



Bear Valley Community Services District
Tehachapi, California

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2012



BEAR VALLEY COMMUNITY SERVICES DISTRICT

List of Elected and Appointed Officials

June 30, 2012

Elected Officials

BOARD OF DIRECTORS

President	Richard Zanutto
Vice-President	Alfonso Romano
Director	William Mason
Director	John Morgan
Director	Bonnie Shea

Appointed Officials

Interim General Manager	Sandy Janzen
Finance Director	Rudy Hernandez
Interim Chief of Police	Joseph Pilkington
Superintendent of Public Works	Vacant

**Bear Valley Community Services District
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Tehachapi, California 93561
(661) 821-4428 www.bvcsd.com**



Bear Valley Community Services District
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2012

Prepared by:
Finance Department
Rudy Hernandez, Finance Director

**Bear Valley Community Services District
Annual Financial Report
For the Fiscal Year Ended June 30, 2012**

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Introductory Section



November 30, 2012

To the Board of Directors and Citizens of the Bear Valley Community Services District:

State law requires that all general-purpose local governments publish within six months of the close of each fiscal year a complete set of financial statements presented in conformance with generally accepted accounting principals (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the Bear Valley Community Services District for the fiscal year ended June 30, 2012.

This report consists of management's representations concerning the finances of the Bear Valley Community Services District. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the Bear Valley Community Services District has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft or misuse and to compile sufficient reliable information for the preparation of the Bear Valley Community Services District's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the Bear Valley Community Services District's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The Bear Valley Community Services District's financial statements have been audited by Charles Z. Fedak & Company, Certified Public Accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Bear Valley Community Services District for the fiscal year ended June 30, 2012 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the Bear Valley Community Services District's financial statements for the fiscal year ended June 30, 2012 are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

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

Profile of the Bear Valley Community Services District

The Bear Valley Community Services District was organized May 4, 1970 under provisions of the California Community Services District Law (Sections 61000 et seq. of the Government Code of the State of California) to provide and acquire municipal facilities for Bear Valley Springs, a 25,000 acre master planned, four season, low density recreational residential community. Bear Valley Springs is located in the Tehachapi Mountains, eleven miles west of the City of Tehachapi in eastern Kern County, 123 miles north of Los Angeles. Bear Valley Springs comprises a broad grassland valley at an average elevation of 4,000 feet, surrounded by mountains rising to over 6,900 feet. Over 8,500 acres are set aside for wilderness and green belt areas. Homesites have been limited to 3,800 with current assessable lots of 3,550 due to consolidation of existing lots over the years. Residential lots range in size from 1/3 acre to over 100 acres. Approximately 2 acres is devoted to commercial use.

The Bear Valley Community Services District is governed by a five-member Board of Directors which is elected on a non-partisan basis by qualified voters in the District to four-year terms. The District has operated under the council-manager form of government since its inception. Policy making and legislative authority are vested in the Board of Directors. The Board is responsible for passing ordinances, adopting the budget and hiring the general manager, legal counsel and auditor. The general manager is responsible for carrying out the policies of the Board, for overseeing the day-to-day operations of the District and the hiring of all District employees.

Under law, community services districts may perform a variety of municipal services if authorized to do so by the residents thereof. Bear Valley Community Services District currently provides water, wastewater, police, roads, solid waste, parks and recreation, post office and certain other services. The District serves a population of approximately 6,000 residents based on the 2010 U.S. census.

The annual budget serves as the foundation for the Bear Valley Community Services District's financial planning and control. All departments of the Bear Valley Community Services District are required to submit requests for appropriations to the general manager on or before March 20 each year. The general manager, together with the treasurer and the Finance Committee prepare the draft budget. The Board conducts at least two public hearings on the proposed budget and adopts a preliminary budget no later than June 30 and a final budget no later than September 1. The appropriated budget is prepared by fund (e.g. general) and department (e.g. police). Department heads may make transfers of appropriations within a department (e.g. underspend on small tools and overspend on office supplies). Transfers of appropriations between departments, however, require the specific approval of the Board. Budget-to-actual comparisons are provided in this report for each individual fund maintained by the District. For governmental funds this comparison is presented beginning on page 52. For enterprise funds the comparison is presented beginning on page 56.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the Bear Valley Community Services District operates.

Local economy. Since Bear Valley Community Services District receives no sales taxes, fuel taxes or other revenues that are sensitive to the business cycle, revenues tend to be stable over time. Property taxes are the main source of general revenues. Due to the booming housing market that prevailed from 2002 to 2006, the market value of residential properties has increased sharply with the result that the assessed valuation of the District has increased much more rapidly than just a few years ago. However, the growth rate for fiscal 2012 was much lower than the recent trend because the housing bubble burst. Going forward, the rate of growth could be in the low single-digits for a while. Although property tax revenues are high now, there will probably be very little growth in this primary revenue source for the next few years, until the housing market stabilizes.

Bear Valley has been affected little compared to other communities because there is no tract housing in the community; therefore, there is not an excessive inventory of houses for sale and foreclosures have not yet become an issue. Property tax revenues fund 58% of public safety. Management will closely monitor the situation.

The recent development boom had also brought in development (capacity) fees for water and wastewater systems. That money can be used for future capital projects to increase the District's water and wastewater capacity and to retire debt associated with the projects. During fiscal year 2012 there was a further curtailment of the number of new water and sewer connections due to the slow real estate market, a trend that began early in fiscal year 2008. The number of new connections during the year was far less than the long-term averages.

Long-term financial planning. The Board approves a three-year capital improvement plan as part of the annual budget. The approved plan can be accomplished with current revenues and reserves and no outside borrowing. However, short-term internal borrowing may be required.

Cash management policies and practices. Cash temporarily idle during the year was invested in the Local Agency Investment Fund of the State Treasurer and the Kern County Treasury Pool. Both of these pooled investment accounts are considered completely liquid since the District has next-day access to its monies. The average yield on these investments was 0.52% which is lower than last year. Management endeavors to maintain balances within the FDIC insured limits of \$250,000 in its operating accounts (checking and savings). California law requires banks to collateralize government accounts up to \$1 million.

Risk management. Bear Valley Community Services District is a member of the Special District Risk Management Authority for the purposes of purchasing general liability, property damage and workers compensation insurance. SDRMA has been providing pooled risk management since the mid 1980's and has reserves in excess of all industry standards. General liability coverage exceeds \$10 million.

Employee pension benefits. District employees are members of the California Public Employees' Retirement System (CalPERS). As of July 1, 2005, all plan assets and liabilities for the two plans (miscellaneous and safety) have been pooled with other public agencies with similar plans. Contribution rates for fiscal year 2012 for both plans were higher than the normal cost for each risk pool because the individual plans were underfunded when they entered the pools. Also, the safety plan was recently upgraded, which added significantly to the employer contribution rate. In addition, the District pays the 7% miscellaneous employees' contribution.

Net Assets. The Board has established several "reserve targets" for the end of each fiscal year. The amounts actually existing on June 30, 2012 are compared with their respective targets in the schedule on the next page. Net assets that are below their "reserve targets" are shown in **bold print**.

**Bear Valley Community Services District
Reserves Target and Actual as of June 30, 2012**

Category Fund	6/30/2012 Target	6/30/2012 Actual	6/30/2011 Actual
Emergency/disaster response	\$ 157,339	\$ 156,296	\$ 155,375
Contingencies:			
General fund	1,273,730	1,256,381	1,127,844
Roads	380,115	471,357	338,117
Water enterprise	532,715	486,116	455,202
Wastewater enterprise	47,592	64,820	83,342
Solid waste enterprise	109,120	108,838	99,484
Police contingencies:			
General fund	394,260	412,079	368,942
Rate stabilization:			
Water enterprise	106,542	97,223	91,040
Wastewater enterprise	28,000	28,000	28,000
Solid waste enterprise	27,280	27,209	24,871
Asset replacements:			
General fund	1,068,475	1,151,921	1,444,543
Roads	1,621,193	1,773,934	1,938,076
Water Reserve	1,287,272	1,464,855	1,451,483
Water enterprise	458,433	446,469	371,128
Wastewater enterprise	65,414	84,657	109,853
Solid waste enterprise	248,840	293,298	336,313
Self-insurance:			
SUI reserve	72,541	55,202	44,081
Debt service:			
Bond redemption	262,010	299,815	392,134
Water enterprise	164,644	164,644	59,947
Water development	-	-	101,717
Wastewater development	-	-	33,526
AD 95-1 bond (wastewater)	108,600	108,600	108,600
Capital improvements:			
Supp law enforcement svcs	100,000	100,000	100,000

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a *Certificate of Achievement for Excellence in Financial Reporting* to the District for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2011. This was the fifth consecutive year that the District has achieved this prestigious award. In order to be awarded a Certificate of Achievement, the District had to publish an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principals and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Preparation of this report was accomplished by the combined efforts of District staff. We appreciate the dedicated efforts and professionalism that our staff members bring to the District. We would also like to thank the members of the Board of Directors for their continued support in the planning and implementation of the Bear Valley Community Services District's fiscal policies.

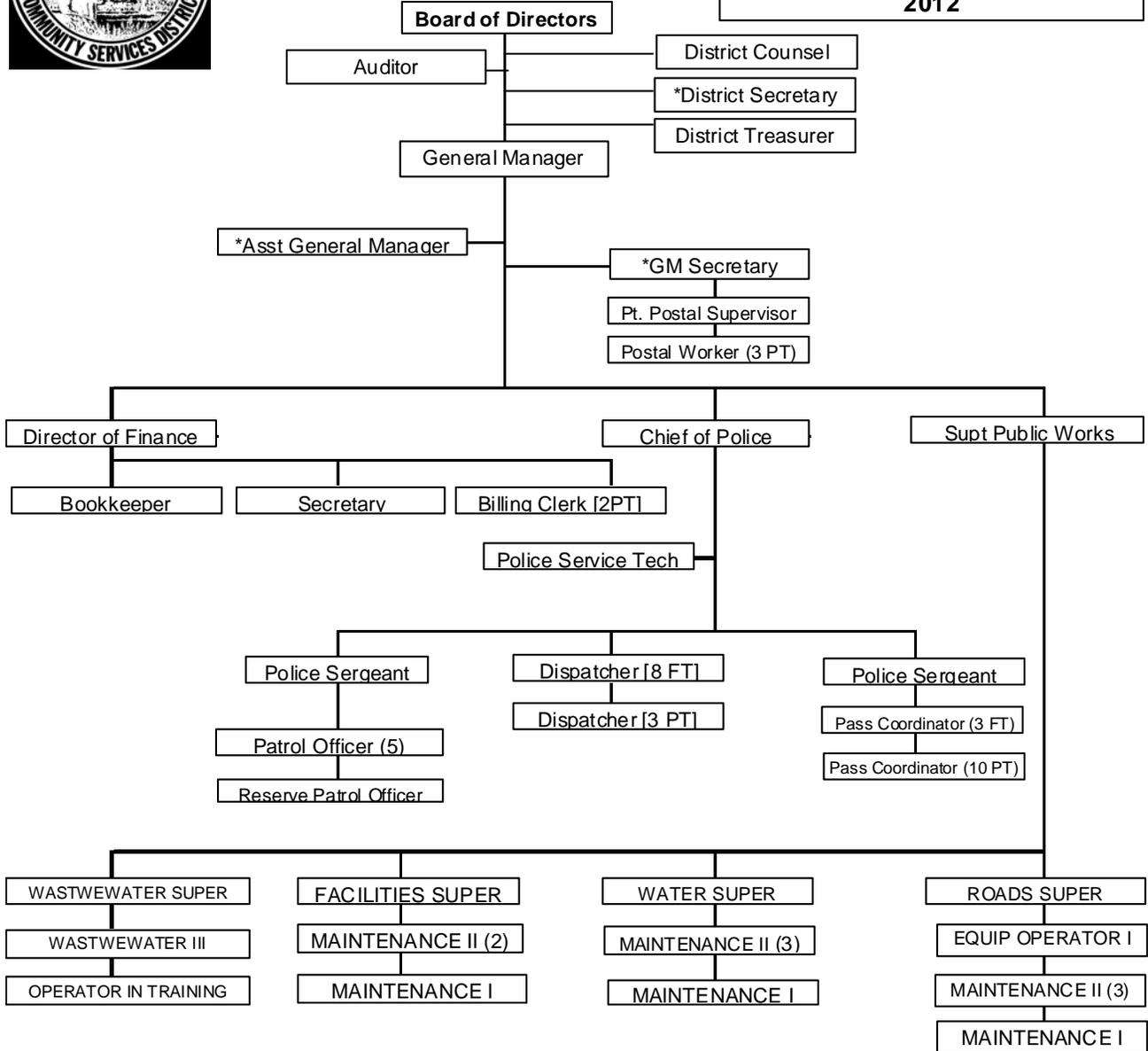
Respectfully submitted,


Sandra L. Janzen
Interim General Manager


Rudy Hernandez
Treasurer



BEAR VALLEY COMMUNITY SERVICES DISTRICT ORGANIZATIONAL CHART 2012



*SAME PERSON

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

Bear Valley Community
Services District, California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Christopher P. Moirice

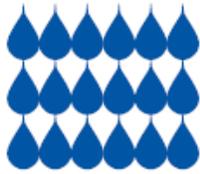
President

Jeffrey R. Emer

Executive Director

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Financial Section



Charles Z. Fedak, CPA, MBA
Paul J. Kaymark, CPA
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Independent Auditor's Report

Board of Directors
Bear Valley Community Services District
Tehachapi, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Bear Valley Community Services District (District) as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Bear Valley Community Services District as of June 30, 2012, and the respective changes in net assets and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 30, 2012 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit. That report can be found on page 84.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 10 through 20 and the required supplementary information on pages 52 through 54 and the other supplemental information on pages 55 through 59 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

Independent Auditor's Report, continued

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

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements as a whole. The introductory section on pages 1 through 7 and the statistical section on pages 60 through 83 are presented for purposes of additional analysis and are not required parts of the basic financial statements. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Charles Z. Fedak and Company CPAs - An Accountancy Corporation

Charles Z. Fedak and Company, CPA's – An Accountancy Corporation
Cypress, California
November 30, 2012

**Bear Valley Community Services District
Management's Discussion and Analysis
For the Year Ended June 30, 2012**

Management's Discussion and Analysis

As management of the Bear Valley Community Services District, we offer readers of the Bear Valley Community Services District's financial statements this narrative overview and analysis of the financial activities of the Bear Valley Community Services District for the fiscal year ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 1-5 of this report. All amounts, unless otherwise indicated, are expressed in whole dollars.

Financial Highlights

- Government-wide cash balance decreased \$320,744 (3.68%).
- Government-wide net assets decreased \$193,357 (0.79%).
- General fund achieved its full contingency reserve funding levels of 50% of next year's expenditure budget for general contingencies and 100% of the 20% of next year's police department expenditure budget for police contingencies.
- Water enterprise fund net assets increased \$53,867.
- Wastewater enterprise fund net assets decreased \$115,926.
- Solid waste enterprise fund net assets increased \$53,971.
- Rate stabilization reserves are funded in the water, wastewater and solid waste enterprise funds.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Bear Valley Community Services District's basic financial statements. The Bear Valley Community Services District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the Bear Valley Community Services District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the Bear Valley Community Services District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Bear Valley Community Services District is improving or deteriorating.

The statement of activities presents information showing how the Bear Valley Community Services District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Bear Valley Community Services District that are principally supported by taxes, assessments and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Bear Valley Community Services District include general government, public safety, streets and roads, and parks & recreation. The business-type activities of the Bear Valley Community Services District include operations for water, wastewater (sewer), solid waste (trash) and post office.

The government-wide financial statements can be found on pages 21-22 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Bear Valley Community

**Bear Valley Community Services District
Management's Discussion and Analysis
For the Year Ended June 30, 2012**

Services District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Bear Valley Community Services District can be divided into three categories: governmental funds, enterprise funds and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions.

The Bear Valley Community Services District maintains five individual governmental funds: general (including emergency and state unemployment insurance reserves), roads, bond redemption and supplemental law enforcement services. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund, roads fund, bond redemption fund and supplemental law enforcement services fund, which are considered major funds. The District maintains no nonmajor governmental funds. The emergency fund, although maintained separately during the year to account for monies set aside for emergency and disaster response, is combined with the general fund in this report. The state unemployment insurance reserve fund, although maintained separately during the year to account for monies set aside to cover unemployment insurance claims, is combined with the general fund in this report.

The Bear Valley Community Services District adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 23-26 of this report.

Enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Bear Valley Community Services District uses four enterprise funds to account for its water, wastewater, solid waste and post office enterprises.

Enterprise funds provide the same type of information as the government-wide financial statements, only in more detail. The enterprise fund financial statements provide separate information for all four enterprise funds.

A budgetary comparison statement to demonstrate compliance with the budget is not required for enterprise funds, nonetheless, we provide such a comparison on pages 56-59 of this report.

**Bear Valley Community Services District
Management's Discussion and Analysis
For the Year Ended June 30, 2012**

The Government Finance Officers Association recommends that a government use the smallest number of individual funds consistent with legal and operating requirements. For the purposes of this report, three individual funds (water enterprise, water development and water reserve funds) are reported together as Water Enterprise; four funds (wastewater enterprise, wastewater development, wastewater reserve and assessment district 95-1 funds) are reported together as Wastewater Enterprise; and two funds (solid waste enterprise and solid waste reserve funds) are reported together as Solid Waste Enterprise. The individual funds are maintained for internal purposes but are properly aggregated in this report for financial reporting purposes.

The basic enterprise fund financial statements can be found on pages 27-29 of this report.

Fiduciary funds. The Bear Valley Community Services District maintains no fiduciary funds; however, for the benefit of its employees, the District does participate in the CalPERS 457 deferred compensation program, which assets are held by CalPERS for the exclusive benefit of the plan participants. Additional information about this program can be found in Note 13 on page 47 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 30-51 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information, which can be found on pages 52-54 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Bear Valley Community Services District, assets exceed liabilities by \$24,285,784 at the close of the most recent fiscal year with a decrease of \$193,357 compared with the prior year. This (\$193,357) shows that the District operated at a break even point for fiscal year ending June 30, 2012.

By far the largest portion of the Bear Valley Community Services District's net assets (63%) reflects its investment in capital assets (e.g. land, water/wastewater infrastructure and equipment). The Bear Valley Community Services District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

Bear Valley Community Services District's Net Assets

Condensed Statement of Net Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total District</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Assets:						
Current and other assets	\$ 5,750,227	6,158,635	3,210,266	3,105,432	8,960,493	9,264,067
Non-current assets	301,924	321,723	520,000	650,000	821,924	971,723
Capital assets, net	9,421,252	9,572,968	11,329,045	11,535,146	20,750,297	21,108,114
Total assets	<u>15,473,403</u>	<u>16,053,326</u>	<u>15,059,311</u>	<u>15,290,578</u>	<u>30,532,714</u>	<u>31,343,904</u>
Liabilities:						
Current liabilities	529,560	634,733	443,392	483,100	972,952	1,117,833
Non-current liabilities	1,966,547	2,256,028	3,307,431	3,490,902	5,273,978	5,746,930
Total liabilities	<u>2,496,107</u>	<u>2,890,761</u>	<u>3,750,823</u>	<u>3,974,002</u>	<u>6,246,930</u>	<u>6,864,763</u>
Net assets:						
Net investment in capital assets	7,316,252	7,162,968	7,922,292	7,921,405	15,238,544	15,084,373
Restricted	2,558,543	2,571,722	520,000	650,000	3,078,543	3,221,722
Unrestricted	3,102,501	3,427,875	2,866,196	2,745,171	5,968,697	6,173,046
Total net assets	<u>\$ 12,977,296</u>	<u>13,162,565</u>	<u>11,308,488</u>	<u>11,316,576</u>	<u>24,285,784</u>	<u>24,479,141</u>

**Bear Valley Community Services District
Management's Discussion and Analysis
For the Year Ended June 30, 2012**

The remaining balance of restricted/unrestricted net assets of \$9,047,240 may be used to meet the government's ongoing obligations.

At the end of the current fiscal year, the Bear Valley Community Services District is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year. There was a decrease of \$185,269 in net assets for governmental activities, a decrease of 1.40%.

Net assets for business-type activities decreased \$8,008, a decrease of 0.07% over prior year.

Governmental activities. Governmental activities decreased the Bear Valley Community Services District's net assets by \$185,269. This was primarily due to the \$229,020 CalPERS side-fund payoff.

Bear Valley Community Services District's Changes in Net Assets

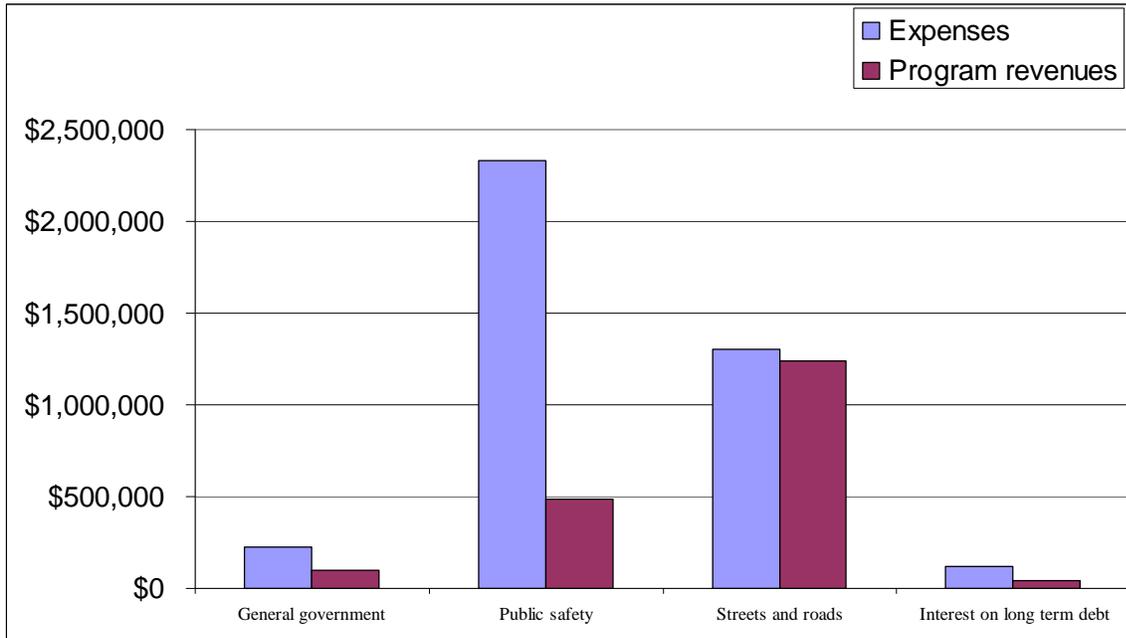
Condensed Statement of Activities

	Governmental Activities		Business-type Activities		Total District	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services	\$ 1,727,834	1,768,114	3,250,599	3,230,811	4,978,433	4,998,925
Operating grants and contrib.	100,000	100,000	-	-	100,000	100,000
Capital grants and contrib.	-	-	29,194	9,870	29,194	9,870
General revenues:						
Property taxes	1,436,378	1,516,367	-	-	1,436,378	1,516,367
Voter approved taxes	902,687	902,846	-	-	902,687	902,846
Investment earnings	37,582	42,813	16,670	20,760	54,252	63,573
Total revenues	4,204,481	4,330,140	3,296,463	3,261,441	7,500,944	7,591,581
Expenses:						
General government	216,106	228,845	-	-	216,106	228,845
Public safety	2,472,660	2,329,772	-	-	2,472,660	2,329,772
Streets and roads	1,299,402	1,306,067	-	-	1,299,402	1,306,067
Interest on long-term debt	108,125	120,242	-	-	108,125	120,242
Water	-	-	2,263,028	2,365,576	2,263,028	2,365,576
Wastewater	-	-	563,913	674,229	563,913	674,229
Solid waste	-	-	493,249	527,794	493,249	527,794
Post office	-	-	48,798	60,230	48,798	60,230
Total expenses	4,096,293	3,984,926	3,368,988	3,627,829	7,465,281	7,612,755
Change in net assets	108,188	345,214	(72,525)	(366,388)	35,663	(21,174)
CalPERS side-fund payoff	(229,020)	-	-	-	(229,020)	-
Transfers	(64,437)	(38,676)	64,437	38,676	-	-
Change in net assets	(185,269)	306,538	(8,088)	(327,712)	(193,357)	(21,174)
Net assets, beginning of year	13,162,565	12,856,027	11,316,576	11,644,288	24,479,141	24,500,315
Net assets, end of year	\$ 12,977,296	13,162,565	11,308,488	11,316,576	24,285,784	24,479,141

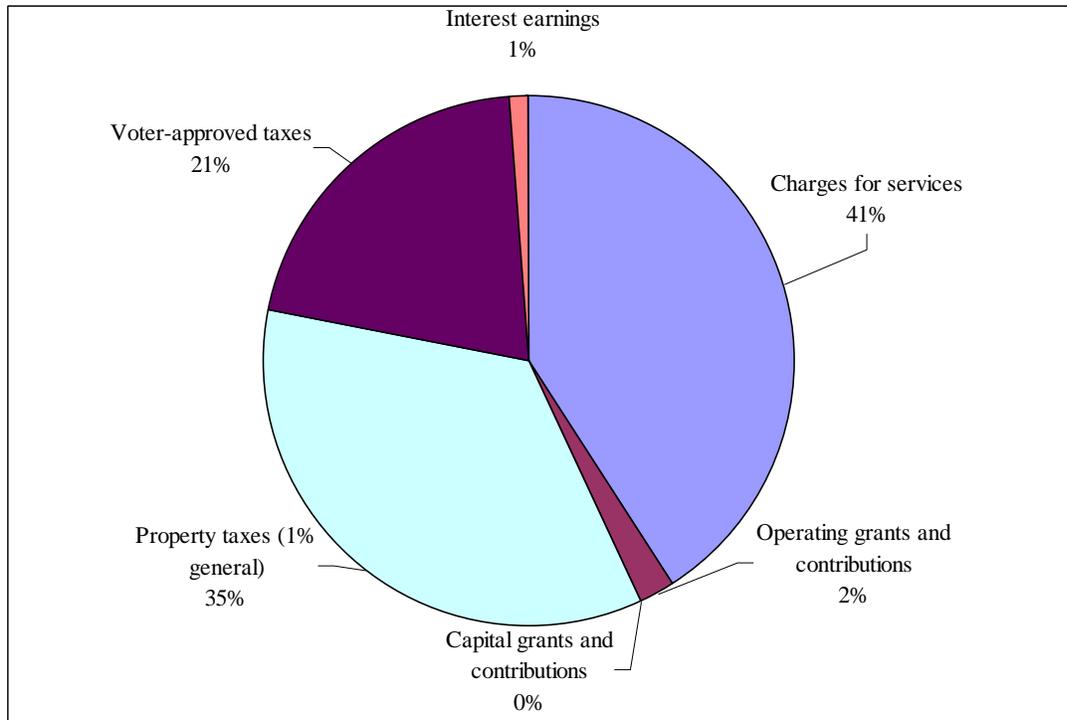
- Revenue from charges for services in the governmental activities decreased \$40,280 (2.2%) due primarily to a decrease in the road assessment and general governmental revenues.
- Revenue from grants and contributions increased \$19,324 (17.5%). This increase is due to a increase in water and wastewater development fees collected in FY 2011-12 as compared to 2010-11.
- Property taxes decreased \$79,989 (5.3%).
- Total expenses increased \$ (1.9%).

**Bear Valley Community Services District
Management's Discussion and Analysis
For the Year Ended June 30, 2012**

Expenses and Program Revenues – Governmental Activities



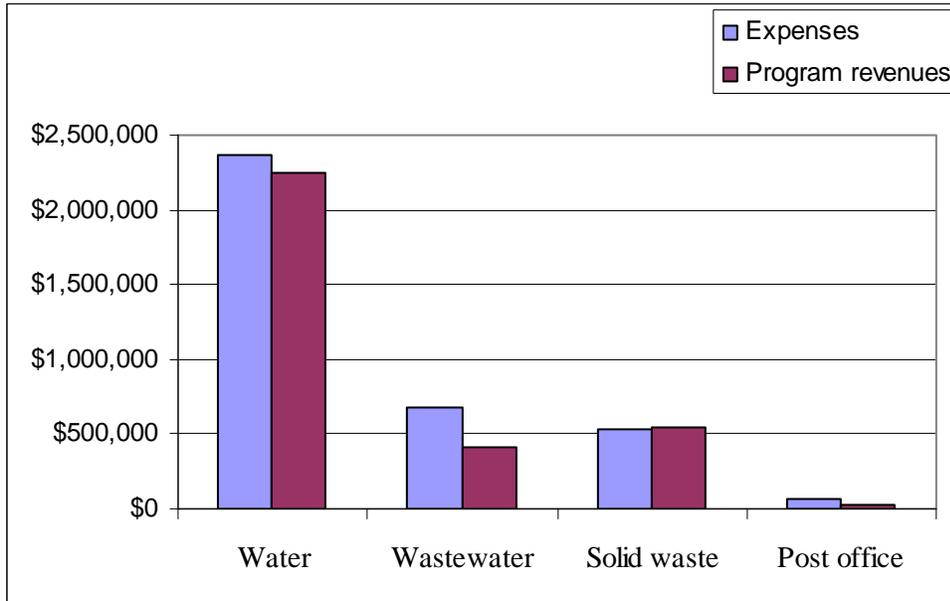
Revenues by Source – Governmental Activities



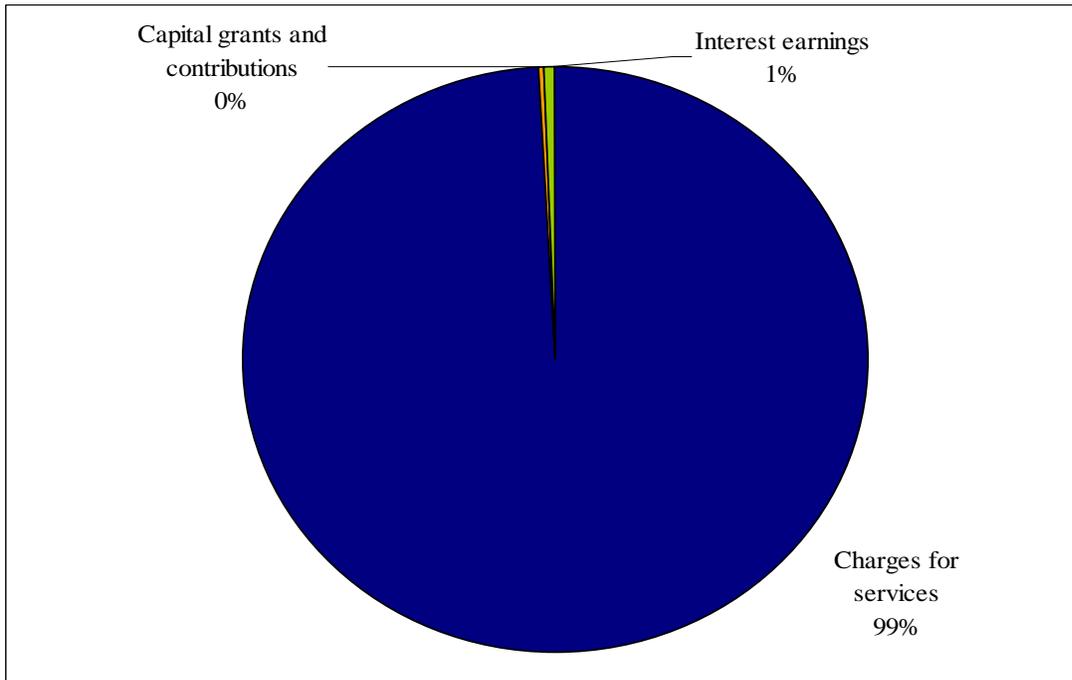
Business-type activities. Business-type activities decreased the Bear Valley Community Services District's net assets by \$8,088.

**Bear Valley Community Services District
Management's Discussion and Analysis
For the Year Ended June 30, 2012**

Expense and Program Revenues – Business-type Activities



Revenues by Source – Business-type Activities



**Bear Valley Community Services District
Management's Discussion and Analysis
For the Year Ended June 30, 2012**

Financial Analysis of the Government's Funds

As noted earlier, the Bear Valley Community Services District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Bear Valley Community Services District's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the Bear Valley Community Services District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Bear Valley Community Services District's governmental funds reported combined ending fund balances of \$5,616,848, a decrease of \$294,972 in comparison with the prior year. \$2,774,375 of the total fund balance for all governmental funds (49%) constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of fund balance is restricted and assigned to indicate that it is not available for general spending because it has already been committed to 1) future road maintenance and improvement, 2) bond debt service, 3) public safety grant-related expenditures, 4) unemployment compensation and 5) prepaid expenditures.

The general fund is the chief operating fund of the Bear Valley Community Services District. At the end of the current fiscal year, the fund balance of the general fund was \$2,991,796 of which \$162,220 is assigned for compensated absences and \$55,201 assigned for unemployment compensation. In addition, \$156,087 of the fund balance is unassigned by the Board for emergencies and disaster response and \$2,618,288 unassigned for six-month operating reserve. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 107% of total general fund expenditures, while total fund balance represents 126% of that same amount.

The fund balance of the Bear Valley Community Services District's general fund decreased \$287,758 during the current fiscal year because of the \$229,020 CalPERS side-fund payoff. The amount assigned for unemployment compensation increased \$11,120. The amount unassigned for emergency response increased \$1,125. The amount unassigned for six-month operating reserve decreased by \$320,983.

The roads fund has a restricted fund balance of \$2,184,746 which will be used for the ongoing maintenance and improvement of streets and roads, including drainage ways and rights of way and \$66,509 for compensated absences. The increase in fund balance during the year was \$23,392.

Enterprise funds. The Bear Valley Community Services District's enterprise funds provide the same type of information found in the government-wide financial statements, but in more detail.

Net assets for all enterprise funds decreased \$8,088. Changes in total net assets from last year are as follows: water enterprise \$53,867; wastewater enterprise (115,926); solid waste enterprise \$53,971; post office enterprise \$0.

The post office enterprise fund had unrestricted net assets of \$0 on June 30, 2012. Revenues to this fund cover less than half of the cost to provide this service, with the balance being subsidized by the general fund. Each year the general fund backfills the post office enterprise fund's financial needs.

General Fund Budgetary Highlights

Differences between the original budget and the final amended were \$295,632.

**Bear Valley Community Services District
Management's Discussion and Analysis
For the Year Ended June 30, 2012**

Capital Asset and Debt Administration

Capital assets. The Bear Valley Community Services District's investment in capital assets for its governmental and business type activities as of June 30, 2012 amounts to \$20,750,297 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, park facilities and infrastructure.

Major capital asset events during the current fiscal year included the following:

- \$16,589 was for roof & paint wells.
- \$61,105 for booster pump houses.
- \$59,500 to install new 4" line @ Stevens/Greenwt.
- \$33,545 to replace water pump & cable.
- \$23,156 to upgrade SCADA.
- \$29,500 to re-drill & destroy existing well #13.
- \$12,134 to rebuild sewage pump.
- \$13,956 for dispatch workstations.
- \$65,434 for two (2) 2012 Dodge Rams.
- \$267,312 for road payment project.

Bear Valley Community Services District's Capital Assets

		Capital Assets					
		Governmental Activities		Business-type Activities		Total District	
		2012	2011	2012	2011	2012	2011
Capital assets:							
Non-depreciable assets	\$	4,804,415	4,804,415	3,662,053	3,691,553	8,466,468	8,495,968
Depreciable assets		31,944,470	31,590,352	19,908,081	19,648,635	51,852,551	51,238,987
Total capital assets		36,748,885	36,394,767	23,570,134	23,340,188	60,319,019	59,734,955
Accumulated depreciation		(27,327,633)	(26,821,799)	(12,241,089)	(11,805,042)	(39,568,722)	(38,626,841)
Total capital assets, net	\$	9,421,252	9,572,968	11,329,045	11,535,146	20,750,297	21,108,114

Additional information on the Bear Valley Community Services District's capital assets can be found in note 7 on pages 39-41 of this report.

Bear Valley Community Services District's Outstanding Debt

Long-term debt. At the end of the current fiscal year, the Bear Valley Community Services District had total debt outstanding of \$5,511,753. Of this amount, \$2,105,000 comprises debt backed by the full faith and credit of the Bear Valley Community Services District, \$434,390 is owed to the State Water Resources Control Board (SWRCB) for wastewater plant improvements and \$2,972,363 is owed to the California Infrastructure and Economic Development Bank (CIEDB) for water and wastewater system improvements.

		Long-term Debt					
		Governmental Activities		Business-Type Activities		Total	
		2012	2011	2012	2011	2012	2011
Long-term debt:							
General obligation bonds	\$	2,105,000	2,410,000	-	-	2,105,000	2,410,000
SWRCB revolving fund loan		-	-	434,390	542,988	434,390	542,988
CIEDB loan		-	-	2,972,363	3,070,753	2,972,363	3,070,753
Total long-term debt	\$	2,105,000	2,410,000	3,406,753	3,613,741	5,511,753	6,023,741

**Bear Valley Community Services District
Management's Discussion and Analysis
For the Year Ended June 30, 2012**

General Obligation, Special Assessment and Revenue Bonds

The Bear Valley Community Services District's total debt decreased \$511,988 (8.5%) during the current fiscal year. The key factors in this decrease were the retirement of \$305,000 of general obligation bonds as well as principal payments of \$108,598 on the SWRCB loan and \$98,390 on the CIEDB loan.

On August 12, 2010, the District was informed by Standard & Poor that Bear Valley Community Services District's "A-" rating was upgraded to "A+". According to Standard & Poor, the District's rating was upgraded after reviewing budget and audited financial information and concluded that District's financial operations were healthy, with strong reserve levels and consistency balanced results. General obligation bonds issued in 2002 have a "AAA" rating due to the existence of bond insurance purchased from Financial Security Assurance, Inc.

State statutes limit the amount of bonded debt a community services district may issue to 15 percent of its total assessed valuation at the time the bonds are issued. The current debt limitation for the Bear Valley Community Services District is \$95,244,000, which is significantly in excess of the Bear Valley Community Services District's outstanding debt.

In June 2003, the Bear Valley Community Services District entered into two contracts with the California Infrastructure and Economic Development Bank for loans totaling \$3,588,844 for water and wastewater infrastructure improvement and reconstruction projects (\$2,964,600 for water and \$624,244 for wastewater). For the purpose of this report these loans will be treated as revenue bonds, since they are contractual obligations of the water and wastewater enterprises. As of June 30, 2012, there was \$2,972,363.

Additional information on the Bear Valley Community Services District's long-term debt can be found in notes 9 and 10 on pages 43-45 of this report.

Economic Factors and Next Year's Budgets and Rates

The Kern county auditor-controller's office updated tax rolls show that Bear Valley Springs FY 2012-13 assessed values have decreased .003% over the prior year. The county official also indicated the amount of property tax revenue collected in fiscal year 2011-12 should be around the same for FY 2012-13.

Despite the County stating that we should receive about the same as we did in fiscal year 2011-12, it should be noted that we fell \$52,141 below our property tax revenue budget during last fiscal year. In preparing our FY 2012-13 budget, property tax projections were decreased by \$10,100 over the prior year 2011-12 budget. Based on the most recent property tax information available, staff is projecting general fund property tax revenues to be around \$1,364, 699. This projection is based on the budgeted amount of property tax revenue received in fiscal year 2011-12 of \$1,347,699 plus a small projected increase of \$16,740 for a total of \$1,364,699.

With the recent drop in property tax revenues and investment earnings over the last several years, the Board, finance committee and staff have fiscal challenges ahead in attempting to balance the District budget while maintaining the same level of services. For example, as part of the fiscal year 2012-13 budget process, the Finance Committee and staff will be analyzing the general fund operations in particular the general fund departments of police, dispatch and gate. The goal is to keep general fund costs in line with future projected revenues.

From a long-term perspective, the Board on August 9, 2012 approved a contract with Mr. William C. Statler to prepare a five year general fund fiscal forecast.

Like virtually all other local governments in California, the District has been faced with major fiscal challenges over the past several years in the wake of the worst recession since the Great Depression. As a result, key revenues have either stalled or declined, while costs have risen. Two key fiscal questions facing the District include:

- Have revenues plateaued, and if so, how will they recover in the future?

**Bear Valley Community Services District
Management's Discussion and Analysis
For the Year Ended June 30, 2012**

- What key expenditure drivers are ahead in maintaining current service levels?

Making good resource decisions in the short term as part of the budget process requires taking into account their impact on the District's fiscal condition down the road. Developing good solutions requires knowing the size of the problem the District is trying to solve: in short, the District cannot fix a problem it hasn't defined. And in this economic and fiscal environment, looking only one year ahead is almost certain to misstate the size and nature of the fiscal challenges ahead of the District.

For those local agencies that have prepared longer-term forecasts and follow-on financial plans, this did not magically make their fiscal problems disappear: they still had tough decisions to make. However, it allowed them to better assess their longer term outlook, more closely define the size and duration of the fiscal challenges facing them, and then make better decisions accordingly for both the short and long run. This will be true for the District as well.

Forecast Purpose

The purpose of the forecast is to identify the General Fund's ability over the next five years – on an “order of magnitude” basis – to continue current services in light of the worst recession since the Great Depression as well as fiscal circumstances unique to the District.

Forecast Approach

The proposed work program consists of three main steps:

- Project revenues based on current sources.
- Subtract from them the likely operating costs for current service levels, existing debt service obligations and capital improvement plan (CIP) projects.
- If positive, the balance remaining is available to fund “new initiatives.” If negative, it shows the likely “budget gap” if the District continues current service levels and works towards achieving adopted CIP goals. In this case, which is the more likely one, the forecast will present realistic options for closing the gap.

It is important to stress that the five year general fund fiscal forecast is not a budget.

As noted above, its purpose is to provide an “order of magnitude” feel for the District's ability to continue current services. It doesn't make expenditure decisions; it doesn't make revenue decisions; and it doesn't make policy tradeoffs in determining the highest priority uses of the District's limited resources: this is the purpose of the budget process. However, by identifying and analyzing key factors affecting the District's long-term fiscal health, the forecast can help assess how difficult making these priority decisions will be. And if the forecast projects a negative gap between revenues and expenditures, the report will present realistic options for the District's consideration in closing the gap.

Investment earnings will decrease somewhat. The average yield on district investments for fiscal year 2011-12 was 0.52%. The estimated yield for next year is 0.55%, a conservative figure.

Employee benefit costs are 30% of all personnel costs.

Prices for energy complex products and services have increased over the past year. Budgets for motor fuel, natural gas and electricity have increased as a result.

As in prior years, the district will not establish a budget for depreciation expense. Rather than using the utility approach for rate-setting, the district has adopted the cash-needs approach, which includes budgets for all current-period operating expenditures and capital expenditures, but excludes depreciation expense. To accommodate this shortcoming, the district sets aside an amount equal to 7% of the enterprise fund's operating expenditure budget each year for future asset replacement projects. Each enterprise fund (water, wastewater and solid waste) has a dedicated asset replacement reserve. Available balances in these funds are monitored regularly to ensure adequacy.

**Bear Valley Community Services District
Management's Discussion and Analysis
For the Year Ended June 30, 2012**

The District's long-term water tank maintenance contract, whereby 100% of the water storage tanks have now been recoated, carries a cost of \$175,000 per year. For the first three years of the contract this cost was covered by proceeds from the CIEDB loan, but starting in 2006-07, the cost was borne by current water rate payers, as the construction period for the CIEDB loan had expired. As previously informed the Board on May 24, 2012, wastewater revenues & transfers-in for FY 2012-13 are projected to be \$428,227 and projected expenditures are projected to be \$500,007 resulting in a projected shortfall of (\$71,780).

The wastewater operating deficit is driven by cost increases in the 2 following areas:

New wastewater plant operator position for an annual amount of \$49,805 (Filled in Current Year 2012).

Debt service on CIEDB loan in the amount of \$34,626

Other Issues Regarding The Wastewater Operating Fund:

Over the last several years, the wastewater operating fund has not been able to meet the required debt service coverage ratio of 110%. As a result, CIEDB officials have required that the District establish a stabilization reserve fund to address this problem. The District currently has \$28,000 in the wastewater stabilization fund. After reviewing the FY 2010-11 audit report, CIEDB officials are currently considering increasing the wastewater stabilization reserve requirement from \$28,000 to \$58,000.

Our wastewater operating fund contingency reserve policy requires that we set aside 20% of next year's operating budget. The amount that should be set aside in the upcoming FY 2012-13 budget is (\$465,381 x 20%) is \$93,076. However, due to a lack of funds, the amount set aside is only \$45,833.

To mitigate the wastewater operating fund projected deficit of (\$71,780), on September 10, 2012 the Bear Valley Community Service District Board of Directors approved an increase in residential and commercial wastewater rates which are listed below:

<i>Wastewater Charges</i>	<u>Current</u>	<u>Adopted</u>	<u>Increase</u>
Residential Connected	\$65.13	\$76.16	\$11.03
Commercial Connected	\$11.63 per HCF	\$19.04	\$ 7.41

As shown above, the adopted increase for residential customers was \$11.03 or 17% and \$7.41 or 74% per HCF for commercial customers. This wastewater rate increase took effect October 1, 2012.

During the fiscal year 2011-12, the finance committee worked extensively in establishing a water reserve fund for its water operations. Once it is completed and approved by the Board, the finance committee will then work on establishing asset replacement plans for other governmental and enterprise funds.

All of these factors were considered in preparing the Bear Valley Community Services District's budget for the FY 2012-13.

Requests for Information

This financial report is designed to provide a general overview of the Bear Valley Community Services District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Treasurer, Bear Valley Community Services District, 28999 South Lower Valley Road, Tehachapi, CA 93561.

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Basic Financial Statements

Bear Valley Community Services District
Statement of Net Assets
June 30, 2012

<i>Assets</i>	Governmental Activities	Business-type Activities	Total
Current assets:			
Cash and cash equivalents (note 2)	\$ 5,457,155	2,925,260	8,382,415
Accrued interest receivable	7,617	4,064	11,681
Accounts receivable – utilities, net (note 3)	-	461,815	461,815
Accounts receivable – other	23,536	2,073	25,609
Property taxes and assessments receivable	11,919	2,817	14,736
Internal balances (note 4)	250,000	(250,000)	-
Prepaid expenses and other deposits	-	64,237	64,237
Total current assets	5,750,227	3,210,266	8,960,493
Non-current assets:			
Improvement district bonds receivable (note 5)	-	520,000	520,000
Deferred charges, net (note 6)	301,924	-	301,924
Capital assets – not being depreciated (note 7)	4,804,415	3,662,053	8,466,468
Capital assets – being depreciated, net (note 7)	4,616,837	7,666,992	12,283,829
Total non-current assets	9,723,176	11,849,045	21,572,221
Total assets	15,473,403	15,059,311	30,532,714
<i>Liabilities and Net Assets</i>			
Current liabilities:			
Accounts payable and accrued expenses	43,076	125,065	168,141
Accrued wages and related payables	52,153	18,567	70,720
Deposits and deferred revenue	38,150	12,727	50,877
Accrued interest on long-term debt	28,999	36,237	65,236
Long-term liabilities – due within one year:			
Compensated absences (note 8)	57,182	37,869	95,051
Bond payable (note 9)	310,000	-	310,000
Loans payable (note 10)	-	212,927	212,927
Total current liabilities	529,560	443,392	972,952
Non-current liabilities:			
Long-term liabilities – due in more than one year:			
Compensated absences (note 8)	171,547	113,605	285,152
Bond payable (note 9)	1,795,000	-	1,795,000
Loans payable (note 10)	-	3,193,826	3,193,826
Total non-current liabilities	1,966,547	3,307,431	5,273,978
Total liabilities	2,496,107	3,750,823	6,246,930
Net assets:			
Net investment in capital assets (note 11)	7,316,252	7,922,292	15,238,544
Restricted (note 12)	2,558,543	520,000	3,078,543
Unrestricted (note 13)	3,102,501	2,866,196	5,968,697
Total net assets	\$ 12,977,296	11,308,488	24,285,784

See accompanying notes to the basic financial statements

**Bear Valley Community Services District
Statement of Activities
For the Year Ended June 30, 2012**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Governmental activities:							
General government	\$ 216,106	73,893	-	-	(142,213)	-	(142,213)
Public safety	2,472,660	404,372	100,000	-	(1,968,288)	-	(1,968,288)
Streets and roads	1,299,402	1,209,390	-	-	(90,012)	-	(90,012)
Interest on long-term debt	108,125	40,179	-	-	(67,946)	-	(67,946)
Total governmental activities	4,096,293	1,727,834	100,000	-	(2,268,459)	-	(2,268,459)
Business-type activities:							
Water	2,263,028	2,256,422	-	22,665	-	16,059	16,059
Wastewater	563,913	417,313	-	6,529	-	(140,071)	(140,071)
Solid waste	493,249	543,901	-	-	-	50,652	50,652
Post office	48,798	32,963	-	-	-	(15,835)	(15,835)
Total business-type activities	3,368,988	3,250,599	-	29,194	-	(89,195)	(89,195)
Total	\$ 7,465,281	4,978,433	100,000	29,194	(2,268,459)	(89,195)	(2,357,654)
General revenues:							
Property taxes					\$ 1,436,378	-	1,436,378
Voter-approved taxes					902,687	-	902,687
Interest earnings					37,582	16,670	54,252
CalPERS side-fund payoff (note 14)					(229,020)	-	(229,020)
Transfers in/(out) (note 4)					(64,437)	64,437	-
Total general revenues					2,083,190	81,107	2,164,297
Change in net assets					(185,269)	(8,088)	(193,357)
Net assets, beginning of year					13,162,565	11,316,576	24,479,141
Net assets, end of year					\$ 12,977,296	11,308,488	24,285,784

See accompanying notes to the basic financial statements

Bear Valley Community Services District
Balance Sheets – Governmental Funds
June 30, 2012

	<u>General</u>	<u>Streets and Roads</u>	<u>Debt Service</u>	<u>Supplemental Law Enforcement</u>	<u>Total Governmental Activities</u>
Assets:					
Cash and cash equivalents	\$ 2,812,820	2,269,083	323,896	51,356	5,457,155
Accrued interest receivable	4,077	3,113	427	-	7,617
Accounts receivable – other	1,954	20,027	1,555	-	23,536
Property taxes and assessments receivable	8,984	-	2,935	-	11,919
Due from other funds	250,000	-	-	-	250,000
Prepays and other deposits	-	-	-	-	-
Total assets	<u>3,077,835</u>	<u>2,292,223</u>	<u>328,813</u>	<u>51,356</u>	<u>5,750,227</u>
Liabilities:					
Accounts payable and accrued expenses	31,271	5,433	-	6,372	43,076
Accrued wages and related payables	42,543	9,610	-	-	52,153
Due to other funds	-	-	-	-	-
Deposits and deferred revenue	12,225	25,925	-	-	38,150
Total liabilities	<u>86,039</u>	<u>40,968</u>	<u>-</u>	<u>6,372</u>	<u>133,379</u>
Fund balance:					
Restricted:					
Street and road improvements	-	2,184,746	-	-	2,184,746
Debt service	-	-	328,813	-	328,813
Public safety	-	-	-	44,984	44,984
Assigned:					
Compensated absences	162,220	66,509	-	-	228,729
Unemployment compensation	55,201	-	-	-	55,201
Unassigned:					
Emergency reserve	156,087	-	-	-	156,087
Six-month operating reserve	2,618,288	-	-	-	2,618,288
Total fund balance	<u>2,991,796</u>	<u>2,251,255</u>	<u>328,813</u>	<u>44,984</u>	<u>5,616,848</u>
Total liabilities and fund balance	<u>\$ 3,077,835</u>	<u>2,292,223</u>	<u>328,813</u>	<u>51,356</u>	<u>5,750,227</u>

Bear Valley Community Services District
Reconciliation of the Balance Sheets of Governmental Funds to the Statement of Net Assets
June 30, 2012

Reconciliation:

Fund balance of governmental funds	\$	5,616,848
Amounts reported for governmental activities in the statement of net assets is different because:		
Deferred charges are expended in governmental funds as a cost of debt issuance, while the statement of net assets includes those deferred charges among the assets of the District and amortizes them over the life of the debt service.		301,924
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet. However, the statement of net assets includes those capital assets among the assets of the District as a whole.		9,421,252
Interest on long-term debt is not accrued as a governmental fund liability, but rather is recognized as an expenditure when due.		(28,999)
Long-term liabilities applicable to the District are not due and payable in the current period and accordingly are not reported as governmental fund liabilities. All liabilities, both current and long-term, are reported in the statement of net assets as follows:		
Compensated absences		(228,729)
Bonds payable		<u>(2,105,000)</u>
Net assets of governmental activities	\$	<u><u>12,977,296</u></u>

See accompanying notes to the basic financial statements

Bear Valley Community Services District
Statements of Revenues, Expenditures and Changes in Fund Balances– Governmental Funds
For the Year Ended June 30, 2012

	<u>General</u>	<u>Streets and Roads</u>	<u>Debt Service</u>	<u>Supplemental Law Enforcement</u>	<u>Total Governmental Activities</u>
Revenues:					
Property taxes	\$ 1,436,378	-	-	-	1,436,378
Voter-approved taxes	549,066	-	353,621	-	902,687
Special assessments	-	1,196,182	-	-	1,196,182
Charges for services	404,372	-	-	-	404,372
Federal and state aid	-	-	-	100,000	100,000
Interest earnings	22,839	13,347	1,396	-	37,582
Rents and royalties	-	-	40,179	-	40,179
Other	73,893	13,208	-	-	87,101
Total revenues	<u>2,486,548</u>	<u>1,222,737</u>	<u>395,196</u>	<u>100,000</u>	<u>4,204,481</u>
Expenditures:					
General government	95,086	-	1,611	-	96,697
Public safety	2,422,679	-	-	30,482	2,453,161
Streets and roads	-	905,118	-	-	905,118
Capital outlay	86,807	267,311	-	-	354,118
Debt service:	-	-	-	-	-
Bond payments	-	-	305,000	-	305,000
Interest paid	-	-	91,902	-	91,902
Total expenditures	<u>2,604,572</u>	<u>1,172,429</u>	<u>398,513</u>	<u>30,482</u>	<u>4,205,996</u>
Excess(deficiency) of revenues over expenditures	<u>(118,024)</u>	<u>50,308</u>	<u>(3,317)</u>	<u>69,518</u>	<u>(1,515)</u>
Other financing sources(uses):					
CalPERS side-fund payoff	(229,020)	-	-	-	(229,020)
Operating transfers in(out)	59,286	(26,916)	-	(96,807)	(64,437)
Net change in fund balance	<u>(287,758)</u>	<u>23,392</u>	<u>(3,317)</u>	<u>(27,289)</u>	<u>(294,972)</u>
Fund balance, beginning of year	<u>3,279,554</u>	<u>2,227,863</u>	<u>332,130</u>	<u>72,273</u>	<u>5,911,820</u>
Fund balance, end of year	<u>\$ 2,991,796</u>	<u>2,251,255</u>	<u>328,813</u>	<u>44,984</u>	<u>5,616,848</u>

Bear Valley Community Services District
Reconciliation of the Statements of Revenues, Expenditures and Changes in Fund Balance of
Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2012

Reconciliation:

Net changes in fund balance of total governmental funds	\$ (294,972)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense as follows:	
Capital outlay	354,118
Depreciation expense	(505,834)
Repayment of long-term debt is reported as expenditures in governmental funds, and thus, has the effect of reducing fund balance because current financial resources have been used. For the District as a whole, however, the principal payments reduce the liabilities in the statement of net assets and do not result in an expense in the statement of activities.	305,000
Deferred charges consist of capitalized debt issuance costs on the statement of net assets. These amounts are amortized over the life of the debt service liability on the statement of activities.	(19,798)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenses in governmental funds as follows:	
Net change in accrued interest for the current period	3,575
Net change in compensated absences for the current period	(27,358)
Change in net assets of governmental activities	\$ (185,269)
See accompanying notes to the basic financial statements	

Bear Valley Community Services District
Statements of Net Assets – Enterprise Funds
June 30, 2012

<i>Assets</i>	Water	Wastewater	Solid Waste	Post Office	Total Business-type Activities
Current assets:					
Cash and cash equivalents	\$ 1,849,072	427,586	642,537	6,065	2,925,260
Accrued interest receivable	2,664	549	851	-	4,064
Accounts receivable – utilities, net	325,312	74,780	61,723	-	461,815
Accounts receivable – other	-	2,073	-	-	2,073
Property assessments receivable	2,674	143	-	-	2,817
Due from other funds	-	-	-	-	-
Prepaid expenses and other deposits	-	64,237	-	-	64,237
Total current assets	2,179,722	569,368	705,111	6,065	3,460,266
Non-current assets:					
Improvement district bonds receivable	-	520,000	-	-	520,000
Capital assets – not being depreciated	3,647,319	14,734	-	-	3,662,053
Capital assets, net – being depreciated	6,501,801	1,079,746	85,445	-	7,666,992
Total non-current assets	10,149,120	1,614,480	85,445	-	11,849,045
Total assets	12,328,842	2,183,848	790,556	6,065	15,309,311
Liabilities and Net Assets					
Current liabilities:					
Accounts payable and accrued expenses	94,690	2,388	25,488	2,499	125,065
Accrued wages and related payables	10,925	4,581	2,439	622	18,567
Accrued interest on long-term debt	29,972	6,265	-	-	36,237
Due to other funds	181,843	68,157	-	-	250,000
Deposits and deferred revenue	12,727	-	-	-	12,727
Long-term liabilities – due within one year:					
Compensated absences	20,194	10,369	6,570	736	37,869
Loans payable	86,292	126,635	-	-	212,927
Total current liabilities	436,643	218,395	34,497	3,857	693,392
Non-current liabilities:					
Long-term liabilities – due in more than one year:					
Compensated absences	60,582	31,106	19,709	2,208	113,605
Loans payable	2,372,169	821,657	-	-	3,193,826
Total non-current liabilities	2,432,751	852,763	19,709	2,208	3,307,431
Total liabilities	2,869,394	1,071,158	54,206	6,065	4,000,823
Net assets:					
Net investment in capital assets	7,690,659	146,188	85,445	-	7,922,292
Restricted	-	520,000	-	-	520,000
Unrestricted	1,768,789	446,502	650,905	-	2,866,196
Total net assets	\$ 9,459,448	1,112,690	736,350	-	11,308,488

See accompanying notes to the basic financial statements

Bear Valley Community Services District
Statements of Revenues, Expenses and Changes in Fund Net Assets – Enterprise Funds
For the Year Ended June 30, 2012

	<u>Water</u>	<u>Wastewater</u>	<u>Solid Waste</u>	<u>Post Office</u>	<u>Total Business-type Activities</u>
Operating revenues:					
Water consumption sales	\$ 2,215,362	-	-	-	2,215,362
Wastewater service charges	-	414,749	-	-	414,749
Solid waste collection charges	-	-	541,763	-	541,763
Post office box charges	-	-	-	30,645	30,645
Other charges for services	41,060	2,564	2,138	2,318	48,080
Total operating revenues	<u>2,256,422</u>	<u>417,313</u>	<u>543,901</u>	<u>32,963</u>	<u>3,250,599</u>
Operating expenses:					
Salaries and benefits	782,626	302,747	175,257	41,886	1,302,516
Operations	1,048,490	140,771	316,967	6,912	1,513,140
Total operating expenses	<u>1,831,116</u>	<u>443,518</u>	<u>492,224</u>	<u>48,798</u>	<u>2,815,656</u>
Operating income(loss) before depreciation	425,306	(26,205)	51,677	(15,835)	434,943
Depreciation expense	(349,671)	(85,351)	(1,025)	-	(436,047)
Operating income(loss)	<u>75,635</u>	<u>(111,556)</u>	<u>50,652</u>	<u>(15,835)</u>	<u>(1,104)</u>
Non-operating revenue(expense):					
Interest earnings	10,892	2,459	3,319	-	16,670
Interest expense	(82,241)	(35,044)	-	-	(117,285)
Total non-operating, net	(71,349)	(32,585)	3,319	-	(100,615)
Operating transfers in(out)	<u>26,916</u>	<u>21,686</u>	<u>-</u>	<u>15,835</u>	<u>64,437</u>
Capital contributions:					
Capacity charges	22,665	6,529	-	-	29,194
Total capital contributions	<u>22,665</u>	<u>6,529</u>	<u>-</u>	<u>-</u>	<u>29,194</u>
Change in net assets	53,867	(115,926)	53,971	-	(8,088)
Net assets, beginning of year	<u>9,405,581</u>	<u>1,228,616</u>	<u>682,379</u>	<u>-</u>	<u>11,316,576</u>
Net assets, end of year	<u>\$ 9,459,448</u>	<u>1,112,690</u>	<u>736,350</u>	<u>-</u>	<u>11,308,488</u>

See accompanying notes to the basic financial statements

Bear Valley Community Services District
Statements of Cash Flows – Enterprise Funds
For the Year Ended June 30, 2012

	<u>Water</u>	<u>Wastewater</u>	<u>Solid Waste</u>	<u>Post Office</u>	<u>Total Business-type Activities</u>
Cash flows from operating activities:					
Cash receipts from customers	\$ 2,174,556	409,695	547,465	32,963	3,164,679
Cash paid to employees for salaries and benefits	(786,686)	(315,072)	(174,737)	(41,637)	(1,318,132)
Cash paid to vendors and suppliers	(1,017,258)	(125,395)	(317,345)	(4,617)	(1,464,615)
Net cash provided(used) by operating activities	<u>370,612</u>	<u>(30,772)</u>	<u>55,383</u>	<u>(13,291)</u>	<u>381,932</u>
Cash flows from non-capital financing activities:					
Operating transfers in	<u>26,916</u>	<u>21,686</u>	-	<u>15,835</u>	<u>64,437</u>
Cash flows from capital and related financing activities:					
Acquisition and construction of capital assets	(217,812)	(12,134)	-	-	(229,946)
Proceeds from capital contributions	22,665	6,529	-	-	29,194
Payments made from(to) other funds	-	-	-	-	-
Principal payments on loans payable	(81,380)	(125,608)	-	-	(206,988)
Interest payments on loans payable	(83,264)	(35,258)	-	-	(118,522)
Net cash used in capital and financing activities	<u>(359,791)</u>	<u>(166,471)</u>	<u>-</u>	<u>-</u>	<u>(526,262)</u>
Cash flows from investing activities:					
Proceeds from bonds receivable	-	130,000	-	-	130,000
Interest earnings	11,367	2,535	3,348	-	17,250
Net cash provided by investing activities	<u>11,367</u>	<u>132,535</u>	<u>3,348</u>	<u>-</u>	<u>147,250</u>
Net increase(decrease) in cash	49,104	(43,022)	58,731	2,544	67,357
Cash and cash equivalents, beginning of year	<u>1,799,968</u>	<u>470,608</u>	<u>583,806</u>	<u>3,521</u>	<u>2,857,903</u>
Cash and cash equivalents, end of year	<u>\$ 1,849,072</u>	<u>427,586</u>	<u>642,537</u>	<u>6,065</u>	<u>2,925,260</u>
Reconciliation of operating income to net cash provided(used) by operating activities:					
Operating income(loss)	<u>\$ 75,635</u>	<u>(111,556)</u>	<u>50,652</u>	<u>(15,835)</u>	<u>(1,104)</u>
Adjustments to reconcile operating income to net cash provided(used) by operating activities:					
Depreciation expense	349,671	85,351	1,025	-	436,047
Changes in assets and liabilities:					
(Increase)decrease in assets:					
Accounts receivable – utilities, net	(49,322)	(5,935)	3,564	-	(51,693)
Accounts receivable – other	-	(2,073)	-	-	(2,073)
Property assessments receivable	(2,532)	390	-	-	(2,142)
Prepaid expenses and other deposits	-	17,851	-	-	17,851
Increase(decrease) in liabilities:					
Accounts payable and accrued expenses	31,232	(2,475)	(378)	2,295	30,674
Accrued wages and related payables	(29,840)	(13,078)	(6,390)	(1,623)	(50,931)
Deposits and deferred revenue	(30,012)	-	-	-	(30,012)
Compensated absences	25,780	753	6,910	1,872	35,315
Total adjustments	<u>294,977</u>	<u>80,784</u>	<u>4,731</u>	<u>2,544</u>	<u>383,036</u>
Net cash provided(used) by operating activities	<u>\$ 370,612</u>	<u>(30,772)</u>	<u>55,383</u>	<u>(13,291)</u>	<u>381,932</u>

See accompanying notes to the basic financial statements

Bear Valley Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2012

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

The Bear Valley Community Services District (District) serves as the local government for Bear Valley Springs. The District is similar to a city government, supplying such services as police protection, parks and recreation, potable water, road maintenance, wastewater treatment, and solid waste disposal. The District exists under California State law governing special districts (Government Code, Sec 61000 et. seq.). The District was established by resolution of Kern County Board of Supervisors on May 4, 1970 for the purpose of providing infrastructure services for the newly developing community of Bear Valley Springs. The District is governed by a five-member Board of Directors who serve four-year terms and are elected at large. The directors entrust the responsibility for the efficient execution of District policies to their designated representative, the General Manager.

The criteria used in determining the scope of the financial reporting entity is based on the provisions of Governmental Accounting Statements No. 14, *The Financial Reporting Entity*, and No. 39, *Determining Whether Certain Organizations Are Component Units* (an amendment of No. 14). The District is the primary governmental unit based on the foundation of a separately elected governing board that is elected by the citizens in a general popular election. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The District is financially accountable if it appoints a voting majority of the organization's governing body and: 1) It is able to impose its will on that organization, or 2) There is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. The District has no blended or discretely-presented component units.

B. Basis of Accounting and Measurement Focus

The *basic financial statements* of the District are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

Government-wide Financial Statements

These statements are presented on an *economic resources* measurement focus and the accrual basis of accounting for both governmental and business-like activities. Accordingly, all of the District's assets and liabilities, including capital assets, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which the liability is incurred. The Statement of Activities demonstrates the degree to which the operating expenses of a given function are offset by operating revenues. Operating expenses are those that are clearly identifiable with a specific function. The types of transactions reported as operating revenues for the District are charges for services directly related to the operations of the District. Charges for services include revenues from customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by the District. Taxes, operating grants and other items not properly included among operating revenues are reported instead as non-operating revenues. Contributed capital and capital grants are included as capital contributions.

Fund Financial Statements

These statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds. Accompanying these statements is a schedule to reconcile and explain the differences in fund balances as presented in these statements to the net assets presented in the Government-wide Financial Statements.

Bear Valley Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2012

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

B. Basis of Accounting and Measurement Focus, continued

Governmental funds are accounted for on a spending or *current financial resources* measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under modified accrual basis of accounting, revenues are recognized in the accounting period in which they become measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60-days after year-end) are recognized when due. The primary sources susceptible to accrual for the District are property tax, interest earnings, investment revenue and operating and capital grant revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. However, exceptions to this rule include principal and interest on debt, which are recognized when due.

The accrual basis of accounting is followed by the proprietary enterprise funds. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, such as, unbilled but utilized utility services are recorded at year end.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place. Operating revenues and expenses, such as water sales, wastewater service, solid waste collection and purchases of water, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Management, administration and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories, such as interest income and interest expense, are reported as non-operating revenues and expenses.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, are generally followed in both the government-wide and propriety fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity with a self-balancing set of accounts established for the purpose of carrying out specific activities or attaining certain objectives in accordance with specific regulations, restrictions or limitations. Funds are organized into two major categories: governmental and proprietary categories. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operation fund of the District or meets the following criteria:

- a) Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or proprietary fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b) Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or proprietary fund are at least 5 percent of the corresponding total for all governmental and proprietary funds combined.
- c) The entity has determined that a fund is important to the financial statement user.

The funds of the financial reporting entity are described below:

Bear Valley Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2012

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

B. Basis of Accounting and Measurement Focus, continued

Governmental Funds

General – This fund acts as the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund. This fund also includes all activity and assets of the emergency and unemployment compensation funds.

Road – This fund is used to account for the revenues received from special assessments for road maintenance and operations.

Bond Redemption – This fund is used to account for the receipts received from the voter-approved tax levied on the property parcels within the District’s service area to provide principal and interest payments on the general obligation bonds issued in 2002.

Supplemental Law Enforcement – This fund is used to account for specific funds appropriated to the District by the State of California under the *Citizens Option for Public Safety (COPS)* program.

Enterprise Funds

Water – This fund accounts for the water transmission and distribution operations of the District.

Wastewater – This fund accounts for the wastewater service operations of the District.

Solid Waste – This fund accounts for the solid waste collection and disposal operations of the District.

Post Office – This fund accounts for the activities involved in the operation of the post office.

C. Financial Statement Elements

1. Cash and Cash Equivalents

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

2. Accounts Receivable

The District extends credit to customers in the normal course of operations. Management deems all accounts receivable as collectible at year-end. Accordingly, an allowance for doubtful accounts has not been recorded.

3. Property Taxes and Assessments

The Kern County Assessor’s Office assesses all real and personal property within the County each year. The Kern County Tax Collector’s Office bills and collects the District’s share of property taxes and/or tax assessments. The Kern County Treasurer’s Office remits current and delinquent property tax collections to the District throughout the year. Property tax in California is levied in accordance with Article 13A of the State Constitution at one percent (1%) of countywide assessed valuations.

The Kern County Assessor’s Office assesses all real and personal property within the County each year. The Kern County Tax Collector’s Office bills and collects the District’s share of property taxes and/or tax assessments. The Kern County Treasurer’s Office remits current and delinquent property tax collections to the District throughout the year. Property tax in California is levied in accordance with Article 13A of the State Constitution at one percent (1%) of countywide assessed valuations.

Property taxes and assessments receivable at year-end are related to property taxes and special assessments collected by the Kern County, which have not been credited to the District's cash balance as of June 30. The property tax calendar is as follows:

Lien date	March 1
Levy date	July 1
Due dates	November 1 and February 1
Collection dates	December 10 and April 10

Bear Valley Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2012

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

C. Financial Statement Elements, continued

4. Prepaid Expenses

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

5. Deferred Charges

The deferred charges are from original issuance costs on the District's general obligation bonds that will be amortized over the remaining debt service life of the bonds.

6. Capital Assets

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

Governmental Activities

- Buildings and improvements – 20 to 30 years
- Infrastructure, streets and roads – 20 to 40 years
- Vehicles and equipment – 3 to 10 years

Business-Type Activities

- Transmission and distribution systems – 10 to 50 years
- Collection systems – 10 to 50 Years
- Vehicles and equipment – 3 to 10 years

7. Gate pass/device deposits

The District collects a deposit for gate passes and automatic gate openers from citizens who request to utilize these devices to gain automatic access through the District's front gate. The District has begun the practice of selling these devices to citizens instead of accepting deposits for their use. The balance in this account is comprised of the remaining balance of the deposits on these devices.

8. Net Assets/Fund Balances

The government-wide financial statements utilize a net assets presentation. Net assets categories are as follows:

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

Bear Valley Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2012

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

C. Financial Statement Elements, continued

9. Fund Equity

The financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned or unassigned based primarily on the extent to which the District is bound to honor constraints on how specific amounts can be spent.

- **Nonspendable fund balance** – amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.
- **Restricted fund balance** – amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions enabling legislation.
- **Committed fund balance** – amounts that can only be used for specific purposes determined by formal action of the District’s highest level of decision-making authority (the Board of Directors) and that remain binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.
- **Assigned fund balance** – amounts that are constrained by the District’s intent to be used for specific purposes. The intent can be established at either the highest level of decision-making, or by a body or an official designated for that purpose. This is also the classification for residual funds in the District’s special revenue funds.
- **Unassigned fund balance** – the residual classification for the District’s general fund that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

The Board of Directors established, modifies or rescinds fund balance commitments and assignments by passage of an ordinance or resolution. This is done through adoption of the budget and subsequent budget amendments that occur throughout the year. When both restricted and unrestricted resources are available for use, it is the District’s policy to use restricted resources first, followed by the unrestricted, committed, assigned and unassigned resources as they are needed.

Fund Balance Policy

The District believes that sound financial management principles require that sufficient funds be retained by the District to provide a stable financial base at all times. To retain this stable financial base, the District needs to maintain an unrestricted fund balance in its funds sufficient to fund cash flows of the District and to provide financial reserves for unanticipated expenditures and/or revenue shortfalls of an emergency nature. Committed, assigned and unassigned fund balances are considered unrestricted.

10. Utility Sales

Utility sales are billed on a monthly basis. Estimated unbilled utility revenue through June 30 has been accrued at year-end for the enterprise funds.

11. Capital Contributions

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

12. Use of Estimates

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

Bear Valley Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2012

(2) Cash and Cash Equivalents

Cash and cash equivalents as of June 30, 2011, are classified by fund as follows:

Governmental activity funds:	
General fund	\$ 2,812,820
Streets and roads fund	2,269,083
Bond redemption fund	323,896
Supplemental law enforcement	<u>51,356</u>
Total	<u>5,457,155</u>
Business-type activity funds:	
Water fund	1,849,072
Wastewater fund	427,586
Solid waste fund	642,537
Post office fund	<u>6,065</u>
Total	<u>2,925,260</u>
Total cash and cash equivalents	<u>\$ 8,382,415</u>

Cash and cash equivalents as of June 30, 2011, consisted of the following:

Cash on hand	\$ 600
Deposits held with financial institutions	263,416
Deposits held with the County of Kern Treasurer's Pooled Cash Portfolio	5,697,202
Deposits held with the California Local Agency Investment Fund (LAIF)	<u>2,421,197</u>
Total	<u>\$ 8,382,415</u>

As of June 30, 2011, the District's authorized deposits had the following maturities:

Deposits held with the County of Kern Treasurer's Pooled Cash Portfolio	568 days
Deposits held with the California Local Agency Investment Fund (LAIF)	268 days

Authorized Deposits and Investments

The District's investment policy authorizes investments in the County of Kern Treasurer's Pooled Cash Portfolio and the California Local Agency Investment Fund (LAIF). The District's investment policy does contain specific provisions intended to limit its exposure to interest rate risk, credit risk, custodial risk, and concentration of credit risk.

Kern County Treasurer Fund

The Kern County Treasurer's Pooled Cash Portfolio (Pool) is a pooled investment fund program governed by the Kern County Board of Supervisors, and administered by the Kern County Treasurer and Tax Collector. Investments in the Pool are highly liquid as deposits and withdrawals can be made at anytime without penalty. The Pool does not impose a maximum investment limit.

The Kern County's bank deposits are either Federally insured or collateralized in accordance with the California Government Code. Pool detail may be obtained from the Kern County Treasurer and Tax Collector's website at www.kcttc.co.kern.ca.us.

Bear Valley Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2012

(2) Cash and Cash Equivalents, continued

Investment in the California State Investment Pool

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

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District's investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. Of the bank balance, up to \$250,000 is federally insured. The remaining balance is to be collateralized by the bank.

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Code and the District's investment policy contains legal and policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as the Kern County Pool or LAIF).

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The longer the maturity an investment has the greater its fair value has sensitivity to changes in market interest rates. The District's investment policy follows the Code as it relates to limits on investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization; however, the Kern County Pool and LAIF are not rated.

Concentration of Credit Risk

The District's investment policy does not contain various limitations on the amounts that can be invested in any one governmental agency or non-governmental issuer as stipulated by the California Government Code. The District's deposit portfolio with governmental agencies, Kern County is 68% and LAIF is 29% as of June 30, 2012, of the District's total depository and investment portfolio.

Bear Valley Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2012

(3) Accounts Receivable – Utilities, net

The accounts receivable – utilities, net balance consists of the following balances as of June 30, 2012.

	<u>Water</u>	<u>Wastewater</u>	<u>Solid Waste</u>	<u>Total</u>
Accounts receivable – utilities	\$ 418,971	74,780	61,723	555,474
Allowance for uncollectible receivables	(93,659)	-	-	(93,659)
Accounts receivable – utilities, net	<u>\$ 325,312</u>	<u>74,780</u>	<u>61,723</u>	<u>461,815</u>

(4) Internal Balances

Due To/From Other Funds

Internal balances consist of the following as of June 30, 2012.

<u>Purpose</u>	<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Advancement	General	Water	\$ <u>181,843</u>
Advancement	General	Wastewater	\$ <u>68,157</u>

The General fund advanced the Water fund \$250,000 in 2012 due to a negative cash position in that fund. The advancement bears interest at the current LAIF interest earned rate per quarter and is expected to be repaid in fiscal year 2012.

Interfund Operational Transfers

Interfund transfers consist of the following for the year ended June 30, 2012.

<u>Transfer from</u>	<u>Transfer to</u>	<u>Amount</u>
General	Post Office	\$ <u>15,835</u>
Roads	Water	\$ <u>26,916</u>
Supp Law	General	\$ <u>96,807</u>
General	Wastewater	\$ <u>21,686</u>

Interfund transfers are used to move revenues received in the General fund to the Post Office fund to absorb the Post Office fund's operating deficit, to repay the General Fund for purchases made for the Supplemental Law Enforcement Fund prior to the fund receiving its annual funding and for the Wastewater fund to repay the Water fund. Other transfers were for operating transfers between funds.

Bear Valley Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2012

(5) Improvement District Bonds Receivable

The District maintains the records for Improvement District No. 95-1. The Improvement District was established under the Municipal Improvement Act of 1913 and the improvement bonds that were issued were partially financed with 1915 Improvement Act Bonds. The District accounts for the Improvement District No. 95-1 under GASB No. 6, *Accounting and Financial Reporting for Special Assessments*. The Improvement District has levied a special assessment amongst the property owners to repay the improvement bonds that were issued. Since the District is not directly liable for the improvement district debt and it is expected that all such debt will be repaid from the property owners via the special assessment and not the District's general revenues, the improvement district debt is not included on the District's financial statements. The District acts solely as an agent for the bondholders in collecting and forwarding the special assessments to pay-off the debt. As of June 30, 2012, the Improvement District No. 95-1 bonds outstanding totaled \$520,000.

The District had elected to hold the Improvement District No. 95-1 Bonds rather than to sell them on the open market. Since the District has elected to hold these bonds, the District is entitled to receive the special assessment payments from the property owners to pay-down these bonds. The Improvement District bonds receivable principal balance totaled \$520,000 as of June 30, 2012. The principal balance of \$130,000 is due and payable to the District each year until 2016.

(6) Deferred Charges, net

The deferred charges balance consists of the following as of June 30, 2012.

	<u>Amount</u>
General obligation bond issuance costs	\$ 576,169
Accumulated amortization	<u>(274,245)</u>
Deferred charges, net	<u>\$ 301,924</u>

Bear Valley Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2012

(7) Capital Assets

Governmental Activities

Changes in capital assets for the year were as follows:

	<u>Balance 2011</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance 2012</u>
Non-depreciable assets:				
Land	\$ 4,804,415	-	-	4,804,415
Construction-in-process	-	-	-	-
Total non-depreciable assets	<u>4,804,415</u>	<u>-</u>	<u>-</u>	<u>4,804,415</u>
Depreciable assets:				
Buildings and improvements	5,923,148	-	-	5,923,148
Infrastructure, streets and roads	23,912,036	267,311	-	24,179,347
Vehicles and equipment	1,755,168	86,807	-	1,841,975
Total depreciable assets	<u>31,590,352</u>	<u>354,118</u>	<u>-</u>	<u>31,944,470</u>
Accumulated depreciation:				
Buildings and improvements	(3,813,310)	(87,621)	-	(3,900,931)
Infrastructure, streets and roads	(21,600,603)	(332,714)	-	(21,933,317)
Vehicles and equipment	(1,407,886)	(85,499)	-	(1,493,385)
Total accumulated depreciation	<u>(26,821,799)</u>	<u>(505,834)</u>	<u>-</u>	<u>(27,327,633)</u>
Total depreciable assets, net	<u>4,768,553</u>	<u>(151,716)</u>	<u>-</u>	<u>4,616,837</u>
Total capital assets, net	<u>\$ 9,572,968</u>			<u>9,421,252</u>

Major capital asset additions in the governmental activities area include road improvements and law enforcement equipment.

Depreciation expense under governmental activities was allotted as follows for the year ended June 30, 2012.

	<u>Depreciation Expense</u>
General government	\$ 67,534
Public safety	49,981
Streets and roads	<u>388,319</u>
Total	<u>\$ 505,834</u>

Bear Valley Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2012

(7) Capital Assets, continued

Business-Type Activities

Changes in capital assets for the year were as follows:

	<u>Balance 2011</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance 2012</u>
Non-depreciable assets:				
Land	\$ 3,662,053	-	-	3,662,053
Construction in progress	29,500	-	(29,500)	-
Total non-depreciable assets	<u>3,691,553</u>	<u>-</u>	<u>(29,500)</u>	<u>3,662,053</u>
Depreciable assets:				
Water transmission and distribution	14,017,883	247,312	-	14,265,195
Wastewater collection	4,677,114	12,134	-	4,689,248
Solid waste collection	156,231	-	-	156,231
Vehicles and equipment	797,407	-	-	797,407
Total depreciable assets	<u>19,648,635</u>	<u>259,446</u>	<u>-</u>	<u>19,908,081</u>
Accumulated depreciation:				
Water transmission and distribution	(7,488,874)	(367,097)	-	(7,855,971)
Wastewater collection	(3,564,473)	(73,372)	-	(3,637,845)
Solid waste collection	(94,061)	(9,643)	-	(103,704)
Vehicles and equipment	(657,634)	14,065	-	(643,569)
Total accumulated depreciation	<u>(11,805,042)</u>	<u>(436,047)</u>	<u>-</u>	<u>(12,241,089)</u>
Total depreciable assets, net	<u>7,843,593</u>	<u>(176,601)</u>	<u>-</u>	<u>7,666,992</u>
Total capital assets, net	<u>\$ 11,535,146</u>			<u>11,329,045</u>

Major capital asset additions in the business-type activities area include transmission, distribution and collection system upgrades and various other projects. A significant portion of these additions were constructed by the District and/or sub-contractors and transferred out of construction-in-process upon completion of these various projects.

Bear Valley Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2012

(7) Capital Assets, continued

A summary of changes of capital assets per Enterprise Funds are as follows:

Water Enterprise	Balance 2011	Additions	Deletions/ Transfers	Balance 2012
Non-depreciable assets:				
Land	\$ 3,647,319	-	-	3,647,319
Construction in progress	29,500	-	(29,500)	-
Total non-depreciable assets	3,676,819	-	(29,500)	3,647,319
Depreciable assets:				
Water transmission and distribution	14,017,883	247,312	-	14,265,195
Vehicles and equipment	544,235	-	-	544,235
Total depreciable assets	14,562,118	247,312	-	14,809,430
Accumulated depreciation:				
Water transmission and distribution	(7,488,874)	(367,097)	-	(7,855,971)
Vehicles and equipment	(469,084)	17,426	-	(451,658)
Total accumulated depreciation	(7,957,958)	(349,671)	-	(8,307,629)
Total depreciable assets, net	6,604,160	(102,359)	-	6,501,801
Total capital assets, net	\$ 10,280,979			10,149,120
<hr/>				
Wastewater Enterprise	Balance 2011	Additions	Deletions/ Transfers	Balance 2012
Non-depreciable assets:				
Land	\$ 14,734	-	-	14,734
Total non-depreciable assets	14,734	-	-	14,734
Depreciable assets:				
Wastewater collection	4,677,114	12,134	-	4,689,248
Vehicles and equipment	102,291	-	-	102,291
Total depreciable assets	4,779,405	12,134	-	4,791,539
Accumulated depreciation:				
Wastewater collection	(3,564,473)	(73,372)	-	(3,637,845)
Vehicles and equipment	(61,969)	(11,979)	-	(73,948)
Total accumulated depreciation	(3,626,442)	(85,351)	-	(3,711,793)
Total depreciable assets, net	1,152,963	(73,217)	-	1,079,746
Total capital assets, net	\$ 1,167,697			1,094,480
<hr/>				
Solid Waste Enterprise	Balance 2011	Additions	Deletions/ Transfers	Balance 2012
Depreciable assets:				
Solid waste collection	\$ 156,231	-	-	156,231
Vehicles and equipment	150,881	-	-	150,881
Total depreciable assets	307,112	-	-	307,112
Accumulated depreciation:				
Solid waste collection	(94,061)	(9,643)	-	(103,704)
Vehicles and equipment	(126,581)	8,618	-	(117,963)
Total accumulated depreciation	(220,642)	(1,025)	-	(221,667)
Total depreciable assets, net	86,470	(1,025)	-	85,445
Total capital assets, net	\$ 86,470			85,445

Bear Valley Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2012

(8) Compensated Absences

The District provides employees with compensated absence benefits as follows:

<u>Description</u>	<u>Benefit per year</u>	<u>Vesting</u>	<u>Maximum</u>	<u>Excess payment</u>
Sick leave	12 days-classified 14 days-management	5 years = 50% on departure 10 years = 100% on departure	480 hours	As of Nov. 30th 50% of hours >480 10 years = 100% of hours >480
Vacation	10 days (years 2-5) 15 days (years 6-15) 20 days (years 16-20) 25 days (years 21+)	1 year = 100% on departure	320 hours	Capped at 320 hours
Comp time	1.5 hours off for each 1 hour OT worked (employee's choice)	No minimum time required	120 hours	District may buy excess of 40 hours in June each year

- The District's obligation relating to employees' rights to receive compensation for future absences is attributable to employees' services already rendered.
- The obligation related to rights that vest or accumulate.
- Payment of the compensation is probable.
- The amount can be reasonable estimated.

Changes in compensated absences as of June 30, 2012, were as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Compensated absences, beginning	\$ 201,371	116,159
Current year employee earnings	201,564	68,523
Employee time taken	<u>(174,239)</u>	<u>(33,208)</u>
Compensated absences, ending	228,696	151,474
Less: current portion payable	<u>(57,182)</u>	<u>(37,869)</u>
Long-term portion payable	<u>\$ 171,514</u>	<u>113,605</u>

Bear Valley Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2012

(9) Bond Payable

Changes in bond payable for the year ended June 30, 2012 is as follows:

	<u>Balance</u> <u>2011</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>2012</u>
General obligation bonds	\$ 2,410,000	-	(305,000)	2,105,000
Less: current portion due	(305,000)			(310,000)
Long-term portion due	<u>\$ 2,105,000</u>			<u>1,795,000</u>

General Obligation Bonds

In fiscal year 2003, the District issued \$4,530,000 in Bear Valley Community Services District Improvement District No. 2 General Obligation Bonds, 2002 Series A. The proceeds of the 2002 Bonds were used to finance certain water system improvements and refund the District's 1995 Bonds. The 2002 Bonds are general obligations bonds of the District and the Board of Directors of the District has the power and is obligated to levy an annual ad valorem tax for payment of the 2002 Bonds and the interest thereon upon all property within the Improvement District subject to taxation by the District (except certain personal property which is taxable at limited rates) without limitation as to the rate amount.

The bonds are scheduled to mature in fiscal year 2031. Interest is payable semi-annually on September 1st and March 1st each year at an escalating rate from 1.75% to 4.75% while principal installments ranging from \$50,000 to \$345,000 are payable each year on September 1st. Annual debt service requirements on the bonds are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 310,000	81,140	391,140
2014	320,000	69,715	389,715
2015	335,000	57,183	392,183
2016	345,000	43,750	388,750
2017	50,000	35,788	85,788
2018-2022	295,000	141,409	436,409
2023-2027	365,000	65,154	430,154
2028	85,000	2,019	87,019
Totals	<u>2,105,000</u>	<u>496,158</u>	<u>2,601,158</u>
Current portion due	<u>(310,000)</u>		
Long-term portion	<u>\$ 1,795,000</u>		

Bear Valley Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2012

(10) Loans Payable

Changes in loans payable for the year ended June 30, 2012 are as follows:

	<u>Balance</u> <u>2011</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>2012</u>
Water fund:				
CIEBD - Loan	\$ 2,539,842	-	(81,380)	2,458,462
Wastewater fund:				
SWRCB - Loan	542,988	-	(108,598)	434,390
CIEBD - Loan	530,911	-	(17,010)	513,901
Total loans payable	3,613,741	-	(206,988)	3,406,753
Less: current portion due	(209,958)			(212,927)
Long-term portion due	\$ 3,403,783			3,193,826

Water and Wastewater Funds

California Infrastructure and Economic Development Bank (CIEDB) Loan

In fiscal year 2004, the District entered into financing agreements with the California Infrastructure and Economic Development Bank (CIEDB). Under terms of these agreements, CIEDB issued tax-exempt bonds with proceeds in the amount of \$5,048,600 to be provided to the District. These proceeds will be used for water and wastewater system improvements.

The CIEDB – Loan is scheduled to mature in fiscal year 2033. Interest is payable semi-annually on August 1st and February 1st each year at a rate of 2.93% while escalating principal installments ranging from \$90,302 to \$188,857 are payable each year on August 1st. Annual debt service requirements on the loan are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 104,330	85,475	189,805
2014	107,386	82,373	189,759
2015	110,533	79,181	189,714
2016	113,772	75,894	189,666
2017	117,105	72,512	189,617
2018-2022	639,049	308,254	947,303
2023-2027	738,320	261,585	999,905
2028-2032	853,011	91,158	944,169
2033	188,857	2,723	191,580
Total	2,972,363	1,059,155	4,031,518
Current portion due	(104,330)		
Long-term portion	\$ 2,868,033		

Bear Valley Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2012

(10) Loans Payable, continued

State Water Resources Control Board (SWRCB) Loan

In fiscal year 1995, the District entered into a loan financing agreement with the State Water Resources Control Board (SWRCB). The SWRCB issued the District \$2,171,950 under the State Revolving Fund Loan Contract. In fiscal year 1996, the District paid the SWRCB \$361,999 in exchange for reducing the existing 3.10% interest rate loan to a zero interest loan. The \$361,999 has been recorded as a prepaid expense in the Wastewater Fund's statement of net assets and is being amortized to interest expense over the twenty-year loan payment period. As of June 30, 2012, the remaining unamortized interest balance is as follows:

	Amount
Prepaid interest	\$ 361,999
Accumulated amortization	(297,762)
Prepaid interest, net	\$ 64,237

The SWRCB – Loan is scheduled to mature in fiscal year 2016. Principal installments of \$108,597.50 are payable each year on January 13th. Annual principal installments on the loan are as follows:

Year	Principal
2013	\$ 108,597
2014	108,598
2015	108,598
2016	108,597
Total	434,390
Current portion due	(108,597)
Long-term portion	\$ 325,793

Bear Valley Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2012

(11) Net Investment in Capital Assets

The calculations of net investment in capital assets are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
The balance consists of the following:		
Capital assets – not being depreciated	\$ 4,804,415	3,662,053
Capital assets – being depreciated, net	4,616,837	7,666,992
Bond payable – current portion	(310,000)	-
Loans payable – current portion	-	(212,927)
Bond payable – long-term portion	(1,795,000)	-
Loans payable – long-term portion	-	(3,193,826)
Total	<u>\$ 7,316,252</u>	<u>7,922,292</u>

(12) Restricted Net Assets

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Net assets are restricted as follows:		
Street and road improvements	\$ 2,184,746	-
Debt service	328,813	-
Public safety (COPS Program)	44,984	-
Improvement bond	-	520,000
Total	<u>\$ 2,558,543</u>	<u>520,000</u>

(13) Unrestricted Net Assets

The District’s Board of Directors has designated the use of the District’s June 30, 2012 unrestricted net assets as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Net assets are designated as follows:		
Unemployment compensation	\$ 55,201	-
Emergency reserve	156,087	-
Police contingencies	224,660	-
Six-month operating reserve	2,364,629	-
Deferred charges, net	301,924	-
Prepaid expenses	-	64,237
Water operations	-	691,927
Water capital replacement	-	1,076,862
Wastewater operations	-	230,234
Wastewater capital replacement	-	152,031
Solid waste operations	-	428,314
Solid waste capital replacement	-	222,591
Total	<u>\$ 3,102,501</u>	<u>2,866,196</u>

Six-Month Operating Reserve

The District’s general government and public safety activities receives the bulk of its funding from the Kern County Tax Collector at the end of the months of December and April, which coincides with the property tax payment dates of December 10 and April 10 each year. Each fiscal year, the District will need to utilize its six-month operating reserve until this funding is received.

Bear Valley Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2012

(14) CalPERS Side-Fund Payoff

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

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

In 2012, the District decided to payoff its Side-Fund obligation of \$221,711 for Safety employees and \$7,309 for Miscellaneous employees for a total of \$229,020, resulting in an economic gain of approximately \$64,770 from the interest expense savings on the pension-related debt, and has recorded the expense as a prior period adjustment due to its origination in a prior fiscal year.

(15) Deferred Compensation Savings Plan

For the benefit of its employees, the District participates in a 457 Deferred Compensation Program (Program). The purpose of this Program is to provide deferred compensation for public employees that elect to participate in the Program. Generally, eligible employees may defer receipt of a portion of their salary until termination, retirement, death or unforeseeable emergency. Until the funds are paid or otherwise made available to the employee, the employee is not obligated to report the deferred salary for income tax purposes.

Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of the participants. Accordingly, the District is in compliance with this legislation. Therefore, these assets are not the legal property of the District, and are not subject to claims of the District's general creditors. Market value of all plan assets held in trust by CalPERS at June 30, 2012 was \$517,368.

The District has implemented GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. Since the District has little administrative involvement and does not perform the investing function for this plan, the assets and related liabilities are not shown on the statement of net assets.

Bear Valley Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2012

(16) Defined Benefit Pension Plan

Plan Description

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

Funding Policy

The contribution rate for plan members in the CalPERS 2.0% at 50 Risk Pool Retirement Plan for Safety Employees is 9% and CalPERS 2.0% at 55 Risk Pool Retirement Plan for Miscellaneous Employees is 7% of their annual covered salary. The District paid 0% of the Safety Employees member portion and the District paid all of the Miscellaneous Employees 7% member portion. Also, the District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The required employer contribution rates are equal to the annual pension cost (APC) percentage of payroll for fiscal years 2012, 2011 and 2010 as noted below. The contribution requirements of the plan members are established by State statute, and the employer contribution rate is established and may be amended by CalPERS. For fiscal years 2012, 2011 and 2010, the District's annual contributions for the CalPERS plan were equal to the District's required and actual contributions for each fiscal year as follows:

Three Years CalPERS Funding Information – Safety Employees Plan

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation	APC Percentage of Payroll
2009-2010	\$ 104,772	100%	\$ -	20.215%
2010-2011	107,655	100%	-	20.128%
2011-2012	130,618	100%	-	26.421%

Three Years CalPERS Funding Information – Miscellaneous Plan

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation	APC Percentage of Payroll
2009-2010	\$ 140,320	100%	\$ -	8.244%
2010-2011	144,837	100%	-	8.515%
2011-2012	181,989	100%	-	9.576%

Bear Valley Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2012

(17) Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of the Special District Risk Management Authority (SDRMA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California special districts. The purpose of the SDRMA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage. At June 30, 2012, the District participated in the liability and property programs of the SDRMA as follows:

- General and auto liability, public officials and employees' errors and omissions: Total risk financing self-insurance limits of \$2,500,000, combined single limit at \$2,500,000 per occurrence. The District purchased additional excess coverage layers: \$10,000,000 for general, auto and public officials liability, which increases the limits on the insurance coverage noted above.

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

- Employee dishonesty coverage up to \$400,000 per loss includes public employee dishonesty, forgery or alteration and theft, disappearance and destruction coverage's.
- Property loss is paid at the replacement cost for property on file, if replaced within two years after the loss, otherwise paid on an actual cash value basis, to a combined total of \$750 million per occurrence, subject to a \$2,000 deductible per occurrence.
- Boiler and machinery coverage for the replacement cost up to \$100 million per occurrence, subject to a \$1,000 deductible per occurrence.
- Public officials personal liability up to \$500,000 each occurrence, with an annual aggregate of \$100,000 per each elected/appointed official to which this coverage applies, subject to the terms, with a deductible of \$500 per claim.
- Workers' compensation insurance up to \$100 million per occurrence and Employer's Liability Coverage up to \$5 million.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years. There were no reductions in insurance coverage in fiscal year 2012, 2011 and 2010. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of June 30, 2012, 2011 and 2010.

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

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2012, that have effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 60

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

Bear Valley Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2012

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

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2012, that have effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 61

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

Governmental Accounting Standards Board Statement No. 62

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

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

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

Governmental Accounting Standards Board Statement No. 63

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This standard is designed to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. This statement is effective for financial statements for periods beginning after December 15, 2012. The District estimates that this statement will not have a material impact on the presentation of the basic financial statements.

Governmental Accounting Standards Board Statement No. 65

In March 2012, the GASB issued Statement No. 65 – *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. The District estimates that this statement will not have a material impact on the presentation of the basic financial statements.

Bear Valley Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2012

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

Governmental Accounting Standards Board Statement No. 66

In March 2012, the GASB issued Statement No. 66 – *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. The District estimates that this statement will not have a material impact on the presentation of the basic financial statements.

Governmental Accounting Standards Board Statement No. 68

In June 2012, the GASB issued Statement No. 68 – *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. The provisions of Statement 68 are effective for fiscal years beginning after June 15, 2014. The impact of the implementation of this Statement to the District’s financial statements has not been assessed at this time.

(19) Commitments and Contingencies

Litigation

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

Grant Awards

Grant funds received by the District are subject to audit by the grantor agencies. Such audit could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under terms of the grant. Management of the District believes that such disallowances, if any, would not be significant.

(20) Subsequent Events

Events occurring after June 30, 2012 have been evaluated for possible adjustment to the financial statements or disclosure as of November 30, 2012, which is the date the financial statements were available to be issued.

Required Supplementary Information

Bear Valley Community Services District
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual – General Fund – Major Fund
For the Year Ended June 30, 2012

	<u>Adopted Original Budget</u>	<u>Board Approved Changes</u>	<u>Revised Final Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance Positive (Negative)</u>
Revenues:					
Property taxes	\$ 1,405,584	-	1,405,584	1,436,378	30,794
Voter-approved taxes	551,718	-	551,718	549,066	(2,652)
Charges for services	404,988	-	404,988	404,372	(616)
Federal and state aid	9,100	-	9,100	-	(9,100)
Interest earnings	27,993	-	27,993	22,839	(5,154)
Rents and royalties	27,555	-	27,555	-	(27,555)
Other	101,400	-	101,400	73,893	(27,507)
Total revenues	<u>2,528,338</u>	<u>-</u>	<u>2,528,338</u>	<u>2,486,548</u>	<u>(41,790)</u>
Expenditures:					
General government	131,142	-	131,142	95,086	36,056
Public safety	2,409,869	44,208	2,454,077	2,422,679	31,398
Capital outlay	-	-	-	86,807	(86,807)
Total expenditures	<u>2,541,011</u>	<u>44,208</u>	<u>2,585,219</u>	<u>2,604,572</u>	<u>(19,353)</u>
Excess(deficiency) of revenues over expenditures	<u>(12,673)</u>	<u>(44,208)</u>	<u>(56,881)</u>	<u>(118,024)</u>	<u>(61,143)</u>
Other financing sources(uses):					
CalPERS side-fund payoff	-	(229,020)	(229,020)	(229,020)	-
Operating transfers	(6,448)	(22,404)	(28,852)	59,286	88,138
Net change in fund balance	<u>(19,121)</u>	<u>(295,632)</u>	<u>(314,753)</u>	<u>(287,758)</u>	<u>26,995</u>
Fund balance, beginning of year	<u>3,279,554</u>	<u>-</u>	<u>3,279,554</u>	<u>3,279,554</u>	
Fund balance, end of year	<u>\$ 3,260,433</u>	<u>(295,632)</u>	<u>2,964,801</u>	<u>2,991,796</u>	

(1) Budgets and Budgetary Data

The District follows specific procedures in establishing the budgetary data reflected in the financial statements. Each year the District's General Manager prepares and submits an operating and capital budget to the Board of Directors no later than June. The basis used to prepare the budget does not differ substantially from the modified accrual basis of accounting. The adopted budget becomes operative on July 1. The Board of Directors must approve all supplemental appropriations to the budget and transfers between major accounts.

Bear Valley Community Services District
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual – Road Fund – Major Fund
For the Year Ended June 30, 2012

	<u>Adopted Original Budget</u>	<u>Board Approved Changes</u>	<u>Revised Final Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance Positive (Negative)</u>
Revenues:					
Special assessments	\$ 1,167,174	-	1,167,174	1,196,182	29,008
Interest earnings	20,630	-	20,630	13,347	(7,283)
Other	16,600	-	16,600	13,208	(3,392)
Total revenues	<u>1,204,404</u>	<u>-</u>	<u>1,204,404</u>	<u>1,222,737</u>	<u>18,333</u>
Expenditures:					
Streets and roads	950,291	1,340	951,631	905,118	46,513
Capital outlay	240,000	-	240,000	267,311	(27,311)
Total expenditures	<u>1,190,291</u>	<u>1,340</u>	<u>1,191,631</u>	<u>1,172,429</u>	<u>19,202</u>
Excess(deficiency) of revenues over expenditures	<u>14,113</u>	<u>(1,340)</u>	<u>12,773</u>	<u>50,308</u>	<u>37,535</u>
Other financing sources(uses):					
Operating transfers	-	-	-	(26,916)	(26,916)
Net change in fund balance	14,113	(1,340)	12,773	23,392	<u>10,619</u>
Fund balance, beginning of year	<u>2,227,863</u>	<u>-</u>	<u>2,227,863</u>	<u>2,227,863</u>	
Fund balance, end of year	<u>\$ 2,241,976</u>	<u>(1,340)</u>	<u>2,240,636</u>	<u>2,251,255</u>	

Bear Valley Community Services District
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual – Supplemental Law Enforcement – Major Fund
For the Year Ended June 30, 2012

	<u>Adopted Original Budget</u>	<u>Board Approved Changes</u>	<u>Revised Final Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance Positive (Negative)</u>
Revenues:					
Federal and state aid	\$ 100,000	-	100,000	100,000	-
Interest earnings	-	-	-	-	-
Total revenues	<u>100,000</u>	<u>-</u>	<u>100,000</u>	<u>100,000</u>	<u>-</u>
Expenditures:					
Public safety	-	-	-	30,482	(30,482)
Capital outlay	100,000	41,237	141,237	-	141,237
Total expenditures	<u>100,000</u>	<u>41,237</u>	<u>141,237</u>	<u>30,482</u>	<u>110,755</u>
Excess(deficiency) of revenues over expenditures	<u>-</u>	<u>(41,237)</u>	<u>(41,237)</u>	<u>69,518</u>	<u>110,755</u>
Net change in fund balance	<u>-</u>	<u>(41,237)</u>	<u>(41,237)</u>	<u>69,518</u>	<u>110,755</u>
Other financing sources(uses):					
Operating transfers	-	-	-	(96,807)	(96,807)
Net change in fund balance	<u>-</u>	<u>(41,237)</u>	<u>(41,237)</u>	<u>(27,289)</u>	<u>13,948</u>
Fund balance, beginning of year	<u>72,273</u>	<u>-</u>	<u>72,273</u>	<u>72,273</u>	
Fund balance, end of year	<u>\$ 72,273</u>	<u>(41,237)</u>	<u>31,036</u>	<u>44,984</u>	

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Other Supplemental Information

Bear Valley Community Services District
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual – Bond Redemption Fund – Debt Service Fund
For the Year Ended June 30, 2012

	<u>Adopted Original Budget</u>	<u>Board Approved Changes</u>	<u>Revised Final Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance Positive (Negative)</u>
Revenues:					
Voter-approved taxes	\$ 346,648	-	346,648	353,621	6,973
Interest earnings	2,093	-	2,093	1,396	(697)
Rents and royalties	30,955	-	30,955	40,179	9,224
Total revenues	<u>379,696</u>	<u>-</u>	<u>379,696</u>	<u>395,196</u>	<u>15,500</u>
Expenditures:					
Debt service:					
General government	-	-	-	1,611	-
Bond payments	305,000	-	305,000	305,000	-
Interest paid	92,703	-	92,703	91,902	801
Total expenditures	<u>397,703</u>	<u>-</u>	<u>397,703</u>	<u>398,513</u>	<u>801</u>
Excess(deficiency) of revenues over expenditures	<u>(18,007)</u>	<u>-</u>	<u>(18,007)</u>	<u>(3,317)</u>	<u>16,301</u>
Other financing sources(uses):					
Operating transfers	-	-	-	-	-
Net change in fund balance	<u>(18,007)</u>	<u>-</u>	<u>(18,007)</u>	<u>(3,317)</u>	<u>16,301</u>
Fund balance, beginning of year	<u>332,130</u>	<u>-</u>	<u>345,421</u>	<u>332,130</u>	
Fund balance, end of year	<u>\$ 314,123</u>	<u>-</u>	<u>327,414</u>	<u>328,813</u>	

Bear Valley Community Services District
Schedule of Revenues, Expenses and Changes in Net Assets
Budget and Actual – Water Fund
For the Year Ended June 30, 2012

	<u>Adopted Original Budget</u>	<u>Board Approved Changes</u>	<u>Revised Final Budget</u>	<u>Actual Basis</u>	<u>Variance Positive (Negative)</u>
Operating revenues:					
Water consumption sales	\$ 2,156,469	-	2,156,469	2,215,362	58,893
Other charges for services	54,800	-	54,800	41,060	(13,740)
Total operating revenues	<u>2,211,269</u>	<u>-</u>	<u>2,211,269</u>	<u>2,256,422</u>	<u>45,153</u>
Operating expenses:					
Salaries and benefits	801,865	-	801,865	782,626	19,239
Operations	1,078,636	3,995	1,082,631	1,048,490	34,141
Total operating expenses	<u>1,880,501</u>	<u>3,995</u>	<u>1,884,496</u>	<u>1,831,116</u>	<u>53,380</u>
Operating income(loss) before capital	330,768	(3,995)	326,773	425,306	98,533
Depreciation expense	-	-	-	(349,671)	349,671
Operating income(loss)	<u>330,768</u>	<u>(3,995)</u>	<u>326,773</u>	<u>75,635</u>	<u>(251,138)</u>
Non-operating revenue(expense):					
Interest earnings	21,656	-	21,656	10,892	(10,764)
Interest expense	(80,808)	-	(80,808)	(82,241)	1,433
Total non-operating, net	<u>(59,152)</u>	<u>-</u>	<u>(59,152)</u>	<u>(71,349)</u>	<u>(12,197)</u>
Capital contributions and purchases:					
Capital outlay	(185,000)	-	(185,000)	-	(185,000)
Standby charges	27,837	-	27,837	-	(27,837)
Capacity charges	15,110	-	15,110	22,665	7,555
Total capital contributions	<u>(142,053)</u>	<u>-</u>	<u>(142,053)</u>	<u>22,665</u>	<u>(164,718)</u>
Change in net assets	<u>129,563</u>	<u>(3,995)</u>	<u>125,568</u>	<u>26,951</u>	<u>(428,053)</u>
Other financing sources(uses):					
Operating transfers	-	-	-	26,916	26,916
Net assets, beginning of year	<u>9,405,581</u>	<u>-</u>	<u>9,405,581</u>	<u>9,405,581</u>	
Net assets, end of year	<u>\$ 9,535,144</u>	<u>(3,995)</u>	<u>9,531,149</u>	<u>9,459,448</u>	

Bear Valley Community Services District
Schedule of Revenues, Expenses and Changes in Net Assets
Budget and Actual – Wastewater Fund
For the Year Ended June 30, 2012

	<u>Adopted Original Budget</u>	<u>Board Approved Changes</u>	<u>Revised Final Budget</u>	<u>Actual Basis</u>	<u>Variance Positive (Negative)</u>
Operating revenues:					
Wastewater service charges	\$ 409,010	-	409,010	414,749	5,739
Other charges for services	300	-	300	2,564	2,264
Total operating revenues	<u>409,310</u>	<u>-</u>	<u>409,310</u>	<u>417,313</u>	<u>8,003</u>
Operating expenses:					
Salaries and benefits	297,989	-	297,989	302,747	(4,758)
Operations	142,724	22,405	165,129	140,771	24,358
Total operating expenses	<u>440,713</u>	<u>22,405</u>	<u>463,118</u>	<u>443,518</u>	<u>19,600</u>
Operating income(loss) before capital	(31,403)	(22,405)	(53,808)	(26,205)	27,603
Depreciation expense	-	-	-	(85,351)	85,351
Operating income(loss)	<u>(31,403)</u>	<u>(22,405)</u>	<u>(53,808)</u>	<u>(111,556)</u>	<u>(57,748)</u>
Non-operating revenue(expense):					
Interest earnings	3,652	-	3,652	2,459	(1,193)
Interest expense	(16,892)	-	(16,892)	(35,044)	18,152
Total non-operating, net	<u>(13,240)</u>	<u>-</u>	<u>(13,240)</u>	<u>(32,585)</u>	<u>(19,345)</u>
Capital contributions and purchases:					
Capital outlay	(15,000)	-	(15,000)	-	(15,000)
Standby charges	2,260	-	2,260	-	2,260
Capacity charges	-	-	-	6,529	6,529
Total capital contributions	<u>(12,740)</u>	<u>-</u>	<u>(12,740)</u>	<u>6,529</u>	<u>(21,529)</u>
Change in net assets	<u>(57,383)</u>	<u>(22,405)</u>	<u>(79,788)</u>	<u>(137,612)</u>	<u>(98,622)</u>
Other financing sources(uses):					
Operating transfers	-	22,404	22,404	21,686	(718)
Net assets, beginning of year	<u>1,228,616</u>	<u>-</u>	<u>1,228,616</u>	<u>1,228,616</u>	
Net assets, end of year	<u>\$ 1,171,233</u>	<u>(1)</u>	<u>1,171,232</u>	<u>1,112,690</u>	

Bear Valley Community Services District
Schedule of Revenues, Expenses and Changes in Net Assets
Budget and Actual – Solid Waste Fund
For the Year Ended June 30, 2012

	<u>Adopted Original Budget</u>	<u>Board Approved Changes</u>	<u>Revised Final Budget</u>	<u>Actual Basis</u>	<u>Variance Positive (Negative)</u>
Operating revenues:					
Solid waste collection charges	\$ 544,441	-	544,441	541,763	(2,678)
Other charges for services	200	-	200	2,138	1,938
Total operating revenues	<u>544,641</u>	<u>-</u>	<u>544,641</u>	<u>543,901</u>	<u>(740)</u>
Operating expenses:					
Salaries and benefits	183,788	-	183,788	175,257	8,531
Operations	310,057	-	310,057	316,967	(6,910)
Total operating expenses	<u>493,845</u>	<u>-</u>	<u>493,845</u>	<u>492,224</u>	<u>1,621</u>
Operating income(loss) before capital	50,796	-	50,796	51,677	881
Depreciation expense	-	-	-	(1,025)	(1,025)
Operating income(loss)	<u>50,796</u>	<u>-</u>	<u>50,796</u>	<u>50,652</u>	<u>1,906</u>
Non-operating revenue(expense):					
Interest earnings	4,938	-	4,938	3,319	(1,619)
Total non-operating, net	<u>4,938</u>	<u>-</u>	<u>4,938</u>	<u>3,319</u>	<u>(1,619)</u>
Capital contributions and purchases:					
Capital outlay	-	15,000	15,000	-	(15,000)
Total capital contributions	<u>-</u>	<u>15,000</u>	<u>15,000</u>	<u>-</u>	<u>(15,000)</u>
Change in net assets	<u>55,734</u>	<u>15,000</u>	<u>70,734</u>	<u>53,971</u>	<u>(14,713)</u>
Net assets, beginning of year	<u>658,856</u>	<u>-</u>	<u>658,856</u>	<u>682,379</u>	
Net assets, end of year	<u>\$ 714,590</u>	<u>15,000</u>	<u>729,590</u>	<u>736,350</u>	

Bear Valley Community Services District
Schedule of Revenues, Expenses and Changes in Net Assets
Budget and Actual – Post Office Fund
For the Year Ended June 30, 2012

	<u>Adopted Original Budget</u>	<u>Board Approved Changes</u>	<u>Revised Final Budget</u>	<u>Actual Basis</u>	<u>Variance Positive (Negative)</u>
Operating revenues:					
Post office box charges	\$ 38,950	-	38,950	30,645	(8,305)
Other charges for services	<u>2,325</u>	<u>-</u>	<u>2,325</u>	<u>2,318</u>	<u>(7)</u>
Total operating revenues	<u>41,275</u>	<u>-</u>	<u>41,275</u>	<u>32,963</u>	<u>(8,312)</u>
Operating expenses:					
Salaries and benefits	39,311	-	39,311	41,886	(2,575)
Operations	<u>8,412</u>	<u>-</u>	<u>8,412</u>	<u>6,912</u>	<u>1,500</u>
Total operating expenses	<u>47,723</u>	<u>-</u>	<u>47,723</u>	<u>48,798</u>	<u>(1,075)</u>
Operating income(loss) before capital	(6,448)	-	(6,448)	(15,835)	(9,387)
Depreciation expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Operating income(loss)	<u>(6,448)</u>	<u>-</u>	<u>(6,448)</u>	<u>(15,835)</u>	<u>(9,387)</u>
Non-operating revenue(expense):					
Interest earnings	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total non-operating, net	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Capital contributions and purchases:					
Capital outlay	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total capital contributions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets	<u>(6,448)</u>	<u>-</u>	<u>(6,448)</u>	<u>(15,835)</u>	<u>(9,387)</u>
Other financing sources(uses):					
Operating transfers	<u>6,448</u>	<u>-</u>	<u>6,448</u>	<u>15,835</u>	
Net assets, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Net assets, end of year	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	

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Statistical Section

**Bear Valley Community Services District
Statistical Section**

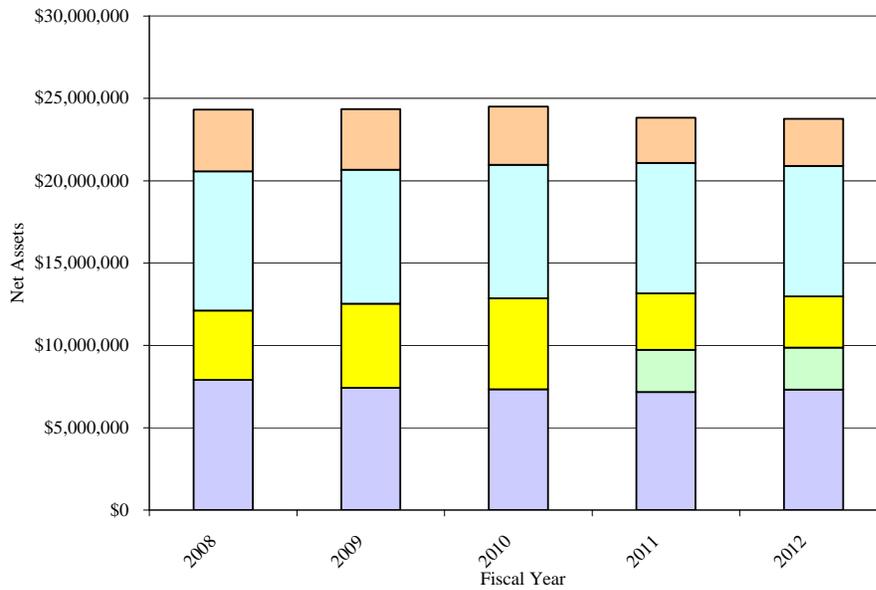
This part of the Bear Valley Community Services District’s comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures and required supplementary information says about the government’s overall financial health.

Contents	Page
<i>Financial Trends</i>	<i>61</i>
These schedules contain trend information to help the reader understand how the government’s financial performance and well-being have changed over time.	
<i>Revenue Capacity</i>	<i>67</i>
These schedules contain information to help the reader assess the government’s most significant local revenue source, the property tax. Additional information is provided for the agency’s other significant own-source revenue, water rates and charges.	
<i>Debt Capacity</i>	<i>73</i>
These schedules present information to help the reader assess the affordability of the government’s current levels of outstanding debt and the government’s ability to issue additional debt in the future.	
<i>Demographic and Economic Information</i>	<i>77</i>
These schedules offer demographic and economic indicators to help the reader understand the environment within which the government’s financial activities take place.	
<i>Operating Information</i>	<i>81</i>
These schedules contain service and infrastructure data to help the reader understand how the information in the government’s financial report relates to the services the government provides and the activities it performs.	

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial report.

Bear Valley Community Services District Net Assets by Component Last Five Fiscal Years

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Governmental activities					
Invested in capital assets, net of related debt	7,908,553	7,427,958	7,326,882	7,162,968	7,316,252
Restricted	-	-	-	2,571,722	2,558,543
Unrestricted	4,216,291	5,102,826	5,529,145	3,427,875	3,102,501
Total governmental activities net assets	<u>12,124,844</u>	<u>12,530,784</u>	<u>12,856,027</u>	<u>13,162,565</u>	<u>12,977,296</u>
Business-type activities					
Invested in capital assets, net of related debt	8,446,326	8,129,164	8,108,596	7,921,405	7,922,292
Restricted	-	-	-	650,000	520,000
Unrestricted	3,753,608	3,692,889	3,535,692	2,745,171	2,866,196
Total business-type activities net assets	<u>12,199,934</u>	<u>11,822,053</u>	<u>11,644,288</u>	<u>11,316,576</u>	<u>11,308,488</u>
Primary government					
Invested in capital assets, net of related debt	16,354,879	15,557,122	15,435,478	15,084,373	15,238,544
Restricted	-	-	-	3,221,722	3,078,543
Unrestricted	7,969,899	8,795,715	9,064,837	6,173,046	5,968,697
Total primary government net assets	<u>24,324,778</u>	<u>24,352,837</u>	<u>24,500,315</u>	<u>24,479,141</u>	<u>24,285,784</u>



Note: The District began to report accrual information when it implemented GASB Statement 34 in fiscal year 2005.

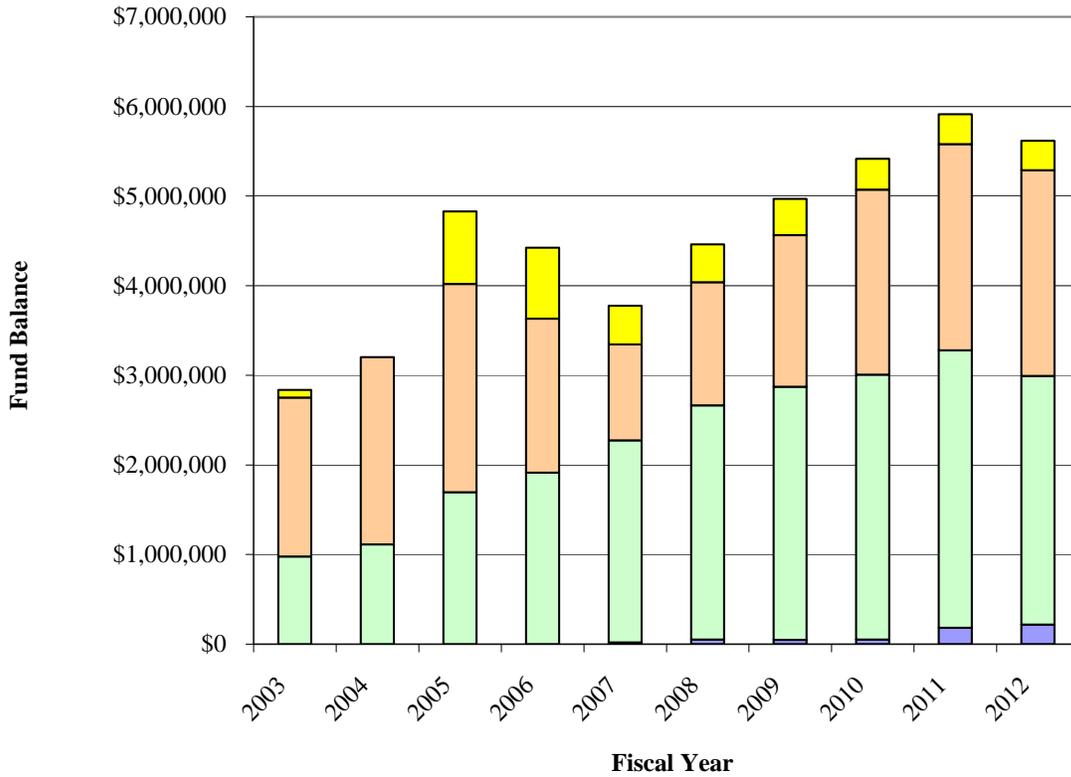
Bear Valley Community Services District
Changes in Net Assets
Last Five Fiscal Years

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Expenses					
Governmental activities:					
General government	\$ 153,306	129,117	231,959	228,845	216,106
Public safety	2,049,192	2,148,707	2,314,935	2,329,772	2,472,660
Streets and roads	1,206,404	1,413,192	1,215,221	1,306,067	1,299,402
Parks and recreation	-	-	130,010	120,242	108,125
Interest on long-term debt	145,589	138,360			
Total governmental activities expenses	<u>3,554,491</u>	<u>3,829,376</u>	<u>3,892,125</u>	<u>3,984,926</u>	<u>4,096,293</u>
Business-type activities:					
Water	2,580,769	2,730,138	2,418,407	2,365,576	2,263,028
Wastewater	624,276	636,048	655,946	674,229	563,913
Solid Waste	435,828	489,239	487,778	527,794	493,249
Post office	62,314	62,206	61,687	60,230	48,798
Total business-type activities:	<u>3,703,187</u>	<u>3,917,631</u>	<u>3,623,818</u>	<u>3,627,829</u>	<u>3,368,988</u>
Total primary government expenses	<u>7,257,678</u>	<u>7,747,007</u>	<u>7,515,943</u>	<u>7,612,755</u>	<u>7,465,281</u>
Program Revenues					
Governmental activities:					
Charges for services:					
General government	39,757	45,088	81,361	100,856	73,893
Public safety	335,067	385,665	424,014	385,809	404,372
Streets and roads	1,213,381	1,209,750	1,218,883	1,241,115	1,209,390
Interest on long-term debt	14,480	14,480	21,901	40,334	40,179
Operating grants and contributions	7,947	8,775	100,000	100,000	100,000
Capital grants and contributions	170,371	117,498	-		
Total governmental activities program revenues	<u>1,781,003</u>	<u>1,781,256</u>	<u>1,846,159</u>	<u>1,868,114</u>	<u>1,827,834</u>
Business-type activities:					
Charges for services:					
Water	2,163,588	2,457,211	2,333,175	2,241,350	2,256,422
Wastewater	389,739	413,618	417,962	409,959	417,313
Solid waste	534,044	540,497	552,975	547,267	543,901
Post office	26,217	28,013	29,038	32,235	32,963
Capital grants and contributions	148,103	10,108	52,885	9,870	29,194
Total business-type activities program revenues	<u>3,261,691</u>	<u>3,449,447</u>	<u>3,386,035</u>	<u>3,240,681</u>	<u>3,279,793</u>
Net (Expense)/Revenue					
Governmental activities	(1,773,488)	(2,048,120)	(2,045,966)	(2,116,812)	(2,268,459)
Business-type activities	(441,496)	(468,184)	(237,783)	(387,148)	(89,195)
Total primary government net expense	<u>(2,214,984)</u>	<u>(2,516,304)</u>	<u>(2,283,749)</u>	<u>(2,503,960)</u>	<u>(2,357,654)</u>
General Revenues and Other Changes in Net Assets					
Governmental activities:					
Property taxes	1,470,491	1,476,498	1,501,422	1,516,367	1,436,378
Voter-approved taxes	905,597	907,149	856,299	902,846	902,687
Investment income	166,022	104,606	46,137	42,813	37,582
CalPERS side-fund payoff	-	-	-		(229,020)
Transfers in (out)	(36,097)	(34,193)	(32,649)	(38,676)	(64,437)
Total governmental activities	<u>2,506,013</u>	<u>2,454,060</u>	<u>2,371,209</u>	<u>2,423,350</u>	<u>2,083,190</u>
Business-type activities:					
Investment income	99,547	56,110	27,369	20,760	16,670
Transfers in (out)	36,097	34,193	32,649	38,676	64,437
Total business-type activities	<u>135,644</u>	<u>90,303</u>	<u>60,018</u>	<u>59,436</u>	<u>81,107</u>
Total primary government	<u>2,641,657</u>	<u>2,544,363</u>	<u>2,431,227</u>	<u>2,482,786</u>	<u>2,164,297</u>
Changes in Net Assets					
Governmental activities	732,525	405,940	325,243	306,538	(185,269)
Business-type activities	(305,852)	(377,881)	(177,765)	(327,712)	(8,088)
Total primary government	<u>\$ 426,673</u>	<u>28,059</u>	<u>147,478</u>	<u>(21,174)</u>	<u>(193,357)</u>

Note: The Agency began to report accrual information when it implemented GASB Statement 34 in fiscal year 2005.

**Bear Valley Community Services District
Fund Balances, Governmental Funds
Last Ten Fiscal Years**

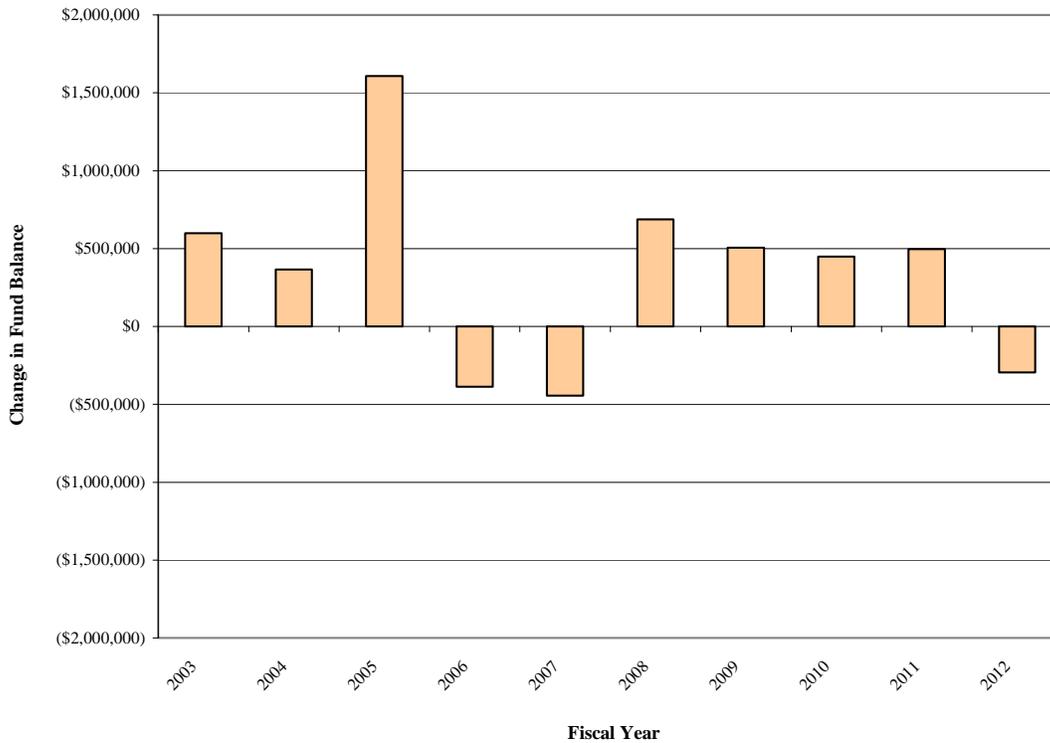
	Fiscal Year				
	2003	2004	2005	2006	2007
General Fund					
Reserved	\$ -	-	-	-	19,472
Unreserved	979,652	1,114,249	1,695,509	1,913,145	2,256,870
Total general fund	979,652	1,114,249	1,695,509	1,913,145	2,276,342
All Other Governmental Funds					
Reserved	\$ -	-	-	-	-
Unreserved:					
Special revenue	1,771,054	2,087,867	2,324,332	1,719,080	1,067,617
Debt service funds	86,308	-	807,895	790,647	430,073
Total all other governmental funds	1,857,362	2,087,867	3,132,227	2,509,727	1,497,690



Fiscal Year				
2008	2009	2010	2011	2012
50,511	47,448	51,741	184,908	217,421
<u>2,614,706</u>	<u>2,825,664</u>	<u>2,955,409</u>	<u>3,094,646</u>	<u>2,774,375</u>
<u>2,665,217</u>	<u>2,873,112</u>	<u>3,007,150</u>	<u>3,279,554</u>	<u>2,991,796</u>
-	-	-	-	-
1,373,221	1,691,317	2,063,554	2,300,136	2,296,239
<u>422,693</u>	<u>403,450</u>	<u>345,421</u>	<u>332,130</u>	<u>328,813</u>
<u>1,795,914</u>	<u>2,094,767</u>	<u>2,408,975</u>	<u>2,632,266</u>	<u>2,625,052</u>

**Bear Valley Community Services District
Changes in Fund Balances, Governmental Funds
Last Ten Fiscal Years**

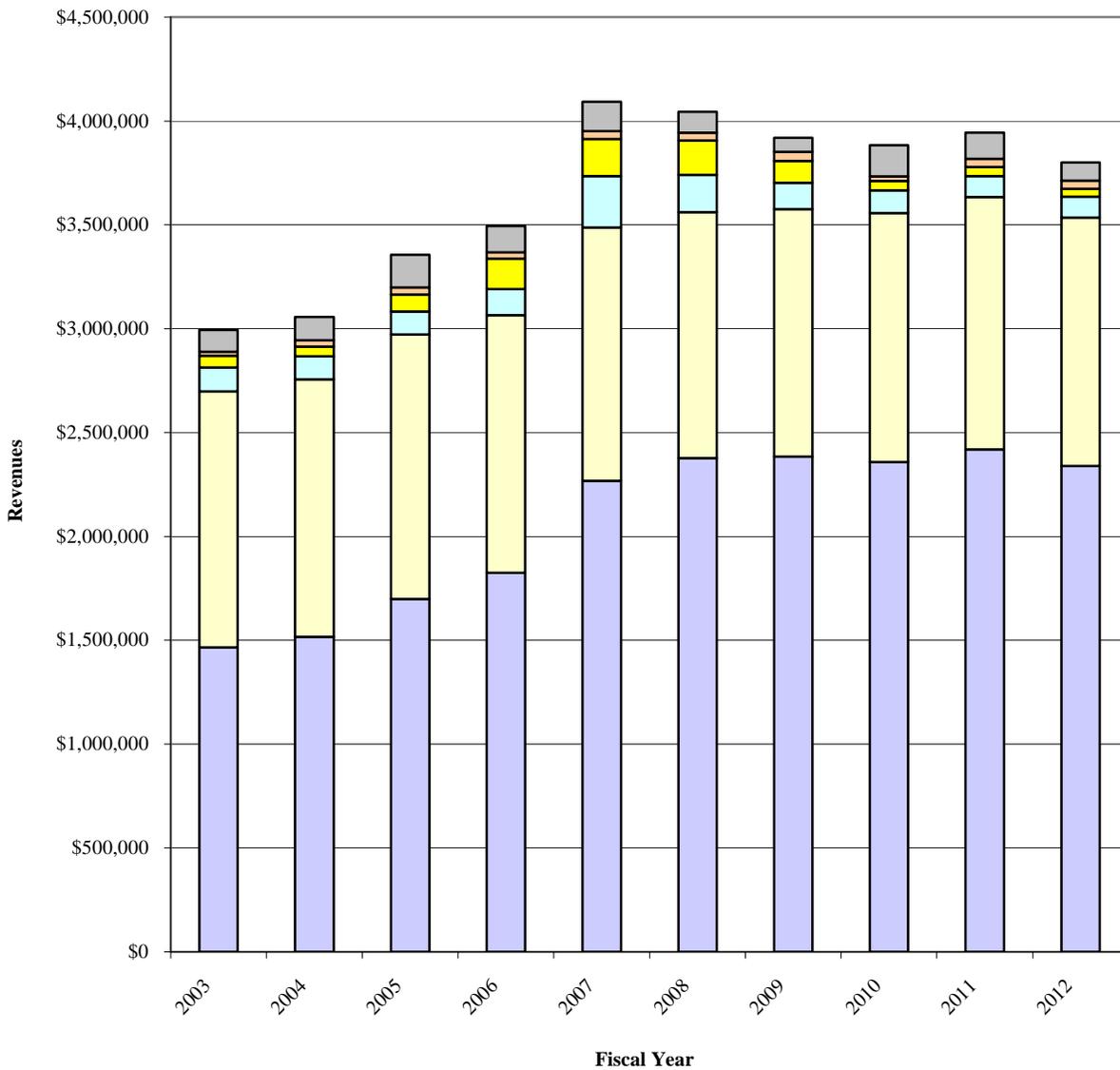
	Fiscal Year				
	2003	2004	2005	2006	2007
Revenues	\$ 2,994,192	3,055,666	3,356,765	3,493,767	4,092,951
Expenditures	<u>2,412,857</u>	<u>2,948,970</u>	<u>2,870,809</u>	<u>4,005,035</u>	<u>4,510,653</u>
Excess of revenues over (under) expenditures	<u>581,335</u>	<u>106,696</u>	<u>485,956</u>	<u>(511,268)</u>	<u>(417,702)</u>
Other Financing Sources (Uses)					
Sale of capital assets	63,912	182,800	700,666	157,268	-
CalPERS side-fund payoff	-	-	-	-	-
Operating transfers in(out)	<u>(46,370)</u>	<u>75,606</u>	<u>421,842</u>	<u>(50,864)</u>	<u>(26,901)</u>
Total Other Financing Sources (Uses)	<u>17,542</u>	<u>258,406</u>	<u>1,122,508</u>	<u>106,404</u>	<u>(26,901)</u>
Prior year adjustments	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,156</u>	<u>-</u>
Net change in fund balances	<u>\$ 598,877</u>	<u>365,102</u>	<u>1,608,464</u>	<u>(387,708)</u>	<u>(444,603)</u>
Debt service as a percentage of noncapital expenditures	13.1%	15.1%	15.6%	14.3%	12.7%



Fiscal Year				
2008	2009	2010	2011	2012
4,323,113	4,269,509	4,250,017	4,330,140	4,204,481
<u>3,599,917</u>	<u>3,728,568</u>	<u>3,769,122</u>	<u>3,795,769</u>	<u>4,205,996</u>
<u>723,196</u>	<u>540,941</u>	<u>480,895</u>	<u>534,371</u>	<u>(1,515)</u>
-	-	-	-	-
-	-	-	-	(229,020)
<u>(36,097)</u>	<u>(34,193)</u>	<u>(32,649)</u>	<u>(38,676)</u>	<u>(64,437)</u>
<u>(36,097)</u>	<u>(34,193)</u>	<u>(32,649)</u>	<u>(38,676)</u>	<u>(293,457)</u>
-	-	-	-	-
<u><u>687,099</u></u>	<u><u>506,748</u></u>	<u><u>448,246</u></u>	<u><u>495,695</u></u>	<u><u>(294,972)</u></u>
12.2%	11.2%	11.1%	10.8%	10.3%

**Bear Valley Community Services District
Governmental Funds Revenues
Last Ten Fiscal Years**

	Fiscal Year					
	2003	2004	2005	2006	2007	2008
Property taxes	\$ 1,465,391	1,515,960	1,698,795	1,825,403	2,267,749	2,376,088
Special property assessments	1,232,509	1,240,719	1,273,712	1,240,300	1,218,853	1,185,734
Charges for services	-	-	-	-	-	279,351
Federal/state aid	115,000	110,836	109,647	123,796	247,550	178,318
Interest	56,502	46,271	81,212	147,413	179,756	166,022
Rents and royalties	19,360	30,877	35,576	30,704	37,944	37,944
Other	105,430	111,003	157,823	126,151	141,099	99,656
Total governmental revenues	\$ 2,994,192	3,055,666	3,356,765	3,493,767	4,092,951	4,323,113

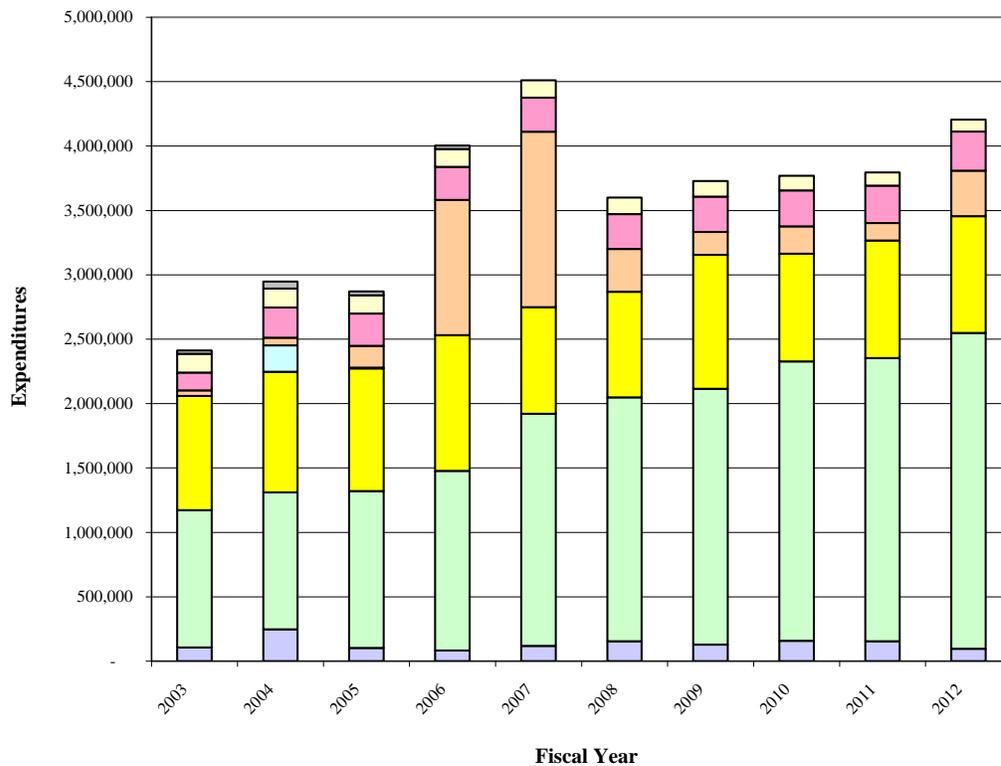


Fiscal Year

2009	2010	2011	2012
2,383,647	2,357,721	2,419,213	2,339,065
1,192,104	1,199,706	1,214,524	1,196,182
349,692	366,778	385,809	404,372
126,273	107,920	101,140	100,000
104,606	46,137	42,813	37,582
44,384	21,901	40,334	40,179
68,803	149,854	126,307	87,101
4,269,509	4,250,017	4,330,140	4,204,481

Bear Valley Community Services District Governmental Funds Expenditures Last Ten Fiscal Years

	Fiscal Year					
	2003	2004	2005	2006	2007	2008
General government	\$ 106,129	246,209	102,034	82,358	119,262	153,306
Public safety	1,067,301	1,065,187	1,218,355	1,394,221	1,802,181	1,894,283
Streets and roads	885,243	935,046	952,333	1,054,528	826,982	822,488
Parks and recreation	-	205,343	6,548	-	-	-
Capital outlay	43,589	60,512	170,300	1,052,012	1,363,044	331,798
Debt service:						
Principal	140,000	235,000	250,000	255,000	265,000	270,000
Interest	145,023	146,173	141,276	138,609	134,184	128,042
Amortization of bond discount	25,572	55,500	29,963	28,307	-	-
Total governmental expenditures	\$ 2,412,857	2,948,970	2,870,809	4,005,035	4,510,653	3,599,917



Fiscal Year

2009	2010	2011	2012
129,117	158,701	154,114	96,697
1,986,061	2,168,705	2,199,794	2,453,161
1,040,140	835,455	912,780	905,118
-	-	-	-
177,148	213,310	135,358	354,118
275,000	280,000	290,000	305,000
121,102	112,951	103,723	91,902
-	-	-	-
3,728,568	3,769,122	3,795,769	4,205,996

**Bear Valley Community Services District
Assessed Value and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years (in thousands)**

Fiscal Year	Real Property	Personal Property	Less: Tax Exempt Real Property	Total Taxable Assessed Value	Estimated Actual Taxable Value	Assessed Value¹ as a Percentage of Actual Value
2002	366,430	3,181	8,988	360,623	591,521	62.48%
2003	385,369	3,177	9,191	379,355	738,014	52.65%
2004	418,852	3,025	9,415	412,462	863,520	48.86%
2005	467,654	3,278	9,702	461,230	1,087,500	43.30%
2006	526,488	3,036	9,765	519,759	1,271,895	41.63%
2007	613,445	3,354	9,667	607,132	1,223,563	50.41%
2008	681,582	3,406	9,800	675,188	1,021,675	67.05%
2009	724,762	4,169	10,038	718,893	597,680	121.96%
2010	680,296	3,347	10,213	673,430	579,750	117.92%
2011	657,999	3,622	10,241	651,380	562,357	117.65%
2012	628,953	6,003	10,157	624,799	545,486	116.40%

Source: Kern County Auditor-Controller

Note: Estimated actual value is the prior year's actual value times the change in the median price for single family residences as reported by the California Association of Realtors for the Central Valley housing market.

¹ Includes tax-exempt property

**Bear Valley Community Services District
Direct and Overlapping Property Tax Rates
Last Ten Fiscal Years (rate per \$100 of assessed value)**

Fiscal Year	BVCSD Debt Service Rate	Overlapping						Total Direct & Overlapping Rates
		County Operating Rate ¹	TCCWD Debt Service Rate	KCWA Debt Service Rate	TUSD Debt Service Rate	TVHD Debt Service Rate ²	KCCD Debt Service Rate	
2003	0.071473	1.000000	0.124953	0.013881	0.096829			1.307136
2004	0.071632	1.000000	0.096978	0.015312	0.097077		0.011803	1.292802
2005	0.073532	1.000000	0.100100	0.014513	0.058577	0.026677	0.009176	1.282575
2006	0.065039	1.000000	0.101195	0.010638	0.057986	0.035246	0.009630	1.279734
2007	0.054344	1.000000	0.086239	0.008349	0.015944	0.007097	0.005283	1.177256
2008	0.048649	1.000000	0.089213	0.010017	0.043727	0.021849	0.008036	1.221491
2009	0.044993	1.000000	0.094669	0.008404	0.041620	0.018615	0.009053	1.217354
2010	0.043648	1.000000	0.066360	0.010943	0.045908	0.025048	0.009401	1.201308
2011	0.047701	1.000000	0.054584	0.009357	0.050094	0.023559	0.010117	1.195412
2012	0.054994	1.000000	0.038438	0.010320	0.057412	0.026277	0.008502	1.195943

Source: Kern County Treasurer-

BVCSD: Bear Valley Community Services District
TCCWD: Tehachapi-Cummings County Water District
KCWA: Kern County Water Agency
TUSD: Tehachapi Unified School District
TVHD: Tehachapi Valley Hospital District
KCCD: Kern Community College District

¹ Approximately 20% of the county general operating property tax is returned to BVCSD for public safety.

² Applies to most, but not all, taxable property in BVCSD.

**Bear Valley Community Services District
Property Tax Levies and Collections
Last Ten Fiscal Years**

Fiscal Year	Taxes Levied	Collected within the Fiscal Year of the Levy		Collections of Delinquent Amounts	Total Collections	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2002	743,853	727,801	97.84%	16,052	743,853	100.00%
2003	778,168	763,825	98.16%	14,343	778,168	100.00%
2004	828,036	814,454	98.36%	13,582	828,036	100.00%
2005	924,561	910,536	98.48%	14,025	924,561	100.00%
2006	1,032,982	1,014,902	98.25%	18,080	1,032,982	100.00%
2007	1,252,669	1,228,310	98.06%	24,359	1,252,669	100.00%
2008	1,383,943	1,332,477	96.28%	51,466	1,383,943	100.00%
2009	1,462,554	1,420,412	97.12%	42,142	1,462,554	100.00%
2010	1,400,063	1,363,709	97.40%	36,353	1,400,063	100.00%
2011	1,474,738	1,452,252	98.48%	22,485	1,474,737	100.00%
2012	1,420,719	1,419,159	99.89%	1,560	1,420,719	100.00%

Source: Kern Count Auditor-Controller

Note: The District is on the Teeter Plan, whereby Kern County forwards 100% of property tax collections during the current year and keeps delinquent amounts when collected together with applicable penalties and interest.

**Bear Valley Community Services District
Principal Property Tax Payers
Current Fiscal Year and Seven Years Ago**

Customer	2012		2003	
	Assessed Value	Percentage of Total	Assessed Value	Percentage of Total
Federal National Mortgage Assn	\$ 2,491,370	0.34%	\$	
John M & Sandra L Canizo	1,320,735	0.18%		
Jamie E & Diana S Osbrink	1,139,132	0.16%		
Bo & Melissa Thevelius	1,137,849	0.16%		
Widget Checkered Flag Trust	1,101,619	0.15%		
Stephen & Beverly Berg Hansen	998,007	0.14%		
Edward J & Karen A Duval Rev Liv Tr	930,301	0.13%		
Jones Family Trust	928,232	0.13%		
Schroder Family Trust	901,775	0.12%		
Rabinder S & Madhu Bhogal	860,383	0.12%		
Paul M & Joan N Benz			674,990	0.09%
Kenneth & Celestie Karas			664,995	0.09%
Hurley Family Trust			644,573	0.09%
Duplan Family Trust			634,568	0.09%
Richard & Pocahontas K Young			608,860	0.08%
Russell & Patricia Frazier			586,740	0.08%
Fisher Family Trust			570,439	0.08%
Susan Falkenhagen			565,814	0.08%
Dennis Nelson			564,161	0.08%
Louis & Anne McCutcheon			552,138	0.08%
Total	11,809,403	1.62%	6,067,278	0.83%
Total Assessed Value	728,931,000	100.00%	388,546,000	100.00%

Source: KernData

Note: District began keeping these records in fiscal year 2002.

**Bear Valley Community Services District
Water Sales Revenue and Quantities Sold by Customer Class
Last Ten Fiscal Years**

Fiscal Year	Water Sales Revenue				Quantity of Water Sold (acre feet)			
	Residential	Commercial/ Institutional	Lake Fill	Total	Residential	Commercial/ Institutional	Lake Fill	Total
2002	949,658	103,849	115,040	1,168,547	938	72	203	1,213
2003	1,224,393	111,263	92,461	1,428,117	898	71	144	1,113
2004	1,631,132	138,455	105,607	1,875,194	968	66	152	1,186
2005	1,595,508	114,157	130,739	1,840,404	844	52	159	1,055
2006	1,710,226	147,673	134,530	1,992,429	912	66	172	1,150
2007	1,839,068	160,987	80,902	2,080,957	960	69	95	1,124
2008	1,842,254	145,795	142,501	2,130,550	939	62	145	1,146
2009	2,047,720	172,338	190,074	2,410,132	889	71	177	1,138
2010	1,990,372	149,690	108,195	2,248,257	795	49	139	983
2011	1,707,947	146,869	86,331	1,941,147	744	58	83	885
2012	1,711,765	144,702	105,616	1,962,083	766	61	110	937

Source: Bear Valley CSD audited financial statements and billing records.

**Bear Valley Community Services District
Water Rates by Customer Class
Last Ten Fiscal Years**

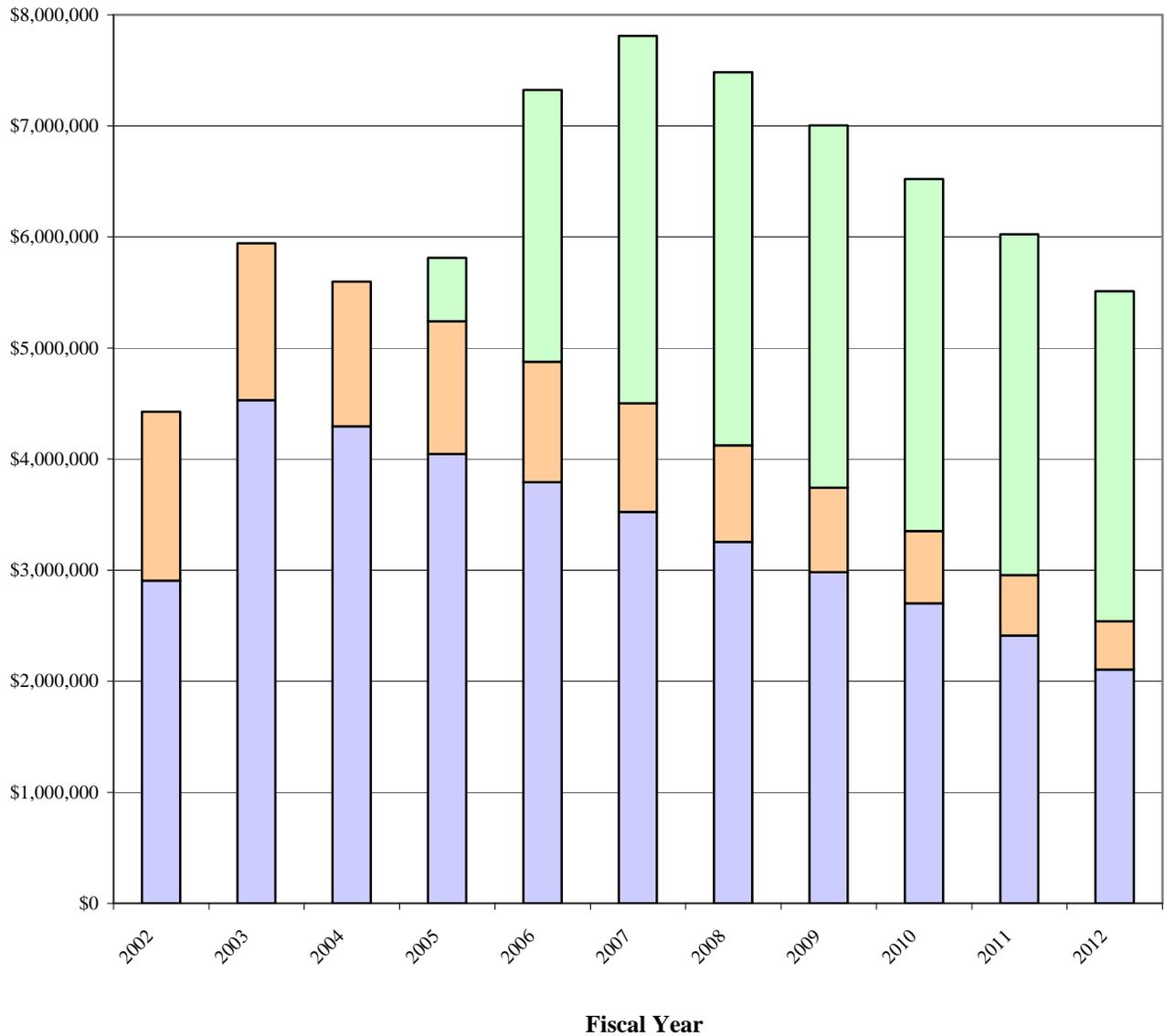
Fiscal Year	Monthly Water Base Charge ¹			Average Volume Charge Per Billing Unit ²			Average Price Per Billing Unit ³		
	Residential	Commercial/ Institutional	Lake Fill	Residential	Commercial/ Institutional	Lake Fill	Residential	Commercial/ Institutional	Lake Fill
2002	15.00	15.00	0.00	1.52	2.96	1.50	2.26	3.11	1.50
2003	22.50	22.50	0.00	1.78	3.61	1.65	3.14	3.85	1.65
2004	22.50	22.50	0.00	2.18	4.87	1.76	3.83	4.73	1.76
2005	22.50	22.50	0.00	2.41	5.00	1.99	4.38	5.45	1.99
2006	22.50	22.50	0.00	2.46	5.31	1.99	4.34	5.63	1.99
2007	23.45	23.45	0.00	2.48	5.28	2.05	4.35	5.59	2.05
2008	24.22	24.22	0.00	2.57	5.42	2.30	4.58	5.78	2.30
2009	25.33	25.33	0.00	3.02	6.14	2.44	5.22	6.45	2.44
2010	25.33	25.33	0.00	3.20	6.22	2.44	5.72	6.72	2.44
2011	25.33	25.33	0.00	3.14	7.39	2.44	5.83	7.91	2.44
2012	25.33	25.33	0.00	3.08	7.71	2.44	5.70	8.26	2.44

Source: Bear Valley CSD billing records.

- Notes:**
1. Monthly base charge shown is highest amount levied during the fiscal year.
 2. Includes only volume (commodity) charges.
 3. Includes both monthly base charge and volume charges.

**Bear Valley Community Services District
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years**

Fiscal Year	Governmental Activities	Business-type Activities		Total		
	General Obligation Bonds	State Revolving Fund Loan	Installment Sale Contract (CIEDB)	Debt	Per Capita	As a Share of Personal Income
2002	2,905,000	1,520,365	-	4,425,365	690.38	2.32%
2003	4,530,000	1,411,768	-	5,941,768	889.49	3.03%
2004	4,295,000	1,303,170	-	5,598,170	793.62	2.65%
2005	4,045,000	1,194,573	572,910	5,812,483	783.35	2.53%
2006	3,790,000	1,085,975	2,447,274	7,323,249	993.25	3.05%
2007	3,525,000	977,378	3,307,147	7,809,525	1,062.66	3.13%
2008	3,255,000	868,780	3,357,848	7,481,628	993.05	2.81%
2009	2,980,000	760,182	3,264,900	7,005,082	893.39	2.42%
2010	2,700,000	651,585	3,169,228	6,520,813	1,086.80	3.97%
2011	2,410,000	542,988	3,070,753	6,023,741	1,003.96	3.67%
2012	2,105,000	434,390	2,972,330	5,511,720	895.08	2.28%



**Bear Valley Community Services District
Ratios of General Bonded Debt Outstanding
Last Ten Fiscal Years**

Fiscal Year	General Obligation Bonds	Percentage of Estimated Actual Taxable Value of Property	Percentage of Personal Income	Per Capita
2002	2,905,000	0.55%	1.53%	453.20
2003	4,530,000	0.77%	2.31%	678.14
2004	4,295,000	0.58%	2.03%	608.87
2005	4,045,000	0.47%	1.76%	545.15
2006	3,790,000	0.35%	1.58%	514.04
2007	3,525,000	0.28%	1.41%	479.66
2008	3,255,000	0.27%	1.22%	432.04
2009	2,980,000	0.29%	1.03%	380.05
2010	2,700,000	0.47%	1.64%	450.00
2011	2,410,000	0.43%	1.00%	391.37
2012	2,105,000	0.39%	0.87%	341.84

Sources: Bear Valley Community Services District audited financial statements, Assessed Values, and Demographic information.

**Bear Valley Community Services District
Direct and Overlapping Governmental Activities Debt
As of June 30, 2012**

	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share of Direct and Overlapping Debt</u>
Overlapping Debt:			
Tehachapi Unified School District	\$ 17,860,259	20.01%	\$ 3,573,838
Kern Community College District	242,111,160	1.01%	2,445,323
Tehachapi Valley Healthcare District	12,800,000	18.97%	2,428,160
Tehachapi-Cummings County WD	1,460,000	100.00%	<u>1,460,000</u>
Total overlapping debt			9,907,321
BVCSD Governmental Activities Direct Debt		100.00%	<u>2,105,000</u>
Total direct and overlapping debt			<u>\$ 12,012,321</u>

Source: Business office of noted agencies and Kern County Auditor-Controller.

**Bear Valley Community Services District
Legal Debt Margin Information
Last Ten Fiscal Years (in thousands)**

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Debt limit	\$ 53,470	\$ 55,442	\$ 58,282	\$ 63,282	\$ 70,640	\$ 79,429	\$ 109,340	\$ 102,546	\$ 99,239	\$ 95,244
Total debt applicable to limit	<u>5,942</u>	<u>5,598</u>	<u>5,802</u>	<u>7,215</u>	<u>7,810</u>	<u>7,482</u>	<u>7,005</u>	<u>6,520</u>	<u>6,023</u>	<u>5,508</u>
Legal Debt Margin	<u><u>\$ 47,528</u></u>	<u><u>\$ 49,844</u></u>	<u><u>\$ 52,480</u></u>	<u><u>\$ 56,067</u></u>	<u><u>\$ 62,830</u></u>	<u><u>\$ 71,947</u></u>	<u><u>\$ 102,335</u></u>	<u><u>\$ 96,026</u></u>	<u><u>\$ 93,216</u></u>	<u><u>\$ 89,736</u></u>
Total debt applicable to the limit as a percentage of debt limit	11.1%	10.1%	10.0%	11.4%	11.1%	9.4%	6.4%	6.4%	6.1%	5.8%

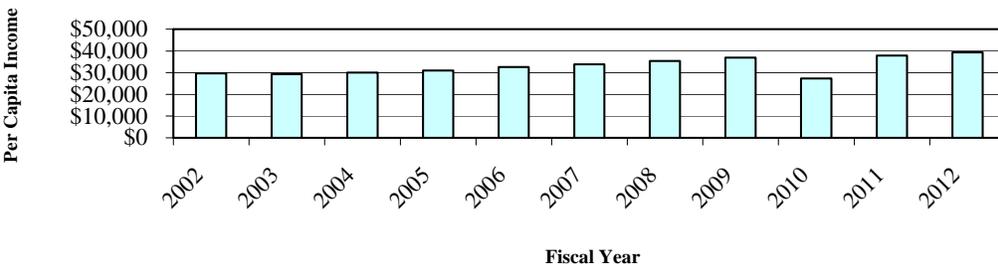
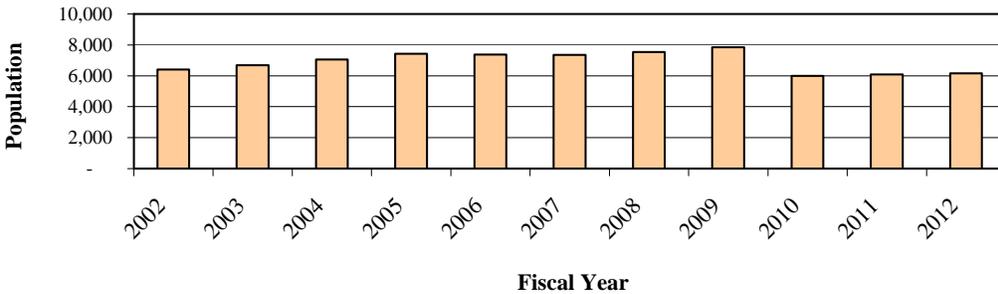
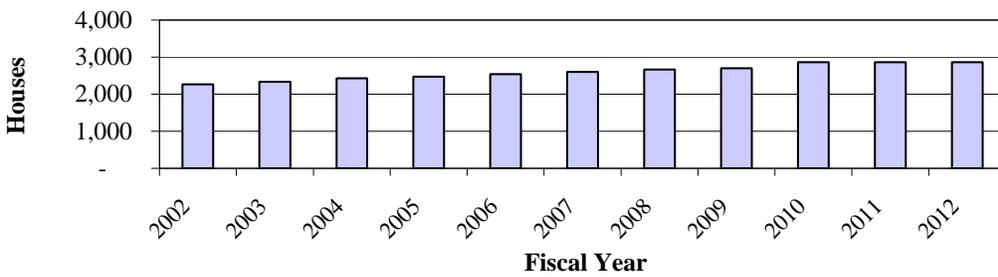
Legal Debt Margin Calculation for Fiscal Year 2012

Assessed value	\$ 624,800
Add back: exempt real property	<u>10,157</u>
Total assessed value	634,957
Debt limit (15% of total assessed value)	95,244
Debt applicable to limit:	
General obligation bonds	2,105
State loans	<u>3,403</u>
Total debt applicable to limit	<u><u>5,508</u></u>
Legal debt margin	<u><u>\$ 89,736</u></u>

Note: California Government Code 61126(b) states, "A district shall not incur bonded indebtedness pursuant to this section that exceeds 15 percent of the assessed value of all taxable property in the district at the time that the bonds are issued."

Bear Valley Community Services District Demographics and Economic Statistics Last Ten Calendar Years

Year	Completed Houses ¹	Population ²	Personal Income per Capita ³	Housing Vacancy Rate ⁴	Houses Sold ⁵	Average Selling Price ⁵
2002	2,269	6,410	29,694	15.2%	158	154,101
2003	2,337	6,680	29,317	13.8%	170	170,236
2004	2,429	7,054	29,994	13.8%	252	191,804
2005	2,476	7,420	30,978	12.9%	203	241,830
2006	2,539	7,373	32,607	14.1%	189	325,757
2007	2,605	7,349	33,899	15.1%	162	390,475
2008	2,661	7,534	35,397	15.2%	141	385,312
2009	2,697	7,841	36,961	15.5%	94	370,017
2010	2,860	6,000	27,388	15.8%	121	253,440
2011	2,863	6,086	37,889	16.8%	116	204,928
2012	2,866	6,158	39,318	18.1%	129	202,072



- Sources:**
1. Bear Valley Springs Association and BVCSD water billing register.
 2. BVCSD estimate based on U.S. Census Bureau for 2010. Years 2001-2009 are based on 2000 U.S. Census Bureau.
 3. US Census Bureau for 2000. Other years are estimates based on change in per-capita personal income as published by California Dept of Finance.
 4. Estimate based on the number of zero consumption residential water bills.
 5. Tehachapi Area Association of Realtors Multiple Listing Service for single family residences only.

**Bear Valley Community Services District
Pledged-Revenue Coverage
CIEDB Installment Sale Contract - Water Enterprise
Last Ten Fiscal Years**

Fiscal Year	Revenues ¹	Less: Expenses ²	Net Available Revenues	Debt Service			Coverage Ratio
				Principal	Interest ³	Total	
2002	-	-	-	-	-	-	
2003	-	-	-	-	-	-	
2004	2,477,993	1,644,979	833,014	-	29,452	29,452	28.28
2005	2,457,101	1,768,833	688,268	-	61,324	61,324	11.22
2006	2,544,753	1,829,194	715,559	-	38,799	38,799	18.44
2007	2,442,194	1,889,287	552,907	112,611	69,810	182,421	3.03
2008	2,359,040	2,045,359	313,681	74,690	85,009	159,699	1.96
2009	2,506,051	2,212,710	293,341	76,878	88,503	165,381	1.77
2010	2,360,485	1,893,587	466,898	79,130	85,098	164,228	2.84
2011	2,020,289	1,674,573	345,716	79,183	82,480	161,663	2.14
2012	2,042,772	1,635,934	406,838	79,772	82,241	162,013	2.51

Notes: CIEDB = California Infrastructure and Economic Development Bank

¹ Revenue pledged includes amounts collected from all sources

² Expenses do not include interest or depreciation.

³ Interest expense includes CIEDB service fee of 0.3% of outstanding principal balance.

**Bear Valley Community Services District
Pledged-Revenue Coverage
CIEDB Installment Sale Contract - Wastewater Enterprise
Last Ten Fiscal Years**

Fiscal Year	Revenues ¹	Less: Expenses ²	Net Available Revenues	Debt Service			Coverage Ratio
				Principal	Interest ³	Total	
2002	-	-	-	-	-	-	
2003	-	-	-	-	-	-	
2004	325,515	279,432	46,083	-	3,309	3,309	13.93
2005	393,670	273,702	119,968	-	16,088	16,088	7.46
2006	382,997	305,084	77,913	12,004	19,739	31,743	2.45
2007	422,839	339,243	83,596	16,078	14,778	30,856	2.71
2008	431,483	366,969	64,514	15,613	18,367	33,980	1.90
2009	411,889	381,048	30,841	16,070	18,320	34,390	0.90
2010	408,665	411,319	(2,654)	16,167	17,788	33,956	(0.08)
2011	438,817	434,562	4,255	16,285	17,241	33,526	0.13
2012	437,396	450,780	(13,384)	16,406	17,192	33,598	(0.40)

Notes: CIEDB = California Infrastructure and Economic Development Bank

¹ Revenue pledged includes amounts collected from all sources

² Expenses do not include interest or depreciation.

³ Interest expense includes CIEDB service fee of 0.3% of outstanding principal balance.

**Bear Valley Community Services District
Principal Employers
Current Fiscal Year and Ten Years Ago**

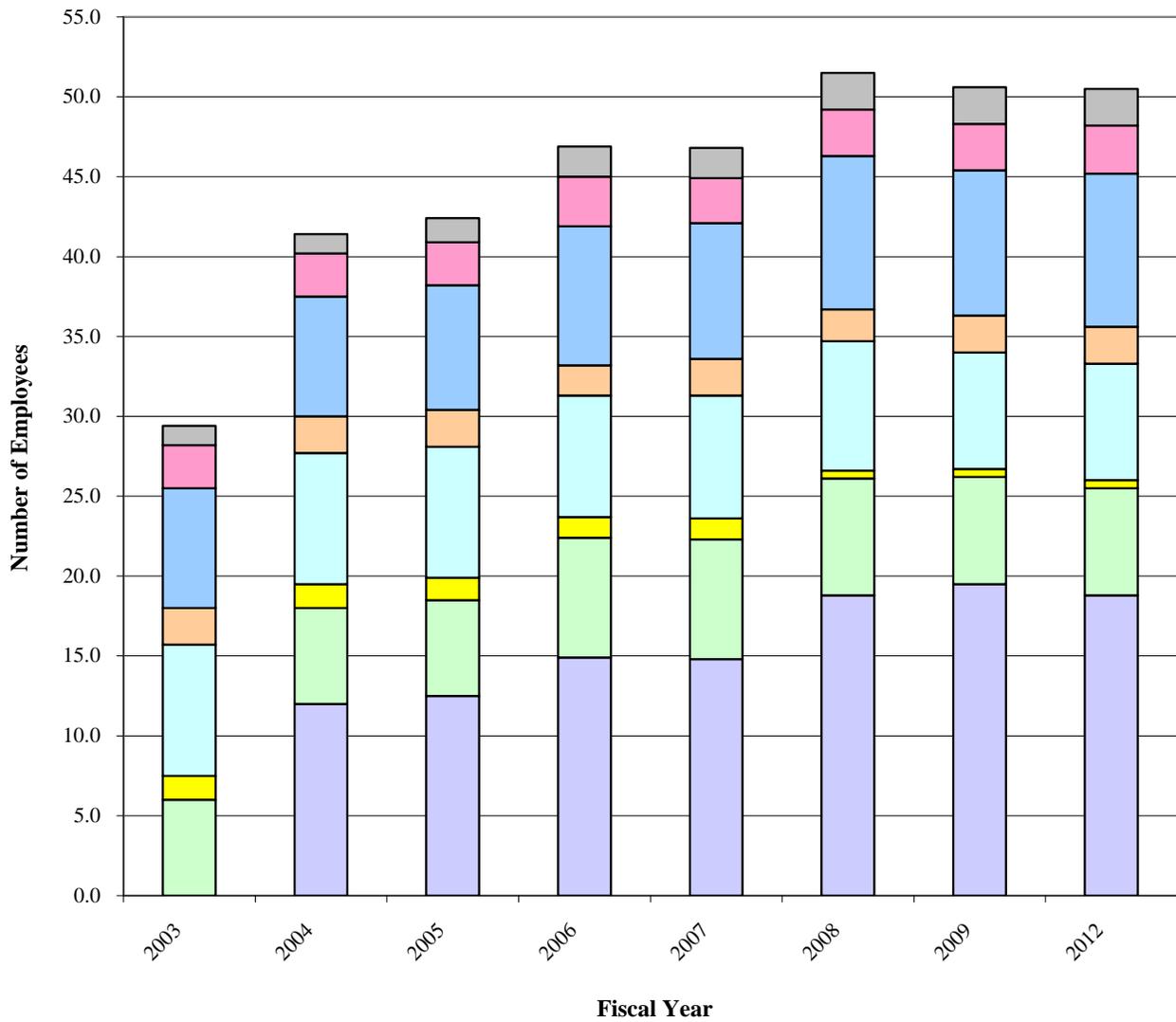
<u>Employer</u>	<u>Production/Services</u>	<u>2012</u>		<u>2003</u>	
		<u>Employees</u>	<u>Rank</u>	<u>Employees</u>	<u>Rank</u>
California Correctional Inst.	State prison	1,911	1	1,600	1
Tehachapi Unified School D.	Public school system	464	2	500	2
Tehachapi Hospital	Healthcare	175	3	105	7
GE Energy	Wind energy production/manuf.	150	4		
Lehigh Southwest Cement	Cement production	120	5		
Home Depot	Retail store	115	6		
Albertson's Supermarket	Retail grocery store	112	7	110	5
K Mart	Retail store	107	8	110	5
Benz Sanitation	Trash/septic/propane	70	9	70	8
SaveMart Supermarkets	Retail	65	10		
City of Tehachapi	Municipality	58	11		
Terra-Gen Power, LLC	Wind energy	54	12		
Selecta Switch	Electrical parts manufacturing	45	13	55	9
Chemtool, Inc.	Specialty Lubricants	39	14		
Total		<u>3,485</u>		<u>2,550</u>	

Source: Greater Tehachapi Chamber of Commerce

Note: These are the principal employers for the greater Tehachapi area, which consists of several communities surrounding and including the City of Tehachapi. Bear Valley Community Services District constitutes approximately 22% of the assessed value of the greater Tehachapi area.

Bear Valley Community Services District Operating and Capacity Indicators Last Ten Fiscal Years

Department	Fiscal; Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Public Safety		12.0	12.5	14.9	14.8	18.8	19.5	18.8	18.8	18.8
Gate	6.0	6.0	6.0	7.5	7.5	7.3	6.7	6.7	6.7	6.7
General Services	1.5	1.5	1.4	1.3	1.3	0.5	0.5	0.5	0.5	0.5
Roads	8.2	8.2	8.2	7.6	7.7	8.1	7.3	7.3	7.3	7.3
Post Office	2.3	2.3	2.3	1.9	2.3	2.0	2.3	2.3	2.3	2.3
Water	7.5	7.5	7.8	8.7	8.5	9.6	9.1	10.0	9.6	9.6
Wastewater	2.7	2.7	2.7	3.1	2.8	2.9	2.9	3.0	2.9	3.0
Solid Waste	1.2	1.2	1.5	1.9	1.9	2.3	2.3	2.4	2.3	2.3
	<u>29.4</u>	<u>41.4</u>	<u>42.4</u>	<u>46.9</u>	<u>46.8</u>	<u>51.5</u>	<u>50.6</u>	<u>51.0</u>	<u>50.4</u>	<u>50.5</u>



**Bear Valley Community Services District
Operating Indicators by Function
Last Ten Fiscal Years**

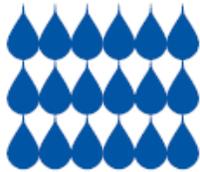
Function	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Public safety										
Physical arrests	N/A	43	41	80	72	63	79	50	56	48
Traffic violations	N/A	292	333	529	511	437	406	445	469	266
Parking violations	N/A	6	2	8	12	24	39	14	12	0.0
Highways and streets										
Street resurfacing (lane miles)	0.0	0.0	0.0	12.8	9.1	0.0	0.0	0.0	0.0	0.0
Parks & recreation										
Bear Valley Springs Assn. annual dues	\$855	\$860	\$940	\$888	\$1,065	\$1,193	\$1,218	1,250	1,226	1,277
Water										
New connections	59	89	89	77	34	13	3	7	3	3
Total well production (acre feet)	1,170	1,282	1,138	1,261	1,231	1,250	1,183	956	951	1,066
Daily average well production (1,000 gal.)	1,045	1,141	1,016	1,126	1,099	1,113	1,056	853	853	951
Maximum day well production (1,000 gal.)	2,249	2,154	2,083	2,206	2,133	2,159	1,882	2,364	2,367	1,967
Imported water as % of total supply	54%	50%	51%	57%	57%	63%	46%	46%	46%	52%
Unaccounted-for water (% of production)	4.8%	7.4%	7.4%	8.8%	8.2%	7.8%	6.4%	6.9%	7.4%	8.5%
Electricity used for pumping (1,000 kWh)	2,501	2,291	2,227	2,493	2,587	2,682	2,682	2,632	2,687	2,696
Average residential consumption (gal/d)	366	379	323	343	355	343	328	294	278	287
Wastewater										
New connections	15	20	2	5	4	0	0	0	0	0
Effluent production (acre feet)	48	74	83	83	86	103	86	100	111	90
Effluent sales (acre feet)	24	19	32	22	29	26	18	26	16	27
Sanitation										
Refuse collected (tons/day)	9.2	9.8	10.6	10.9	10.7	10.6	9.6	9.7	9.4	9.4
Greenwaste collected (tons/day)	6.9	8.9	10.9	11.5	11.9	12.8	11.0	12.1	13.0	11.3

Source: Various government departments.

**Bear Valley Community Services District
Miscellaneous Statistics
As of June 30, 2012**

Date of incorporation	May 4, 1970
Form of government	Council/Manager
Number of employees:	
Classified	57
Exempt	5
Area in square miles	40
Bear Valley Community Services District facilities and services:	
Miles of streets	110
Parks and recreation:	
Parks (includes athletic parks, campgrounds and equestrian center)	8
Park acreage (includes lakes)	220
Golf course acreage (includes driving range)	85
Community facilities	4
Swimming pools	2
Tennis courts	4
Miles of equestrian/hiking trails	50
Open space acreage	8,250
Police protection	
Number of stations	1
Number of sworn officers	9
Number of dispatchers	12
Number of law violations:	
Physical arrests	48
Traffic violations	266
Parking violations	-
Water system:	
Miles of water mains	120
Number of wells	25
Number of steel tank reservoirs	43
Storage capacity in gallons	4,570,000
Number of pneumatic pressure tanks	7
Number of booster pumps	75
Number of pressure zones	19
Number of service connections	2,972
Number of fire hydrants	750
Daily average well production in gallons	957,878
Maximum day well production in gallons	1,967,800
Sewerage system:	
Miles of sanitary sewers	7
Daily treatment capacity of treatment plant in gallons	250,000
Number of service connections	472
Daily average treatment in gallons	89,746
Maximum day treatment in gallons	189,587
Facilities and services not included in the primary government:	
Fire Protection (Kern County Fire Department):	
Number of stations	1
Number of on-duty firefighters	3
Bear Valley Springs Association	
Number of employees	156
Annual revenues	\$ 6,801,488
Annual property owners association dues	\$ 1,277
Community Emergency Response Team	
Number of registered disaster service workers	230

Report on Compliance and Internal Controls



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Paul J. Kaymark, CPA
Christopher J. Brown, CPA

Charles Z. Fedak & Company

Certified Public Accountants
An Accountancy Corporation

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WEB www.czfcpa.com

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

Board of Directors
Bear Valley Community Services District
Tehachapi, California

We have audited the basic financial statements of the Bear Valley Community Services District (District) as of and for the year ended June 30, 2012, and have issued our report thereon dated November 30, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

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

Charles Z. Fedak & Company CPAs - An Accountancy Corporation

Charles Z. Fedak and Company, CPA's - An Accountancy Corporation
Cypress, California
November 30, 2012

Bear Valley Community Services District

Management Report

June 30, 2012



Charles Z. Fedak & Company

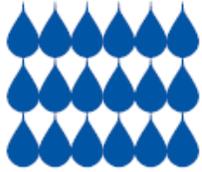
Certified Public Accountants
An Accountancy Corporation

Bear Valley Community Services District

Management Report

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Charles Z. Fedak, CPA, MBA
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Board of Directors
Bear Valley Community Services District
Tehachapi, California

Dear Members of the Board:

We have audited the basic financial statements of the Bear Valley Community Services District (the District) as of and for the year ended June 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of District's internal control. Accordingly, we do not express an opinion on the effectiveness of District's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

A significant deficiency is a control deficiency, or combination of control deficiencies that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.

Our consideration on internal control was for the limited period described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above; however, we did identify a few control deficiencies.

Our comments, all of which have been discussed with the appropriate members of management, are summarized as follows:

Summary of Current & Prior Year Comments and Recommendations

Disclosure of Audit Adjustments and Reclassifications

As your external auditor, we assume that the books and records of the District are properly adjusted before the start of the audit. In many cases, however, audit adjustments and reclassifications are made in the normal course of the audit process to present the District's financial statements in conformity with accounting principles generally accepted in the United States of America or for comparison purposes with the prior year. For the Board of Directors to gain a full and complete understanding and appreciation of the scope and extent of the audit process we have presented these audit adjustments and reclassifications as an attachment to this letter. There can be very reasonable explanations for situations of having numerous adjustments as well as having no adjustments at all. However, the issue is simply disclosure of the adjustments and reclassifications that were made and to provide the Board of Directors with a better understanding of the scope of the audit.

Management's Response

The District has reviewed and approved all of the audit adjustment and reclassification entries provided by the auditor and have entered those entries into the District's accounting system to close-out the District's year-end trial balance.

Current Year Assessment

District management and the auditor discussed, reviewed and received approval all of the audit adjustment and reclassification entries provided to the District.

* * * * *

This report is intended solely for the information and use of management and the Board of Directors of the District. This restriction is not intended to limit the distribution of this letter, which is a matter of public record.

We appreciate the courtesy and cooperation extended to us during our examination. We would be pleased to discuss the contents of this letter with you at your convenience. Please do not hesitate to contact us.



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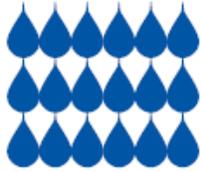
Charles Z. Fedak and Company, CPA's – An Accountancy Corporation
Cypress, California
November 30, 2012

APPENDIX

Bear Valley Community Services District

Audit/Finance Committee Letter

June 30, 2012



Charles Z. Fedak, CPA, MBA
Paul J. Kaymark, CPA
Christopher J. Brown, CPA

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Board of Directors
Bear Valley Community Services District
Tehachapi, California

We have audited the basic financial statements of the Bear Valley Community Services District (District) for the year ended June 30, 2012 and have issued our report thereon dated November 30, 2012. Generally accepted auditing standards require that we provide the Governing Board and management with the following information related to our audit of the District's basic financial statements.

Auditor's Responsibility under United States Generally Accepted Auditing Standards

As stated in our Audit Engagement Letter dated May 15, 2012, our responsibility, as described by professional standards, is to express an opinion about whether the basic financial statements prepared by management with oversight of the Governing Board are fairly presented, in all material respects, in conformity with United States generally accepted accounting principles. Our audit of the financial statements does not relieve the Governing Board or management of its responsibilities of oversight in the District's external financial reporting process or any other processes.

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

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

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing requirements previously communicated to management in our Audit Engagement Letter dated May 15, 2012.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the basic financial statements.

We noted no transactions entered into by the District during fiscal year 2012 for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Management's Judgments, Accounting Estimates and Financial Disclosures

Accounting estimates play an integral part in the preparation of basic financial statements by management and are based upon management's knowledge, experience and current judgment(s) about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the basic financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the position in the basic financial statements is (are):

Management's estimate of the fair value of cash and investments is based on information provided by financial institutions. We evaluated the key factors and assumptions used to develop the fair value of cash and investments in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the allowance for delinquent/doubtful accounts is based on historical write-offs of past due delinquent/doubtful customer accounts, customer creditworthiness, and calculated assumptions of expected future write-offs. We evaluated the key factors and assumptions used to develop the allowance for delinquent/doubtful accounts in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of capital assets depreciation is based on historical estimates of each capitalized item's useful life expectancy or cost recovery period. We evaluated the key factors and assumptions used to develop the capital asset depreciation calculations in determining that they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the basic financial statements are neutral, consistent and clear. Certain basic financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure(s) affecting the basic financial statements is (are):

The disclosure of fair value of cash and investments in Note 2 to the basic financial statements represents amounts susceptible to market fluctuations.

The disclosure of the District's allowance for delinquent/doubtful accounts in Note 3 to the basic financial statements represents amounts susceptible to external factors the District has no control over, such as, the state of the economy in the District's service area.

The disclosure of capital assets, net in Note 7 to the basic financial statements is based on historical information which could differ from actual useful lives of each capitalized item.

Corrected and Uncorrected Misstatements

Generally Accepted Auditing Standards require us to accumulate all known and likely misstatements identified during the audit, except those that are considered trivial, and communicate them to the appropriate level of management as follows:

There were eight audit reclassification and adjusting entries proposed by the auditor to the original trial balance presented to us to begin our audit. (See a listing of those entries attached to this report)

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves the application of an accounting principal to the District’s basic financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District’s auditor. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit processes and testwork.

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction that could be significant to the basic financial statements or the auditor’s report. We are pleased to report that no such disagreements arose during the course of our audit of the District.

Management Representations

We have requested certain representations from management that are included in the Management Representational Letter to the Auditor dated November 30, 2012.

Conclusion

We appreciate the cooperation extended us by Sandy Janzen, Interim General Manager,, and Rudy Hernandez, Treasurer, in the performance of our audit testwork. We will be pleased to respond to any questions you have about the foregoing. We appreciate the opportunity to continue to be of service to the District.

This report is intended solely for the information and use of the Board of Directors and management and is not intended to be and should not be used by anyone other than the specified, parties. This restriction is not intended to limit the distribution of this letter, which is a matter of public record.

Charles Z. Fedak = Company CPAs - An Accountancy Corporation

Charles Z. Fedak and Company, CPA’s – An Accountancy Corporation
Cypress, California
November 30, 2012

**Bear Valley Community Services District
 June 30, 2012
 Schedule of Audit Adjusting Journal Entries**

Entry #	Status	Account	Description	Debit	Credit	
AJE 1	Posted	40-50221-51	ELEC-FACILITY	377.74		
		40-50221-68	ELEC-FACILITY	99.18		
		40-50221-58	ELEC-FACILITY	501.77		
		40-50221-57	ELEC-FACILITY	401.42		
		40-50221-59	ELEC-FACILITY	110.13		
		41-50221-60	ELEC-FACILITY	100.36		
		42-50221-53	ELEC-FACILITY	192.23		
		42-50222-53	ELECTRIC-WELLS	14,996.66		
		42-50223-53	ELEC-BOOSTERS	17,987.29		
		43-50221-54	ELEC-FACILITY	1,705.37		
		48-50221-52	ELEC-FACILITY	240.29		
		48-50221-52	ELEC-FACILITY	9.65		
		49-50221-55	ELEC-FACILITY	53.44		
		40-24000-00	ACCOUNTS PAYABLE			1,490.24
		41-24000-00	ACCOUNTS PAYABLE			100.36
		42-24000-00	ACCOUNTS PAYABLE			33,176.18
		43-24000-00	ACCOUNTS PAYABLE			1,705.37
		48-24000-00	ACCOUNTS PAYABLE			249.94
		49-24000-00	ACCOUNTS PAYABLE			53.44
		CPE - To Adjust Accounts Payable				
AJE 2	Posted	42-12311-00	A/R UTILITY CUSTOMERS	12,494.90		
		42-24400-00	CUSTOMER REFUNDS PAYABLE		12,494.90	
RJE - Reclass DO NOT POST						
AJE 3	Posted	64-12332-00	A/R DELINQUENT TAXES	2,935.26		
		64-40130-00	WATER BOND TAX		2,935.26	
		42-12332-00	A/R DELINQUENT TAXES	1,363.83		
		42-40241-00	WATER STANDBY		1,363.83	
		67-12332-00	A/R DELINQUENT TAXES	2,072.67		
		67-40211-00	WASTEWATER ASSESSMENT		2,072.67	
		42-12332-00	A/R DELINQUENT TAXES	1,310.38		
		42-40721-00	OTHER		1,310.38	
		43-12332-00	A/R DELINQUENT TAXES	143.18		
		43-40251-00	SEWER STANDBY		143.18	
		40-12332-00	A/R DELINQUENT TAXES	4,720.76		
		40-40181-00	POLICE SPECIAL TAX		4,720.76	
		48-12319-00	ACCOUNTS RECEIVABLE--OTHER	20,026.93		
		48-40202-00	PY ROAD ASSESSMENT		20,026.93	
		40-12332-00	A/R DELINQUENT TAXES	4,263.44		
		40-40191-00	GATE SPECIAL TAX		4,263.44	
CPE - Adjust Accounts Receivable						
AJE 4	Posted	41-50111-60	REGULAR	27.10		
		41-50116-60	ADMIN.SAL/WAGES		27.10	
		40-50204-51	POSTAGE	2,199.96		
		41-50204-60	POSTAGE		2,199.96	
		41-49091-00	TRANSFER FROM GENERAL FUND	2,199.96		
40-50801-68	TRANS.POST OFF.		2,199.96			
RJE - Reclass for Post Office						

Board of Directors
 Bear Valley Community Services District

Bear Valley Community Services District
June 30, 2012
Schedule of Audit Adjusting Journal Entries, continued

Entry #	Status	Account	Description	Debit	Credit
AJE 5	Posted	40-36000-00	EQUITY TRANSFER	86,806.76	
		68-36000-00	EQUITY TRANSFER		86,806.76
		68-50800-81	TRANS.GEN.FUND	86,806.76	
		40-49102-00	TRANSFER FROM COPS FUND		86,806.76
RJE - To Reclass Equity Between Funds					
AJE 6	Posted	40-50801-68	TRANS.POST OFF.	119.49	
		41-49091-00	TRANSFER FROM GENERAL FUND		119.49
		41-11099-00	CASH BALANCE	119.49	
		40-11099-00	CASH BALANCE		119.49
AJE - To Zero Out Equity in Post Office					
AJE 7	Posted	43-50405-54	DEPRECIATION	164,105.00	
		43-12517-00	ACCUMULATED DEPRECIATION		164,105.00
AJE - To Adjust Depreciation Exp					
AJE 8	Posted	40-50291-57	ADMIN O/H M&O	148.82	
		40-50291-58	ADMIN O/H M&O	383.40	
		40-50291-59	ADMIN O/H M&O	94.26	
		40-50291-68	ADMIN O/H M&O	57.30	
		41-50291-60	ADMIN O/H M&O	18.49	
		42-50291-53	ADMIN O/H M&O	646.86	
		43-50291-54	ADMIN O/H M&O	118.29	
		48-50291-52	ADMIN O/H M&O	245.81	
		49-50291-55	ADMIN O/H M&O	134.92	
		40-50291-51	ADMIN O/H M&O		1,848.15
		40-11099-00	CASH BALANCE	1,164.38	
		41-11099-00	CASH BALANCE		18.49
		42-11099-00	CASH BALANCE		646.86
		43-11099-00	CASH BALANCE		118.29
		48-11099-00	CASH BALANCE		245.81
49-11099-00	CASH BALANCE		134.93		
AJE - To Adjust Admin Overhead					
TOTALS				431,503.93	431,503.93