry Valley Water District

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

Board of Directors

Dr. Blair Ball
Division 5

John Guldseth
Division 4

Daniel Slawson
Division 3

Kenneth Ross
Division 2

Ryan Woll
Division 1

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

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

The District's present service area covers approximately 28 square miles, virtually all of which is in Riverside County, and includes the city of Beaumont, the community of Cherry Valley and some small areas of Calimesa. The District also owns 575 acres of watershed land in Edgar Canyon in San Bernardino County located just north of the Riverside-San Bernardino County line where the District operates a number of wells and several reservoirs.

The District has both a potable and non-potable water distribution system. At the end of 2013, the District had a total of 16,137 connections, an increase of 1,008 connections over 2012. Approximately 335 of these total connections are landscape irrigation connections to the non-potable water system and approximately 69 of these total connections are for agricultural irrigation which is connected to the potable water system. The number of connections increased from 5,600 in the year 2000 before the housing market boom that encompassed Western Riverside County and particularly Beaumont.

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

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

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

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



www.bcvwd.org

Beaumont-Cherry Valley Water District

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

Board of Directors

Dr. Blair Ball
Division 5

John Guldseth
Division 4

Daniel Slawson
Division 3

Kenneth Ross
Division 2

Ryan Woll
Division 1

Local Economy (see acknowledgement note on P.6)

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

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

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

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

According to Dr. John Husing's Quarterly Economic Report dated April, 2014, VOL.26 NO.2, "the ability of the Inland Empire's economy to return to normal has been held up by the depression in its residential real estate market. There are clear signs that this is finally coming to an end."

In 2013 the District experienced an increased interest from land developers in completing tract developments that were put on hold during the slowdown and beginning new developments that were previously delayed.

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

The following comments, either quoted or paraphrased from Dr. Husing's Quarterly Economic Report dated April, 2014, are offered as economic trend indicators for the Inland Empire which encompasses the District's service area. The District acknowledges Dr. Husing's work and his website on page 6 of this letter.

"Construction has generally been one of the Inland Empire's strongest job creators. However, it faltered from 2006-2011. In that period, the region was down a net of 137,233 total jobs, with construction off -68,433, or 49.9% of the area's loss. In 2012, construction job growth returned, up 3,542 jobs, followed by a gain of 6,733 jobs in 2013. Construction job growth in 2014 has increased by an additional 3,650 positions. Slowly, the sector's environment is improving. New home permits reached 6,473 in 2013, up 36.6%. Fourth



www.bcvwd.org

Beaumont-Cherry Valley Water District

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

Board of Directors

Dr. Blair Ball
Division 5

John Guldseth
Division 4

Daniel Slawson
Division 3

Kenneth Ross
Division 2

Ryan Woll
Division 1

quarter 2013 new home prices were up 14.1%, showing some developer pricing-power. Existing home prices rose 23.6%.”

“The fact e-commerce expanded at over 15% has caused even conventional retailers to begin aggressively embracing Amazon.com’s strategy of creating and staffing large regional fulfillment centers. Their goal is to respond to on-line consumers with same-day deliveries. With its available land for large facilities, many of these are locating in the Inland Empire. Inland Empire logistics job growth thus remains strong, adding 8,817 jobs in 2013 and up another 5,850 early in 2014.”

“In 2014, the Inland Empire economy should gain 40,100 jobs (3.2%), after adding 46,633 in 2013, 32,000 in 2012 and 2,900 in 2011. The expansion will continue partly because of the area’s traditional advantages for blue collar sectors (undeveloped land, modestly priced labor, and growing population).”

District staff anticipates that in 2014 the growth in the District’s service area related to residential, commercial and industrial development will again increase incrementally.

Relevant Financial Policies

Budgetary Controls

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

During the budget year ending December 31, 2013, there were two significant amendments made to the original budget. Of significance was the adjustment needed to reflect the \$2,100,000 payoff of the note to Banc of America Leasing and the adjustment needed to record the \$119,701 payment for authorized studies and costs incurred by the Beaumont Basin Watermaster in Fiscal Year 2012-2013. The Water Master includes the cities of Banning and Beaumont as well as the Yucaipa Valley Water District, the South Mesa Water Company and the Beaumont-Cherry Valley Water District.

The year 2013 was another transitional year for the District in many regards but still resulted in operating revenues being in line with operating expenses and a balanced budget.

Capital Asset Useful Lives

During the calendar year 2013, the useful lives assigned to capital asset categories were reviewed for reasonableness. Water meters were historically assigned a useful life of 50 years and depreciated over that life. Staff believes the fifty year life is too long and that a more realistic estimate of an average useful life of a meter would be ten years. The financial impact of this change in useful lives is reflected in the 2013 financial statements as a prior period adjustment.



www.bcvwd.org

Beaumont-Cherry Valley Water District

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

Board of Directors

Dr. Blair Ball
Division 5

John Guldseth
Division 4

Daniel Slawson
Division 3

Kenneth Ross
Division 2

Ryan Woll
Division 1

Recognition of Dedicated Distribution Systems

Distribution systems built by developers and dedicated to the District were not recorded as part of the District's capital assets during the period of 2000 to 2012. Staff believed that a significant part of the District's infrastructure was missing from the capital asset inventory listing and should be capitalized. A concerted effort was made to identify and value this infrastructure component. The financial impact of adding these additional asset costs is reflected in the 2013 financial statements as a prior period adjustment. Staff believes the District statements now reflect a realistic inventory and reasonable value of the District's assets.

Major Initiatives

Major goals for the District continue to be the conservation and efficient use of urban water supplies, providing the means to meet increasing demands for water, and providing an accurate accounting of all business operations including District infrastructure. The following paragraphs summarize the status of the District's completed and on-going initiatives identified in the 2012 Annual Financial Report as well as briefly describe new projects initiated to meet those goals.

Comprehensive water planning for future District area growth was performed as part of the District's Urban Water Management planning effort as required by the California Water Code. Specifically, the Code requires all urban water suppliers within the State to complete urban water management plans and update them every five years. The District Plan was adopted July 10, 2013. The 2013 Urban Water Management Plan includes plans: for conservation and effective use of urban water supplies; for long-term, reliable supplies of water; to ensure the appropriate level of reliability of the District's water service; and plans to manage urban water demands and efficient use of water that will be a guiding criterion in public decisions.

Developing the facilities to provide water for future growth continues to be a priority and therefore District staff continued the expansion of the District's Noble Creek Recharge Facility. Specifically, in the year 2000, the District began investigating a 78.8 acre site as a location for a facility to recharge captured storm flow and other water sources. The District eventually purchased the site and developed Phase 1 of the Noble Creek Recharge facility to enable the District to meet current and near-future demand through groundwater recharge. Phase 1 facilities were completed and went on line in late summer of 2006 for recharging storm flow and imported water from the State Water Project. Phase 2 of the Noble Creek Recharge Facility project is on-going and designed to enable the District to meet ultimate development and overall community demand for additional water via groundwater recharge. Completion of Phase 2 construction is expected in 2014.

The District recognized the need to upgrade its main accounting system in order to improve the efficiency of day-to-day operations and provide an accurate accounting of all business operations. The District evaluated accounting system alternatives in the last quarter of 2012 and implemented the new "Springbrook" accounting system during the period of April



www.bcwwd.org

Beaumont-Cherry Valley Water District

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

Board of Directors

Dr. Blair Ball
Division 5

John Guldseth
Division 4

Daniel Slawson
Division 3

Kenneth Ross
Division 2

Ryan Woll
Division 1

through June of 2013. System modules for capital asset and work order processing will be deployed throughout 2014 to enhance support staff efficiencies and internal controls.

Upon completion of the Urban Water Management Plan, the District directed its efforts to a needed update of the Water Master Plan. Essentially, the Water Master Plan provides: an overview of present, planned and probable future development trends; a review of development densities; the City of Beaumont's General Plan; the County of Riverside's General Plan; a review of historical supply and demand, present trends, future demands and water requirements; estimated demands that could be met with recycled water; a review of plans and system capacities for imported water; the development of water resource and supply scenarios for dry, average and wet years; and project needed facilities and costs needed to meet future demands. The District's Water Master Plan is estimated to be completed in the later part of 2014.

Additionally the District concentrated on completing the development of a GIS mapping system. This will result in the District having a comprehensive map of system resources commonly referred to as District water facilities, which include all pipelines, valve locations, hydrants and service connections. District staff is anxious to have this digital resource available for the first time so the District can respond to emergencies, develop hydraulic models to master plan facilities, and evaluate the condition of the distribution system. The project is on-going with expected completion in 2014.

Acknowledgements

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

The majority of the comments and data included in the Local Economy section above were either quoted from or paraphrased from Dr. John Husing's Quarterly Economic Report dated April, 2014, VOL.26 NO.2, which is available on his website, www.johnhusing.com). Mr. Husing is a noted economist with a vast knowledge of the Inland Empire and whose reliable expertise is recognized throughout the region.

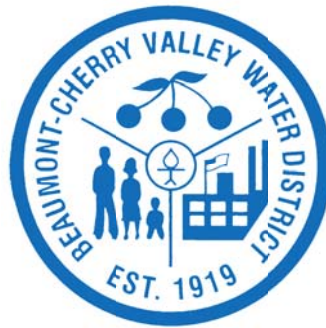


Eric Fraser
General Manager



Melissa Bender
Director of Finance &
Administrative Services

This page intentionally left blank



Financial

This page intentionally left blank



Independent Auditors' Report

This page intentionally left blank



INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Beaumont-Cherry Valley Water District (District), as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2013, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1(M) to the financial statements, in 2013 the District adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, as of January 1, 2013. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 9 through 14 and the schedule of funding status on page 37 to be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

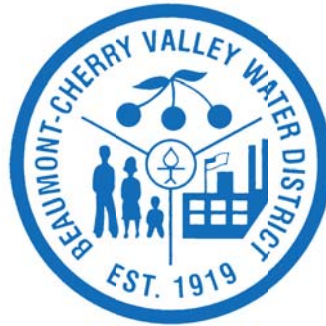
Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the District's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 18, 2014, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering District's internal control over financial reporting and compliance.



Riverside, California
June 18, 2014



Management's Discussion & Analysis

This page intentionally left blank

Beaumont-Cherry Valley Water District

Management's Discussion and Analysis

For the Year Ended December 31, 2013

As management of the Beaumont-Cherry Valley Water District, we offer readers of the Beaumont-Cherry Valley Water District's financial statements this narrative overview and analysis of the financial activities of the Beaumont-Cherry Valley Water District for the fiscal year ended December 31, 2013. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our transmittal letter which can be found on pages 1-6.

Financial Highlights

Based on the financial information for the year ended December 31, 2013, the following financial highlights are noted for the Beaumont-Cherry Valley Water District:

- The assets of the District exceeded its liabilities at year end by \$123,424,314 (net position). Of this amount, \$5,499,646 represents unrestricted net position, which may be used to meet the District's ongoing obligations to customers and creditors.
- The District's net position increased \$18,805,095 from the prior fiscal year. The increase is a result of the combined effects of increased revenues from developer activities (capital commitments), an increase in customers/water sales, and a restatement of the prior year's capital assets.

Overview of Required Financial Statements

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

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

The *Statement of Net Position* presents financial information on all of the Beaumont-Cherry Valley Water District's assets and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Beaumont-Cherry Valley Water District is improving or deteriorating. Beaumont-Cherry Valley Water District's net position as of December 31, 2013 was \$123,424,314, an increase of \$18,805,095, from the \$104,619,219 reported in 2012. The *Statement of Net Position* can be found on page 15.

Beaumont-Cherry Valley Water District

Management's Discussion and Analysis

For the Year Ended December 31, 2013

The *Statement of Revenues, Expenses and Changes in Net Position* presents information illustrating how net position changed during the fiscal year. This *Statement* measures the success of the District's operations over the past year and can be used to determine if the District has successfully recovered all of its costs through its rates and other charges. This statement can also be used to evaluate profitability and credit worthiness. The *Statement of Revenues, Expenses & Changes in Net Position* can be found on page 16.

The *Statement of Cash Flows* presents information relating to the District's cash receipts and cash payments for the year. When used with related disclosures and information in other financial statements, the information in this *Statement* should help readers assess the District's ability to generate future net cash flows, its ability to meet its obligations as they come due and its need for external financing. It also provides insight into the reasons for differences between operating income and associated cash receipts and payments; and the effects of the District's financial position of its cash and non-cash investing for capital and related transactions during the year. This *Statement* answers questions such as where did cash come from, what was cash used for and what was the change in cash balance during the reporting period. The *Statement of Cash Flows* can be found on page 17.

Notes to the Financial Statements. The notes provide additional information that is necessary to understand all of the data provided in the basic financial statements. The notes to the financial statements are included immediately following the financial statements and can be found on pages 18-36 of this report.

In addition to the basic financial statements and accompanying notes, this report also presents *Required Supplementary Information* concerning the Beaumont-Cherry Valley Water District's progress in funding its obligation to provide pension and Other Post-Employment Benefits (OPEB) to its employees. *Required Supplementary Information* can be found on page 37 of this report.

Financial Analysis

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

Statement of Net Position

As noted earlier, net position over time, may serve as a useful indicator of a government's financial position. Beaumont-Cherry Valley Water District's assets exceeded liabilities by \$123,424,314 for the fiscal year ending December 31, 2013.

Beaumont-Cherry Valley Water District

Management's Discussion and Analysis

For the Year Ended December 31, 2013

	<u>2013</u>	<u>2012</u>
Current assets	\$ 12,479,279	\$ 11,536,381
Non-current assets	458,383	810,342
Capital assets	<u>117,924,668</u>	<u>101,350,650</u>
Total assets	<u>130,862,330</u>	<u>113,697,373</u>
Current liabilities	2,792,543	3,923,322
Non-current liabilities	<u>4,645,473</u>	<u>5,154,832</u>
Total liabilities	<u>7,438,016</u>	<u>9,078,154</u>
Net investment in capital assets	117,924,668	98,791,875
Unrestricted	<u>5,499,646</u>	<u>5,827,344</u>
Total Net Position	<u>\$ 123,424,314</u>	<u>\$ 104,619,219</u>

The largest portion of the Beaumont-Cherry Valley Water District's net position (95.5%) reflects its investment in capital assets (e.g., land, transmission and distributions systems, reservoirs, tanks, pumps, buildings and structures, equipment and vehicles) net of related outstanding debt used to acquire those assets. Beaumont-Cherry Valley Water District uses its capital assets to provide water service to the residents of Beaumont, Cherry Valley and some portions of Calimesa. As such, these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to repay the debt.

The remaining net position of \$5,499,646 (4.5%) is unrestricted and may be used at the Board's discretion to continue meeting the needs of the District. See Note 14 on pages 33 for more details on the District's net position.

The District's net position increased \$18,805,095 from the prior fiscal year. The increase is a result of the combined effects of increased revenues from developer activities (capital commitments), an increase in customers/water sales, and a restatement of the prior year's beginning position most of which were related to capital assets. See Note 15 on page 34 for more details on the restatement.

Statement of Revenues, Expenses and Changes in Net Position

The increase in operating revenue was primarily attributable to an increase in water consumption (11,599 acre feet sold in 2012 versus 11,829 acre feet sold in 2013), as well as development/installation charges. Furthermore, there was an increase in overall customers served by the District (15,128 active customers in 2012 to 16,136 active customers in 2013).

Operating expenses decreased minimally compared to 2012 expenses. The District prepaid the remaining portion of the note payable set to mature in April 2015 which resulted in non-operating interest savings of over \$80,000 through 2015.

Capital contributions of \$1,025,791 increased significantly from \$66,382 in 2012 due to new residential and commercial development consisting of two residential tracts within existing subdivisions as well as

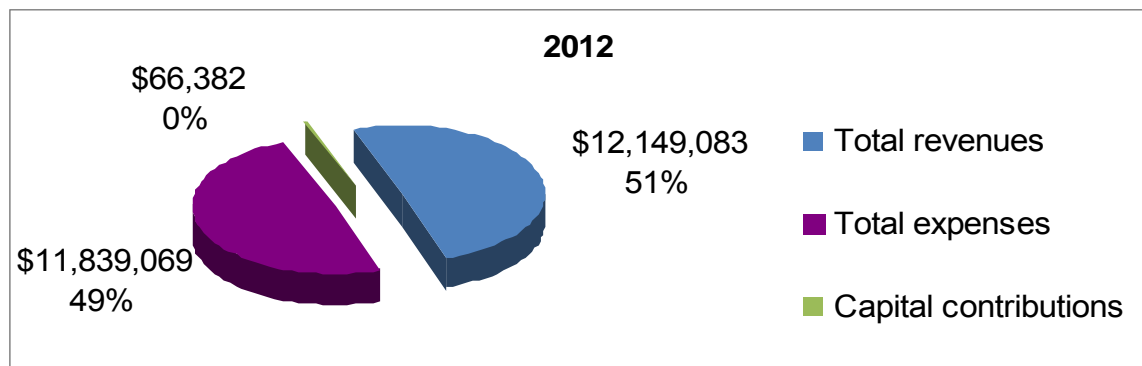
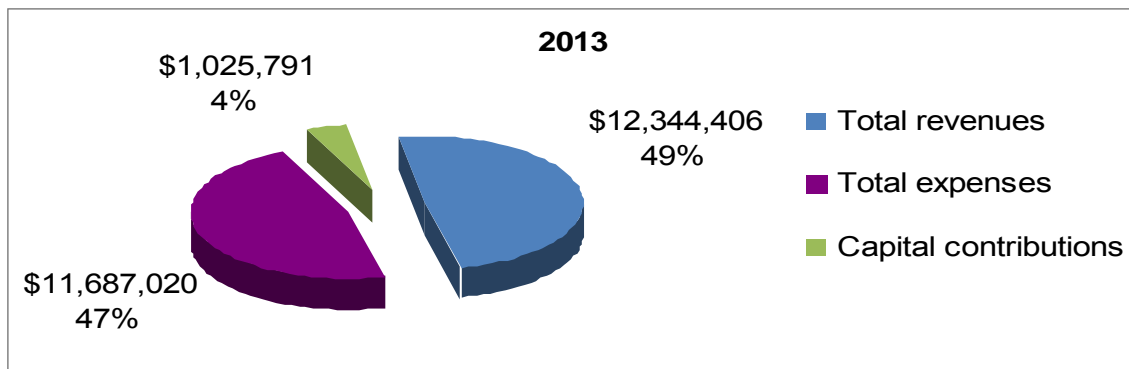
Beaumont-Cherry Valley Water District

Management's Discussion and Analysis

For the Year Ended December 31, 2013

development of one new commercial property and one new residential property. Capital contributions from developers were expected to remain flat during 2013; however, several developers resumed activities resulting in the increased collection of facility fees. This amount has been set aside as restricted cash and investments in accordance with the District's Reserve Policy. See Note 2 on page 22 for more details.

	<u>2013</u>	<u>2012</u>
Operating revenues	\$ 12,237,872	\$ 11,972,596
Non-operating revenues	106,534	176,487
Total revenues	<u>12,344,406</u>	<u>12,149,083</u>
Operating expenses	11,595,631	11,716,094
Non-operating expenses	91,389	122,975
Total expenses	<u>11,687,020</u>	<u>11,839,069</u>
Income (loss) before contributions	657,386	310,014
Capital contributions	1,025,791	66,382
Net position - beginning as restated	<u>121,741,137</u>	<u>104,242,823</u>
Net position - ending	<u>\$ 123,424,314</u>	<u>\$104,619,219</u>



Beaumont-Cherry Valley Water District

Management's Discussion and Analysis

For the Year Ended December 31, 2013

Capital Assets & Debt Administration

BCVWD's Capital Assets (Net of Depreciation)

	Balance December 31, 2012	Balance December 31, 2013
Land	\$ 7,721,730	\$ 7,721,730
Construction in progress	537,474	1,591,960
Transmission and distribution system	50,772,810	65,287,743
Structures and improvements	14,516,192	14,143,675
Reservoirs and tanks	16,846,225	18,267,166
Pumping and telemetry equipment	10,297,124	10,055,202
Vehicles and equipment	659,095	857,192
Capital assets, net of depreciation	<u>\$ 101,350,650</u>	<u>\$ 117,924,668</u>

Beaumont-Cherry Valley Water District's investment in capital assets as of December 31, 2013 was \$117,924,668 net of accumulated depreciation. This investment in capital assets includes land, transmission and distributions systems, reservoirs, tanks, pumps, buildings and structures, equipment and vehicles. Construction in progress increased by \$1,591,960 due to work performed on the following projects: Water Masterplan Update, Urban Water Management Plan, Recycled Water Connection, Recycled Water Planning Grant, BM2 Anti-degradation Project, Noble Creek Recharge Facility Phase II, Brookside Pipeline Relocation, Lower Edgar Canyon Stormwater Project, Financial Software Conversion Project, New Service Installations and GIS Software Project.

The GIS Software Project was the only new project in 2013. The District has made significant progress in developing an accurate map of system resources. An accurate system map that details all of the pipelines, valve locations, hydrants, and service connections is a fundamental and essential part of basic water system operation. Without an accurate map, the District cannot adequately respond to emergencies, develop hydraulic models to master plan facilities, or evaluate the condition of the distribution system. Furthermore, District staff utilized the data prepared for the GIS Software Project to analyze the completeness of the District's capitalized asset listing including the transmission and distribution system. As a result, the District capitalized 100 additional in tract transmission and distribution systems built by developers and dedicated to the District during the period of 1998-2012. Lastly, the District also capitalized the Taylor Tank which had been previously dedicated to the District but not included as an asset.

Capital assets additions of \$345,020 were due to new meter installations. New meter installations include the cost of employee labor as well as meter parts. Meters are currently replaced every 10-12 years as part of the District's meter change out program; however, the District previously listed the useful life as 50 years on the capital asset listing. During the year, District staff reviewed the previously capitalized new meter installations and made changes to reduce the lives from 50 to 10 years and to revise costing based on a per meter cost analysis.

Beaumont-Cherry Valley Water District

Management's Discussion and Analysis

For the Year Ended December 31, 2013

Information on the District's capital assets activity for the year ending December 31, 2013 can be found in Note 5 on page 27 of this report.

Long-term Debt

At December 31, 2013, the District no longer had long-term debt, excluding pension related debt. The debt was paid off during 2013 as a result of Board action. The District did not issue any new debt during fiscal year 2013. See Note 10 on page 28 for further details.

Balance December 31, 2012	Decreases	Balance December 31, 2013
<u>\$ 2,600,000</u>	<u>\$ (2,600,000)</u>	<u>\$ -</u>

Economic Factors and Next Year's Budgets & Rates

There is an element of uncertainty related to expenses in 2014 due to Governor Brown's Executive Order dated January 17, 2014. Historically one of the District's largest expense items is the cost of purchasing water from the State Water Project. In order to meet current and future water delivery demands, the District will need to draw on its water storage account previously deposited in the basin to satisfy demands during these drought conditions. Legally the District is required to replenish water extracted from the Beaumont Basin. Therefore the District will need to purchase additional water above its annual needs from the State Water Project in the future to recover said storage account balance.

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

There were only minimal rate increases planned for 2014. The rate increases only affected private fire service fixed meter charges. The Board of Director's approved a balanced budget for 2014.

Requests for Information

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



Basic Financial Statements

This page intentionally left blank

Beaumont-Cherry Valley Water District

Statement of Net Position

December 31, 2013

ASSETS

Current Assets:

Cash and investments (Note 2)	\$ 6,730,915
Restricted cash and investments - funds held for others (Note 2)	1,931,980
Interest receivable	27,726
Accounts receivable, net of allowance for uncollectibles (Note 3)	1,879,874
Notes receivable, net of allowance for uncollectibles (Note 4)	257,980
Inventories	530,166
Prepaid items	94,847

Total Current Assets 11,453,488

Non-Current Assets:

Notes receivable, net of allowance for uncollectibles (Note 4)	458,383
Restricted cash and investments - capital commitments (Note 2)	1,025,791
Capital assets, net of accumulated depreciation (Note 5)	<u>117,924,668</u>

Total Non-Current Assets 119,408,842

TOTAL ASSETS 130,862,330

LIABILITIES

Current Liabilities:

Accounts payable and other accrued liabilities (Note 6)	565,779
Customer account credit balances (Note 7)	215,118
Customer deposits payable	296,659
Unearned revenues (Note 8)	1,420,203
Current portion of long-term liabilities:	
Compensated absences (Note 9)	161,443
Pension related debt (Note 12)	<u>133,341</u>
	<u>2,792,543</u>

Non-Current Liabilities:

Compensated absences (Note 9)	204,189
Pension related debt (Note 12)	1,072,886
Other post-employment benefits obligations (Note 13)	<u>3,368,398</u>

Total Non-Current Liabilities 4,645,473

TOTAL LIABILITIES 7,438,016

NET POSITION

Net investment in capital assets (Note 14)	117,924,668
Unrestricted (Note 14)	<u>5,499,646</u>

TOTAL NET POSITION \$ 123,424,314

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

Beaumont-Cherry Valley Water District
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended December 31, 2013

OPERATING REVENUES

Metered water sales	\$ 5,046,558
Water service charges	2,544,173
Water importation pass-through charges	2,321,236
Water pumping power pass-through charges	1,685,246
Development and installation charges	271,122
Other revenue	369,537

Total Operating Revenues	<u>12,237,872</u>
--------------------------	-------------------

OPERATING EXPENSES

Salaries and employee benefits	3,780,225
Energy expenses	1,435,343
Water purchases	2,607,642
Administration	270,533
Operations	297,048
Maintenance and repairs	272,990
Depreciation	2,528,691
Insurance	96,385
Professional fees	295,528
Other expenses	11,246

Total Operating Expenses	<u>11,595,631</u>
--------------------------	-------------------

Operating Income	<u>642,241</u>
------------------	----------------

NON-OPERATING REVENUES (EXPENSES)

Interest earnings	84,830
Rental income	17,815
Other revenue	3,889
Loss on disposal of capital assets	(41,421)
Interest expense	(49,968)

Total Non-Operating Revenues, Net	<u>15,145</u>
-----------------------------------	---------------

Income Before Contributions	<u>657,386</u>
-----------------------------	----------------

CONTRIBUTIONS

Capital contributions	<u>1,025,791</u>
-----------------------	------------------

Change in Net Position	<u>1,683,177</u>
------------------------	------------------

Net Position, Beginning of Year, Restated (Note 15)	121,741,137
---	-------------

Net Position, End of Year	<u><u>\$ 123,424,314</u></u>
---------------------------	------------------------------

Beaumont-Cherry Valley Water District

Statement of Cash Flows

For the Year Ended December 31, 2013

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 12,041,427
Payments to suppliers and service providers	(4,939,205)
Payments to employees for salaries and benefits	(2,660,321)
Return of customer deposits	<u>115,593</u>
Net Cash Provided by Operating Activities	<u>4,557,494</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Rental income and other receipts	<u>21,704</u>
Net Cash Provided by Non-Capital Financing Activities	<u>21,704</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(880,410)
Principal paid on capital debt	(2,600,000)
Interest paid on capital debt	<u>(71,938)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(3,552,348)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	<u>101,081</u>
Net Cash Provided by Investing Activities	<u>101,081</u>
Net Increase in Cash and Cash Equivalents	1,127,931
Balance, Beginning of Year	<u>8,560,755</u>
Balance, End of Year	<u><u>\$ 9,688,686</u></u>
Reconciliation to Statement of Net Position:	
Cash and investments	\$ 6,730,915
Restricted cash and investments - funds held for others	1,931,980
Restricted cash and investments - capital commitments	<u>1,025,791</u>
Total Cash and Investments	<u><u>\$ 9,688,686</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	
Operating Income	<u>\$ 642,241</u>
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:	
Depreciation expense	\$ 2,528,691
(Increase) decrease in accounts receivable	(45,250)
(Increase) decrease in notes receivable	277,315
(Increase) decrease in inventories	1,846
(Increase) decrease in prepaid items	245,605
Increase (decrease) in accounts payable and other accrued liabilities	100,059
Increase (decrease) in customer credits payable	(188,949)
Increase (decrease) in customer deposits payable	115,593
Increase (decrease) in unearned revenues	(239,561)
Increase (decrease) in compensated absences	121,301
Increase (decrease) in pension related debt	(118,073)
Increase (decrease) in other post-employment benefit obligations	<u>1,116,676</u>
Total Adjustments	<u>3,915,253</u>
Net Cash Provided by Operating Activities	<u><u>\$ 4,557,494</u></u>

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

Beaumont-Cherry Valley Water District

Statement of Cash Flows

For the Year Ended December 31, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity and Basis of Presentation

The Beaumont-Cherry Valley Water District (the District) is a special-purpose government district supplying and distributing water to over 44,000 people in both the City of Beaumont and the community of Cherry Valley. The District is governed by a five-member Board of Directors who serve overlapping four-year terms. The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applied to enterprise funds. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District solely operates as a special-purpose government which means it is only engaged in business-type activities; accordingly activities are reported in the District's proprietary fund.

B. Measurement Focus and Basis of Accounting

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

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

C. Cash and Cash Equivalents

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

D. Restricted Cash and Investments

Restricted cash and investments are cash and investments that are segregated and can only be used for specific purposes. The District's restricted cash and investments consist of funds held for others, including refundable or prepaid customer deposits. The District also restricts cash and investments for capital commitments in the amount of developer facility fees collected during the year to ensure that fees are set aside to provide for the expansion of the domestic water system. Please refer to *Note 2 Cash and Investments* for additional details.

Beaumont-Cherry Valley Water District

Notes to the Basic Financial Statements

For the Year Ended December 31, 2013

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

E. Inventories and prepaid items

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

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

F. Capital Assets

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

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

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

G. Unearned Revenues

Unearned revenues arise when resources are received by the District before revenues are earned, as when developers pay in advance for services to be provided by the District at a later date. When the District has provided the services, the amounts will be recognized as revenue. Please refer to *Note 8 Unearned Revenues* for additional details.

Beaumont-Cherry Valley Water District

Notes to the Basic Financial Statements

For the Year Ended December 31, 2013

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

H. Compensated Absences

Vacation

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

Sick Leave

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

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

I. Use of Estimates

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

J. Uncollectible Accounts

The District provides an allowance for doubtful accounts for all accounts deemed uncollectible. Please refer to *Note 3 Accounts Receivable* and *Note 4 Notes Receivable* for additional details.

K. Credit/Market Risk

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

L. Use of Restricted Resources

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

Beaumont-Cherry Valley Water District

Notes to the Basic Financial Statements
For the Year Ended December 31, 2013

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

M. New Accounting Pronouncements

Effective This Fiscal Year

GASB Statement No. 61 – In November 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*. The objective of this Statement is to improve financial reporting for governmental financial reporting entities. This Statement modifies certain requirements for inclusion of component units in the financial reporting entity and amends the criteria for reporting component units as if they were a part of the primary government in certain circumstances. The District implemented this standard as of January 1, 2013.

GASB Statement No. 65 – In March 2012, GASB issued Statement 65 *Items Previously Reported as Assets and Liabilities*. This Statement provides guidance on proper classification of certain items previously reported as assets and liabilities as deferred outflows or inflows of resources. This Statement also provides guidance on recognition of certain items that were previously reported as assets and liabilities as outflows or inflows of resources. This Statement was implemented January 1, 2013.

GASB Statement No. 66 – In March 2012, GASB issued Statement 66 *Technical Corrections—2012—an Amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to resolve conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement was implemented January 1, 2013.

Effective in Future Fiscal Years

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

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

Beaumont-Cherry Valley Water District

Notes to the Basic Financial Statements

For the Year Ended December 31, 2013

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

M. New Accounting Pronouncements, (*Continued*)

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

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

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

NOTE 2 – CASH AND INVESTMENTS

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

Cash and investments	\$ 6,730,915
Restricted cash and investments - funds held for others	1,931,980
Restricted cash and investments - capital commitments	<u>1,025,791</u>
Total Cash and Investments	<u>\$ 9,688,686</u>

Cash and investments consist of the following:

Cash on hand (petty cash and change drawers)	\$ 1,400
Demand deposits (cash in bank)	5,143,914
Investments	<u>4,543,372</u>
Total Cash and Investments	<u>\$ 9,688,686</u>

Beaumont-Cherry Valley Water District

Notes to the Basic Financial Statements

For the Year Ended December 31, 2013

NOTE 2 – CASH AND INVESTMENTS, (Continued)

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

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

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

Beaumont-Cherry Valley Water District

Notes to the Basic Financial Statements

For the Year Ended December 31, 2013

NOTE 2 – CASH AND INVESTMENTS, (Continued)

Disclosures Relating to Interest Rate Risk

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

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

Investment Type	Fair Value	Maturity
		12 Months or Less
LAIF	\$ 4,543,372	\$ 4,543,372

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District only has investment in LAIF and LAIF is unrated.

Concentration of Credit Risk

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

Custodial Credit Risk

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

As of December 31, 2013, all of the District's deposits are fully insured in accordance with FDIC guidelines.

Beaumont-Cherry Valley Water District

Notes to the Basic Financial Statements
For the Year Ended December 31, 2013

NOTE 2 – CASH AND INVESTMENTS, (Continued)

Investment in State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements, at amounts based upon the District's pro-rata share of the fair value provided by LAIF, for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

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

NOTE 3 – ACCOUNTS RECEIVABLE

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

	Water Sales and Services	Other	Developer	Totals
Receivables	\$ 1,845,718	\$ 26,309	\$ 343,213	\$ 2,215,240
Less: Allowance for Uncollectible Accounts	(63,479)	(8,960)	(262,927)	(335,366)
Net Receivables	<u>\$ 1,782,239</u>	<u>\$ 17,349</u>	<u>\$ 80,286</u>	<u>\$ 1,879,874</u>

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

Beaumont-Cherry Valley Water District

Notes to the Basic Financial Statements

For the Year Ended December 31, 2013

NOTE 4 – NOTES RECEIVABLE

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

	Bonita Vista	Fairway Canyon	Totals
Receivables			
Current	\$ 15,809	\$ 243,687	\$ 259,496
Non-current	161,363	304,618	465,981
Total Receivables	177,172	548,305	725,477
Less: Allowance for Uncollectible Amounts			
Current	(1,516)	-	(1,516)
Non-current	(7,598)	-	(7,598)
Total Allowance for Uncollectible Amounts	(9,114)	-	(9,114)
Net Receivables			
Current	14,293	243,687	257,980
Non-current	153,765	304,618	458,383
Total Net Receivables	\$ 168,058	\$ 548,305	\$ 716,363

In 2003, the Bonita Vista Mutual Water Company started the annexation process to join the District. The annexation agreement called for the District to install a new water delivery system. The property owners/shareholders in the Bonita Vista Mutual Water Company were responsible for 1/100th of the costs of construction of the new system, at \$5,500 per meter. The notes are payable over 20 years at a variable interest rate calculated annually at 1.5% above the LAIF interest rate. The notes are due to mature as of February 15, 2028.

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

Beaumont-Cherry Valley Water District

Notes to the Basic Financial Statements For the Year Ended December 31, 2013

NOTE 5 - CAPITAL ASSETS

The following table summarizes capital asset activity during the year:

	Balance December 31, 2012	Prior Period Adjustments	Adjusted Balance December 31, 2012	Increases	Decreases	Transfers	Balance December 31, 2013
Capital assets not being depreciated:							
Land	\$ 7,721,730		7,721,730	\$ -	\$ -		\$ 7,721,730
Construction in progress	537,474	7,400	544,874	1,826,297		(779,211)	1,591,960
Total capital assets not being depreciated	8,259,204	7,400	8,266,604	1,826,297	-	(779,211)	9,313,690
Capital assets being depreciated:							
Transmission and distribution system	58,887,344	17,696,735	76,584,079	-	(29,396)	457,053	77,011,736
Structures and improvements	16,393,296		16,393,296	-	-		16,393,296
Reservoirs and tanks	19,986,690	2,288,269	22,274,959	-	-		22,274,959
Pumping and telemetry equipment	12,642,605		12,642,605	-	-		12,642,605
Vehicles and equipment	1,819,580	(459)	1,819,121	79,904	(153,009)	322,158	2,068,174
Total capital assets being depreciated	109,729,515	19,984,545	129,714,060	79,904	(182,405)	779,211	130,390,770
Less accumulated depreciation for:							
Transmission and distribution system	(8,114,534)	(2,331,145)	(10,445,679)	(1,296,891)	18,577		(11,723,993)
Structures and improvements	(1,877,104)		(1,877,104)	(372,517)	-		(2,249,621)
Reservoirs and tanks	(3,140,465)	(423,330)	(3,563,795)	(443,998)	-		(4,007,793)
Pumping and telemetry equipment	(2,345,481)		(2,345,481)	(241,922)	-		(2,587,403)
Vehicles and equipment	(1,160,485)	459	(1,160,026)	(173,363)	122,407		(1,210,982)
Total accumulated depreciation	(16,638,069)	(2,754,016)	(19,392,085)	(2,528,691)	140,984	-	(21,779,792)
Total capital assets being depreciated, net	93,091,446	17,230,529	110,321,975	(2,448,787)	(41,421)	779,211	108,610,978
Capital assets, net of depreciation	\$ 101,350,650	\$ 17,237,929	\$ 118,588,579	\$ (622,490)	\$ (41,421)	\$ -	\$ 117,924,668

Beaumont-Cherry Valley Water District

Notes to the Basic Financial Statements

For the Year Ended December 31, 2013

NOTE 6 – ACCOUNTS PAYABLE AND OTHER ACCRUED LIABILITIES

Accounts payable and other accrued liabilities were as follows:

Accounts Payable	\$	406,944
Salaries and Employee Benefits		153,484
Other		<u>5,351</u>
	\$	<u><u>565,779</u></u>

NOTE 7 – CUSTOMER ACCOUNT CREDIT BALANCES

Credit balances on customer utility accounts in 2013 to be used against future billings or refunded upon request. As of December 31, 2013, the balance was \$215,118.

NOTE 8 – UNEARNED REVENUES

Developers make payments in advance of the District providing services, including things such as meter installations and development inspections. As the District provides these services, revenues are recognized and the unearned revenues balance is reduced. As of December 31, 2013, the balance was \$1,420,203.

NOTE 9 – COMPENSATED ABSENCES

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

Balance December 31, 2012	Increases	Decreases	Balance December 31, 2013	Current Portion	Non-current Portion
<u>\$ 244,331</u>	<u>\$ 264,804</u>	<u>\$ (143,503)</u>	<u>\$ 365,632</u>	<u>\$ 161,443</u>	<u>\$ 204,189</u>

NOTE 10 – NOTES PAYABLE

On March 26, 2010, the Board of Directors approved a \$5.0 million loan payable at a 3.380% interest rate from Banc of America Leasing to finance the District's share of certain design and construction costs related to the expansion of the Recycled Water Facilities project. The District paid this loan in full during 2013.

Changes in Notes Payable for the year were as follows:

Balance December 31, 2012	Decreases	Balance December 31, 2013
<u>\$ 2,600,000</u>	<u>\$ (2,600,000)</u>	<u>\$ -</u>

Beaumont-Cherry Valley Water District

Notes to the Basic Financial Statements

For the Year Ended December 31, 2013

NOTE 11 – PLEDGED REVENUES

The District has pledged future revenues, along with existing unencumbered cash and cash equivalents, equal to 115% of the aggregate principal and interest to repay the Banc of America Notes Payable issued in March 2010 as disclosed in Note 10. Net revenues are defined in the loan agreement as all gross income and revenue received less maintenance and operation expenses, excluding debt service payments and depreciation. Principal and interest paid during the current year and net revenues were \$2,649,968 and \$4,348,593, respectively.

NOTE 12 - PENSION RELATED DEBT

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

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

The debt service requirements are as follows:

Year Ending December 31	Principal
2014	\$ 133,341
2015	150,055
2016	168,225
2017	187,966
2018	209,400
2019-2020	357,240
	<u>\$ 1,206,227</u>

Beaumont-Cherry Valley Water District

Notes to the Basic Financial Statements
For the Year Ended December 31, 2013

NOTE 12 - PENSION RELATED DEBT, (*Continued*)

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

Balance December 31, 2012	Decreases	Balance December 31, 2013	Current Portion	Non-current Portion
<u>\$ 1,324,300</u>	<u>\$ (118,073)</u>	<u>\$ 1,206,227</u>	<u>\$ 133,341</u>	<u>\$ 1,072,886</u>

NOTE 13 – OTHER POST-EMPLOYMENT BENEFITS OBLIGATIONS

Plan Description

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

Funding Policy

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

Beaumont-Cherry Valley Water District

Notes to the Basic Financial Statements

For the Year Ended December 31, 2013

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

Annual Cost

The District's ARC for the year was \$1,170,015. The District's annual OPEB cost amounted to \$1,135,132. The District paid \$8,011 for current retiree OPEB premiums for the year, which was age adjusted to a contribution amount of \$18,456.

Annual Required Contribution	\$ 1,170,015
Interest on Net OPEB Obligation	11,146
Adjustment to Annual Required Contribution	<u>(46,029)</u>
Annual OPEB Expense	1,135,132
Age Adjusted Contributions Made	<u>(18,456)</u>
Change in Net OPEB Obligation	1,116,676
Net OPEB Obligation - Beginning of Year	<u>2,251,722</u>
Net OPEB Obligation - End of Year	<u><u>\$ 3,368,398</u></u>

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

Fiscal Year Ending	Annual OPEB Cost	Annual Contributions	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2011	\$ 1,130,449	\$ 14,416	1.28%	\$ 1,116,033
12/31/2012	\$ 1,152,726	\$ 17,037	1.50%	\$ 2,251,722
12/31/2013	\$ 1,135,132	\$ 18,456	1.60%	\$ 3,368,398

Funded Status and Funding Progress of the Plan

The most recent valuation dated December 31, 2011 includes an Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability of \$5,908,180. The covered payroll (annual payroll of active employees covered by the plan) for the year was estimated at \$1,892,911. The ratio of the unfunded actuarial accrued liability to annual covered payroll is 312.12%. The plan does not have any assets since the plan is funded pay-as-you-go.

Beaumont-Cherry Valley Water District

Notes to the Basic Financial Statements

For the Year Ended December 31, 2013

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

Actuarial Methods and Assumptions

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

BCVWD's 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 based upon the alternative measurement method. The next scheduled actuarial review and analysis of the post-employment benefits liability and funding status will be performed in calendar year 2015 based on the year ending December 31, 2014.

The following is a summary of the actuarial assumptions and methods utilized by the District based upon available information at the time:

Valuation date	December 31, 2011
Actuarial cost method	Entry age normal cost method
Amortization method	Level percent of payroll amortization
Remaining amortization period	30 Years as of the valuation date
Asset Valuation method	30 Years smoothed market
Actuarial assumptions:	
Discount rate	0.50%
Projected salary increase	3.50%
Healthcare cost trend rate	4.70 to 8.00%
Inflation – discount rate	3.00%

Beaumont-Cherry Valley Water District

Notes to the Basic Financial Statements
For the Year Ended December 31, 2013

NOTE 14 – NET POSITION

Net Position:

Net investment in capital assets	\$117,924,668
Unrestricted	<u>5,499,646</u>
Total Net Position	<u><u>\$123,424,314</u></u>

Net investment in capital assets is the value of the District's assets, less accumulated depreciation, and net of any capital related debt.

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

Unrestricted Net Position	<u><u>\$ 5,499,646</u></u>
Non-spendable assets:	
Inventories	530,166
Prepaid items	94,847
Non-current portion of notes receivable	<u>458,383</u>
Total Non-spendable assets	<u>1,083,396</u>
Board of Directors' designations:	
Capital replacement reserve	1,000,000
Capital commitments	1,025,791
Operating reserve	<u>2,390,459</u>
Total Designations	<u>4,416,250</u>
Total Unrestricted Net Position	<u><u>\$ 5,499,646</u></u>

Beaumont-Cherry Valley Water District

Notes to the Basic Financial Statements

For the Year Ended December 31, 2013

NOTE 15 – PRIOR PERIOD ADJUSTMENTS

During the year, the District discovered that certain capital assets had not been previously recorded. To correct this error, the District recorded the assets and consequently increased its net investment in capital assets by \$17,237,929. The District also found that unearned revenues in the amount of \$37,576 were previously understated. Developer deposit accounts which had negative balances (amounts owed to the District) were found to be paid or negotiated to be paid for less than was recorded in the District's records. To correct this error, an adjustment was made to increase the amount of unearned revenues and reduce the beginning net position of the District. Further, the District had \$37,210 of 2012 election expenses billed after the close of the financial statements. An adjustment was made to reduce the beginning net position of the District to reflect these expenses for the prior year. Also, due to a change in accounting policy as required by the implementation of GASB Statement No. 65, deferred costs of issuance for the note payable in the amount of \$41,225 has been recognized in the beginning net position of the District. A summary of these changes are as follows:

Beginning net position, as previously reported	\$ 104,619,219
Correction of capital assets	17,237,929
Correction of revenue	(37,576)
Correction of expenses	(37,210)
GASB 65 implementation - deferred costs of issuance	<u>(41,225)</u>
Beginning net position, as restated	<u>\$ 121,741,137</u>

NOTE 16 – DEFINED BENEFIT PENSION PLAN

Plan Description

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

Beaumont-Cherry Valley Water District

Notes to the Basic Financial Statements
For the Year Ended December 31, 2013

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

Funding Policy

An employee contribution of 8 percent of annual covered salary is required for each active plan member. For employees hired prior to January 1, 2001, the District pays the contribution required of the employees on their behalf. For employees hired between January 1, 2001 and June 30, 2011, the District pays 1% of the contribution required of the employees on their behalf. Employees hired after July 1, 2011 do not receive a contribution amount from the District. During the year, the District contributed \$28,834 on behalf of its employees.

Additionally, the District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rates for FY 2012-2013 and FY 2013-2014 were 29.610 and 31.318 percent, respectively, of annual covered payroll. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established on an actuarially determined basis and may be amended by CalPERS.

Annual Pension Cost

During the year, the District's annual pension cost of \$547,775 was equal to the District's required contributions.

Three Year Trend Information for the Plan

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12/31/2011	\$ 391,706	100%	\$ -
12/31/2012	\$ 481,401	100%	\$ -
12/31/2013	\$ 547,775	100%	\$ -

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

NOTE 17 – COMMITMENTS

In 2004, the Beaumont Basin Watermaster (Watermaster) was created to manage the groundwater excavations, replenishment thereof, and storage of supplemental water within the Beaumont Basin. The Watermaster consists of representatives from the Beaumont-Cherry Valley Water District, the City of Banning, the City of Beaumont, the South Mesa Water Company, and the Yucaipa Valley Water District. The District is a member agency of the Watermaster and contributes a varied annual amount to the Watermaster to fund its operations. The District contributed \$119,701 during the year.

Beaumont-Cherry Valley Water District

Notes to the Basic Financial Statements

For the Year Ended December 31, 2013

NOTE 18 – CONTINGENCIES

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

NOTE 19 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of the Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California water agencies. The purpose of the ACWA/JPIA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage. At December 31, 2013, the District participated in the liability, property, and workers' compensation programs of the ACWA/JPIA as follows:

- General and auto liability, public officials and employees' errors and omissions: Total risk financing limits of \$2,000,000, combined single limit at \$2,000,000 per occurrence. The District purchased additional excess coverage layers: \$60 million for general, auto and public officials liability, which increases the limits on the insurance coverage noted above.

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

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

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the District's insurance coverage during the years ending December 31, 2013, 2012 and 2011. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage.



Required Supplementary Information

This page intentionally left blank

Beaumont-Cherry Valley Water District
Schedule of Funding Status – Other Post-Employment Benefits Obligations
For the Year Ended December 31, 2013

Funded Status and Funding Progress of the Plan

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/2011	\$ -	\$ 5,908,180	\$ 5,908,180	0.00%	\$ 1,892,911	312.12%

Funding progress is presented for the year(s) that an actuarial study has been prepared since the effective date of GASB Statement 45. The District implemented GASB 45 during fiscal year 2011. Additional data will be provided as future valuations are performed.

This page intentionally left blank



Report on Internal Controls and Compliance

This page intentionally left blank



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Beaumont-Cherry Valley Water District (District) as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated June 18, 2014. Our report included an emphasis of matter regarding the District's adoption of Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, as of January 1, 2013.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



Riverside, California
June 18, 2014