

**BELLA VISTA WATER DISTRICT  
2013-2014 FISCAL YEAR BUDGET SUMMARY - GENERAL FUND**

<b>REVENUE</b>	
Operating	3,439,055
Non-Operating Revenue	<u>2,905,389</u>
<b>Total Revenue</b>	<b><u>6,344,444</u></b>

**OPERATING EXPENDITURES**

(65) Source of Supply - Ops.	1,127,390
(66) Source of Supply - Maint.	149,487
(68) Pumping - Operations	277,870
(69) Pumping - Maintenance	51,770
(71) Production - Ops.	279,750
(72) Production - Maint.	150,113
(74) Transmission & Distribution	26,000
(75) Transmission & Distribution	949,931
(77) Cross-Connection	26,135
(79) Customer Service	486,621
(81) Water Conservation	94,802
(83) Administration	1,191,067
(85) General Plant	11,174
(87) Safety	125,823
(89) Transportation & Shop	146,219
Transfers/Reserve Placement	1,079,928
Capital Replacement Expenses	39,131
Irrigation Debt Service	37,232
USBR Construction Loan	<u>94,000</u>
<b>Total Expenditures</b>	<b><u>6,344,444</u></b>

**BELLA VISTA WATER DISTRICT  
2012-2013 FISCAL YEAR BUDGET SUMMARY - GENERAL FUND**

<b>REVENUE</b>	
Operating	2,935,845
Non-Operating Revenue	<u>2,936,320</u>
<b>Total Revenue</b>	<b>5,872,165</b>

**OPERATING EXPENDITURES**

(65) Source of Supply - Ops.	1,063,389
(66) Source of Supply - Maint.	122,355
(68) Pumping - Operations	304,738
(69) Pumping - Maintenance	40,612
(71) Water Treatment - Ops.	291,585
(72) Water Treatment - Maint.	148,834
(74) Transmission & Distribution	26,100
(75) Transmission & Distribution	1,097,989
(77) Cross-Connection	30,057
(79) Customer Service	370,341
(81) Water Conservation	107,660
(83) Administration	1,010,650
(85) General Plant	17,243
(87) Safety	124,921
(89) Transportation & Shop	162,197
Transfers/Reserve Placement	773,703
Capital Replacement Expenses	64,059
Irrigation Debt Service	21,732
USBR Construction Loan	<u>94,000</u>
<b>Total Expenditures</b>	<b>5,872,165</b>



MATSON  
& ISOM

**BELLA VISTA WATER DISTRICT**

**Redding, California**

FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION WITH  
INDEPENDENT AUDITORS' REPORT

**June 30, 2013 and 2012**

**TABLE OF CONTENTS**  
June 30, 2013 and 2012

*Bella Vista Water District*

	<b>Page Number</b>
Independent Auditors' Report	1
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS (Required Supplementary Information)</b>	4
<b>FINANCIAL SECTION</b>	
Statements of Net Position	9
Statements of Revenues, Expenses, and Changes in Net Position	11
Statements of Cash Flows	13
Notes to the Financial Statements	15
<b>OTHER REPORT SECTION</b>	
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 <i>Government Auditing Standards</i>	32



MATSON  
& ISOM

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Bella Vista Water District  
Redding, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities of Bella Vista Water District (the District) as of and for the years ended June 30, 2013 and 2012, 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***

The District's 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 as well as the accounting systems prescribed by the State Controller's Office and state regulations governing special districts; 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 opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the State Controller's *Minimum Audit Requirements and Reporting Guidelines for California Special Districts*. Those standards require that we plan and perform the audits 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 auditors' 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 District'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 District'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 opinions.

## INDEPENDENT AUDITORS' REPORT

Continued

### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District, as of June 30, 2013 and 2012, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America, as well as the accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

### *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 4 through 7 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 Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2013, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*Matson and Isom*

September 16, 2013  
Redding, California

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**(Required Supplementary Information)**

## **INTRODUCTION**

As management of the Bella Vista Water District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for fiscal years ending June 30, 2013 and 2012. The management's discussion and analysis is designed to: 1) assist the reader in focusing on significant financial issues, (2) provide an overview of the District's financial activity, and 3) identify changes in the District's financial position. Please read and review it in conjunction with the District's financial statements and accompanying notes.

## **FINANCIAL HIGHLIGHTS**

The net position of the District at the close of the fiscal years 2013 and 2012 total \$24,160,426 and \$24,003,421, respectively. Of this amount, \$4,125,291 and \$4,058,601, respectively (unrestricted net position) may be used to meet the District's ongoing obligations.

Total operating revenue reached \$5,552,564 in fiscal year 2013 and \$5,196,931 in fiscal year 2012. Total operating expenses were \$5,904,149 in fiscal year 2013 and \$5,912,659 in fiscal year 2012.

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's annual financial report is comprised of three components: 1) management's discussion and analysis (this section), 2) financial statements, and 3) notes to the financial statements.

The financial statements provide both long-term and short-term information about the District's overall financial status along with providing the readers with a broad overview in a manner similar to a private-sector business. The financial statements also include notes that are essential to fully understand the data provided in the financial statements. The notes to the financial statements can be found in this report and explain some of the information in the financial statements and provide more detailed data.

The District maintains an Enterprise Fund which is used to account for its water funds. Various accounts are established within the Fund. These accounts are utilized as the accounting device for allocations.

The District's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units on an accrual basis. Under this basis, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, and depreciation of assets is recognized in the statement of revenues, expenses, and changes in net position. All assets and liabilities associated with the operation of the District are included in the statement of net position.

The statement of net position presents the financial position of the District on a full accrual historical cost basis and provides information about the nature and amount of resources and obligations at year-end.

## Net Position

The following table summarizes the changes between June 30, 2013, 2012, and 2011:

	2013	2012	Percentage Change	2011	Percentage Change
<b>ASSETS</b>					
Current assets	\$ 6,757,783	\$ 6,506,422	3.86%	\$ 6,044,132	7.65%
Restricted assets	1,667,259	1,685,618	-1.09%	1,757,560	-4.09%
Capital assets	27,106,555	27,524,749	-1.52%	27,273,263	0.92%
Other assets	155,663	213,996	-27.26%	217,496	-1.61%
<b>Total Assets</b>	<b>\$ 35,687,260</b>	<b>\$ 35,930,785</b>	-0.68%	<b>\$ 35,292,451</b>	1.81%
<b>LIABILITIES</b>					
Current liabilities	\$ 1,432,220	\$ 1,585,176	-9.65%	\$ 1,330,015	19.18%
Long-term contracts	-	119,500	-100.00%	295,077	-59.50%
Net other postemployment benefits	1,893,121	1,484,009	27.57%	1,044,856	42.03%
Long-term debt	8,201,493	8,738,679	-6.15%	9,270,501	-5.74%
<b>Total Liabilities</b>	<b>\$ 11,526,834</b>	<b>\$ 11,927,364</b>	-3.36%	<b>\$ 11,940,449</b>	-0.11%
<b>NET POSITION</b>					
Net position invested in capital - net of related debt	\$ 18,367,876	\$ 18,259,202	0.60%	\$ 17,490,927	4.39%
Restricted net position	1,667,259	1,685,618	-1.09%	1,757,560	-4.09%
Unrestricted net position	4,125,291	4,058,601	1.64%	4,103,515	-1.09%
<b>Total Net Position</b>	<b>\$ 24,160,426</b>	<b>\$ 24,003,421</b>	0.65%	<b>\$ 23,352,002</b>	2.79%

The net position increased at June 30, 2013, in the amount of \$157,005 or approximately 0.65% higher than at June 30, 2012. By far, the largest portion of the District's net position (76.02%) reflects the District's investment in capital assets (e.g., land, building, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

### Change in Net Position

The following table summarizes the changes between June 30, 2013, 2012, and 2011:

	2013	2012	Percentage Change	2011	Percentage Change
<b>OPERATING REVENUES</b>	\$ 5,552,564	\$ 5,196,931	6.84%	\$ 5,074,460	2.41%
<b>OPERATING COSTS AND EXPENSES</b>					
Operating expenses	4,971,528	4,987,007	-0.31%	4,789,569	4.12%
Depreciation	932,621	925,652	0.75%	896,612	3.24%
<b>Total Operating Expenses</b>	<b>5,904,149</b>	<b>5,912,659</b>	<b>-0.14%</b>	<b>5,686,181</b>	<b>3.98%</b>
Operating income (loss)	(351,585)	(715,728)	-50.88%	(611,721)	17.00%
Net nonoperating revenue (expenses)	429,615	465,568	-7.72%	226,750	105.32%
Capital contributions	78,975	901,579	-91.24%	343,303	162.62%
<b>Change in Net Position</b>	<b>157,005</b>	<b>651,419</b>	<b>-75.90%</b>	<b>(41,668)</b>	<b>-1663.36%</b>
<b>Total Net Position - Beginning of Year</b>	<b>24,003,421</b>	<b>23,352,002</b>	<b>2.79%</b>	<b>23,393,670</b>	<b>-0.18%</b>
<b>Total Net Position - End of Year</b>	<b>\$ 24,160,426</b>	<b>\$ 24,003,421</b>	<b>0.65%</b>	<b>\$ 23,352,002</b>	<b>2.79%</b>

At the end of the current fiscal year, the District is able to report a positive balance in net position. As stated previously, net position increased at June 30, 2013, by \$157,005 or 0.65% higher than at June 30, 2012. The major factor(s) attributable to the change of net position was the decrease in operating expenses and increase in operating revenues. Operating revenues increased at June 30, 2013, by \$355,633 or 6.84% higher than at June 30, 2012. The major factor attributable to the increase of operating revenues was an increase in water sales due to the dry conditions and no water restrictions in place.

### CAPITAL ASSETS AND LONG-TERM DEBT ADMINISTRATION

The following table summarizes the changes between June 30, 2013, 2012, and 2011:

	2013	2012	Percentage Change	2011	Percentage Change
Land	\$ 95,064	\$ 95,064	0.00%	\$ 95,064	0.00%
Land improvements	369,104	122,147	202.18%	122,147	0.00%
Buildings	2,364,915	2,364,915	0.00%	769,048	207.51%
Water system	38,261,781	38,192,470	0.18%	37,972,543	0.58%
General plant equipment	1,528,861	1,493,307	2.38%	1,456,554	2.52%
Office furniture and equipment	156,135	156,135	0.00%	156,135	0.00%
Lease improvements	483,003	483,003	0.00%	483,003	0.00%
Construction in progress	240,650	78,044	208.35%	753,453	-89.64%
Less: Accumulated depreciation	(16,392,958)	(15,460,336)	6.03%	(14,534,684)	6.37%
<b>Total Capital Assets</b>	<b>\$ 27,106,555</b>	<b>\$ 27,524,749</b>	<b>-1.52%</b>	<b>\$ 27,273,263</b>	<b>0.92%</b>

Capital asset events that occurred during the current fiscal year included the booking of land improvements to the Wintu Road. As of June 30, 2013, the District's investment in capital assets was \$27,106,555 (net of accumulated depreciation). This amount represents a net decrease of \$418,194 or -1.52% from June 30, 2012. As of June 30, 2012, the District's investment in capital assets was \$27,524,749 (net of accumulated depreciation). This amount represents a net increase of \$251,486 or 0.92% from June 30, 2011, which was \$27,273,263.

**Long-Term Debt Administration**

Long-term debt includes the repayment of the following obligations: United States Department of the Interior Repayment Contract, the 1915 Act Special Assessment Bonds (96-1 Assessment), and State of California Department of Water Resources SDWSRF loan repayment. More detailed information about the long-term debt of the District is set forth in the notes to the financial statements.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The assessed valuation within the District decreased \$6,542,026 million or 1.51% in the 2012-2013 fiscal year or in the current tax year (total assessed valuation for 2011-2012 was \$434,484,557 and decreased to \$427,942,531 for 2012-2013). The District has continued to see a reduction in the assessed valuation and has taken that into account along with the inflationary trends, the increase in water sales, and the unemployment rate for the County of Shasta in preparing the District's budget for the fiscal year 2013-2014. The District continues to maintain and budget using a 20-year Extraordinary Operations Maintenance and Replacement (EOMR) schedule that assists in planning for long-term costs. The costs for these projects are now being reserved and funded yearly by averaging the 20-year estimates from the EOMR schedule. The 2013-2014 fiscal year operating budget includes a total of \$6,344,444 in revenue, which consists of water sales, county taxes, and other funds available for use. The operating budget includes expenses in the amount of \$6,344,444, an increase from the 2012-2013 mid-year fiscal year budget (5,872,165) of \$472,279 or approximately 8.04%. The District continues to budget for all capital improvements under the general operating budget as no funds are available from other sources to fund capital projects. The District's 2013-2014 debt service schedule was adopted in the amount of \$639,755. The water treatment improvement fees are collected on every active account in the amount of \$14 bi-monthly, which is used to repay the SDWSRF obligation created by the necessary and required water treatment improvements. The District is now entering its final year of the five-year rate study which has proven to be successful in stabilizing the cash flow in relationship to operating expenses.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

The financial report is designed to provide a general overview of the District's finances for all those with an interest. Questions concerning any of the information provided in this report or questions for additional financial information should be addressed to the Office Manager, Bella Vista Water District, 11368 E. Stillwater Way, Redding, California 96003 or by calling, (530) 241-1085.

**FINANCIAL SECTION**

**STATEMENTS OF NET POSITION**

*Bella Vista Water District*

Page 1 of 2

June 30	<u>2013</u>	<u>2012</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 5,960,927	\$ 5,766,894
Cash in Shasta County Treasury	13,219	26,316
Trade accounts receivable - net	609,072	553,688
1915 Act Special Assessment Bonds receivable - current	3,500	3,500
Inventories	40,776	9,321
Deposits and prepaid expenses	130,289	146,703
<b>Total Current Assets</b>	<u>6,757,783</u>	<u>6,506,422</u>
<b>RESTRICTED ASSETS</b>		
Cash and cash equivalents:		
Department of Interior note reserve	74,839	74,587
Capital improvement funds	212,305	106,532
Water treatment plant improvement funds	1,189,555	1,316,104
Palo Cedro special projects	170,000	168,298
1996 Redemption Fund	20,560	20,097
<b>Total Restricted Assets</b>	<u>1,667,259</u>	<u>1,685,618</u>
<b>CAPITAL ASSETS</b>		
Nondepreciable land and construction in progress	335,714	173,108
Depreciable capital assets - net	26,770,841	27,351,641
<b>Total Capital Assets</b>	<u>27,106,555</u>	<u>27,524,749</u>
<b>OTHER ASSETS</b>		
1915 Act Special Assessment Bonds receivable - noncurrent	155,663	159,163
Government receivable - noncurrent	-	54,833
<b>Total Other Assets</b>	<u>155,663</u>	<u>213,996</u>
<b>Total Assets</b>	<u>\$ 35,687,260</u>	<u>\$ 35,930,785</u>

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

**STATEMENTS OF NET POSITION**

*Bella Vista Water District*

Page 2 of 2

June 30	2013	2012
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 282,690	\$ 354,905
Deposits held	141,211	136,428
Accrued wages	33,749	29,790
Accrued interest	101,971	107,098
Accrued benefits and compensated absences	275,663	254,510
Current portion of long-term contract	59,750	175,577
Current maturities of long-term debt	537,186	526,868
<b>Total Current Liabilities</b>	<b>1,432,220</b>	<b>1,585,176</b>
<b>OTHER LIABILITIES</b>		
Long-term contract - net of current maturities	-	119,500
Long-term debt - net of current maturities	8,201,493	8,738,679
Net other postemployment benefits obligation	1,893,121	1,484,009
<b>Total Other Liabilities</b>	<b>10,094,614</b>	<b>10,342,188</b>
<b>Total Liabilities</b>	<b>\$ 11,526,834</b>	<b>\$ 11,927,364</b>
<b>NET POSITION</b>		
Net investment in capital assets	\$ 18,367,876	\$ 18,259,202
Restricted net position	1,667,259	1,685,618
Unrestricted net position	4,125,291	4,058,601
<b>Total Net Position</b>	<b>\$ 24,160,426</b>	<b>\$ 24,003,421</b>

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

**STATEMENTS OF REVENUES, EXPENSES,  
AND CHANGES IN NET POSITION**

*Bella Vista Water District*  
Page 1 of 2

Years Ended June 30	<b>2013</b>	<b>2012</b>
<b>OPERATING REVENUES</b>		
Sale of water:		
Residential	\$ 1,690,981	\$ 1,509,355
Commercial and industrial	157,618	152,385
Rural	1,023,051	887,889
Agricultural	239,882	216,749
Public institution	276,409	196,677
Aquaculture	10,212	7,300
New hydrants	-	4,600
New meters	6,215	5,363
New services	2,871	8,458
Cross connections	21,744	18,343
Special assessment	1,464,773	1,511,122
Capital and water treatment improvement fees	572,049	552,123
Other charges	86,759	126,567
<b>Total Operating Revenues</b>	<b>5,552,564</b>	<b>5,196,931</b>
<b>OPERATING EXPENSES</b>		
Wages and salaries	1,603,118	1,509,480
Water purchases and other water costs	630,612	802,188
Depreciation	932,621	925,652
Payroll taxes and benefits	914,051	852,035
Postretirement benefits	528,917	534,979
Repairs and maintenance	332,476	422,233
Tools and supplies	59,350	43,743
Equipment rental	9,106	2,279
Chemicals and lab services	113,777	74,459
Utilities and communications	298,958	303,209
Legal and professional	161,916	137,553
General and administrative expenses	129,480	94,650
Insurance	76,323	73,061
Office supplies	20,094	41,850
Education and training	7,832	12,608
Memberships and dues	16,843	16,024
Transportation	59,896	57,937
Janitorial	6,574	6,242
Directors fees	2,205	2,477
<b>Total Operating Expenses</b>	<b>5,904,149</b>	<b>5,912,659</b>
<b>Income (Loss) From Operations</b>	<b>\$ (351,585)</b>	<b>\$ (715,728)</b>

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

**STATEMENTS OF REVENUES, EXPENSES,  
AND CHANGES IN NET POSITION**

*Bella Vista Water District*  
Page 2 of 2

Years Ended June 30	<b>2013</b>	<b>2012</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
County tax allocation	\$ 605,034	\$ 624,929
Interest income	33,639	59,504
Interest expense	(209,058)	(221,629)
Gain on disposal of fixed assets	-	2,764
<b>Total Nonoperating Revenues (Expenses)</b>	<b>429,615</b>	<b>465,568</b>
<b>CAPITAL CONTRIBUTIONS</b>	<b>78,975</b>	<b>901,579</b>
<b>Change in Net Position</b>	<b>157,005</b>	<b>651,419</b>
<b>Net Position - Beginning of Year</b>	<b>24,003,421</b>	<b>23,352,002</b>
<b>Net Position - End of Year</b>	<b>\$ 24,160,426</b>	<b>\$ 24,003,421</b>

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

**STATEMENTS OF CASH FLOWS**

*Bella Vista Water District*

Page 1 of 2

Years Ended June 30	<b>2013</b>	<b>2012</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 4,037,190	\$ 3,636,203
Cash received from special assessment	1,523,106	1,514,622
Cash paid to suppliers	(2,245,820)	(2,028,436)
Cash paid to employees	(2,614,067)	(2,471,648)
<b>Net Cash Provided by Operating Activities</b>	<b>700,409</b>	<b>650,741</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Cash received from county tax allocation	605,304	624,929
<b>Net Cash Provided by Noncapital Financing Activities</b>	<b>605,034</b>	<b>624,929</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition and construction of capital assets	(435,452)	(286,113)
Proceeds from disposal of capital assets	-	2,764
Proceeds from federal grant	-	10,554
Principal payments on long-term debt	(526,868)	(516,789)
Interest paid on long-term debt	(214,185)	(226,696)
<b>Net Cash Used by Capital and Related Financing Activities</b>	<b>(1,176,505)</b>	<b>(1,016,280)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	33,639	59,504
<b>Net Cash Provided by Investing Activities</b>	<b>33,639</b>	<b>59,504</b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>162,577</b>	<b>318,894</b>
<b>Cash and Cash Equivalents - Beginning of Year</b>	<b>7,478,828</b>	<b>7,159,934</b>
<b>Cash and Cash Equivalents - End of Year</b>	<b>\$ 7,641,405</b>	<b>\$ 7,478,828</b>
<b>SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Developers' contributions (contributed capital)	\$ 78,975	\$ 901,579

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

**STATEMENTS OF CASH FLOWS**

*Bella Vista Water District*

Page 2 of 2

Years Ended June 30	<b>2013</b>	<b>2012</b>
<b>COMPONENTS OF CASH AND CASH EQUIVALENTS</b>		
Cash and cash equivalents	\$ 5,960,927	\$ 5,766,894
Cash in Shasta County Treasury	13,219	26,316
Restricted cash and cash equivalents:		
Department of Interior note reserve	74,839	74,587
Capital improvement funds	212,305	106,532
Water treatment plant improvement funds	1,189,555	1,316,104
Palo Cedro special projects	170,000	168,298
1996 Redemption Fund	20,560	20,097
<b>Total Cash and Cash Equivalents</b>	<b>\$ 7,641,405</b>	<b>\$ 7,478,828</b>
<b>RECONCILIATION OF INCOME (LOSS) FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Income (loss) from operations	\$ (351,585)	\$ (715,728)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	932,621	925,652
Net changes in assets and liabilities:		
Trade accounts receivable - net	(55,384)	(90,980)
1915 Act special assessment bonds receivable	3,500	3,500
Government receivable	54,833	-
Inventories	(31,455)	42,609
Deposits and prepaid expenses	16,414	(23,083)
Accounts payable	(72,215)	215,651
Deposits held	4,783	41,374
Accrued wages	3,959	2,217
Accrued benefits and compensated absences	21,153	(14,047)
Long-term contract	(235,327)	(175,577)
Net other postemployment benefits obligation	409,112	439,153
<b>Total Adjustments</b>	<b>1,051,994</b>	<b>1,366,469</b>
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 700,409</b>	<b>\$ 650,741</b>

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

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity** The District, a California water district, was formed on June 17, 1957, and was organized as a water district under Division 13 of the Water Code of the State of California. The District's purposes are limited to, "produce, store, and distribute water for irrigation, domestic, industrial, and municipal purposes and reclaim lands incidental thereto or connected therewith."

The District operates under an elected Board of Directors. The accounting methods and procedures adopted by the District conform to generally accepted accounting principles (GAAP) as applied to government entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. These financial statements present the District and its component units, entities for which the government is considered to be financially accountable under the criteria described in the GASB Codification of Government Accounting and Financial Reporting Standards, Sections 2100 and 2600.

Reporting for component units on the District's financial statements can be blended or discretely presented. Blended component units, although legally separate entities are, in substance, part of the District's operations. Blended component units are an extension of the District so data from these units are combined with data of the District. Discretely presented component units, on the other hand, are reported in a separate column in the financial statements to emphasize they are legally separate from the District.

The Bella Vista Capital Improvement Authority is governed by the District's Board of Directors, hence, the authority is presented by blending it with the District. There are no discretely presented component units of the District.

In accordance with generally accepted accounting principles, the financial statements of the District do not include the transactions of the 81-1, 86-1, and 86-2 Assessment Districts' special assessment funds. However, they do include the transactions of the 96-1 Special Assessment District.

**Basis of Accounting** The District's activities are accounted for as an enterprise fund (a business-type activity) and the accounting records are maintained on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

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

**Cash and cash equivalents** Cash includes amounts in demand deposits as well as short-term investments with a maturity date from three months to one year of the date acquired by the District.

State statutes authorize the District to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, and repurchase agreements.

**NOTES TO THE FINANCIAL STATEMENTS**

June 30, 2013 and 2012

*Bella Vista Water District*

The District reports its investments in external investment pools at market value and the related realized and unrealized gains and losses in the statement of revenues and expenses. Investments in certificates of deposits and investments with remaining maturities of 90 days or less at the date of the financial statements are reported at amortized cost. The fair market value of investments are determined based on quoted market values, or on fair value as provided by the investment trustee, except time deposits, repurchase agreements, reverse repurchase agreements, and AB 55 and General Fund loans, which are valued at amortized cost.

**Accounts Receivable** Receivables represent revenues earned but not collected. Receivables are uncollateralized and are valued at cost. Any losses on uncollectible accounts receivable are recognized when such losses become known or indicated. All receivables are adjusted to net realizable value when they are determined to be delinquent based on historical experience.

The allowance for doubtful accounts totaled \$5,000 at June 30, 2013 and 2012. The allowance is estimated based on the analysis of specific customers, taking into consideration the amount of past due accounts and an assessment of the customers' ability to pay.

**Inventories** Inventories are valued at cost, which approximates market, using the average cost method. The District inventories of meters are valued under a pooled average basis.

**Deposits and Prepaid Expenses** Payments made to vendors for services that will benefit periods beyond the fiscal year-end are recorded as prepaid assets.

**Restricted Assets** Certain loan proceeds as well as certain resources set aside for their repayment are classified as restricted assets because their use is limited by applicable loan covenants. In addition, funds have been reserved for capital improvements, repairs, and maintenance.

**Capital Assets** The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related assets, as applicable.

Interest expense that relates to the cost of acquiring or constructing capital assets is capitalized. Interest expense incurred in connection with construction of capital assets has been reduced by interest earned on the investment of funds borrowed for construction in accordance with FASB Statement No. 62, *Capitalization of Interest Cost in Situations Involving Certain Tax Exempt Borrowings and Certain Gifts and Grants*.

Capitalized interest consisted of the following:

June 30	<u>2013</u>	<u>2012</u>
Interest incurred	\$ 209,058	\$ 221,629
Less: Amount expensed	<u>(209,058)</u>	<u>(221,629)</u>
<b>Amount to be Capitalized</b>	-	-
Reduced by interest earned	<u>-</u>	<u>-</u>
<b>Capitalized Interest - Net</b>	<u>\$ -</u>	<u>\$ -</u>

**NOTES TO THE FINANCIAL STATEMENTS***Bella Vista Water District*

June 30, 2013 and 2012

All purchased capital assets are valued at cost based upon purchasing records, when available, and at an estimated historical cost where no historical records exist. Donated capital assets are valued at estimated fair market value on the date received.

Accumulated depreciation is reported on the accompanying statements of net position. Depreciation has been provided over the estimated useful lives of the assets using the straight-line method. The estimated useful lives are as follows:

Buildings	40 years
Land improvements	10 years
Water system - constructed	50 years
Water system - contributed	50 years
Office furniture and equipment	10 years
Plant equipment	15 years

**Compensated Absences** Vested or accumulated sick leave, comp time and floater holiday pay, and vacation pay is recorded as an expense and liability as the benefits accrue to employees. In accordance with the provisions of GASB Statement No. 16, *Accounting for Compensated Absences*, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

**Net Position** Net position represent the difference between assets and liabilities. The District's net position is classified as follows:

*Net Investment in Capital Assets:* This represents the District's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital asset.

*Restricted Net Position:* Restricted net position represents resources which are legally or contractually obligated to be spent in accordance with restrictions imposed by external third parties.

*Unrestricted Net Position:* Unrestricted net position represents resources available for transactions relating to the general operations of the District, and may be used at the discretion of the governing board to meet current expenses for any purpose.

**Operating Revenue and Expense** The District distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges to customers for sales and services. Operating expenses for the District include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

## NOTES TO THE FINANCIAL STATEMENTS

June 30, 2013 and 2012

*Bella Vista Water District*

***Tax Revenues*** The County of Shasta (the County) assesses, bills, and collects property taxes for the District.

The County property tax is levied each year on November 1 on the assessed valuation of land located in the County as of the preceding lien date (March 1). Taxes are receivable in two equal installments, which become delinquent the first working day after December 10 and April 10.

The County adopted the alternative method of tax apportionment (“Teeter Plan”). The District determined they would participate in this plan. Under the plan, the County remits all property taxes and special assessments due to the District without regard to their current or delinquent status.

***Water System Special Assessment*** Section 37203 of the *California Water Code*, upon a vote of the affected property owners, allows a California Water District to compel the county in which it is located to levy and collect ad-valorem assessments on all lands located within the District, sufficient to raise monies to provide for the operations and debt service of the District. The assessment was authorized by the voters in March 1964.

***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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***Budget*** The District’s budget is adopted on a modified accrual basis, which is a comprehensive basis of accounting other than generally accepted accounting principles. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The annual appropriations lapse at fiscal year-end.

***Reclassifications*** Certain amounts in the June 30 2012, financial statements have been reclassified for comparative purposes to conform with the presentation of the June 30, 2013, financial statements.

## 2. CASH AND CASH EQUIVALENTS

### **Deposits**

All of the District’s deposits in financial institutions are entirely insured or collateralized. The *California Government Code* requires California banks and savings and loan associations to secure local agency deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of a local agency’s deposits.

**Custodial Credit Risk**

The District's deposits were as follows:

June 30	<b>2013</b>	<b>2012</b>
<b>Carrying Amount</b>	<u>\$ 7,176,036</u>	<u>\$ 7,001,846</u>
Bank balance	\$ 7,225,085	\$ 7,162,416
Amount covered by federal depository insurance	<u>250,000</u>	<u>250,000</u>
<b>Amount Covered by Collateral Held</b>		
<b>By Agents of Pledging Bank</b>	<u>\$ 6,975,085</u>	<u>\$ 6,912,416</u>

Collateral was not held in the District's name. (There is no government code requirement that collateral be held in the District's name.)

**Equity in Pooled Cash and Investments**

The District also maintains cash equivalents in pools managed by others. The pooled investment funds are both unrated.

June 30	<b>2013</b>	<b>2012</b>
Pooled investment funds:		
Cash in Shasta County Treasury	\$ 13,219	\$ 26,316
Local Agency Investment Fund (LAIF)	<u>\$ 452,150</u>	<u>\$ 450,666</u>

The District invests funds in the State Treasurer's Pooled Money Investment Account (PMIA) through the LAIF, a voluntary program created by statute in 1977. The PMIA has regulatory oversight from the Pooled Money Investment Board and an in-house Investment Committee. The Local Agency Investment Advisory Board has oversight of LAIF. The fair value of the District's position in the pool is materially equivalent to the value of pool shares.

In accordance with authorized investment laws, the State Treasurer's Investment Pool (LAIF) invests in various structured notes and mortgage-backed securities, such as collateralized mortgage obligations. As of June 30, 2013 and 2012, 1.96% and 3.47%, respectively, of LAIF's investment portfolio was invested in structured notes and other asset-backed securities. Copies can be obtained from the Local Agency Investment Fund, P.O. Box 942809, Sacramento, CA 94209. PMIA's weighted average maturities were 339.17 days and 351.97 days at June 30, 2013 and 2012, respectively.

The District also invests funds with the County Treasury's Pooled Money Investment Account.

## NOTES TO THE FINANCIAL STATEMENTS

June 30, 2013 and 2012

*Bella Vista Water District*

The *California Government Code* and investment policy of the County authorize the County to invest in obligations, participations, or other investments of the U.S. Government or its agencies, state and municipal bonds, commercial paper of “prime” quality of the highest ranking or of the highest letter and numerical rating as provided by Standard & Poor’s Corporation or Moody’s Investor Service, Inc., bankers’ acceptances, repurchase agreements, and the State Treasurer’s Investment Pool (LAIF). The 2013 audited financial statements of the County are not yet available. Copies can be obtained from the County of Shasta, 1450 Court Street, Redding, CA 96001. As provided in the 2012 audited financial statements for the County, cost and fair value are materially equivalent. Accordingly, the District has reported its position in the County Treasury at cost, which approximates fair value as of June 30, 2013. The County Treasury’s Pooled Money Investment Account’s weighted average maturities were 764.63 days and 687.69 at June 30, 2013 and 2012, respectively.

The pooled treasury has oversight from the County Treasury Oversight Committee in accordance with *California Government Code* requirements.

The District is unable to determine whether the County has invested directly or indirectly in any derivative instruments.

### **Interest Rate Risk**

In accordance with its investment policy, the District manages its exposure to declines in fair value by limiting all debt securities to a final maturity of no more than five years.

### **Credit Risk**

The District has a formal investment policy on managing credit risk; the District’s policy and the *California Government Code* authorize the District to invest in obligations, participations, or other investments of the U.S. Government or its agencies, state and municipal bonds, commercial paper of “prime” quality of the highest ranking or of the highest letter and numerical rating as provided by Standard & Poor’s Corporation or Moody’s Investor Service, Inc., bankers’ acceptances, repurchase agreements, and the State Treasurer’s Investment Pool (LAIF).

### **Concentration of Credit Risk**

The District’s policy limits the amount that may be invested in any one permissible investment type.

**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2013 and 2012

*Bella Vista Water District*

**3. CAPITAL ASSETS**

A summary of changes in capital assets is as follows:

	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance June 30, 2012</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance June 30, 2013</u>
<b>NONDEPRECIABLE CAPITAL</b>							
<b>ASSETS</b>							
Land	\$ 95,064	\$ -	\$ -	\$ 95,064	\$ -	\$ -	\$ 95,064
Construction in progress	753,453	8,570	(683,979)	78,044	163,629	(1,023)	240,650
<b>Total Nondepreciable Capital Assets</b>	<b>848,517</b>	<b>8,570</b>	<b>(683,979)</b>	<b>173,108</b>	<b>163,629</b>	<b>(1,023)</b>	<b>335,714</b>
<b>DEPRECIABLE CAPITAL</b>							
<b>ASSETS</b>							
Building	769,048	917,525	678,342	2,364,915	-	-	2,364,915
Land improvements	122,147	-	-	122,147	246,957	-	369,104
Water system	37,972,543	219,927	-	38,192,470	69,311	-	38,261,781
Equipment	1,456,554	36,753	-	1,493,307	35,554	-	1,528,861
Office furniture and equipment	156,135	-	-	156,135	-	-	156,135
Filter plant improvements	483,003	-	-	483,003	-	-	483,003
<b>Total Depreciable Capital Assets</b>	<b>40,959,430</b>	<b>1,174,205</b>	<b>678,342</b>	<b>42,811,977</b>	<b>351,822</b>	<b>-</b>	<b>43,163,799</b>
Less: Accumulated depreciation	14,534,684	925,652	-	15,460,336	932,622	-	16,392,958
<b>Depreciable Capital Assets - Net</b>	<b>26,424,746</b>	<b>248,553</b>	<b>678,342</b>	<b>27,351,641</b>	<b>(580,800)</b>	<b>-</b>	<b>26,770,841</b>
<b>Capital Assets - Net</b>	<b>\$ 27,273,263</b>	<b>\$ 257,123</b>	<b>\$ (5,637)</b>	<b>\$ 27,524,749</b>	<b>\$ (417,171)</b>	<b>\$ (1,023)</b>	<b>\$ 27,106,555</b>

**4. ACCRUED BENEFITS AND COMPENSATED ABSENCES**

A summary of the liabilities for accrued benefits and compensated absences as of June 30, 2013 and 2012, is as follows:

June 30	2013	2012
Vacation	\$ 104,878	\$ 90,700
Sick leave	134,071	129,161
Comp time and floater holidays	36,714	34,649
<b>Total</b>	<b>\$ 275,663</b>	<b>\$ 254,510</b>

**5. LONG-TERM CONTRACT**

During the 2010-11 fiscal year, the District entered into a long-term contract for significant repair and maintenance costs of the Old Oregon Trail water tank. The repairs were completed during the year; however, the contractor has allowed the District to pay for the repairs in four annual installments of \$59,750 at zero percent interest.

The future long-term contract payments as of June 30, 2013, are as follows:

Year Ended June 30	Amount
2014	\$ 59,750

**6. LONG-TERM DEBT**

A summary of long-term debt for the years ended June 30, 2013 and 2012, is as follows:

	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013
Note payable - U.S. Department of the Interior	\$ 387,656	\$ -	\$ 85,000	\$ 302,656
1915 Act Special Assessment Bonds	162,663	-	3,500	159,163
State of California Department of Water Resources	8,715,228	-	438,368	8,276,860
<b>Subtotal</b>	<b>\$ 9,265,547</b>	<b>\$ -</b>	<b>\$ 526,868</b>	<b>8,738,679</b>
Less: Current maturities				537,186
<b>Long-Term Debt - Net of Current Maturities</b>				<b>\$ 8,201,493</b>

	<u>Balance</u> <u>July 1, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2012</u>
Note payable - U.S. Department of the Interior	\$ 472,656	\$ -	\$ 85,000	\$ 387,656
1915 Act Special Assessment Bonds	166,163	-	3,500	162,663
State of California Department of Water Resources	9,143,517	-	428,289	8,715,228
<b>Subtotal</b>	<u>\$ 9,782,336</u>	<u>\$ -</u>	<u>\$ 516,789</u>	9,265,547
Less: Current maturities				526,868
<b>Long-Term Debt - Net of Current Maturities</b>				<u>\$ 8,738,679</u>

### **Note Payable – U.S. Department of the Interior**

This note is secured by the distribution system of the District. Interest at 3.046% is payable only on the portion of the unpaid balance of the loan allocated to municipal, industrial, and domestic water supply (M & I) for the prior calendar year. Interest calculations through the year 2017 are based on an estimated M & I usage. The note is payable through the year 2017 in annual principal installments of \$80,000 to \$85,000 plus interest.

The Department of Interior note agreement requires funds to be set aside in a reserve fund. The agreement requires \$5,000 each year to be deposited into a separate account until at least \$50,000 has been accumulated. The District has currently set aside sufficient funds to satisfy this requirement.

### **1915 Act Special Assessment Bonds**

The District issued Limited Obligation Improvement Bonds (1915 Act), Series A, for \$201,470 on August 7, 1997, in order to provide the matching funding required to complete the Logan Road Water Project. The bonds call for semi-annual interest payments at 5% on March 2 and September 2 of each year. Principal payments are due on September 2 of each year through the year 2036, and the principal payment amount ranges from \$3,000 to \$10,200. The bonds are secured by special assessment taxes to be collected by the County of Shasta.

### **State of California Department of Water Resources**

On September 16, 2004, the District entered into a funding agreement with the State of California Department of Water Resources for a construction loan under the Safe Drinking Water State Revolving Fund Law of 1997 to upgrade the District's water treatment plant. The amount of the loan was not to exceed \$10,399,538. Interest is charged at a rate of 2.34% annually. Interest during the construction period was due semi-annually. Principal payments commenced one year from the project completion date. The project was completed in August 2008 and the first semi-annual principal payment for this loan was due July 1, 2009. The entire amount of the loan plus interest is due and payable within 20 years from the date of the first payment. The loan is collateralized by the revenues from the water treatment plant improvement fees.

The annual debt service requirements to amortize all long-term debt, including interest, are as follows:

Year Ending June 30	United States Department of the Interior	1915 Act Special Assessment Bond (96-1 Logan Road)	State Loan Fund (SDWSTR)	Total
2014	\$ 87,305	\$ 11,371	\$ 639,755	\$ 738,431
2015	86,657	11,683	639,755	738,095
2016	86,010	11,483	639,755	737,248
2017	48,019	11,283	639,755	699,057
2018	-	11,571	639,755	651,326
2019-2023	-	57,228	3,198,777	3,256,005
2024-2028	-	57,903	3,198,777	3,256,680
2029-2033	-	56,528	316,180	372,708
2034-2038	-	42,629	-	42,629
<b>Total</b>	307,991	271,679	9,912,509	10,492,179
Less: Interest	5,335	112,516	1,635,649	1,753,500
<b>Net Principal</b>	\$ 302,656	\$ 159,163	\$ 8,276,860	\$ 8,738,679

## 7. EMPLOYEE BENEFIT PLANS

### Defined Benefit Plans

Qualified employees are covered under a cost-sharing, multiple-employer defined benefit pension plan maintained by the Public Employees' Retirement System (CalPERS).

### Plan Descriptions and Provisions

All full-time employees participate in CalPERS, a cost-sharing, multiple-employer contributory public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California. The District is part of a "cost-sharing" pool within CalPERS. Employees are eligible for retirement as early as age 50 with five years of service. At age 60, the employee is entitled to a monthly benefit of 2.0% of the highest three years of compensation for each year of service.

Retirement after age 60 will increase the percentage rate to a maximum of 2.418% at age 63. The plan also provides death and disability benefits. Retirement benefits fully vest after five years of credited service. Upon separation from CalPERS, members' accumulated contributions are refundable with interest credited through the date of separation.

The Public Employees' Retirement Law (Part 3 of the *California Government Code*, Section 20000 et seq.) establishes benefit provisions for CalPERS. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from CalPERS, 400 Q Street, Sacramento, California 95811.

### **Funding Policy**

Active plan members are required to contribute 7.0% of their salary (7.0% of monthly salary over \$133.33 if the member participates in Social Security), which is currently paid by the District. Also, the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the fiscal year ended June 30, 2013, was 7.846% of annual payroll. The contribution requirements of the plan members are established by State statutes. The District's contributions to CalPERS for the fiscal years ended June 30, 2013, 2012, and 2011, were \$214,496, \$204,065, and \$186,841, respectively, and equaled 100% of the required contribution for each year.

### **Deferred Compensation Plan**

The District also offers its employees a deferred compensation plan created in accordance with *Internal Revenue Code*, Section 457. The plan, available to all District employees, permits them to defer a portion of their salary up to legal limit until future years. Participation in the plan is optional. The District currently has two options employees can voluntarily defer to: VALIC or CalPERS. The deferred compensation balance is not available to employees until termination, retirement, death, or unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights, are held in trust for the "exclusive benefit of governmental plan participants." Consistent with this, the District has no rights to these monies and, therefore, plan assets and liabilities are not reported on the District's financial statements.

## **8. OTHER POSTEMPLOYMENT BENEFITS PLAN**

### **Plan Description**

The District contracts for healthcare for its active and retired employees under the Public Employee Medical Health Care Act (PEMCHA) (the Plan). The Plan provides lifetime healthcare insurance for eligible employees and their eligible family members through the District's group insurance plan, which covers both active and retired members. Benefit provisions are established and may be amended by the District's Board of Directors as authorized by bylaws. The Plan provides for the District to contribute 100% of the cost of health insurance premiums for retirees and their eligible family members. The Plan does not issue a publicly available report.

**Annual OPEB Cost and Net OPEB Obligation**

The District's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC). The District has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers with plans that have fewer than 100 total members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the District's net OPEB obligation to the Plan:

June 30	<b>2013</b>	<b>2012</b>
Annual required contribution	\$ 549,404	\$ 549,404
Interest on net OPEB obligation	81,621	57,467
Adjustment to annual required contribution	(102,108)	(71,892)
<b>Annual OPEB Cost</b>	<b>528,917</b>	<b>534,979</b>
Contributions made	119,805	95,826
<b>Increase in Net OPEB Obligation</b>	<b>409,112</b>	<b>439,153</b>
<b>Net OPEB Obligation - Beginning of Year</b>	<b>1,484,009</b>	<b>1,044,856</b>
<b>Net OPEB Obligation - End of Year</b>	<b>\$ 1,893,121</b>	<b>\$ 1,484,009</b>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the year ended June 30, 2013, and the two preceding years were as follows:

Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2011	\$ 427,819	17.52%	\$ 1,044,856
2012	\$ 534,979	17.91%	\$ 1,484,009
2013	\$ 528,917	22.65%	\$ 1,893,121

**Funding Policy, Funded Status, and Funding Progress**

The District contributes 100% of the cost of current-year premiums for eligible retired Plan members and their eligible family members depending on the date of hire. For fiscal years 2013 and 2012, the District contributed \$119,805 and \$95,826 respectively, to the Plan.

As of June 30, 2013, the actuarial accrued liability for benefits was \$6,110,299, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the Plan) was \$1,603,118 and \$1,509,480 in 2013 and 2012, respectively, and the ratio of the unfunded actuarial accrued liability (UAAL) to the covered payroll was 286.59% and 298.66% in 2013 and 2012, respectively.

The projection of future benefits for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of future events far into the future. Amounts determined regarding the funded status of a plan and the employer's annual required contributions are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

***Actuarial Methods and Assumptions***

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The following simplifying assumptions were made:

*Assumptions About Employees and Members:* Based on the historical average retirement age of the covered group, active plan members were assumed to retire at age 60 or the first year thereafter in which the member would qualify for benefits. Marital status as of the calculation date was assumed to continue throughout retirement. Life expectancy was based on mortality tables published by the National Center for Health Statistics. The probability of remaining employed until the assumed retirement age and employees' expected future working lifetimes were developed using non-group-specific age-based turnover data from GASB Statement No. 45.

*Assumptions About Healthcare Costs:* The 2008 health insurance premiums for retirees were used to calculate the present value of total benefits to be paid. The expected rate of increase in health insurance premiums initially used a select rate of 9%, with reduction to the ultimate rate of 5% after four years.

*Other Assumptions and Methods:* The inflation rate was assumed to be 2.50%. A simplified version of the entry age actuarial cost method was used in the actuarial valuation. The UAAL is amortized over the remaining 27-year period as a level percent of projected payroll on an open basis. Payroll was assumed to grow over the long-term at the same rate as inflation.

**9. SPECIAL ASSESSMENT BONDS**

Special assessment bonds are used for the provision and financing of public improvements, which primarily benefit the particular taxpayers against whose properties special assessments are levied. Property owners are given the option of paying their special assessments in a lump sum or in interest-bearing annual installments over a number of years. Special assessment bonds issued to finance initial construction costs are secured by liens on the property of those taxpayers electing to pay their assessments in annual installments.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

*Bella Vista Water District*

The GASB issued Statement No. 6, *Accounting and Financial Reporting for Special Assessments*, in January 1989. Reporting requirements for governments vary under this statement, dependent on whether or not the government is obligated in some manner for special assessment debt.

In accordance with legal requirements pertaining to the sale of 1915 Act Special Assessment Bonds, a reserve fund was established out of the proceeds of the bond sale and is utilized to cover delinquencies by property owners.

Delinquencies, if any, at June 30, 2013 and 2012, are immaterial and are covered by the Teeter Plan.

The liability for the payment of the outstanding 1915 Act Special Assessment Bonds are reported and disclosed in note 5.

### **10. SELF-INSURANCE**

The District is a member of the Association of California Water Agencies Joint Powers Insurance Authority (JPIA). The JPIA provides joint protection coverage for losses in excess of the District's self-insurance retention levels. Claims in excess of specified levels are covered by excess insurance policies purchased from commercial insurance carriers. There has been no significant reduction in coverage over the last three years.

The District has an agreement with the JPIA to provide auto and general liability insurance and property insurance. Under the agreement, the District has no self-insured retention for auto and general liability insurance and excess insurance coverage to \$40,000,000. The property insurance fund provides for a self-insured retention of \$10,000, except for \$2,500 for auto and for mobile equipment and excess insurance coverage to \$50,000,000.

The District has an agreement with the JPIA to provide error and omissions insurance of \$1,000,000 per incident with a \$100,000 deductible.

The District also participates in the JPIA workers' compensation insurance program. Under the agreement, the District has no self-insured retention and insurance coverage to statutory limits.

The premiums billed by the JPIA to member districts are planned to match the expenses of the self-insurance as well as the cost of providing the excess layer coverage and the cost of administering the plans.

**11. RESTRICTED NET POSITION**

Restricted net position consisted of the following:

June 30	2013	2012
<i>Department of Interior Note Reserve</i> The purpose of these funds is to ensure that the District maintains adequate financial capability to meet unusual and unforeseen extraordinary operation and maintenance costs as per the Bureau contracts.	\$ 74,839	\$ 74,587
<i>Capital Improvement Fund</i> This fund was established to deposit capital improvement fees charged for use towards the construction and improvement of District facilities and to maintain adequate facilities as growth in the District occurs. The fees collected are currently obligated to service the 1996 Sales Agreement.	212,305	106,532
<i>Water Treatment Plant Improvements</i> This fund was established to deposit fees charged for the water treatment plant improvements required by the California Department of Health Services, and to service the debt established.	1,189,555	1,316,104
<i>Palo Cedro Special Projects</i> Pursuant to Resolution 87-38, the purpose of this reservation was to reduce the initial construction cost of the Palo Cedro South Project. Agreement by the property owners was made whereby a capital facilities charge would be levied upon property owners at such time as they choose to connect to the system. The funds are specifically allocated to the construction of improvements at such time as it becomes necessary.	170,000	168,298
<i>1996 Redemption Fund</i> This fund was established to deposit the revenues collected by the County of Shasta for the 96-1 Assessments and repay the obligation with the USDA.	20,560	20,097
<b>Total</b>	<b>\$ 1,667,259</b>	<b>\$ 1,685,618</b>

**12. DESIGNATED UNRESTRICTED NET POSITION**

Designated unrestricted net position consisted of the following:

June 30	2013	2012
<p><b>Contingency Fund</b> This fund was established as an appropriation and interfund transfer account, as needed, for cash flow purposes.</p>	\$ 2,296,060	\$ 2,204,553
<p><b>Maintenance and Improvements Deficit</b> This fund was established to fund current year M &amp; I operating deficit charged by the Department of the Interior.</p>	859,617	753,800
<p><b>Extraordinary Operations Maintenance Replacement</b> This fund was established to assist the District in long-term planning and budgeting for extraordinary major maintenance and replacement costs the District is going to be faced with for its aging facilities and infrastructure. In addition, a separate allocation under this fund was created to assist the District in the purchase of vehicles and large equipment items. It is the goal of the District to smooth the impact of these significant costs over many years rather than a significant impact to any one year.</p>	969,614	1,100,248
<b>Total</b>	<b>\$ 4,125,291</b>	<b>\$ 4,058,601</b>

**13. COMMITMENTS AND CONTINGENCIES**

**Proposition 218**

Proposition 218, which was approved by the voters in November 1996, and amended Article 13 of the State Constitution, regulates the District’s ability to impose, increase, and extend taxes, assessments, and fees. New, increased, or extended taxes, assessments, and fees are subject to the provisions of Proposition 218. This decision was upheld and broadly interpreted to include water rates and charges in the recent court decision of *Bighorn-Desert View Water Agency vs. Virjil* which states “an agency may not adopt a rate increase if written protests against the proposed fee or charge are presented by a majority” of the affected property owners. In addition, Proposition 218 states that these rates will be fair, equitable, and cost based. Therefore, the District’s ability to finance the services for which the taxes, assessments, and fees are imposed in the future may be impaired. However, management believes it will be able to maintain the current level of revenue it now receives. Subsequent legislation (AB 1260 CABELLERO) clarifies the process required to revise fees and rates.

**OTHER REPORT SECTION**



MATSON  
& ISOM

**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  
Bella Vista Water District  
Redding, California

We have audited, in accordance with auditing standard 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 business-type activities of Bella Vista Water District (the District) as of and for the year ended June 30, 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 September 16, 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District'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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting 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*.

**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**

Continued

**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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Matson and Isom*

September 16, 2013  
Redding, California