

BEAUMONT CHERRY VALLEY WATER DISTRICT

DIRECTORS

Albert Chatigny

President

William Lash

Vice President

Stella Parks

Marquel Dopp

Dr. Blair Ball

560 Magnolia Avenue

Beaumont, California 92223-2258

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OFFICER

C.J. Butche

Secretary/Treasurer

J.C. Reichenberge

Engineer

Gerald Shoa

Redwine and Sherril

General Counce

September 17, 2008

Mr. John B. Todd, Foreperson
2007-08 Riverside County Grand Jury
P.O. Box 829
Riverside, CA 92502

Subject: Response to 2007-2008 Grand Jury Report – Beaumont Cherry
Valley Water District

Dear Mr. Todd:

The Board of Directors of the Beaumont Cherry Valley Water District ("District") appreciates the Grand Jury's interest and concerns.

As such, the Board of Directors of the District is dedicated to establishing comprehensive policies, procedures, and operation manuals, which will provide the framework to ensure standards of openness, transparency, and accountability in conducting the public's business.

The following represents the District's formal response to the above-referenced report.

GRAND JURY FINDINGS

1. Audits

Finding-1 That the District has not submitted financial statements for the years 2004, 2005, and 2006.

Response The District does not agree with this finding. The District's Audited financial statements were, in fact, submitted to the Riverside County Auditor-Controller's Office and the Grand Jury itself under cover memorandum dated April 2,

Grand Jury itself under cover memorandum dated April 2, 2008. (See Attachment No. 1) The audit for 2007 is near completion and the scope of the 2007 audit has been expanded to address many of the concerns raised by the Grand Jury Report. (See Attachment No. 2)

In order to avoid any such delinquencies in the future, plans are underway to hire a Chief Financial Officer whose primary duty shall be to develop and maintain a system of accounting and financial review that will completely and at all times show the financial condition of the District in accordance with generally accepted accounting principles and legal requirements.

2. Unpaid Invoices

Finding-1

The District's Board of Directors and the District's Auditor were unaware of the unpaid demands (invoices) of a Contractor totaling in excess of \$3 million.

Response

The District partially disagrees with this finding.

The District's staff has indicated that such demands are baseless and hence have not been paid.

Recently, the District's staff and a Committee of the Board have initiated meetings with the Contractor in an attempt to resolve this matter amicably.

If such efforts fail, the District plans to vigorously defend against such demands in the event the Contractor initiates litigation.

In addition, the scope of the 2007 Audit has been expanded (1) to include a review of District procedures in place to follow up on any invoices that are received, but not immediately approved for payment and (2) to reflect in the audited financial statements the amount of contested Contractor invoices previously submitted for payment that were rejected because they did not conform to the amounts approved for payment in the District's contract with the Contractor. In accordance with accounting standards, only the amount of the liability determined by the District to be probable of payment will be recorded as a liability. (See Attachment No. 2)

3. Brown Act Violations

A. Salary Increases:

Finding-1 On October 11, 2006, a substantial raise in salary for the General Manager was discussed and approved in Closed Session of the Board Meeting.

Response The District does not agree with this finding.

The minutes of October 11, 2006 reflect that the action to increase the General Manager's salary took place following the Closed Session. (See Attachment No. 3 – Page 3833)

Nevertheless, it appears probable that due to the lack of presence of legal counsel and/or a misunderstanding of the Brown Act, impermissible discussions concerning the amount of any such raise took place in Closed Session.

In order to avoid further instances of potential Brown Act violations, the Board of Directors of the District (as part and parcel of its proposed comprehensive Policies, Procedures and Operations Manuals) will include a provision that legal counsel shall be consulted before Closed Sessions are placed on an agenda and legal counsel shall attend all Closed Session Meetings of the Board in order to ensure full compliance with all of the provisions of the Brown Act.

B. Board Reorganization:

Finding-2 A change of Board leadership on the Board (President and Vice President positions) which occurred at a Board meeting on October 10, 2007 was preceded by an agreement between some Board members.

Response The District does not agree with this finding because a mere consensus to place the matter on the agenda is not, in and of itself, a violation of the Brown Act.

C. Housing Agreements:

Finding-1 Amendments made to Employee Housing Agreements in 2004 and 2006 were made without Board approval.

Response The District agrees with this finding.

On February 13, 2008, the Board of Directors, equally concerned about this subject matter, revisited the employee housing agreements in Open Session and approved amendments thereto. (See Attachment No. 4 – February 13, 2008 Minutes – Pages 3985-3987)

4. Misuse of Public Funds

A. Education and Training:

Finding-1 Educational assistance paid to and on behalf of a District Employee in pursuit of a degree in Engineering pursuant to an Agreement is a misuse of public funds and in violation of the District's Memorandum of Understanding with the District's Employee Association.

Finding-2 The District provides educational assistance for another employee (who is related to a senior management official) in violation of the District's Memorandum of Understanding with the District's Employee Association.

Response Absent absolute proof to support the conclusions of these findings, the District does not agree. However, the Board fully intends to continue its investigation of these matters and to resolve same on or before December 22, 2008.

However, it should be noted that the Memorandum of Understanding does not prohibit contracts in excess of the baseline commitment provided for therein.

Furthermore, in regard to Finding-1, the Board of Directors approved amendments to the original Agreement in Open Session at the January 9, 2008 Board meeting. (See Attachment No. 5 – Minutes of January 9, 2008 – Pages 3971-3973 and the Agreement)

However, in regard to Finding-1 and Finding-2, the selection process and the perception of nepotism and/or favoritism are of equal concern to the Board of Directors. Accordingly, the Board of Directors (as part and parcel of its proposed comprehensive Policies, Procedures and Operations Manuals) will include a policy for the General Manager to follow in the selection of employees for educational assistance to ensure objectivity. Educational assistance will be subject to Board review and approval prior to granting any assistance.

B. Travel and Training:

Finding-1 The District General Manager selected and authorized two employees to attend an American Water Works Association convention in Toronto, Canada. The criteria for selection of these two employees was not established prior to the convention and did not receive Board approval.

Response The District agrees with this finding. The Board is equally concerned about the selection and approval process.

Accordingly, the Board of Directors (as part and parcel of its proposed comprehensive Policies, Procedures and Operations Manuals) will include a policy for the General Manager to follow in the selection of employees to attend water industry conferences to ensure objectivity. Attendance at conferences of this nature will be subject to Board review and approval prior to authorizing attendance.

C. District Housing:

Finding-1 Top management employees are required by the terms of their Employment Agreement to reside in District-owned homes located in Edgar Canyon as a condition of employment.

Response The District agrees with these findings. This requirement is in furtherance of providing ongoing security for the District's wells and transmission facilities.

D. Delinquent Customer:

Finding-1 The Beaumont-Cherry Valley Recreation and Park District was delinquent, as of December, 2007, in payment to the District for water in excess of \$90,000.

Response The District agrees with this finding. At present the delinquent portion of this account is approximately \$28,000.

Finding-2 The District's delinquent account experience exceeds the national average.

Response The District has no basis upon which to disagree with this finding. However, delinquencies are of equal concern to the Board of Directors. As such, the Board of Directors of the District believes that the retention of a Chief Financial Officer (as referenced above) will ensure closer scrutiny and monitoring of delinquencies in order to prevent them from becoming uncollectable.

It should be noted that "delinquencies" in and of themselves do not equate to being "uncollectable".

The expansion of the scope of the 2007 Audit will include information in the notes to the Financial Statements as to an aging of Accounts Receivable with an explanation for individually significant balances delinquent over 90 days. (See Attachment No. 2)

E. District Credit Card:

Finding-1 The General Manager's use of a District credit card for meals, staff meetings, meetings with other public agency staff members, and contractors for the District, lacked the appropriate supporting documentation to substantiate the business purpose of the expenditure.

Response The District has no basis upon which to disagree with this finding. However, the Board of Directors of the District shares this concern and as such has

expanded the scope of the 2007 Audit to include the testing of credit card transactions. (See Attachment No. 2)

In addition, the Board of Directors of the District (as part and parcel of its proposed comprehensive Policies, Procedures and Operations Manuals) will include the requirement of appropriate documentation to substantiate the business purpose of credit card expenditures.

5. Contracts

(a) Inconsistent Practices

Finding-1 The practice of awarding and obtaining Board approval of contracts are inconsistent.

(b) Open Ended Landscaping Agreement; and
(c) General Manager's Statement

Finding-1 The District had an open-ended landscape agreement dated August, 2006, with a landscaping firm, the owner of which is the father of one of the District's senior management officers, to landscape approximately 10 acres at the District's 80 acre Recharge Facility, excluding cost of materials. From August, 2006 to December, 2007, the District paid the landscaping firm a cumulative amount of \$1,627,325 (approximately \$162,732 per acre).

Finding-2 At the Regular Board Meeting of November 8, 2006, page 3836, a statement from the General Manager was recorded that this landscaping firm was the low bidder.

Response The District agrees with these findings. Accordingly, the Board of Directors (as part and parcel of its proposed Comprehensive Policies and Procedures and Operation Manuals) will include a policy for the General Manager to follow in awarding and obtaining Board approval of all non-emergency contracts for Public Works Projects in excess of a stated amount, e.g. \$35,000.

(d)

District's Administrative Building

Finding-1 The core of the Grand Jury's finding in this matter is that Competitive Bidding Procedures were not followed as originally contemplated, without the consent of the Board.

Response The District agrees with these findings.

The proposed Comprehensive Policies, Procedure and Operation Manuals will include a policy for the General Manager to follow in awarding and obtaining Board approval of all non-emergency contracts for Public Works Projects in excess of \$35,000.

6. Investment

Finding-1 There is no policy and procedure concerning the District's investments and the Board of Directors does not review the District's investments on a regular basis.

Response The District does not agree with this finding.

The District established an Investment Policy on August 6, 1998. (See Attachment No. 6 – Resolution 98-13). This was unknown to the present Board until recently.

The Board does receive monthly financial statements, which provide account balances of investments that indicated all investment funds are deposited with the Local Agency Investment Fund (LAIF).

The expanded scope of the 2007 Audit will include commentary as to the appropriateness of the District's exclusive use the of Local Agency Investment Fund program (LAIF) and any significant declines in the balance of investments. (See Attachment No. 2)

7. **Nepotism**

Finding-1 The District has a conspicuous presence of nepotism.

Response Absent absolute proof to support this finding, the District does not agree.

However, the Board of Directors of the District is aware of the public's perception.

Accordingly, the Board of Directors of the District (as part and parcel of its proposed comprehensive Policies, Procedures and Operations Manuals) will include a nepotism policy that will safeguard against any actual or perceived nepotism within the District.

8. **Conflict of Duties and Errors**

Finding-1 To ensure separation of powers and accountability, the District's General Manager should not serve as Secretary and/or Treasurer.

Response The District agrees with this finding. As such, plans are underway to make new appointments to the office of Board/District Secretary and Treasurer on or before December 22, 2008.

The appointment of the General Manager to the office of Secretary and Treasurer originated from a time when the District was relatively small and it simply wasn't economically practicable to separate the functions of general manager and financial officer.

It should be noted that the Board of Directors believes that it is common to fill the position of Secretary from within the ranks of the District's employees.

9. **Policies and Procedures Manual**

Finding-1 The District's 1998 Policies & Procedures Manual, long forgotten, has not been used as a source to guide the District's operations.

Response The District agrees with this finding.

The Board of Directors of the District is dedicated to updating, expanding, and establishing new and comprehensive Policies, Procedures and Operations Manuals which will provide the framework to ensure uniform standards of openness, transparency, and accountability in conducting the District's business.

10. **Board/Employee Training**

Finding-1 The core of this finding is that formal training for District staff, as well as members of the Board, is needed to foster a better understanding of the prohibitions against hostile work environment and sexual harassment situations.

Response The District agrees with this finding.

In order to avoid further misunderstandings, the Board of Directors of the District (as part and parcel of its proposed comprehensive Policies & Procedures Manuals) will include a requirement for such training and periodic updates of same.

SUMMARY

The Grand Jury Report, in not so small a portion, targets the General Manager's administration, lack of Board oversight, and division of powers (checks and balances).

Upon thoughtful deliberation, the Board of Directors of the District is dedicated to restructuring and realigning the Board-General Manager Relationship (respective roles, authority, duties and responsibilities).

The vehicle for this transformation will be the proposed comprehensive Policies, Procedure and Operations Manuals that are presently being developed.

RECOMMENDATIONS

1. Audits

Recommendation-1 That the Board/District replace outdated and unusable accounting software, keep accounting software current, and have qualified accounting personnel in furtherance of removing obstacles in timely compliance with annual audit requirements.

Response The Board/District agrees with this recommendation. Accounting software and procedures are now fully operable.

In order to avoid any such delinquencies in the future, plans are underway to hire a Chief Financial Officer on or before December 22, 2008, whose primary duty shall be to develop and maintain a system of accounting and financial review that will completely and at all times show the financial condition of the District in accordance with generally accepted accounting principles and legal requirements. The timeframe for hiring a Chief Financial Officer is within the six-month timeframe prescribed by Penal Code Section 933.05(b)(4).

2. Unpaid Invoices

Recommendation-1 That the Board/District develop policies and procedures to ensure timely review and reporting of disputed invoices to the Board.

Response The Board/District agrees with this recommendation. District staff will be required to report monthly to the Board, any disputed invoices in excess of \$1000. This requirement will be included in the proposed comprehensive Policies, Procedures, and Operations Manuals, which will be adopted on or before December 22, 2008, which is within the six-month timeframe prescribed by Penal Code Section 933.05(b)(4).

In addition, the scope of the 2007 Audit has been expanded (1) to include a review of District procedures in place to follow up on any invoices that are received, but not immediately approved for payment and (2) to reflect in the

audited financial statement the amount of contested Contractor invoices previously submitted for payment that were rejected because they did not conform to the amounts approved for payment in the District's contract with the Contractor. In accordance with accounting standards, only the amount of the liability determined by the District to be probable of payment will be recorded as a liability. (See Attachment No. 2)

3. Brown Act Violations

Recommendation-1 That the Board/District, when in doubt as to the compliance requirements of the Brown Act, seek legal advice to ensure compliance.

Response The Board/District agrees with this recommendation.

This recommendation has been implemented in practice and will be formalized in the proposed comprehensive Policies, Procedures, and Operations Manuals, which will be adopted on or before December 22, 2008, which is within the timeframe prescribed by Penal Code Section 933.05(b)(4).

4. Misuse of Public Funds

A. Education and Training:

Recommendation-1 That the Board/District establish policies concerning the granting of education and training assistance provided or in the District's Memorandum of Understanding with the District's Employee Association.

Recommendation-2 That the Board/District discontinue further payment and require reimbursement of all non-job-related education and training assistance.

Response The Board/District agrees with Recommendation-1. The Board cannot agree to Recommendation-2 because this matter requires further investigation. The Board intends to resolve this matter on or before December 22, 2008.

However, it should be noted that the Memorandum of Understanding does not prohibit education and training assistance in excess of the baseline commitment provided for therein.

Regardless, the selection process and the perception of nepotism and/or favoritism is of equal concern to the Board of Directors. Accordingly, the Board of Directors (as part and parcel of its proposed comprehensive (Policies, Procedures, and Operations Manuals, which will be adopted on or before December 22, 2008) will include a policy for the General Manager to follow in the selection of employees for educational assistance to ensure objectivity. Educational assistance will be subject to Board review and approval prior to granting any assistance.

B. Travel and Training:

Recommendation-1 That the Board/District implement a policy for the General Manager to follow in the selection of employees for travel and training.

Recommendation-2 That international and out-of-state travel require Board approval before the fact.

Response The Board/District agrees with this recommendation and will include such procedures in the proposed comprehensive Policies, Procedures, and Operations Manuals, which will be adopted on or before December 22, 2008, which is within the timeframe prescribed by Penal Code Section 933.05(b)(4).

C. District Housing:

Recommendation-1 That the Board/District must follow IRS rules and procedures regarding the taxability of employer-provided fringe benefits.

Recommendation-2 That District employees' families be removed from District-owned homes.

Response The Board/District does not agree with these findings.

The Board/District believes that IRS rules and procedures are adequately being addressed and that the fact that employees are required by the terms of their Employment Agreements to reside in District-owned homes located in Edgar Canyon as a condition of employment, which is in furtherance of providing ongoing security for the District's wells and transmission facilities is ordinary and necessary.

D. Delinquent Customer:

Recommendation-1 That the Board/District establish written policy for dealing with delinquent accounts equitably.

Response The Board/District agrees with this recommendation and will include such procedures in the proposed comprehensive Policies, Procedures, and Operations Manuals, which will be adopted on or before December 22, 2008, which is within the timeframe prescribed by Penal Code Section 933.05(b)(4).

E. District Credit Card:

Recommendation-1 That the Board/District adopt a credit card policy similar to that of the Riverside County Board of Supervisors.

Response The Board/District will review said policy and incorporate those provisions reasonably applicable to the District's operations in the proposed comprehensive Policies, Procedures, and Operations Manuals, which will be adopted on or before December 22, 2008.

5. Contracts

Recommendation-1 That the Board/District develop policies and procedures for awarding contracts and competitive bidding for projects costing over \$10,000.

Response The Board/District does not agree with this recommendation because the Grand Jury's

recommendation is based on the erroneous finding that the District is legally compelled to follow the “competitive bidding” requirement of the Public Contracts Code. Generally speaking, the District is not legally required to do so, except for projects that are funded with bonds or assessments. (See Attachment No. 6 – Public Contract Code Section 20560 et seq.) Nevertheless, there is nothing precluding the District from doing so.

Accordingly, the Board/District will include procedures for the awarding of contracts in its proposed comprehensive Policies, Procedures, and Operations Manuals, which will be adopted on or before December 22, 2008.

Said procedures will provide that competitive bidding will be required on all public works projects of \$35,000 or more unless specifically approved otherwise by the Board of Directors.

6. Investment

Recommendation-1 That the Board/District develop an investment policy which includes regular review by the Board.

Response The Board/District agrees with this recommendation.

An Investment Policy was adopted long ago and the Board, on a monthly basis, has the opportunity to review investment holdings. However, the proposed comprehensive Policies, Procedures, and Operations Manuals, which will be adopted on or before December 22, 2008, will specifically provide for regular and periodic review of the District’s Investment Policy and the performance and safety thereof.

7. Nepotism:

Recommendation-1 That the Board/District develop and implement a policy that will prevent any future nepotism within the District.

Response The Board/District partially disagrees with this recommendation.

However, the Board of Directors of the District is aware of the public's perception.

Accordingly, the Board of Directors of the District (as part and parcel of its proposed comprehensive Policies, Procedures, and Operations Manuals, which will be adopted on or before December 22, 2008, will include a nepotism policy that will safeguard against any actual or perceived nepotism within the District.

8. Conflict of Duties and Errors

A. Office of Secretary & Treasurer:

Recommendation-1 That the General Manager should not serve as Secretary and/or Treasurer and that the appointee should not be an employee of the District.

Response

The Board/District agrees with this recommendation in part. Plans are underway to make new appointments to the office of Secretary and Treasurer of the Board/District on or before December 22, 2008.

The appointment of the General Manager to the office of Secretary and Treasurer originated from a time when the District was relatively small and it simply was not economically practicable to separate the functions of general manager and financial officer.

It should be noted that the Board of Directors believes that it is common to fill the position of Secretary from within the ranks of the District's employees.

B. Planning Agendas:

Recommendation-1 That planning agendas for Board meetings should be a joint responsibility of the General Manager and the Board, and that Board members be allowed to place topics on the agenda.

Response

The Board/District agrees with this recommendation.

As such, the proposed comprehensive Policies, Procedures, and Operations Manuals, proposed comprehensive Policies, Procedures, and Operations Manuals, which will be adopted on or before December 22, 2008, will provide procedures for same.

9. **Policies and Procedures Manual**

R-1 That the Board/District undertake a complete review and updating of its policies and procedures manuals in order to ensure that the Board's/District's operations conform to all statutory requirements including, but not limited to, matters of governance, ethics, Board conduct, conflict of interest, District finances, and reserves.

Response The Board/District agrees with this recommendation and, in furtherance of same, has established an Ad Hoc Policy Committee, which has already made substantial progress in this regard. The proposed comprehensive Policies, Procedures, and Operations Manuals will be complete and ready for adoption on or before December 22, 2008.

10. **Board/Employee Training**

R-1 That the Board/District initiate annual training programs for key management personnel on matters including, but not limited to, discrimination and harassment.

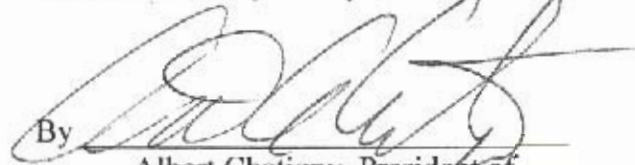
Response The Board/District agrees with this recommendation and, as such, the proposed comprehensive Policies, Procedures, and Operations Manuals, which will be adopted on or before December 22, 2008, will include provisions for same.

SUMMARY

The Board of Directors of the District is dedicated to establishing Policies, Procedures, and Operations Manuals to address the Grand Jury's interests and concerns. Adherence to same by staff and the Board will be strictly adhered to in order to ensure standards of openness, transparency, and accountability in conducting the District's operations.

Please contact the undersigned if you wish to discuss this response or have any further questions.

Beaumont Cherry Valley Water District

By 

Albert Chatigny, President of
the District and the Board of
Directors thereof

cc: Board members – BCVWD
Presiding Judge, Richard T. Fields



BCVWD

Beaumont Cherry Valley Water District

560 Magnolia Avenue
Beaumont, CA 92223
Tel: 951.845.9581
Fax: 951.845.0159

LETTER OF TRANSMITTAL

Date: April 2, 2008

To: John Todd
Riverside County Grand Jury
Committee No. 1
3901 Lime Street, 2nd Floor
Riverside, CA 92501



(951) 955-8990

Re: BCVWD Audits

Sent Via:

Pick up USPS 1st Class FedEx Other _____

The following items are enclosed:

Report Agreements Correspondence Other

No. of Copies	Description
1	Basic Financial Statements - Year ended December 31, 2004
1	Basic Financial Statements - Year ended December 31, 2005
1	Basic Financial Statements - Year ended December 31, 2006

THESE ARE TRANSMITTED as checked below:

At your request For your action For your approval For your file
 For your review For your information

REMARKS:

Please find enclosed a copy of the District Audits which were received and filed at the Special Meeting held on April 2, 2008 at the District Headquarters. Should you have any questions, do not hesitate to contact me at 951-845-9581 ext. 21.

Julie J. Salinas, Business Manager



BCVWD

Beaumont Cherry Valley Water District

560 Magnolia Avenue
Beaumont, CA 92223
Tel: 951.845.9581
Fax: 951.845.0159

LETTER OF TRANSMITTAL

Date: April 2, 2008

To: Melissa Bender, CIA, CCSA, CGAP
Senior Internal Auditor
Auditor Controller's Office
3403 Tenth Street, Ste 300
Third Floor
Riverside, CA 92501



(951) 955-6771

Re: BCVWD Audits

FedEx Tracking No. 7998 3013 1674

Sent Via:

Pick up USPS 1st Class FedEx Other _____

The following items are enclosed:

Report Agreements Correspondence Other

No. of Copies	Description
1	Basic Financial Statements - Year ended December 31, 2004
1	Basic Financial Statements - Year ended December 31, 2005
1	Basic Financial Statements - Year ended December 31, 2006

THESE ARE TRANSMITTED as checked below:

At your request For your action For your approval For your file
 For your review For your information

REMARKS:

Please find enclosed a copy of the District Audits which were received and filed at the Special Meeting held on April 2, 2008 at the District Headquarters. Should you have any questions, do not hesitate to contact me at 951-845-9581 ext. 21.

Julie J. Salinas, Business Manager



Mayer Hoffman McCann P.C.
An Independent CPA Firm
Conrad Government Services Division
2301 Dupont Drive, Suite 200
Irvine, California 92612
949-474-2020 ph
949-263-5520 fx
www.mhm-pc.com

September 9, 2008

Board of Directors
Beaumont-Cherry Valley Water District
560 Magnolia Avenue
Beaumont, California 92223

The purpose of this letter is to set forth the additional auditing procedures requested by the Beaumont-Cherry Valley Water District ("the District") to be performed by Mayer Hoffman McCann P.C., independent auditors for the District, to assist the District in responding to the report issued by the grand jury of the County of Riverside in June 2008.

At your request, we will perform the auditing procedures described below as an expansion of the scope of the annual audit for the District:

1. Testing of credit card transactions since the grand jury report was issued to see if the problems indicated in the grand jury report are still occurring.
2. Providing information in the notes to the financial statements as to an aging of accounts receivable with an explanation for individually significant balances delinquent over 90 days.
3. Our audit work for the 2007 audit (in process at this time) will include a review of District procedures in place to follow up on any vendor invoices that are received but not immediately approved for payment.
4. Provide in the financial statements a listing of significant projects in process as of year end.
5. Reflecting in the financial statements, the amount of contested contractor invoices previously submitted for payment that were rejected because they did not conform to the amounts approved for payment in the District's contract with the contractor. In accordance with accounting standards, only the amount of the liability determined by the District to be probable of payment will be recorded as a liability.
6. Provide response to grand jury finding regarding only using LAIF for investment of funds and the significant decline in the balance of investments. Explanation to be added to financial statements, as well.
7. Ascertain whether the District's fiscal year end causes any significant problems with respect to interagency billing.

We will perform the above procedures at the hourly rates indicated below. We estimate that these procedures will require approximately 40 additional hours of professional time. We estimate the cost of these services to be approximately, \$5,000, depending upon the actual number of hours required.

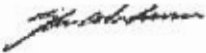
September 9, 2008
Beaumont Cherry Valley Water District
Page 2

<u>Classification</u>	<u>2008</u>
Shareholder	200
Manager	128
Senior Accountant	113
Staff Accountant	103

We are pleased to assist you in this regard. If you are in agreement with the nature, terms, and objectives of our audit engagement, please sign a copy of this letter where indicated and return it to our office.

Sincerely,

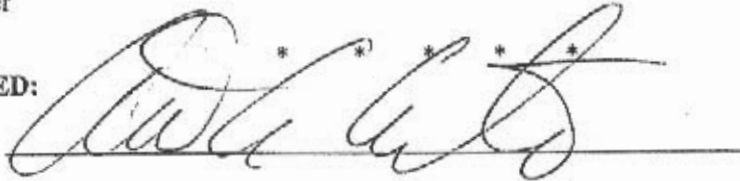
MAYER HOFFMAN MCCANN P.C.



Ken Al-Imam, C.P.A.
Shareholder

ACCEPTED:

Signature:



Title: _____

Date: _____

9-15-08

Motion by Director Parks, second by Director Chatigny, and by unanimous vote:

Moved to accept the well purchase agreement (Sunny Cal Egg Ranch Well #4)

12. General Manager's Report

Mr. Butcher provided a short slide show.

- a) Recharge Facility Phase I – Slide show provided progress and Mr. Butcher indicated where the dedication ceremony was taking place. Mr. Butcher indicated the maintenance building was up, which contained three (3) bays for equipment. He also indicated the landscaping was being completed.
- b) Recycle Pipelines – No update provided
- c) Potable Transmission Mains – No update provided.
- d) Hannon Tank – Mr. Butcher indicated the cable wrapping was being completed and the gahnite was completed on the top of the tank.
- e) Cherry Tank #3 – Mr. Butcher indicated the District was in the process of completing the main tie in.
- f) Vineland Tank #3 – No update provided.
- g) Well 25 & 26 – No update provided.
- h) Office Remodel/Expansion – Mr. Butcher indicated the commercial office was moving into the temporary modular on October 13, 2006.

13. Announcement – Ethics Training

Mr. Butcher indicated Pat Smith did not notify those needed for the ethics training seminar that recently took place. He indicated it can be rescheduled, but it needed to be completed before the end of the year. Mr. Steve Anderson indicated the ethics training course can also be taken online. After a short discussion regarding the option to complete the course online, the Board decided they would like a class date to complete the course as opposed to completing it online.

14. Executive Session – General Manager Performance Review

The Board adjourned to execute session at 8:17 p.m.

✓ Following the executive session, motion by Director Chatigny, second by Vice President Lash, and by unanimous vote General Manager's Salary was set at \$177,648.

Vice President Lash moved to accept the payment of invoices for the month of January 2008. Director Dopp seconded. The motion passed by the following roll call:

Ayes:	Dopp, Lash, Chatigny
Noes:	Parks and Ball
Abstain:	None
Absent:	None

c. Acceptance of the Miscellaneous Income Report

Vice President Lash moved to accept the Miscellaneous Income Report. Director Dopp seconded. The motion passed unanimously.

d. Approve RFP from Mayer Hoffman McCann to do 2007-2008 audits

After a brief discussion Director Parks moved to hire Mayer Hoffman McCann to do the 2007-2008 Audits. Vice President Lash seconded. The motion passed by the following roll call:

Ayes:	Ball, Dopp, Parks, Lash, Chatigny
Noes:	None
Abstain:	None
Absent:	None

6. Personnel Committee Reports and Recommendations

a. Amend District Residence and Facility Emergency Policy and Approve Housing Agreements

President Chatigny invited Pat Doherty to address the Board on this item. Mr. Doherty, Cherry Valley, inquired about why insulation has not been added to the District residences as by doing so, it could save the rate payers money in utility charges.

President Chatigny invited Luwana Ryan to address the Board on this item. Mrs. Ryan, Cherry Valley, California, recommended that the Board reviews the housing agreements before approving. She requested that Director Brey (Dopp) recuse herself from deliberation and vote, as her father, former President Brey, entered into these agreements without full Board approval or public knowledge.

President Chatigny invited Frances Flanders to address the Board on this item. Mrs. Flanders, Cherry Valley, stated that the contract is missing Exhibit "A". She requested that the address be added to the agreement. She also stated that the contract states that the employee can live in the residence one year after termination of employment and this has to be reviewed before approving.

President Chatigny invited Gail De Forge to address the Board on this item. Mrs. De Forge spoke in support of the community and the Beaumont Cherry Valley Water District and she asked that an agreement be reached for the good of the Beaumont Cherry Valley Water District and Beaumont. She asked that the community be supportive of the District.

President Chatigny invited Brian De Forge to address the Board on this item. Mr. De Forge spoke in support of trained employees residing in these houses. He also suggested that the Board reach an agreement with the rate payers.

Vice President Lash spoke on this item on behalf of Mr. and Mrs. Cody because they could not attend the meeting due to illness. Vice President Lash stated that the Cody family relayed to him that what the district is doing by living in the residences is a very good idea to protect the canyon.

General Manager, C.J. Butcher, addressed Mrs. Ryan concern by stating that Mr. Brey was not a member of the Board when the agreements were signed and that the agreements were signed as part of the lawsuit settlement. He further explained the reasons why employees need to live in these houses. He addressed Director Ball's memorandum in detail.

General Manager, C.J. Butcher, suggested some changes to the District Residences and Facility Emergency Policy. First page, after number four, add "Assistant" before the "General Manager", second page, first paragraph he requested adding numbers 3 & 4 to the first sentence and deleting the second sentence, lastly he requested deleting subsection numbers one and four and the last sentence on the last paragraph.

Lengthy discussion went on between Board members and staff regarding Director Ball's suggested policy and the new draft policy with the changes suggested by Mr. Butcher.

After discussion Legal Counsel, Gerald Shoaf, recommended to add "upon separation" at the beginning of number one subsection on page two. He also suggested adding another subsection:

"The employee tenants may stay in the house following termination as follows: a) 30 days if terminated for cause, b) 90 days any other reason subject to contract"

After a brief discussion Vice President Lash moved to approve the District Residences and Facility Emergency policy with deletions, additions and time limits. President Chatigny seconded. The motion passed by the following roll call:

Ayes:	Dopp, Lash, Chatigny
Noes:	Ball, Parks
Abstain:	None
Absent:	None

Legal Counsel, Gerald Shoaf, recommended the following changes to the Housing Agreement:

Page 1,

1. Term. The agreement shall commence on _____ and end after the termination of _____'s employment with BCVWD as follows:

A. 30 days following termination of employment by BCVWD for cause

B. 90 days following termination of employment by BCVWD for any other reasons, in either case, subject to any other employment agreement

3. Utilities. BCVWD shall pay, before delinquency all charges for electricity, light, power and propane/gas used by _____ in or upon the premises so long as

_____ is employed by BCVWD. Following separation said then former employee shall pay for all said utilities so long as living at the residences.

President Chatigny moved to accept the Housing Agreement with the additions. Vice President Lash seconded. The motion passed by the following roll call.

Ayes: Dopp, Lash, Chatigny
 Noes: Ball, Parks
 Abstain: None
 Absent: None

7. Action Items

a. Meeting Procedure Modifications

President Chatigny invited Frances Flanders to address the Board on this item. Mrs. Flanders, Cherry Valley, California, requested that if reports are provided, that they should be included in the agenda. Mrs. Flanders stated that she wants the Board to take time to express their opinions.

Legal Counsel, Gerald Shoaf briefly explained the three modification recommendations to the meetings; written reports from Directors to be included on the agenda in the agenda package, minutes as a record of action taken rather than a record of what was said and time limits on Board discussions.

President Chatigny invited Barbara Voigt to address the Board on this item. Mrs. Voigt, spoke against the time limits proposed on this item.

After brief discussion Board decided to receive and file. The Board also decided to try the proposed modifications at the next Board meeting. It was also decided that Director Reports could be either written or oral.

b. Will Serve Letters (Requested by Director Ball)

Mark Wildermuth, Wildermuth Environmental provided a verbal presentation regarding the water supplies available to the Beaumont Cherry valley Water District. Following presentation, Mr. Wildermuth answered questions from the Board.

District Engineer, Joseph Reichenberger, provided a slide presentation and handouts regarding "will serve" letters and water supply. Following presentation Mr. Reichenberger answered questions from the Board.

No action taken by the Board on this item.

c. Directorial Division Boundary Study 2008

General Manager, C.J. Butcher requested that the Board authorize Parsons Engineering to work on a new Directorial Division map to be presented to the Board in the next 60 days.

After discussion it was recommended by the Board that this item be continued at the next Board meeting.

a. Acceptance of December 2007 Financial Statement

President Chatigny invited Luwana Ryan to address the Board on this item. Mrs. Ryan, Cherry Valley, California, indicated that she has not seen the posting of Emanuel's reimbursement to the GL account 1-5-5500-502 as was stated before. She also reminded the Board that last month the cash position was \$10 million lower than the year before and currently is down by \$517,000.

Vice President Lash reported that the committee reviewed the invoices and questions were answered. He recommended approval.

Vice President Lash moved to approve the December 2007 Financial Statement. Director Dopp seconded. The motion passed by the following roll call:

Ayes:	Dopp, Lash, Chatigny
Noes:	Ball, Parks
Abstain:	None
Absent:	None

General Manager, C.J. Butcher, reported that the audits through 2006 and the RFP for 2007-2008 are expected to be presented at the February 2008 meeting.

b. Approval and Payment of Invoices for the Month of December 2007

Vice President Lash reported that invoices were reviewed and questions from the public were answered.

Vice President Lash moved to approve invoices for the month of December of 2007. Director Dopp seconded. The motion passed by the following roll call:

Ayes:	Dopp, Lash, Chatigny
Noes:	Ball, Parks
Abstain:	None
Absent:	None

C. Acceptance of the A/R Report

Vice President Lash reported that questions were answered at the committee meeting and he recommended approval.

Short discussion went on regarding the decision to have the A/R report versus the MS report.

Vice President Lash moved to accept the A/R Report. Director Dopp seconded. The motion passed unanimously.

6. Personnel Committee Reports and Recommendations

a. Employee Education and Expense Issue

President Chatigny invited Barbara Voigt to address the Board on this item. Mrs. Voigt stated that she would like to hear Director's Ball idea about this issue.

President Chatigny invited Sharon Hamilton to address the Board on this item. Mrs. Hamilton read the definition of "Nepotism" and she indicated that the benefit should be offered to all employees. She recommended that Mr. Willey's benefits be reduced to a level that can be offered to all employees at the District. On the housing issue, she recommended that the people that live at these houses pay at least a discounted rent, and all utilities.

President Chatigny invited Carl Wood to address the Board on this item. Mr. Wood questioned the Board as followed: Was Mr. Wilfley selected for tuition expenses and /or paid time for education and offered the Education Contract in accordance with an existing written policy at the District? Was the existence of this policy known by all employees? What criteria were used to select this individual? Are similar contracts available to all employees of the District? What steps and precautions has the District taken to protect itself and rate payers against possible litigations alleging unlawful discrimination in the awarding of this contract?

President Chatigny invited Luwana Ryan to address the Board on this item. Mrs. Ryan, from Cherry Valley, California listed the timeline of events on this issue: In December of 2005 this item was presented to the Board in closed session and In April 2007 the contract was signed.

- 1- This was never before the Board in a public meeting
- 2- The contract was made with an individual, a member of an employees' bargaining unit
- 3- According to the General Manager, Mr. Shoaf indicated that the school expenses are not taxable; taxes are indeed payable and must be declared by the employer
- 4- This contract discriminates against the rest of the employees
- 5- Policy is not in place to cover this or like situations to protect your rate payers

President Chatigny invited Corey Moore to address the Board on this issue. Mr. Moore, resident of Beaumont, indicated that there are a number of the people that have attended these meetings who oppose this issue. He stated that the Board majority is still in favor of this, and this is a clear violation of the Brown Act. He stated that this employee is an example of nepotism and rate payers should not be paying for his education. Mr. Moore also expressed his discontent about the past meetings held at the District offices in a trailer.

President Chatigny invited Harold Flanders to address the Board on this issue. Mr. Flanders indicated his concern of the District not having any policies to protect the expenses issued to Mr. Wilfley.

President Chatigny invited Ryan Woll to address the Board on this issue. Mr. Woll, a resident of Beaumont, expressed his concern about the confusing information that has been given to the rate payers by newspapers and meetings. He stated that by hiring an experienced engineer the District could end up saving money. He mentioned that there is another individual who is being paid for his education and the District policy states that education should be paid only for certification, not for formal education. He indicated that he cannot believe that the Board took the decision to continue with this issue.

President Chatigny invited Autumn Young to address the Board on this issue. Mrs. Autumn stated that she supports that employees be promoted from within and she indicated that most public agencies reimburse employees for education expenses. She indicated that nothing will be accomplished until the elected officials work together for the good of the District and the rate payers.

President Chatigny invited Sarah Eberhardt Rios to address the Board on this issue. Mrs. Rios, a resident of Cherry Valley, expressed her support on this issue. She requested that a number of conditions on the contract be explained to the public. She stated that the Board should consider the cost of editorializing meetings as the additional comments submitted after, is called editorializing. She encouraged that the Board work together to work on the mistakes on the minutes before the meetings. She expressed that she encourages employee education.

President Chatigny invited Sean Balingit to address the Board on this issue. Mr. Balingit, 1705 Lakeside Avenue, Beaumont, stated that in some previous meetings it was

mentioned that one letter represented the opinion of 25,000 people. He stated that this statement was false, as the entire District population was somewhere on the order of 20,000 or 30,000 people. He stated that the education issue has been continued a few times and the Board needs to take a decision tonight. He stated that he fully supports the education issue, as having an engineer in-house is a benefit to the District.

Lengthy discussion followed between the Board and Staff regarding the Education Contract. Total school cost and savings to date were explained in detail. The advantages of having Mr. Willey's work in-house were mentioned.

Vice President Lash moved to accept the Education Agreement as written. Director Dopp seconded. The motion passed by the following roll call:

Ayes:	Dopp, Lash, Chatigny
Noes:	Ball, Parks
Abstain:	None
Absent:	None

b. Housing Agreements

President Chatigny invited Harold Flanders to address the Board on this item. Mr. Flanders requested clarification on an item in one of the agreements. It is stated that the employee can stay in the premises for a year after the termination of employment.

President Chatigny invited Barbara Voigt to address the Board on this item. Mrs. Voigt indicated it is very unfair for the District to pay for the utilities of the residences.

President Chatigny invited Luwana Ryan to address the Board on this item. Mrs. Ryan, Cherry Valley, California, indicated that contracts were signed with employees without Board approval.

President Chatigny invited Frances Flanders to address the Board on this item. Mrs. Flanders, Cherry Valley, questioned Exhibit "A" as it is not included in the agreement. She also questioned the section in the agreement which states that the employee can live in the houses after one year of termination. She also suggested that the Board holds off on any decisions until all tax liabilities are verified.

Legal Counsel, Gerald Shoaf, indicated that there is no tax liability issue as all the conditions were met with the IRS.

General Manager, C.J. Butcher, provided a slide presentation about the District residences and of some areas which showed trash dumps and vandalism which could be worse if there were no employees occupying these residences. He also explained two other options that the District can take, one being a contract with a patrol officer to patrol the areas and the other was the installation of surveillance cameras which will be more expensive and may be less beneficial to the District. Mr. Butcher answered all questions from the Board and the public.

After a lengthy discussion it was agreed to bring the agreements to the next Board meeting for action.

Vice President Lash moved to bring the agreement to the next Board agenda for review, possible amendment and possible action. Director Dopp seconded. The motion passed unanimously.

President Chatigny adjourned the meeting for a five minute break at 10:03 p.m. President Chatigny reconvened the meeting at 10:08 p.m.

7. Discussion and Possible Action Items

AGREEMENT

THIS AGREEMENT ("Agreement") is made and entered into on this 28 day of January, 2008 ("Effective Date") by and between BEAUMONT CHERRY VALLEY WATER DISTRICT, a public agency of the State of California, ("District"), and BRYAN WILFLEY, an individual and employee of District, ("Employee"). District and Employee are sometimes referred to individually as "Party" or collectively as "Parties."

RECITALS

- A. District is an irrigation district, organized pursuant to the Wright Act of 1897 and existing pursuant to California Irrigation District Law, California Water Code §20500, et. seq.
- B. Employee is currently employed by District as an Engineering Technician.
- C. Employee would like to continue his education and become a licensed Engineer.
- D. District finds that having an employee in house with additional engineering knowledge would be important and beneficial to District.
- E. District is interested in paying for classes and books for Employee to become a licensed Engineer.

NOW, THEREFORE, THE PARTIES AGREE AS FOLLOWS:

- 1. All of the above recitals are hereby incorporated by reference to the same extent as though herein again set forth in full.
- 2. Beginning with the Effective Date of this Agreement, District will pay seventy-five percent (75%) of tuition, books and necessary materials, up to a maximum of Five Thousand Dollars (\$5,000.00) per academic year, for engineering courses at a community college or university in which Employee is enrolled as a full time student and which has been approved by both Parties. Employee shall be concurrently employed by District while a full time student. "Full time student" shall mean enrolled in twelve (12) or more units per semester or quarter, depending on the approved term of the school.
- 3. District shall not reimburse Employee for courses or textbooks in a semester or quarter where Employee is not enrolled as a full time student unless there is prior written agreement between the Parties for each individual semester or quarter in which Employee does not meet full time student status.
- 4. Employee may use a District vehicle for transportation to and from classes related to this agreement.
- 5. District will not reimburse Employee for any mileage, food or lodging related to this agreement, whether in Employee's personal vehicle or in a District vehicle.

6. Should District make a payment pursuant to this Agreement and Employee register as a full time student during any quarter or semester and at some time during said quarter or semester employee wishes to reduce the number of units such that Employee is considered a part time student, Employee must receive written approval from District, which approval will be in the sole and absolute discretion of District, prior to reduction of the number of units being taken by Employee.
7. From and after the Effective Date, Employee will provide proof of enrollment in each engineering course taken and a receipt for the required textbooks, upon which District will cause payment to be made to Employee for courses and required textbooks.
8. Employee is required to work full time for District. "Full time" is defined as forty (40) hours each week. Employee will prepare and provide, prior to each pay period, a work schedule for approval at the sole and absolute discretion of the District Engineer.
9. Employee will be paid one and one-half (1 ½) times Employee's regular hourly rate for work approved by the General Manager of District, which exceeds eight (8) hours in one day or forty (40) hours in one week.
10. Employee will provide written proof to District, in the form of a semester or quarter grade report, whichever is provided by the school, of the adequate completion of each course for which a payment was made by District. Adequate completion shall constitute a final grade of "C" or above.
11. Employee is expected to have completed his coursework within five (5) years of Effective Date. In the event that Employee has not completed the required coursework within five (5) years of Effective Date, Employee will reimburse District for any and all expenses paid by District as part of this Agreement.
12. In the event Employee terminates his employment with District fewer than 5 years after receiving his engineering license, or having two (2) or more consecutive semesters where Employee fails to be enrolled in full time coursework, Employee will reimburse any and all expenses provided by District as part of this Agreement.
13. In the event that Employee fails to become a licensed engineer within five (5) years of the last required course taken by Employee, Employee will reimburse any and all expenses provided by District as part of this Agreement.
14. Upon the occurrence of events in Paragraphs 11, 12 or 13, the terms of this Agreement terminate, with the exception of Paragraph 15, which survives the termination of any and all other portions of this Agreement.
15. If repayment is required by Employee pursuant to Paragraphs 11, 12 or 13 then repayment will be governed by the following provisions:
 - a. Payment will be due on the first (1st) day of the month, commencing with the first (1st) full month after the event in Paragraph 8, 9 or 10 causing repayment.

- b. Payment amounts will follow an amortization schedule of five (5) years at an interest rate on the principal amounts due of ten percent (10%) per annum.
 - c. It is understood that any interest due hereunder shall be calculated on the basis of a three hundred sixty-five (365) day period and the term "per annum" means said three hundred sixty-five (365) day period.
 - d. Despite any other provision of this Agreement, in no event will the amount paid or agreed to be paid to the District as interest hereunder, exceed the highest lawful rate applicable to this Agreement. If District ever receives interest in amounts which exceed the highest lawful rate applicable to this Agreement, such amount will be applied to the reduction of unpaid principal.
 - e. If the payment is not paid within fifteen (15) days from the due date, Employee shall pay District ten percent (10%) for each payment due as an administrative processing charge. The Parties agree that this late charge represents a fair and reasonable estimate of the administrative cost that District will incur by reason of the late payment by Employee. Acceptance of any late charge shall not constitute a waiver of Employee's default with respect to the overdue amount or prevent the District from exercising any of the other rights and remedies available to District.
 - f. Any principal amount may be prepaid at any time without penalty.
 - g. Any payments received from Employee will be applied in the following order: first, to any fees due for late payments due hereunder; second, to accrued and unpaid interest; and third, to any principal amount.
 - h. The terms of this Paragraph survive the termination of any and all other Paragraphs of this Agreement.
16. In the event of failure to make any payment required pursuant to Paragraph 15 of this Agreement, District may, without notice or demand, declare the entire principal sum immediately due and payable.
17. To induce District to execute this Agreement, Employee covenants that Employee will continue on as an employee with District for a minimum period of five (5) years after becoming a licensed Engineer.
18. Upon Employee's successful completion of the required coursework and Employee successfully passing his licensing examination and receiving his engineering license, the Parties will renegotiate the salary of Employee.
19. Employee is solely and completely responsible for any and all tax consequences caused by the payment of the course tuition and books provided for in this Agreement.
20. The Parties agree to cooperate with each other in furthering the purposes of this Agreement. The Parties hereby agree to take such other actions and execute such other reasonable documents as are consistent with this Agreement and as are reasonably necessary to effectuate this Agreement; provided, however, that the foregoing shall not

require District to take any legislative action or exercise its discretion in any particular manner.

21. This Agreement contains the final and complete agreement between the Parties with respect to the matters herein discussed and supersedes all previous communications and agreements between them, either oral or written; to the extent such prior communications and agreement are not consistent with this Agreement.
22. In the event that any action or proceeding is commenced between the Parties hereto to enforce or interpret any term of this Agreement, the prevailing Party in such action or proceeding, in addition to all other relief to which it may be entitled, shall be entitled to recover from the other Party the prevailing Party's costs of suit and reasonable attorneys' fees. The attorneys' costs and fees shall include, without limitation, attorneys' costs and fees incurred on appeal and those incurred in enforcing any judgment rendered in any such action or proceeding. Such attorneys' costs and fees may be recovered as an element of costs in the underlying action or proceeding or in a separate recovery action.
23. All notices shall be in writing and shall be considered given and received: (i) when delivered in person to the recipient named below; or (ii) three days after deposit in the United States mail, postage prepaid, addressed to the recipient named below; or (iii) on the date of delivery shown in the records of an express courier such as Federal Express or DHL; or (iv) on the date of delivery by facsimile transmission to the recipient named below. All notices shall be addressed as followed:

If to District:

Charles Butcher
Beaumont-Cherry Valley Water District
P.O. Box 2037
Beaumont, CA 92223

If to Employee:

Bryan Wilfley

Any Party may, by notice given at any time, require subsequent notices to be given to another person or entity, whether a Party or an officer or representative of a Party, or to a different address, or both. Notices given before actual receipt of notice of change shall not be invalidated by the change.

24. This Agreement and all its provisions shall in all respects be interpreted, construed, enforced, and governed by and under the laws of the State of California, without regard to its conflict of laws principles.
25. Any action or proceeding brought respecting this Agreement shall be instituted and maintained in the appropriate court in the County of Riverside, California.

26. This Agreement may be modified only by another written instrument duly authorized and executed by both Parties.
27. The provisions of this Agreement are specifically made severable. If any clause, provision, right, or remedy provided for herein is determined to be unlawful or unenforceable, the remainder of this Agreement shall remain in effect and shall be enforced as if such clause, provision, right, or remedy were not contained herein.
28. The language in all parts of this Agreement shall in all respects be construed as a whole according to its fair meaning, and not strictly for or against any other Party. This Agreement is the product of mutual negotiation and drafting efforts. Accordingly, the judicial rule of construction that ambiguities in a document are to be construed against the drafter of that document shall have no application to the interpretation or enforcement of this Agreement.
29. This Agreement may be executed in one or more counterparts, each of which shall be an original and all such counterparts together shall constitute the entire Agreement of the Parties hereto.
30. This Agreement shall not be extinguished or altered in any way, by any Party without the prior written consent of the District.

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be executed by their duly authorized representatives as of the date first above written.

DISTRICT:

BEAUMONT-CHERRY VALLEY
WATER DISTRICT, a public agency
of the State of California

By: 

Its: _____

EMPLOYEE:

BRYAN WILFLEY

By: 

RESOLUTION 98-13

**A RESOLUTION OF THE BOARD OF DIRECTORS OF THE
BEAUMONT-CHERRY VALLEY WATER DISTRICT
ESTABLISHING
THE BEAUMONT-CHERRY VALLEY WATER DISTRICT
INVESTMENT POLICY**

POLICY

WHEREAS, the Legislature of the State of California has declared that the deposit and investment of public funds by local officials and local agencies is an issue of statewide concern (California Government Code Sections 53600.6 (CGC 53600.6) and 53630.1); and

WHEREAS, the legislative body of a local agency may invest surplus monies not required for the immediate necessities of the local agency in accordance with the provisions of California Government Code Sections 5921 and 53601 et seq.; and

WHEREAS, the treasurer or fiscal officer of the Beaumont-Cherry Valley Water District shall annually prepare and submit a statement of investment policy and such policy, and any changes thereto, shall be considered by the legislative body at a public meeting; (CGC 53646(a));

NOW, THEREFORE, it shall be the policy of the Beaumont-Cherry Valley Water District to invest funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the entity and conforming to all statutes governing the investment of Beaumont-Cherry Valley Water District funds.

SCOPE

This investment policy applies to all financial assets of the Beaumont-Cherry Valley Water District. These funds are accounted for in the Annual Financial Activity Report, the Annual District Audit, and the Monthly Financial Report, and include:

- General Fund
- Depreciation Fund
- Facilities Fees Fund
- Front Footage Fund
- Emergency Reserve
- New Water Credit (CFD 93-1)
- Water Reclamation Fee

Funds not included in the policy include deferred compensation funds and money purchase pension plan funds.

PRUDENCE

Investments shall be made with judgment and care, under circumstances then prevailing, which person of prudence, discretion and intelligence exercise in the management of their own affairs; not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived. The standard of prudence to be used by investment officials shall be the "prudent investor" standard (CGC 53600.3) and shall be applied to the context of managing an overall portfolio. Investment

officers acting in accordance with the written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

OBJECTIVES

As specified in CGC 53600.5, when investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds, the primary objectives, in priority order, of the investment activities shall be:

1. **Safety:** Safety of principal is the foremost objective of the investment program. Investments of the Beaumont-Cherry Valley Water District shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.
2. **Liquidity:** The investment portfolio will remain sufficiently liquid to enable the Beaumont-Cherry Valley Water District to meet all operating requirements which might be reasonably anticipated.
3. **Return on Investments:** The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and the cash flow characteristics of the portfolio.

DELEGATION OF AUTHORITY

Authority to manage the investment program is derived from California Government Code Sections 53600, et seq. Management responsibility for the investment program is hereby delegated to the General Manager, who shall establish written procedures for the operation of the investment program consistent with this investment policy. Procedures should include references to: safekeeping, PSA repurchase agreements, wire transfer agreements, collateral/depository agreements and banking services contracts, as appropriate. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the General Manager. The General Manager shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials. Under the provision of California Government Code 53600.3, the General Manager is a trustee and a fiduciary subject to the prudent investor standard.

ETHICS AND CONFLICTS OF INTEREST

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

AUTHORIZED FINANCIAL INSTITUTIONS AND DEALERS

Should the Beaumont-Cherry Valley Water District choose to invest funds in a vehicle other than the Local Agency Investment Fund, the General Manager will maintain a list of financial institutions, selected on the basis of credit worthiness, financial strength, experience and minimal capitalization authorized to provide investment services. In addition, a list will also be maintained of approved security brokers/dealers selected by credit worthiness who are authorized to provide investment and financial advisory services in the State of California. No public deposit shall be made except in a qualified public depository as established by state laws.

For brokers/dealers of government securities and other investments, the Beaumont-Cherry Valley Water District shall select only brokers/dealers who are licensed and in good standing with the California Department of Securities, the Securities and Exchange Commission, the National Association of Securities Dealers or other applicable self-regulatory organizations.

Before engaging in investment transactions with a broker/dealer, the General Manager shall have received from said firm a signed Certification Form. This form shall attest that the individual responsible for the Beaumont-Cherry Valley Water District's account with that firm has reviewed the Beaumont-Cherry Valley Water District's Investment Policy and that the firm understands the policy and intends to present investment recommendations and transactions to the Beaumont-Cherry Valley Water District that are appropriate under the terms and conditions of the Investment Policy.

AUTHORIZED AND SUITABLE INVESTMENTS

The Beaumont-Cherry Valley Water District is empowered by California Government Code 53601 et seq. to invest in the following:

- A. Bonds issued by the Beaumont-Cherry Valley Water District.
- B. United States Treasury Bills, Notes & Bonds.
- C. Registered state warrants or treasury notes or bonds issued by the State of California.
- D. Bonds, notes, warrants or other evidence of debt issued by a local agency within the State of California, including pooled investment accounts sponsored by the State of California, County Treasurers, other local agencies or Joint Powers Agencies.
- E. Obligations issued by Agencies or Instrumentality of the U.S. Government.
- F. Bankers Acceptances with a term not to exceed 270 days. Not more than 40% of surplus funds can be invested in Bankers Acceptances and no more than 30% of surplus funds can be invested in the Bankers Acceptances of any single commercial bank.
- G. Prime Commercial Paper of U.S. Corporations with assets greater than \$500 million with a term not to exceed 180 days and the highest ranking issued by Moody's Investors Service or Standard & Poor's Corp. Commercial Paper cannot exceed 15% of total surplus funds, provided that if the average maturity of all Commercial Paper does not exceed 31 days, up to 30% of surplus funds can be invested in Commercial Paper.
- H. Negotiable Certificates of Deposit issued by Federally or State Chartered banks or associations. Not more than 30% of surplus funds can be invested in certificates of deposit.
- I. Repurchase/Reverse Repurchase Agreements of any securities authorized by this Section. Securities purchased under these agreements shall be no less than 102% of market value (See special limits in CGC 53601.i)
- J. Medium term notes (not to exceed 5 years) of U.S. corporations rated "A" or better by Moody's or S&P. Not more than 30% of surplus funds can be invested in medium term notes.

- K. Shares of beneficial interest issued by diversified management companies (Money Market Mutual funds) investing in the securities and obligations authorized by this Section. Such Funds must carry the highest rating of a least two of the three largest national rating agencies. Not more than 15% of surplus funds can be invested in Money Market Mutual Funds.
- L. Funds held under the terms of a Trust Indenture or other contract or agreement may be invested according to the provisions of those indentures or agreements.
- M. Collateralized bank deposits with a perfected security interest in accordance with the Uniform Commercial Code (UCC) or applicable federal security regulations.
- N. Any mortgage pass-through security, collateralized mortgage obligation, mortgage backed or other pay-through bond, equipment lease-backed certificate, consumer receivable pass-through certificate or consumer receivable backed bond of a maximum maturity of five years. Securities in this category must be rated AA or better by a nationally recognized rating service. Not more than 30% of surplus funds may be invested in this category of securities.
- O. Any other investment security authorized under the provision of CGC 5921 and 53601.

Also, see CGC 53601 for detailed summary of the limitations and special conditions that apply to each of the above listed investment securities. CGC 53601 is attached and included by reference in this investment policy.

Prohibited Investments. Under the provisions of CGC 53601.6 and 53601.5, the Beaumont-Cherry Valley Water District shall not invest any funds covered by this Investment Policy in inverse floaters, range notes, interest-only strips derived from mortgage pools or any investment that may result in a zero interest accrual if held to maturity.

COLLATERALIZATION

All certificates of deposits must be collateralized by U.S. Treasury Obligations. Collateral must be held by a third party trustee and valued on a monthly basis. The percentage of collateralization on repurchase and reverse repurchase agreements will adhere to the amount required under CGC 53601(i)(2).

SAFEKEEPING AND CUSTODY

All security transactions entered into by the Beaumont-Cherry Valley Water District shall be conducted on delivery-versus-payment (VP) basis. All securities purchased or acquired shall be delivered to the Beaumont-Cherry Valley Water District by book entry, physical delivery or by third part custodial agreement as required by CGC 53601.

REPORTING

In accordance with CGC 53646(b)(1), the General Manager shall submit to each member of the Board of Directors a quarterly investment report. The report shall include a complete description of the portfolio, the type of investments, the issuers, maturity dates, par values and the current market values of each component of the portfolio, including funds managed for Beaumont-Cherry Valley Water District by third party contracted managers. The report will also include the source of the portfolio valuation. As specified in CGC 53646(e), if all funds are placed in LAIF, FDIC-insured accounts and/or in a county investment pool, the foregoing report elements may be replaced by copies of the latest statements from such institutions. The report must also include a certification that (1) all investment actions executed

since the last report have been made in full compliance with the Investment Policy and, (2) the Beaumont-Cherry Valley Water District will meet its expenditure obligations for the next six months as required by CGC 53646(b)(2) and (3) respectively. The General Manager shall maintain a complete and timely record of all investment transactions.

INVESTMENT POLICY ADOPTION

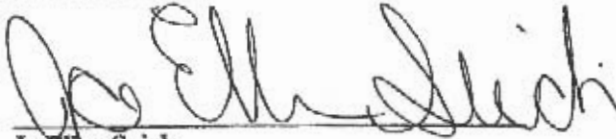
The Investment Policy shall be adopted by resolution of the Beaumont-Cherry Valley Water District. Moreover, the Policy shall be reviewed on an annual basis, and modifications must be approved by the Board of Directors.

ADOPTED, SIGNED AND APPROVED, this 6th day of August 1998.



Peter A. Grimes, President
Beaumont-Cherry Valley Water District

ATTEST:



Jo Ellen Seick
Secretary of the Board
Beaumont-Cherry Valley Water District

**INVESTMENTS AUTHORIZED UNDER CALIFORNIA
GOVERNMENT CODE SECTION 53601**

CGC Section	Investment Type	Maximum Maturity	Authorized Limit (%)	Required Rating
53601(a)	Local Agency Bonds	5 Years	None	None
53601(b)	U.S. Treasury Bills, Notes or Bonds	5 Years	None	None
53601(c)	State Registered Warrants, Notes or Bonds	5 Years	None	None
53601(d)	Notes & Bonds of other Local Calif. Agencies	5 Years	None	None
53601(e)	U.S. Agencies	5 Years	None	None
53601(f)	Bankers Acceptances ¹	270 Days	40%	None
53601(g)	Prime Commercial Paper ²	180 Days	15% or 30%	A1/P1
53601(h)	Negotiable Certificates of Deposit	5 Years	30%	None
53601(i)	Repurchase & Reverse Repurch. Agreements*	1yr./92 days	None/20%	None
53601(j)	Medium Term Corporate Notes	5 Years	30%	A
53601(k)	Money Market Mutual Funds & Mutual Funds**	5 Years	15%	2-AAA
53601(m)	Collateralized Bank Deposits	5 Years	None	None
53601(n)	Mortgage Pass-Through Securities	5 Years	20%	AA
53601(d)	Local Agency Investment Fund (LAIF)	N/A	None	None
53601(d)	County Pooled Investment Funds	N/A	None	None

* See California Government Code Section 53601 (I) for limits on use of reverse repurchase agreements.

** Mutual Funds maturity may be defined as the weighted average maturity; money market mutual funds must have an average maturity of 90 days or less, per SEC regulations.

¹ No more than 30% of surplus funds may be invested in Bankers Acceptances of any one commercial bank.

² 30% if dollar weighted average maturity of all commercial paper does not exceed 31 days. Commercial paper issuers must be organized and operating w/i U.S. and have total assets in excess of \$500 million, and have "A" or higher rating for issuer's debt, other than commercial paper, by Moody's or Standard and Poor's. Purchases may not exceed 10% of outstanding paper of an issuing corporation.

Municipal Utility District investments are controlled by Municipal Utilities District Act (Div 6 (commencing with Section 11501) of the Public Utilities Code).

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