



**Bear Valley Community Services District**  
Tehachapi, California

**Annual Financial Report**

**For the Fiscal Year Ended June 30, 2014**



**Charles Z. Fedak & Company**

Certified Public Accountants  
An Accountancy Corporation

**BEAR VALLEY COMMUNITY SERVICES DISTRICT**

**List of Elected and Appointed Officials**

**June 30, 2014**

**Elected Officials**

**BOARD OF DIRECTORS**

<b>President</b>	<b>William Mason</b>
<b>Vice-President</b>	<b>Charlene LaClaire</b>
<b>Director</b>	<b>Gil Grace</b>
<b>Director</b>	<b>Matt VoVilla</b>
<b>Director</b>	<b>Richard Zanutto</b>

**Appointed Officials**

<b>General Manager</b>	<b>David Edmonds</b>
<b>Assistant General Manager</b>	<b>Vacant</b>
<b>Finance Director (Interim)</b>	<b>David Powell</b>
<b>Chief of Police</b>	<b>Rod Walthers</b>
<b>Superintendent of Public Works</b>	<b>Larry Tuma</b>

**Bear Valley Community Services District  
28999 S. Lower Valley Road  
Tehachapi, California 93561  
(661) 821-4428 [www.bvcsd.com](http://www.bvcsd.com)**



**Bear Valley Community Services District**

**Annual Financial Report**

**For the Fiscal Year Ended June 30, 2014**

**Prepared by:**  
**Finance Department**  
*David Powell, Interim Finance Director*

**Bear Valley Community Services District  
Annual Financial Report  
For the Fiscal Year Ended June 30, 2014**

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# **Financial Section**





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

# Charles Z. Fedak & Company

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An Accountancy Corporation

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## **Independent Auditor's Report**

Board of Directors  
Bear Valley Community Services District  
Tehachapi, California

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

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, 2014, and the related notes to the financial statements, which collectively comprises the District's basic financial statements as listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

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

#### ***Auditor's Responsibility***

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 financial statements are free of material misstatement.

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

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

#### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bear Valley Community Services District, as of June 30, 2014, and the respective changes in its net position and, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Independent Auditor's Report, continued

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10, budgetary comparison information on pages 42 through 49, and the required supplementary information on pages 50 through 51 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of 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.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report dated April 3, 2015, 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* in considering the District's internal control over financial reporting and compliance. This report can be found on pages 52 and 53.

*Charles Z. Fedak and Company CPAs - An Accountancy Corporation*

**Charles Z. Fedak and Company, CPAs – An Accountancy Corporation**  
Cypress, California  
April 3, 2015

**Bear Valley Community Services District  
Management's Discussion and Analysis  
For the Year Ended June 30, 2014**

## **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, 2014. We encourage readers to consider the information presented here. All amounts, unless otherwise indicated, are expressed in whole dollars.

### **Financial Highlights**

- Government-wide cash balance increased \$464,677 (5.17%).
- Government-wide net position increased \$172,651 (0.72%).
- 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 position decreased \$14,193.
- Wastewater enterprise fund net position decreased \$39,982.
- Solid waste enterprise fund net position increased \$22,357.
- Post office enterprise fund net position increased \$252.
- 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 position presents information on all of the Bear Valley Community Services District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the 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 position changed during the most recent fiscal year. All changes in net position 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 11-12 of this report.

**Bear Valley Community Services District  
Management's Discussion and Analysis  
For the Year Ended June 30, 2014**

**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 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 four 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 non-major 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 13-19 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 42-49 of this report.

**Bear Valley Community Services District  
Management's Discussion and Analysis  
For the Year Ended June 30, 2014**

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 17-19 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 14 on page 38 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 20-41 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 42-51 of this report.

**Government-wide Financial Analysis**

As noted earlier, net position 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 \$24,255,449 at the close of the most recent fiscal year, with an increase of \$172,651 compared with the prior year.

By far the largest portion of the Bear Valley Community Services District's net position (60%) 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 Position**

	Condensed Statement of Net Position					
	Governmental Activities		Business-type Activities		Total District	
	2014	2013	2014	2013	2014	2013
<b>Assets:</b>						
Current and other assets	\$ 6,325,059	6,127,260	3,980,395	3,480,515	10,305,454	9,607,775
Non-current assets	-	-	260,000	390,000	260,000	390,000
Capital assets, net	8,850,088	9,032,135	10,221,970	10,749,025	19,072,058	19,781,160
<b>Total assets</b>	<b>15,175,147</b>	<b>15,159,395</b>	<b>14,462,365</b>	<b>14,619,540</b>	<b>29,637,512</b>	<b>29,778,935</b>
<b>Liabilities:</b>						
Current liabilities	718,697	581,791	545,289	429,941	1,263,986	1,011,732
Non-current liabilities	1,306,096	1,631,467	2,811,981	3,052,938	4,118,077	4,684,405
<b>Total liabilities</b>	<b>2,024,793</b>	<b>2,213,258</b>	<b>3,357,270</b>	<b>3,482,879</b>	<b>5,382,063</b>	<b>5,696,137</b>
<b>Net position:</b>						
Net investment in capital assets	7,375,088	7,237,135	7,241,072	7,552,143	14,616,160	14,789,278
Restricted	3,264,200	2,903,525	260,000	390,000	3,524,200	3,293,525
Unrestricted	2,511,066	2,805,477	3,604,023	3,194,518	6,115,089	5,999,995
<b>Total net position</b>	<b>\$ 13,150,354</b>	<b>12,946,137</b>	<b>11,105,095</b>	<b>11,136,661</b>	<b>24,255,449</b>	<b>24,082,798</b>

The remaining balance of restricted/unrestricted net position of \$9,639,289 may be used to meet the government's ongoing obligations.

**Bear Valley Community Services District  
Management's Discussion and Analysis  
For the Year Ended June 30, 2014**

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 position, both for the government as a whole, as well as for its separate governmental and business-type activities. A similar situation held true for the prior fiscal year. There was an increase of \$204,217 in net position for governmental activities, an increase of 1.58%. Net position for business-type activities decreased \$31,566, a decrease of 0.28% from prior year.

**Governmental activities.** Governmental activities increased the Bear Valley Community Services District's net position by \$204,217.

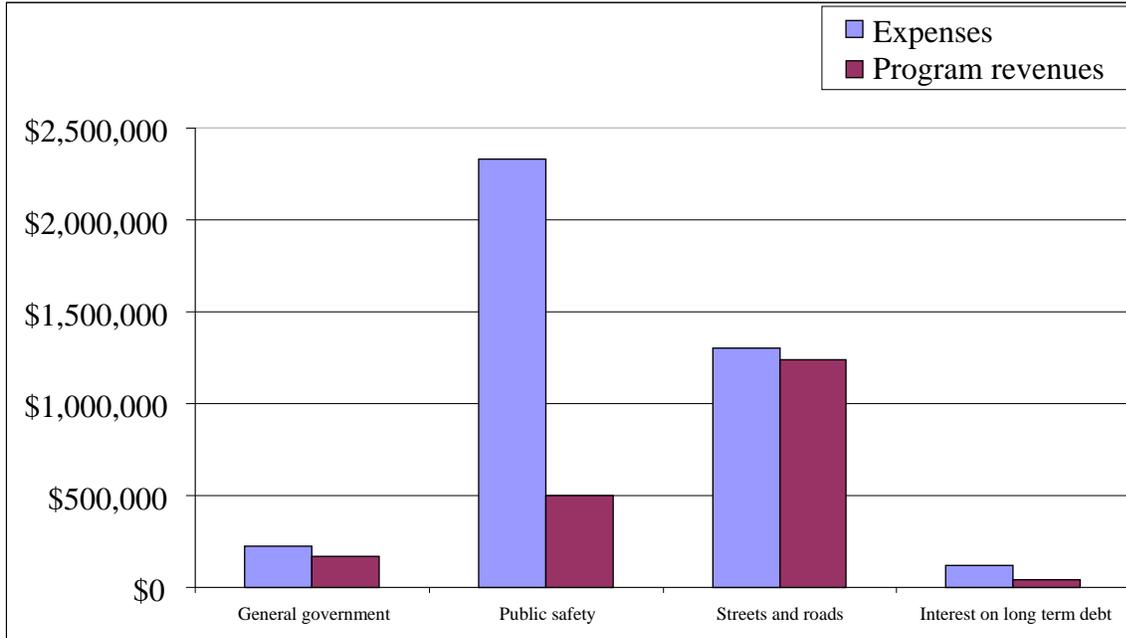
**Bear Valley Community Services District's Changes in Net Position**

	Condensed Statement of Activities					
	Governmental Activities		Business-type Activities		Total District	
	2014	2013	2014	2013	2014	2013
<b>Revenues:</b>						
<b>Program revenues:</b>						
Charges for services	\$ 1,808,390	1,839,571	3,693,437	3,535,889	5,501,827	5,375,460
Operating grants and contrib.	144,675	100,000	-	-	144,675	100,000
Capital grants and contrib.	-	-	108,779	22,665	108,779	22,665
<b>General revenues:</b>						
Property taxes	1,481,607	1,453,862	-	-	1,481,607	1,453,862
Voter approved taxes	965,703	932,711	-	-	965,703	932,711
Investment earnings	21,865	22,581	8,015	13,128	29,880	35,709
<b>Total revenues</b>	<u>4,422,240</u>	<u>4,348,725</u>	<u>3,810,231</u>	<u>3,571,682</u>	<u>8,232,471</u>	<u>7,920,407</u>
<b>Expenses:</b>						
General government	358,315	267,288	-	-	358,315	267,288
Public safety	2,551,432	2,484,408	-	-	2,551,432	2,484,408
Streets and roads	1,225,833	1,227,831	-	-	1,225,833	1,227,831
Interest on long-term debt	66,330	381,075	-	-	66,330	381,075
Water	-	-	2,698,963	2,556,173	2,698,963	2,556,173
Wastewater	-	-	578,205	624,276	578,205	624,276
Solid waste	-	-	531,374	527,556	531,374	527,556
Post office	-	-	49,368	54,786	49,368	54,786
<b>Total expenses</b>	<u>4,201,910</u>	<u>4,360,602</u>	<u>3,857,910</u>	<u>3,762,791</u>	<u>8,059,820</u>	<u>8,123,393</u>
<b>Change in net position</b>	220,330	(11,877)	(47,679)	(191,109)	172,651	(202,986)
Transfers	(16,113)	(19,282)	16,113	19,282	-	-
<b>Change in net position</b>	204,217	(31,159)	(31,566)	(171,827)	172,651	(202,986)
<b>Net position, beginning of year</b>	<u>12,946,137</u>	<u>12,977,296</u>	<u>11,136,661</u>	<u>11,308,488</u>	<u>24,082,798</u>	<u>24,285,784</u>
<b>Net position, end of year</b>	<u>\$ 13,150,354</u>	<u>12,946,137</u>	<u>11,105,095</u>	<u>11,136,661</u>	<u>24,255,449</u>	<u>24,082,798</u>

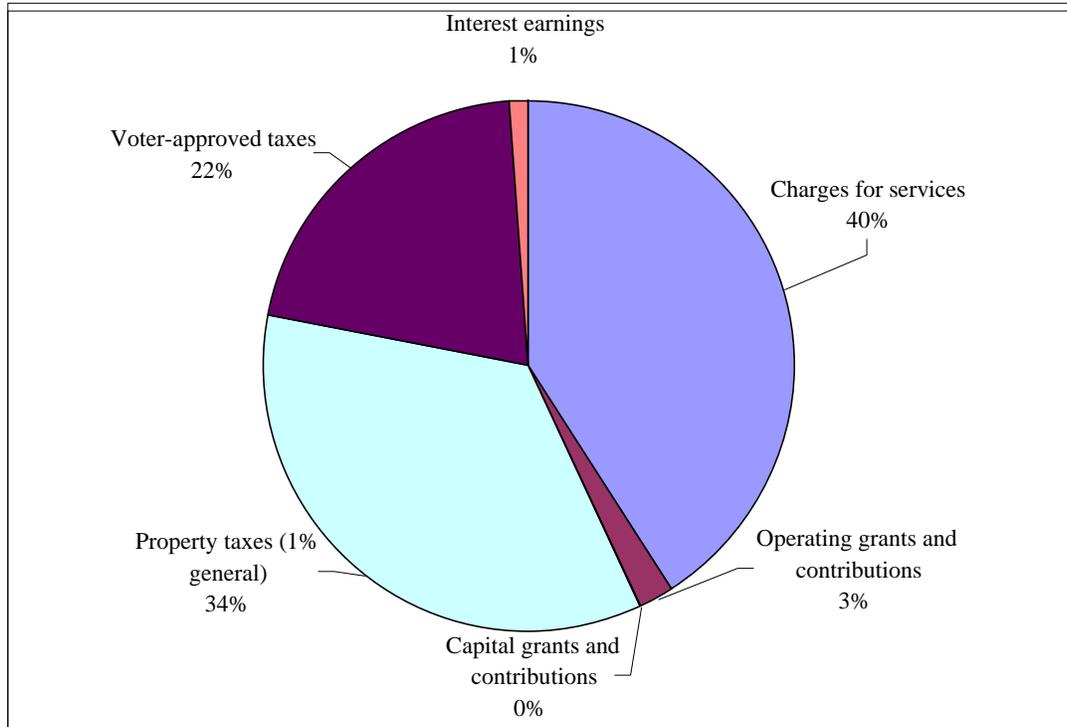
- Revenue from charges for services in the business-type activities increased \$157,548 (4.5%), due primarily to increases in water consumption sales of \$119,023, wastewater service charges of \$23,774 and other charges of \$18,786 in other charges over the prior year.
- Revenue from grants and contributions increased \$130,789 (106.6%). This increase was primarily due to an increase in water and wastewater development fees collected in fiscal year 2013-14 as compared to 2012-13.
- Property taxes increased \$27,745 (1.9%) due to an overall increase in assessed property valuations.
- Total expenses decreased \$63,573 (0.8%), primarily due to the prior year's implementation of GASB No. 65 where the remaining amortization of debt related deferred charges of \$301,924 was written off, which were offset by current year increases in water expenses of \$142,790, general government expenses of \$91,027.

**Bear Valley Community Services District  
Management's Discussion and Analysis  
For the Year Ended June 30, 2014**

**Expenses and Program Revenues – Governmental Activities**



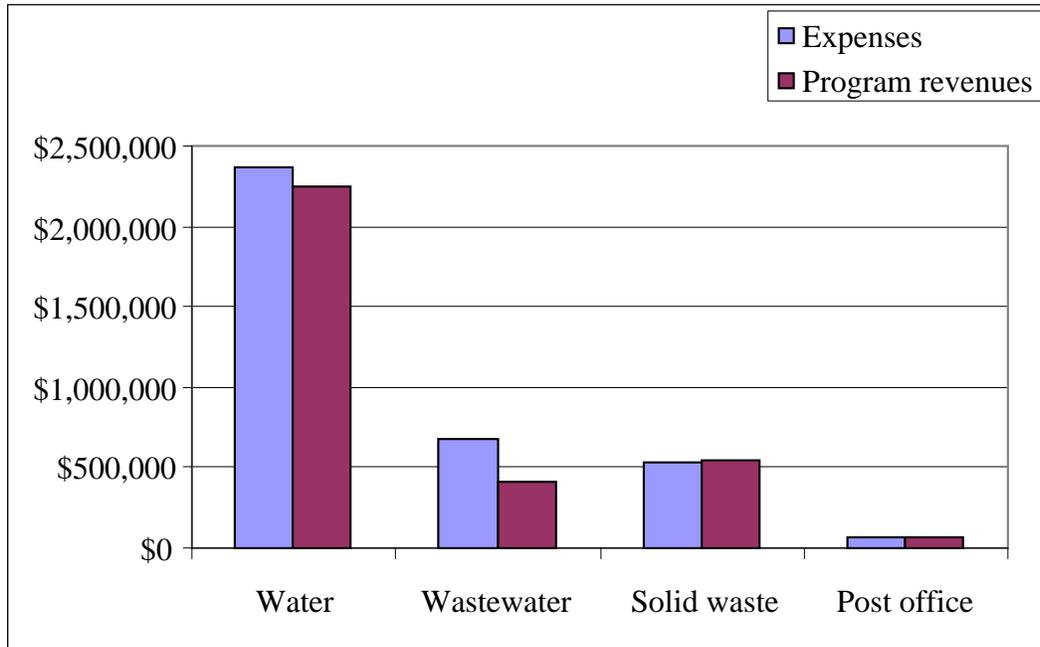
**Revenues by Source – Governmental Activities**



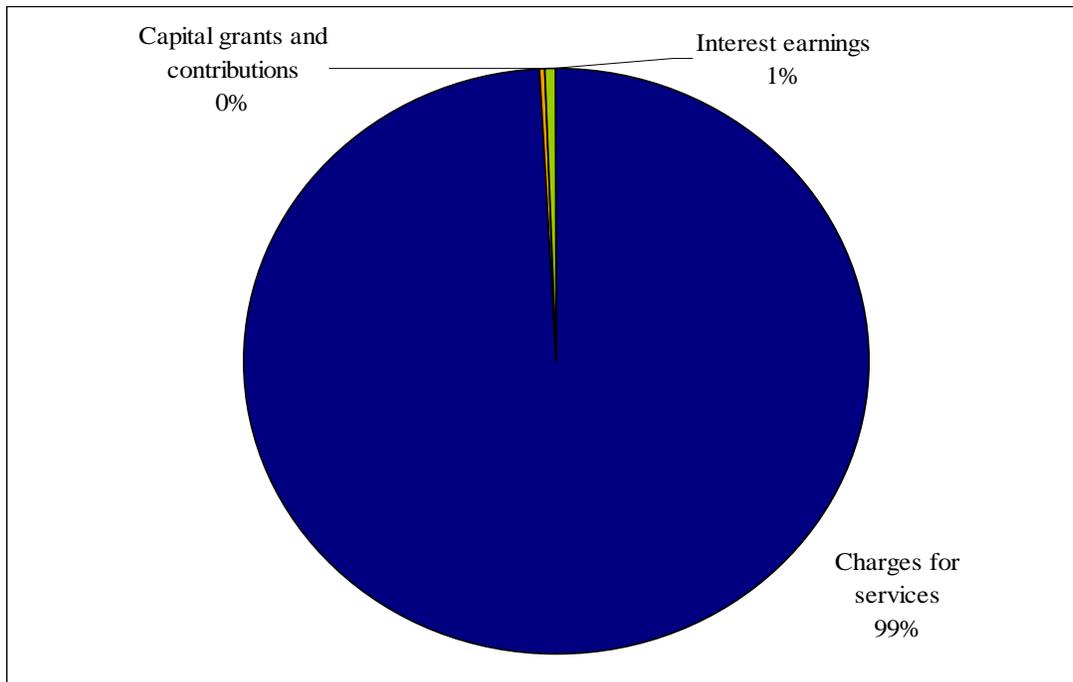
**Business-type activities.** Business-type activities decreased the Bear Valley Community Services District's net position by \$31,566.

**Bear Valley Community Services District  
Management's Discussion and Analysis  
For the Year Ended June 30, 2014**

**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, 2014**

**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 \$6,017,964, an increase of \$74,974 in comparison with the prior year. Of the total fund balance of \$2,475,261 for all governmental funds (41%) 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 \$2,703,010 of which \$170,707 is assigned for compensated absences and \$57,042 assigned for unemployment compensation. In addition, \$158,065 of the fund balance is unassigned by the Board for emergencies and disaster response and \$2,317,196 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 85% of total general fund expenditures, while total fund balance represents 93% of that same amount.

The fund balance of the Bear Valley Community Services District's general fund decreased \$276,851. The amount assigned for unemployment compensation decreased \$2,658. The amount unassigned for emergency response increased \$1,249. The amount unassigned for six-month operating reserve decreased by \$302,446.

The roads fund has a restricted fund balance of \$2,689,761 which will be used for the ongoing maintenance and improvement of streets and roads, including drainage ways and rights of way and \$50,754 for compensated absences. The increase in fund balance during the year was \$130,896.

**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 position for all enterprise funds decreased \$31,566. Changes in total net position from last year are as follows: water enterprise (\$14,193); wastewater enterprise (\$39,982); solid waste enterprise \$22,357; post office enterprise \$252.

The post office enterprise fund had an unrestricted net position of \$252 on June 30, 2014. Revenues to this fund cover less than the cost to provide this service, with the remaining 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**

At June 30, 2014, there were no differences between the original and final amended budgets.

**Bear Valley Community Services District  
Management's Discussion and Analysis  
For the Year Ended June 30, 2014**

**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, 2014, amounts to \$19,071,814 (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:

- \$46,394 for reconstruction of the dispatch station at Police Department.
- \$12,400 for upgrade of the property line base map.
- \$139,774 for the purchase of vehicles and equipment for the governmental funds.
- \$58,408 for the purchase of vehicles and equipment for the enterprise funds.

**Bear Valley Community Services District's Capital Assets**

	Capital Assets					
	Governmental Activities		Business-type Activities		Total District	
	2014	2013	2014	2013	2014	2013
Capital assets:						
Non-depreciable assets	\$ 4,816,815	4,833,827	3,662,053	3,662,053	8,478,868	8,495,880
Depreciable assets	32,112,211	31,913,390	19,980,825	19,922,417	52,093,036	51,835,807
<b>Total capital assets</b>	<b>36,929,026</b>	<b>36,747,217</b>	<b>23,642,878</b>	<b>23,584,470</b>	<b>60,571,904</b>	<b>60,331,687</b>
Accumulated depreciation	(28,078,938)	(27,715,082)	(13,420,908)	(12,835,445)	(41,499,846)	(40,550,527)
<b>Total capital assets, net</b>	<b>\$ 8,850,088</b>	<b>9,032,135</b>	<b>10,221,970</b>	<b>10,749,025</b>	<b>19,072,058</b>	<b>19,781,160</b>

Additional information on the Bear Valley Community Services District's capital assets can be found in note 6 on pages 28-30 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 \$4,455,898. Of this amount, \$1,475,000 comprises debt backed by the full faith and credit of the Bear Valley Community Services District, \$217,195 is owed to the State Water Resources Control Board (SWRCB) for wastewater plant improvements and \$2,763,703 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	
	2014	2013	2014	2013	2014	2013
Long-term debt:						
General obligation bonds	\$ 1,475,000	1,795,000	-	-	1,475,000	1,795,000
SWRCB revolving fund loan	-	-	217,195	325,793	217,195	325,793
CIEDB loan	-	-	2,763,703	2,871,089	2,763,703	2,871,089
<b>Total long-term debt</b>	<b>\$ 1,475,000</b>	<b>1,795,000</b>	<b>2,980,898</b>	<b>3,196,882</b>	<b>4,455,898</b>	<b>4,991,882</b>

Additional information on the Bear Valley Community Services District's capital assets can be found in notes 8 and 9 on pages 32-34 of this report.

**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.

# **Basic Financial Statements**

**Bear Valley Community Services District**  
**Statement of Net Position**  
**June 30, 2014**

<i>Assets</i>	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>Current assets:</b>			
Cash and cash equivalents (note 2)	\$ 6,024,976	3,436,090	9,461,066
Accrued interest receivable	5,763	1,092	6,855
Accounts receivable – utilities, net (note 3)	-	759,679	759,679
Accounts receivable – other	100	-	100
Property taxes and assessments receivable	33,323	1,254	34,577
Internal balances (note 4)	250,000	(250,000)	-
Prepaid expenses and other deposits	10,897	32,280	43,177
<b>Total current assets</b>	<b>6,325,059</b>	<b>3,980,395</b>	<b>10,305,454</b>
<b>Non-current assets:</b>			
Improvement district bonds receivable (note 5)	-	260,000	260,000
Capital assets – not being depreciated (note 6)	4,816,815	3,662,053	8,478,868
Capital assets – being depreciated, net (note 6)	4,033,273	6,559,917	10,593,190
<b>Total non-current assets</b>	<b>8,850,088</b>	<b>10,481,970</b>	<b>19,332,058</b>
<b>Total assets</b>	<b>15,175,147</b>	<b>14,462,365</b>	<b>29,637,512</b>
<b><i>Liabilities and Net Position</i></b>			
<b>Current liabilities:</b>			
Accounts payable and accrued expenses	199,465	233,204	432,669
Accrued wages and related payables	68,534	21,393	89,927
Deposits and deferred revenue	39,096	21,231	60,327
Accrued interest on long-term debt	21,237	33,592	54,829
Long-term liabilities – due within one year:			
Compensated absences (note 7)	55,365	16,738	72,103
Bond payable (note 8)	335,000	-	335,000
Loans payable (note 9)	-	219,131	219,131
<b>Total current liabilities</b>	<b>718,697</b>	<b>545,289</b>	<b>1,263,986</b>
<b>Non-current liabilities:</b>			
Long-term liabilities – due in more than one year:			
Compensated absences (note 7)	166,096	50,214	216,310
Bond payable (note 8)	1,140,000	-	1,140,000
Loans payable (note 9)	-	2,761,767	2,761,767
<b>Total non-current liabilities</b>	<b>1,306,096</b>	<b>2,811,981</b>	<b>4,118,077</b>
<b>Total liabilities</b>	<b>2,024,793</b>	<b>3,357,270</b>	<b>5,382,063</b>
<b>Net position:</b>			
Net investment in capital assets (note 10)	7,375,088	7,241,072	14,616,160
Restricted (note 11)	3,264,200	260,000	3,524,200
Unrestricted (note 12)	2,511,066	3,604,023	6,115,089
<b>Total net position</b>	<b>\$ 13,150,354</b>	<b>11,105,095</b>	<b>24,255,449</b>

See accompanying notes to the basic financial statements

**Bear Valley Community Services District**  
**Statement of Activities**  
**For the Year Ended June 30, 2014**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</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>
<b>Governmental activities:</b>							
General government	\$ 358,315	35,362	-	-	(322,953)	-	(322,953)
Public safety	2,551,432	502,416	144,675	-	(1,904,341)	-	(1,904,341)
Streets and roads	1,225,833	1,238,808	-	-	12,975	-	12,975
Interest on long-term debt	66,330	31,804	-	-	(34,526)	-	(34,526)
<b>Total governmental activities</b>	<b>4,201,910</b>	<b>1,808,390</b>	<b>144,675</b>	<b>-</b>	<b>(2,248,845)</b>	<b>-</b>	<b>(2,248,845)</b>
<b>Business-type activities:</b>							
Water	2,698,963	2,609,501	-	69,605	-	(19,857)	(19,857)
Wastewater	578,205	498,083	-	39,174	-	(40,948)	(40,948)
Solid waste	531,374	552,346	-	-	-	20,972	20,972
Post office	49,368	33,507	-	-	-	(15,861)	(15,861)
<b>Total business-type activities</b>	<b>3,857,910</b>	<b>3,693,437</b>	<b>-</b>	<b>108,779</b>	<b>-</b>	<b>(55,694)</b>	<b>(55,694)</b>
<b>Total</b>	<b>\$ 8,059,820</b>	<b>5,501,827</b>	<b>144,675</b>	<b>108,779</b>	<b>(2,248,845)</b>	<b>(55,694)</b>	<b>(2,304,539)</b>
<b>General revenues:</b>							
Property taxes					\$ 1,481,607	-	1,481,607
Voter-approved taxes					965,703	-	965,703
Interest earnings					21,865	8,015	29,880
Transfers in/(out) (note 4)					(16,113)	16,113	-
<b>Total general revenues</b>					<b>2,453,062</b>	<b>24,128</b>	<b>2,477,190</b>
<b>Change in net position</b>					<b>204,217</b>	<b>(31,566)</b>	<b>172,651</b>
<b>Net position, beginning of year</b>					<b>12,946,137</b>	<b>11,136,661</b>	<b>24,082,798</b>
<b>Net position, end of year</b>					<b>\$ 13,150,354</b>	<b>11,105,095</b>	<b>24,255,449</b>

See accompanying notes to the basic financial statements

**Bear Valley Community Services District**  
**Balance Sheets – Governmental Funds**  
**June 30, 2014**

	<u>General</u>	<u>Streets and Roads</u>	<u>Debt Service</u>	<u>Supplemental Law Enforcement</u>	<u>Total Governmental Activities</u>
<b>Assets:</b>					
Cash and cash equivalents	\$ 2,596,984	2,855,173	397,110	175,709	6,024,976
Accrued interest receivable	4,602	1,112	50	-	5,764
Accounts receivable – other	100	-	-	-	100
Property taxes and assessments receivable	19,765	11,987	1,570	-	33,322
Due from other funds	250,000	-	-	-	250,000
Prepays and other deposits	7,758	3,139	-	-	10,897
<b>Total assets</b>	<u>2,879,209</u>	<u>2,871,411</u>	<u>398,730</u>	<u>175,709</u>	<u>6,325,059</u>
<b>Liabilities:</b>					
Accounts payable and accrued expenses	112,265	87,200	-	-	199,465
Accrued wages and related payables	49,243	19,291	-	-	68,534
Deposits and deferred revenue	14,691	24,405	-	-	39,096
<b>Total liabilities</b>	<u>176,199</u>	<u>130,896</u>	<u>-</u>	<u>-</u>	<u>307,095</u>
<b>Fund balance:</b>					
Restricted:					
Street and road improvements	-	2,689,761	-	-	2,689,761
Debt service	-	-	398,730	-	398,730
Public safety	-	-	-	175,709	175,709
Assigned:					
Compensated absences	170,707	50,754	-	-	221,461
Unemployment compensation	57,042	-	-	-	57,042
Unassigned:					
Emergency reserve	158,065	-	-	-	158,065
Six-month operating reserve	2,317,196	-	-	-	2,317,196
<b>Total fund balance</b>	<u>2,703,010</u>	<u>2,740,515</u>	<u>398,730</u>	<u>175,709</u>	<u>6,017,964</u>
<b>Total liabilities and fund balance</b>	<u>\$ 2,879,209</u>	<u>2,871,411</u>	<u>398,730</u>	<u>175,709</u>	<u>6,325,059</u>

**Bear Valley Community Services District**  
**Reconciliation of the Balance Sheets of Governmental Funds to the Statement of Net Position**  
**June 30, 2014**

**Reconciliation:**

Fund balance of governmental funds	\$ 6,017,964
Amounts reported for governmental activities in the statement of net position is different because:	
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 position includes those capital position among the assets of the District as a whole.	8,850,088
Interest on long-term debt is not accrued as a governmental fund liability, but rather is recognized as an expenditure when due.	(21,237)
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 position as follows:	
Compensated absences	(221,461)
Bonds payable	(1,475,000)
Net position of governmental activities	\$ 13,150,354

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, 2014**

	<u>General</u>	<u>Streets and Roads</u>	<u>Debt Service</u>	<u>Supplemental Law Enforcement</u>	<u>Total Governmental Activities</u>
<b>Revenues:</b>					
Property taxes	\$ 1,481,607	-	-	-	1,481,607
Voter-approved taxes	562,967	-	402,736	-	965,703
Special assessments	-	1,224,377	-	-	1,224,377
Charges for services	424,583	-	-	-	424,583
Federal and state aid	44,675	-	-	100,000	144,675
Interest earnings	18,443	3,422	-	-	21,865
Rents and royalties	-	-	31,804	-	31,804
Other	102,748	14,431	-	10,447	127,626
<b>Total revenues</b>	<u>2,635,023</u>	<u>1,242,230</u>	<u>434,540</u>	<u>110,447</u>	<u>4,422,240</u>
<b>Expenditures:</b>					
General government	300,230	-	743	-	300,973
Public safety	2,537,123	-	-	3,111	2,540,234
Streets and roads	-	1,041,823	-	-	1,041,823
Capital outlay	58,408	-	-	-	58,408
Debt service:					
Bond payments	-	-	320,000	-	320,000
Interest paid	-	-	69,715	-	69,715
<b>Total expenditures</b>	<u>2,895,761</u>	<u>1,041,823</u>	<u>390,458</u>	<u>3,111</u>	<u>4,331,153</u>
Excess(deficiency) of revenues over expenditures	<u>(260,738)</u>	<u>200,407</u>	<u>44,082</u>	<u>107,336</u>	<u>91,087</u>
<b>Other financing sources(uses):</b>					
Operating transfers in(out)	<u>(16,113)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(16,113)</u>
<b>Net change in fund balance</b>	<u>(276,851)</u>	<u>200,407</u>	<u>44,082</u>	<u>107,336</u>	<u>74,974</u>
<b>Fund balance, beginning of year</b>	<u>2,979,861</u>	<u>2,540,108</u>	<u>354,648</u>	<u>68,373</u>	<u>5,942,990</u>
<b>Fund balance, end of year</b>	<u>\$ 2,703,010</u>	<u>2,740,515</u>	<u>398,730</u>	<u>175,709</u>	<u>6,017,964</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, 2014**

**Reconciliation:**

Net changes in fund balance of total governmental funds	\$	74,974
<p>Amounts reported for governmental activities in the statement of activities are different because:</p> <p>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:</p>		
Capital outlay		181,810
Depreciation expense		(363,856)
<p>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 position and do not result in an expense in the statement of activities.</p>		
		320,000
<p>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:</p>		
Net change in accrued interest for the current period		4,127
Net change in compensated absences for the current period		(12,838)
		204,217
Change in net position of governmental activities	\$	204,217
<p>See accompanying notes to the basic financial statements</p>		

**Bear Valley Community Services District**  
**Statements of Net Position – Enterprise Funds**  
**June 30, 2014**

<i>Assets</i>	<b>Water</b>	<b>Wastewater</b>	<b>Solid Waste</b>	<b>Post Office</b>	<b>Total Business-type Activities</b>
<b>Current assets:</b>					
Cash and cash equivalents	▲ \$ 2,129,882	579,962	725,729	517	3,436,090
Accrued interest receivable	1,092	-	-	-	1,092
Accounts receivable – utilities, net	611,019	87,216	61,444	-	759,679
Property assessments receivable	1,224	30	-	-	1,254
Prepaid expenses and other deposits	3,216	28,749	315	-	32,280
<b>Total current assets</b>	<b>2,746,433</b>	<b>695,957</b>	<b>787,488</b>	<b>517</b>	<b>4,230,395</b>
<b>Non-current assets:</b>					
Improvement district bonds receivable	▲ -	260,000	-	-	260,000
Capital assets – not being depreciated	3,647,319	14,734	-	-	3,662,053
Capital assets, net – being depreciated	▲ 5,753,800	756,122	49,995	-	6,559,917
<b>Total non-current assets</b>	<b>9,401,119</b>	<b>1,030,856</b>	<b>49,995</b>	<b>-</b>	<b>10,481,970</b>
<b>Total assets</b>	<b>12,147,552</b>	<b>1,726,813</b>	<b>837,483</b>	<b>517</b>	<b>14,712,365</b>
<b>Liabilities and Net Position</b>					
<b>Current liabilities:</b>					
Accounts payable and accrued expenses	190,598	17,798	24,543	265	233,204
Accrued wages and related payables	14,249	4,849	2,295	-	21,393
Accrued interest on long-term debt	27,547	6,045	-	-	33,592
Due to other funds	181,843	68,157	-	-	250,000
Deposits and deferred revenue	21,231	-	-	-	21,231
Long-term liabilities – due within one year:					
Compensated absences	9,535	1,046	6,157	-	16,738
Loans payable	90,205	129,925	-	-	220,130
<b>Total current liabilities</b>	<b>535,208</b>	<b>227,820</b>	<b>32,995</b>	<b>265</b>	<b>796,288</b>
<b>Non-current liabilities:</b>					
Long-term liabilities – due in more than one year:					
Compensated absences	28,606	3,137	18,471	-	50,214
Loans payable	▲ 2,195,672	565,096	-	-	2,760,768
<b>Total non-current liabilities</b>	<b>2,224,278</b>	<b>568,233</b>	<b>18,471</b>	<b>-</b>	<b>2,810,982</b>
<b>Total liabilities</b>	<b>2,759,486</b>	<b>796,053</b>	<b>51,466</b>	<b>265</b>	<b>3,607,270</b>
<b>Net position:</b>					
Net investment in capital assets	7,115,242	75,835	49,995	-	7,241,072
Restricted	-	260,000	-	-	260,000
Unrestricted	2,272,824	594,925	736,022	252	3,604,023
<b>Total net position</b>	<b>\$ 9,388,066</b>	<b>930,760</b>	<b>786,017</b>	<b>252</b>	<b>11,105,095</b>

See accompanying notes to the basic financial statements

**Bear Valley Community Services District**  
**Statements of Revenues, Expenses and Changes in Fund Net Position – Enterprise Funds**  
**For the Year Ended June 30, 2014**

	<u>Water</u>	<u>Wastewater</u>	<u>Solid Waste</u>	<u>Post Office</u>	<u>Total Business-type Activities</u>
<b>Operating revenues:</b>					
Water consumption sales	\$ 2,536,541	-	-	-	2,536,541
Wastewater service charges	-	494,610	-	-	494,610
Solid waste collection charges	-	-	547,948	-	547,948
Post office box charges	-	-	-	32,708	32,708
Other charges for services	72,960	3,473	4,398	799	81,630
<b>Total operating revenues</b>	<u>2,609,501</u>	<u>498,083</u>	<u>552,346</u>	<u>33,507</u>	<u>3,693,437</u>
<b>Operating expenses:</b>					
Salaries and benefits	746,007	215,103	171,189	41,995	1,174,294
Operations	1,476,734	170,931	342,753	7,373	1,997,791
<b>Total operating expenses</b>	<u>2,222,741</u>	<u>386,034</u>	<u>513,942</u>	<u>49,368</u>	<u>3,172,085</u>
Operating income(loss) before depreciation	386,760	112,049	38,404	(15,861)	521,352
Depreciation expense	(407,953)	(177,929)	(17,432)	-	(603,314)
<b>Operating income(loss)</b>	<u>(21,193)</u>	<u>(65,880)</u>	<u>20,972</u>	<u>(15,861)</u>	<u>(81,962)</u>
<b>Non-operating revenue(expense):</b>					
Interest earnings	5,664	966	1,385	-	8,015
Interest expense	(68,269)	(14,242)	-	-	(82,511)
Total non-operating, net	<u>(62,605)</u>	<u>(13,276)</u>	<u>1,385</u>	<u>-</u>	<u>(74,496)</u>
<b>Operating transfers in(out)</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,113</u>	<u>16,113</u>
<b>Capital contributions:</b>					
Capacity charges	69,605	39,174	-	-	108,779
Total capital contributions	<u>69,605</u>	<u>39,174</u>	<u>-</u>	<u>-</u>	<u>108,779</u>
<b>Change in net position</b>	<u>(14,193)</u>	<u>(39,982)</u>	<u>22,357</u>	<u>252</u>	<u>(31,566)</u>
<b>Net position, beginning of year</b>	<u>9,402,259</u>	<u>970,742</u>	<u>763,660</u>	<u>-</u>	<u>11,136,661</u>
<b>Net position, end of year</b>	<u>\$ 9,388,066</u>	<u>930,760</u>	<u>786,017</u>	<u>252</u>	<u>11,105,095</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, 2014**

	<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	\$ 2,358,140	508,388	560,461	33,507	3,460,496
Cash paid to employees for salaries and benefits	(766,842)	(218,408)	(172,742)	(45,717)	(1,203,709)
Cash paid to vendors and suppliers	<u>(1,361,369)</u>	<u>(140,912)</u>	<u>(367,795)</u>	<u>(13,679)</u>	<u>(1,883,755)</u>
Net cash provided(used) by operating activities	<u>229,929</u>	<u>149,068</u>	<u>19,924</u>	<u>(25,889)</u>	<u>373,032</u>
Cash flows from non-capital financing activities:					
Operating transfers in	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,113</u>	<u>16,113</u>
Cash flows from capital and related financing activities:					
Acquisition and construction of capital assets	(58,408)	-	-	-	(58,408)
Proceeds from capital contributions	69,605	39,174	-	-	108,779
Principal payments on loans payable	(88,821)	(127,164)	-	-	(215,985)
Interest payments on loans payable	<u>(69,640)</u>	<u>(14,242)</u>	<u>-</u>	<u>-</u>	<u>(83,882)</u>
Net cash used in capital and financing activities	<u>(147,264)</u>	<u>(102,232)</u>	<u>-</u>	<u>-</u>	<u>(249,496)</u>
Cash flows from investing activities:					
Proceeds from bonds receivable	-	112,150	-	-	112,150
Interest earnings	<u>6,563</u>	<u>1,365</u>	<u>2,041</u>	<u>-</u>	<u>9,969</u>
Net cash provided by investing activities	<u>6,563</u>	<u>113,515</u>	<u>2,041</u>	<u>-</u>	<u>122,119</u>
Net increase(decrease) in cash	89,228	160,351	21,965	(9,776)	261,768
Cash and cash equivalents, beginning of year	<u>2,040,654</u>	<u>419,611</u>	<u>703,764</u>	<u>10,293</u>	<u>3,174,322</u>
Cash and cash equivalents, end of year	<u>\$ 2,129,882</u>	<u>579,962</u>	<u>725,729</u>	<u>517</u>	<u>3,436,090</u>
Reconciliation of operating income to net cash provided(used) by operating activities:					
Operating income(loss)	<u>\$ (21,193)</u>	<u>(65,880)</u>	<u>20,972</u>	<u>(15,861)</u>	<u>(81,962)</u>
Adjustments to reconcile operating income to net cash provided(used) by operating activities:					
Depreciation expense	407,953	177,929	17,432	-	603,314
Changes in assets and liabilities:					
(Increase)decrease in assets:					
Accounts receivable – utilities, net	(271,778)	9,461	8,115	-	(254,202)
Property assessments receivable	(814)	844	-	-	30
Prepaid expenses and other deposits	(3,216)	17,637	(315)	-	14,106
Increase(decrease) in liabilities:					
Accounts payable and accrued expenses	118,581	12,382	(24,727)	(6,306)	99,930
Accrued wages and related payables	47	1,147	(712)	(796)	(314)
Deposits and deferred revenue	21,231	-	-	-	21,231
Compensated absences	<u>(20,882)</u>	<u>(4,452)</u>	<u>(841)</u>	<u>(2,926)</u>	<u>(29,101)</u>
Total adjustments	<u>251,122</u>	<u>214,948</u>	<u>(1,048)</u>	<u>(10,028)</u>	<u>454,994</u>
Net cash provided(used) by operating activities	<u>\$ 229,929</u>	<u>149,068</u>	<u>19,924</u>	<u>(25,889)</u>	<u>373,032</u>

See accompanying notes to the basic financial statements

**Bear Valley Community Services District**  
**Notes to the Basic Financial Statements**  
**June 30, 2014**

**(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. 61, *The Financial Reporting Entity*. 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 Position. The Statement of Activities presents changes in net position. 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 position presented in the Government-wide Financial Statements.

**Bear Valley Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2014**

**(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.

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:

***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.

**Bear Valley Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2014**

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

**B. Basis of Accounting and Measurement Focus, continued**

*Governmental Funds, continued*

**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.

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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, 2014**

**(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. 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 Position/Fund Balances**

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

- **Net Investment in Capital Assets** – This component of net position 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 Position** – This component of net position consists of constraints placed on net position 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 Position** – This component of net position consists of net position 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, 2014**

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

**C. Financial Statement Elements, continued**

**9. Fund Equity**

The financial statements for governmental funds reports 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 establishes, 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 position 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, 2014**

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

**C. Financial Statement Elements, continued**

**13. Reclassification**

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

**(2) Cash and Cash Equivalents**

Cash and cash equivalents as of June 30, 2014, are classified by fund as follows:

Governmental activity funds:	
General fund	\$ 2,596,984
Streets and roads fund	2,855,173
Bond redemption fund	397,110
Supplemental law enforcement	175,709
Total	6,024,976
Business-type activity funds:	
Water fund	2,129,882
Wastewater fund	579,962
Solid waste fund	725,729
Post office fund	517
Total	3,436,090
Total cash and cash equivalents	\$ 9,461,066

Cash and cash equivalents as of June 30, 2014, consisted of the following:

Cash on hand	\$ 1,300
Deposits held with financial institutions	552,386
Deposits held with the County of Kern Treasurer's Pooled Cash Portfolio	7,058,868
Deposits held with the California Local Agency Investment Fund (LAIF)	1,848,512
Total	\$ 9,461,066

As of June 30, 2014, the District's authorized deposits had the following maturities:

Deposits held with the County of Kern Treasurer's Pooled Cash Portfolio	535 days
Deposits held with the California Local Agency Investment Fund (LAIF)	232 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](http://www.kcttc.co.kern.ca.us).

**Bear Valley Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2014**

**(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](http://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 75% and LAIF is 20% as of June 30, 2014, of the District's total depository and investment portfolio.

**Bear Valley Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2014**

**(3) Accounts Receivable – Utilities, net**

The accounts receivable – utilities, net balance consists of the following balances as of June 30, 2014:

	<u>Water</u>	<u>Wastewater</u>	<u>Solid Waste</u>	<u>Total</u>
Accounts receivable – utilities	\$ 704,119	87,216	61,444	852,779
Allowance for uncollectible receivables	(93,100)	-	-	(93,100)
Accounts receivable – utilities, net	<u>\$ 611,019</u>	<u>87,216</u>	<u>61,444</u>	<u>759,679</u>

**(4) Internal Balances**

***Due To/From Other Funds***

Internal balances consist of the following as of June 30, 2014:

<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>
Total internal balances:			\$ <u><u>250,000</u></u>

The General fund advanced the Water fund \$250,000 in 2014 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 2014.

***Interfund Operational Transfers***

Interfund transfers consist of the following for the year ended June 30, 2014:

<u>Transfer from</u>	<u>Transfer to</u>	<u>Amount</u>
General	Post Office	\$ <u><u>16,113</u></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, 2014**

**(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 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, 2014, the Improvement District No. 95-1 bonds outstanding totaled \$260,000.

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 \$260,000 as of June 30, 2014. The principal balance of \$130,000 is due and payable to the District each year until 2016.

**(6) Capital Assets**

***Governmental Activities***

Changes in capital assets for the year were as follows:

	<u>Balance 2013</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance 2014</u>
Non-depreciable assets:				
Land	\$ 4,804,415	-	-	4,804,415
Construction-in-process	29,412	58,794	(75,806)	12,400
Total non-depreciable assets	<u>4,833,827</u>	<u>58,794</u>	<u>(75,806)</u>	<u>4,816,815</u>
Depreciable assets:				
Buildings and improvements	5,923,148	59,047	-	5,982,195
Infrastructure, streets and roads	24,179,347	-	-	24,179,347
Vehicles and equipment	1,810,895	139,774	-	1,950,669
Total depreciable assets	<u>31,913,390</u>	<u>198,821</u>	<u>-</u>	<u>32,112,211</u>
Accumulated depreciation:				
Buildings and improvements	(3,982,543)	(82,415)	-	(4,064,958)
Infrastructure, streets and roads	(22,164,163)	(186,398)	-	(22,350,561)
Vehicles and equipment	(1,568,376)	(95,043)	-	(1,663,419)
Total accumulated depreciation	<u>(27,715,082)</u>	<u>(363,856)</u>	<u>-</u>	<u>(28,078,938)</u>
Total depreciable assets, net	<u>4,198,308</u>	<u>(165,035)</u>	<u>-</u>	<u>4,033,273</u>
Total capital assets, net	<u>\$ 9,032,135</u>			<u>8,850,088</u>

Major capital asset additions in the governmental activities area include reconstruction of the dispatch station, upgrade of the property line base map and purchase of vehicles and equipment.

**Bear Valley Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2014**

**(6) Capital Assets, continued**

Depreciation expense under governmental activities was allotted as follows for the year ended June 30, 2014:

	<b>Depreciation Expense</b>
General government	\$ 55,560
Public safety	83,900
Streets and roads	224,396
Total	\$ 363,856

***Business-Type Activities***

Changes in capital assets for the year were as follows:

	<b>Balance 2013</b>	<b>Additions</b>	<b>Deletions/ Transfers</b>	<b>Balance 2014</b>
Non-depreciable assets:				
Land	\$ 3,662,053	-	-	3,662,053
Construction in progress	-	-	-	-
Total non-depreciable assets	3,662,053	-	-	3,662,053
Depreciable assets:				
Water transmission and distribution	14,279,531	-	-	14,279,531
Wastewater collection	4,689,248	-	-	4,689,248
Solid waste collection	156,231	-	-	156,231
Vehicles and equipment	797,407	58,408	-	855,815
Total depreciable assets	19,922,417	58,408	-	19,980,825
Accumulated depreciation:				
Water transmission and distribution	(8,245,100)	(370,681)	-	(8,615,781)
Wastewater collection	(3,792,878)	(155,033)	-	(3,947,911)
Solid waste collection	(109,791)	(5,502)	-	(115,293)
Vehicles and equipment	(687,676)	(54,247)	-	(741,923)
Total accumulated depreciation	(12,835,445)	(585,463)	-	(13,420,908)
Total depreciable assets, net	7,086,972	(527,055)	-	6,559,917
Total capital assets, net	\$ 10,749,025			10,221,970

Major capital asset additions in the business-type activities area include the purchases of a vehicle for the water fund.

**Bear Valley Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2014**

**(6) Capital Assets, continued**

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

<b>Water Enterprise</b>	<b>Balance 2013</b>	<b>Additions</b>	<b>Deletions/ Transfers</b>	<b>Balance 2014</b>
Non-depreciable assets:				
Land	\$ 3,647,319	-	-	3,647,319
Construction in progress	-	-	-	-
Total non-depreciable assets	<u>3,647,319</u>	<u>-</u>	<u>-</u>	<u>3,647,319</u>
Depreciable assets:				
Water transmission and distribution	14,279,531	-	-	14,279,531
Vehicles and equipment	544,235	58,408	-	602,643
Total depreciable assets	<u>14,823,766</u>	<u>58,408</u>	<u>-</u>	<u>14,882,174</u>
Accumulated depreciation:				
Water transmission and distribution	(8,245,100)	(370,681)	-	(8,615,781)
Vehicles and equipment	(475,321)	(37,272)	-	(512,593)
Total accumulated depreciation	<u>(8,720,421)</u>	<u>(407,953)</u>	<u>-</u>	<u>(9,128,374)</u>
Total depreciable assets, net	<u>6,103,345</u>	<u>(349,545)</u>	<u>-</u>	<u>5,753,800</u>
Total capital assets, net	<u>\$ 9,750,664</u>			<u>9,401,119</u>

<b>Wastewater Enterprise</b>	<b>Balance 2013</b>	<b>Additions</b>	<b>Deletions/ Transfers</b>	<b>Balance 2014</b>
Non-depreciable assets:				
Land	\$ 14,734	-	-	14,734
Total non-depreciable assets	<u>14,734</u>	<u>-</u>	<u>-</u>	<u>14,734</u>
Depreciable assets:				
Wastewater collection	4,689,248	-	-	4,689,248
Vehicles and equipment	102,291	-	-	102,291
Total depreciable assets	<u>4,791,539</u>	<u>-</u>	<u>-</u>	<u>4,791,539</u>
Accumulated depreciation:				
Wastewater collection	(3,792,878)	(155,033)	-	(3,947,911)
Vehicles and equipment	(82,461)	(5,045)	-	(87,506)
Total accumulated depreciation	<u>(3,875,339)</u>	<u>(160,078)</u>	<u>-</u>	<u>(4,035,417)</u>
Total depreciable assets, net	<u>916,200</u>	<u>(160,078)</u>	<u>-</u>	<u>756,122</u>
Total capital assets, net	<u>\$ 930,934</u>			<u>770,856</u>

<b>Solid Waste Enterprise</b>	<b>Balance 2013</b>	<b>Additions</b>	<b>Deletions/ Transfers</b>	<b>Balance 2014</b>
Depreciable assets:				
Solid waste collection	\$ 156,231	-	-	156,231
Vehicles and equipment	150,881	-	-	150,881
Total depreciable assets	<u>307,112</u>	<u>-</u>	<u>-</u>	<u>307,112</u>
Accumulated depreciation:				
Solid waste collection	(109,791)	(5,502)	-	(115,293)
Vehicles and equipment	(129,894)	(11,930)	-	(141,824)
Total accumulated depreciation	<u>(239,685)</u>	<u>(17,432)</u>	<u>-</u>	<u>(257,117)</u>
Total depreciable assets, net	<u>67,427</u>	<u>(17,432)</u>	<u>-</u>	<u>49,995</u>
Total capital assets, net	<u>\$ 67,427</u>			<u>49,995</u>

**Bear Valley Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2014**

**(7) 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>
<b>Sick leave</b>	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
<b>Vacation</b>	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
<b>Comp time</b>	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, 2014, were as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Compensated absences, beginning	\$ 208,655	96,053
Current year employee earnings	215,013	80,562
Employee time taken	<u>(202,207)</u>	<u>(109,663)</u>
Compensated absences, ending	221,461	66,952
Less: current portion payable	<u>(55,365)</u>	<u>(16,738)</u>
Long-term portion payable	<u>\$ 166,096</u>	<u>50,214</u>

**Bear Valley Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2014**

**(8) Bond Payable**

Changes in bond payable for the year ended June 30, 2014, is as follows:

	<b>Balance 2013</b>	<b>Additions</b>	<b>Payments</b>	<b>Balance 2014</b>
General obligation bonds	\$ 1,795,000	-	(320,000)	1,475,000
Less: current portion due	(320,000)			(335,000)
Long-term portion due	\$ 1,475,000			1,140,000

***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 obligation 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 1<sup>st</sup> and March 1<sup>st</sup> 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 1<sup>st</sup>. Annual debt service requirements on the bonds are as follows:

<b>Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2015	\$ 335,000	57,183	392,183
2016	345,000	43,750	388,750
2017	50,000	35,788	85,788
2018	55,000	33,487	88,487
2019	55,000	31,013	86,013
2020-2024	320,000	113,325	433,325
2025-2028	315,000	30,757	345,757
Totals	1,475,000	345,303	1,820,303
Current portion due	(335,000)		
Long-term portion	\$ 1,140,000		

**Bear Valley Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2014**

**(9) Loans Payable**

Changes in loans payable for the year ended June 30, 2014, are as follows:

	<u>Balance</u> <u>2013</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>2014</u>
<b>Water fund:</b>				
CIEBD - Loan	\$ 2,374,698	-	(88,820)	2,285,878
<b>Wastewater fund:</b>				
SWRCB - Loan	325,793	-	(108,598)	217,195
CIEBD - Loan	496,391	-	(18,566)	477,825
Total loans payable	<u>3,196,882</u>	<u>-</u>	<u>(215,984)</u>	2,980,898
Less: current portion	<u>(215,984)</u>			<u>(219,131)</u>
Long-term portion	<u>\$ 2,980,898</u>			<u>2,761,767</u>

***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 1<sup>st</sup> and February 1<sup>st</sup> 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 1<sup>st</sup>. Annual debt service requirements on the loan are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 110,533	79,181	189,714
2016	113,772	75,894	189,666
2017	117,105	72,512	189,617
2018	120,536	69,031	189,567
2019	124,068	65,447	189,515
2020-2024	677,047	273,723	950,770
2025-2029	782,220	162,988	945,208
2030-2033	718,422	42,499	760,921
Total	<u>2,763,703</u>	<u>841,275</u>	<u>3,604,978</u>
Current portion due	<u>(110,533)</u>		
Long-term portion	<u>\$ 2,653,170</u>		

**Bear Valley Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2014**

**(9) 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 position and is being amortized to interest expense over the twenty-year loan payment period. As of June 30, 2014, the remaining unamortized interest balance is as follows:

	<b>Amount</b>
Prepaid interest	\$ 361,999
Accumulated amortization	(333,464)
Prepaid interest, net	\$ 28,535

The SWRCB – Loan is scheduled to mature in fiscal year 2016. Principal installments are payable each year on January 13<sup>th</sup>. Annual principal installments on the loan are as follows:

<b>Year</b>	<b>Principal</b>
2015	\$ 108,598
2016	108,597
Total	217,195
Current portion due	(108,598)
Long-term portion	\$ 108,597

**Bear Valley Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2014**

**(10) Net Investment in Capital Assets**

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

	<u><b>Governmental Activities</b></u>	<u><b>Business-type Activities</b></u>
The balance consists of the following:		
Capital assets – not being depreciated	\$ 4,816,815	3,662,053
Capital assets – being depreciated, net	4,033,273	6,559,917
Bond payable – current portion	(335,000)	-
Loans payable – current portion	-	(219,131)
Bond payable – long-term portion	(1,140,000)	-
Loans payable – long-term portion	-	(2,761,767)
Total	<u>\$ 7,375,088</u>	<u>7,241,072</u>

**(11) Restricted Net Position**

	<u><b>Governmental Activities</b></u>	<u><b>Business-type Activities</b></u>
Net position are restricted as follows:		
Street and road improvements	\$ 2,689,761	-
Debt service	398,730	-
Public safety (COPS Program)	175,709	-
Improvement bond	-	260,000
	<u>\$ 3,264,200</u>	<u>260,000</u>

**(12) Unrestricted Net Position**

The District's Board of Directors has designated the use of the District's June 30, 2014, unrestricted net position as follows:

	<u><b>Governmental Activities</b></u>	<u><b>Business-type Activities</b></u>
Net position are designated as follows:		
Unemployment compensation	\$ 57,042	-
Emergency reserve	158,065	-
Police contingencies	396,182	-
Six-month operating reserve	1,899,777	-
Prepaid expenses	-	32,280
Water operations	-	943,409
Water capital replacement	-	1,329,415
Wastewater operations	-	472,070
Wastewater capital replacement	-	90,575
Solid waste operations	-	421,789
Solid waste capital replacement	-	314,233
Post office operations	-	252
Total	<u>\$ 2,511,066</u>	<u>3,604,023</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, 2014**

**(13) 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, 2014, was \$550,543.

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 position.

**(14) 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, California 95814.

***Funding Policy***

***Tier I – Miscellaneous and Safety Plans***

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 2014, 2013 and 2012, 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 2014, 2013 and 2012, 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:

**Bear Valley Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2014**

**(14) Defined Benefit Pension Plan, continued**

***California Public Employees Pension Reform Act of 2013***

On September 12, 2012, the California Governor signed the California Public Employees' Pension Reform Act of 2013 (PEPRA) into law. PEPRA took effect January 1, 2013.

Key components of the legislation are as follows:

- Establishes PEPRA which will apply to all public employers and public pension plans on and after January 1, 2013 (Except specific exemptions);
- Establishes new retirement tiers/benefits for new public employees;
- Prohibits certain cash payments from being counted as compensation; and
- Increases retirement age for all new public employees.

***Second-Tier – Beginning January 1, 2013***

***PEPRA Safety Employees***

The contribution rate for plan members in the CalPERS 2.7% at 57 Retirement Plan under PEPRA is 12.25% of their annual covered wages. District employees contribute 12.25% of their annual covered wages to their account. Also, the District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The employer contribution rate (12.25%) and member contribution rate (12.25%) is a combined rate of 24.50%, which will be in effect until June 30, 2015.

***PEPRA Miscellaneous Employees***

The contribution rate for plan members in the CalPERS 2.0% at 62 Retirement Plan under PEPRA is 6.50% of their annual covered wages. District employees contribute 6.50% of their annual covered wages to their account. Also, the District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The employer contribution rate (6.70%) and member contribution rate (6.50%) is a combined rate of 13.20%, which will be in effect until June 30, 2015.

For fiscal years 2014, 2013 and 2012, 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***

<b>Fiscal Year</b>	<b>Annual Pension Cost (APC)</b>	<b>Percentage of APC Contributed</b>	<b>Net Pension Obligation</b>	<b>APC Percentage of Payroll</b>
2011-2012	\$ 130,618	100%	-	24.564%
2012-2013	152,651	100%	-	26.421%
2013-2014	106,779	100%	-	19.900%

***Three Years CalPERS Funding Information – Miscellaneous Plan***

<b>Fiscal Year</b>	<b>Annual Pension Cost (APC)</b>	<b>Percentage of APC Contributed</b>	<b>Net Pension Obligation</b>	<b>APC Percentage of Payroll</b>
2011-2012	\$ 181,989	100%	-	9.576%
2012-2013	182,813	100%	-	9.754%
2013-2014	208,432	100%	-	10.282%

See Pages 50-51 for the Schedule of Funding Status.

**Bear Valley Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2014**

**(14) Defined Benefit Pension Plan, continued**

***Actuarial Methods and Assumptions***

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

***CalPERS Safety Plan***

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

Valuation date	June 30, 2013
Actuarial cost method	Entry age normal cost method
Amortization method	Level percent of payroll, open
Asset valuation method	Market Value
Actuarial assumptions:	
Discount rate	7.50% (net of administrative expenses)
Projected salary increase	3.30% to 14.20% depending on age, service, and type of employment
Inflation	2.75%
Payroll growth	3.00%
Individual salary growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%

***CalPERS Miscellaneous Plan.***

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

Valuation date	June 30, 2013
Actuarial cost method	Entry age normal cost method
Amortization method	Level percent of payroll, open
Asset valuation method	Market Value
Actuarial assumptions:	
Discount rate	7.50% (net of administrative expenses)
Projected salary increase	3.30% to 14.20% depending on age, service, and type of employment
Inflation	2.75%
Payroll growth	3.00%
Individual salary growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%

**Bear Valley Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2014**

**(15) Risk Management**

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of the 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, 2014, 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 three years after the loss, otherwise paid on an actual cash value basis, to a combined total of \$1.0 billion 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 \$500,000 per each elected/appointed official to which this coverage applies, subject to the terms, with a deductible of \$500 per claim.
- Workers' compensation insurance per statutory requirements 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 2014, 2013 and 2012. 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, 2014, 2013 and 2012.

**Bear Valley Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2014**

**(16) Governmental Accounting Standards Board Statements**

**Newly Issued Accounting Pronouncements, But Not Yet Effective**

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2014, that have effective dates that may impact future financial presentations.

***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.

***Governmental Accounting Standards Board Statement No. 69***

In January 2013, the GASB issued Statement No. 69 – Government Combinations and Disposals of Government Operations. The objective of this Statement is to provide new accounting and financial reporting standards for government mergers and acquisitions and for government operations that have been transferred or sold. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2013. The impact of the implementation of this Statement to the District’s financial statements has not been assessed at this time.

***Governmental Accounting Standards Board Statement No. 71***

In November 2013, the GASB issued Statement No. 71 – Pension Transition for Contributions made Subsequent to the Measurement Date – an amendment of GASB No. 68. The objective of this statement is to address an issue regarding application of the transition provisions of Statement No. 68, Accounting and Financial Reporting for Pensions. The issue relates to amounts associated with contributions, if any, made by state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government’s beginning net pension liability. The requirements of this Statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement No. 68 in the accrual-basis financial statements of employers and non-employer contributing entities. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement No. 68.

**Bear Valley Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2014**

**(17) 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.

**(18) Subsequent Events**

Events occurring after June 30, 2014, have been evaluated for possible adjustment to the financial statements or disclosure as of April 3, 2015, which is the date the financial statements were available to be issued. The District is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

## **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, 2014**

	<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>
<b>Revenues:</b>					
Property taxes	\$ 1,464,104	-	1,464,104	1,481,607	17,503
Voter-approved taxes	550,870	-	550,870	562,967	12,097
Charges for services	425,000	-	425,000	424,583	(417)
Federal and state aid	9,000	-	9,000	44,675	35,675
Interest earnings	22,655	-	22,655	18,443	(4,212)
Rents and royalties	29,020	-	29,020	-	(29,020)
Other	73,835	-	73,835	102,748	28,913
<b>Total revenues</b>	<u>2,574,484</u>	<u>-</u>	<u>2,574,484</u>	<u>2,635,023</u>	<u>60,539</u>
<b>Expenditures:</b>					
General government	918,253	-	918,253	300,230	618,023
Public safety	2,299,814	-	2,299,814	2,537,123	(237,309)
Capital outlay	103,705	-	103,705	58,408	45,297
<b>Total expenditures</b>	<u>3,321,772</u>	<u>-</u>	<u>3,321,772</u>	<u>2,895,761</u>	<u>426,011</u>
Excess(deficiency) of revenues over expenditures	<u>(747,288)</u>	<u>-</u>	<u>(747,288)</u>	<u>(260,738)</u>	<u>486,550</u>
<b>Other financing sources(uses):</b>					
Operating transfers	<u>(15,721)</u>	<u>-</u>	<u>(15,721)</u>	<u>(16,113)</u>	<u>(392)</u>
<b>Net change in fund balance</b>	<u>(763,009)</u>	<u>-</u>	<u>(763,009)</u>	<u>(276,851)</u>	<u>486,158</u>
<b>Fund balance, beginning of year</b>	<u>3,070,515</u>	<u>-</u>	<u>3,070,515</u>	<u>2,979,861</u>	
<b>Fund balance, end of year</b>	<u>\$ 2,307,506</u>	<u>-</u>	<u>2,307,506</u>	<u>2,703,010</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, 2014**

	<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>
<b>Revenues:</b>					
Special assessments	\$ 1,207,003	-	1,207,003	1,224,377	17,374
Interest earnings	13,225	-	13,225	3,422	(9,803)
Other	18,235	-	18,235	14,431	(3,804)
<b>Total revenues</b>	<u>1,238,463</u>	<u>-</u>	<u>1,238,463</u>	<u>1,242,230</u>	<u>3,767</u>
<b>Expenditures:</b>					
Streets and roads	1,017,658	-	1,017,658	1,041,823	(24,165)
Capital outlay	600,573	-	600,573	-	600,573
<b>Total expenditures</b>	<u>1,618,231</u>	<u>-</u>	<u>1,618,231</u>	<u>1,041,823</u>	<u>576,408</u>
Excess(deficiency) of revenues over expenditures	<u>(379,768)</u>	<u>-</u>	<u>(379,768)</u>	<u>200,407</u>	<u>580,175</u>
<b>Other financing sources(uses):</b>					
Operating transfers	-	-	-	-	-
<b>Net change in fund balance</b>	<u>(379,768)</u>	<u>-</u>	<u>(379,768)</u>	<u>200,407</u>	<u>580,175</u>
<b>Fund balance, beginning of year</b>	<u>2,216,741</u>	<u>-</u>	<u>2,216,741</u>	<u>2,540,108</u>	
<b>Fund balance, end of year</b>	<u>\$ 1,836,973</u>	<u>-</u>	<u>1,836,973</u>	<u>2,740,515</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, 2014**

	<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>
<b>Revenues:</b>					
Federal and state aid	\$ 100,000	-	100,000	110,447	10,447
Interest earnings	-	-	-	-	-
<b>Total revenues</b>	<u>100,000</u>	<u>-</u>	<u>100,000</u>	<u>110,447</u>	<u>10,447</u>
<b>Expenditures:</b>					
Public safety	-	-	-	3,111	(3,111)
Capital outlay	100,000	-	100,000	-	100,000
<b>Total expenditures</b>	<u>100,000</u>	<u>-</u>	<u>100,000</u>	<u>3,111</u>	<u>96,889</u>
Excess(deficiency) of revenues over expenditures	-	-	-	107,336	107,336
<b>Net change in fund balance</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>107,336</u>	<u>107,336</u>
<b>Other financing sources(uses):</b>					
Operating transfers	-	-	-	-	-
<b>Net change in fund balance</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>107,336</u>	<u>107,336</u>
<b>Fund balance, beginning of year</b>	<u>9,974</u>	<u>-</u>	<u>9,974</u>	<u>68,373</u>	
<b>Fund balance, end of year</b>	<u>\$ 9,974</u>	<u>-</u>	<u>9,974</u>	<u>175,709</u>	

**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, 2014**

	<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>
<b>Revenues:</b>					
Voter-approved taxes	\$ 358,681	-	358,681	402,736	44,055
Interest earnings	1,365	-	1,365	-	(1,365)
Rents and royalties	31,448	-	31,448	31,804	356
<b>Total revenues</b>	<u>391,494</u>	<u>-</u>	<u>391,494</u>	<u>434,540</u>	<u>43,046</u>
<b>Expenditures:</b>					
Debt service:					
General government	-	-	-	743	-
Bond payments	320,000	-	320,000	320,000	-
Interest paid	70,515	-	70,515	69,715	800
<b>Total expenditures</b>	<u>390,515</u>	<u>-</u>	<u>390,515</u>	<u>390,458</u>	<u>800</u>
Excess(deficiency) of revenues over expenditures	<u>979</u>	<u>-</u>	<u>979</u>	<u>44,082</u>	<u>43,846</u>
<b>Other financing sources(uses):</b>					
Operating transfers	-	-	-	-	-
<b>Net change in fund balance</b>	<u>979</u>	<u>-</u>	<u>979</u>	<u>44,082</u>	<u>43,846</u>
<b>Fund balance, beginning of year</b>	<u>346,131</u>	<u>-</u>	<u>346,131</u>	<u>354,648</u>	
<b>Fund balance, end of year</b>	<u>\$ 347,110</u>	<u>-</u>	<u>347,110</u>	<u>398,730</u>	

**Bear Valley Community Services District**  
**Schedule of Revenues, Expenses and Changes in Net Position**  
**Budget and Actual – Water Fund**  
**For the Year Ended June 30, 2014**

	<u>Adopted Original Budget</u>	<u>Board Approved Changes</u>	<u>Revised Final Budget</u>	<u>Actual Basis</u>	<u>Variance Positive (Negative)</u>
<b>Operating revenues:</b>					
Water consumption sales	\$ 2,224,195	-	2,224,195	2,536,541	312,346
Other charges for services	44,555	-	44,555	72,960	28,405
<b>Total operating revenues</b>	<u>2,268,750</u>	<u>-</u>	<u>2,268,750</u>	<u>2,609,501</u>	<u>340,751</u>
<b>Operating expenses:</b>					
Salaries and benefits	868,426	-	868,426	746,007	122,419
Operations	1,244,412	-	1,244,412	1,476,734	(232,322)
<b>Total operating expenses</b>	<u>2,112,838</u>	<u>-</u>	<u>2,112,838</u>	<u>2,222,741</u>	<u>(109,903)</u>
Operating income(loss) before capital	155,912	-	155,912	386,760	230,848
Depreciation expense	-	-	-	(407,953)	407,953
<b>Operating income(loss)</b>	<u>155,912</u>	<u>-</u>	<u>155,912</u>	<u>(21,193)</u>	<u>(177,105)</u>
<b>Non-operating revenue(expense):</b>					
Interest earnings	10,635	-	10,635	5,664	(4,971)
Interest expense	(75,241)	-	(75,241)	(68,269)	(6,972)
Total non-operating, net	<u>(64,606)</u>	<u>-</u>	<u>(64,606)</u>	<u>(62,605)</u>	<u>2,001</u>
<b>Capital contributions and purchases:</b>					
Capital outlay	(466,860)	-	(466,860)	-	(466,860)
Standby charges	27,275	-	27,275	-	(27,275)
Capacity charges	20,110	-	20,110	69,605	49,495
Total capital contributions	<u>(419,475)</u>	<u>-</u>	<u>(419,475)</u>	<u>69,605</u>	<u>(489,080)</u>
<b>Change in net position</b>	<u>(328,169)</u>	<u>-</u>	<u>(328,169)</u>	<u>(14,193)</u>	<u>(664,184)</u>
<b>Other financing sources(uses):</b>					
Operating transfers	-	-	-	-	-
<b>Net position, beginning of year</b>	<u>10,144,241</u>	<u>-</u>	<u>10,144,241</u>	<u>9,402,259</u>	
<b>Net position, end of year</b>	<u>\$ 9,816,072</u>	<u>-</u>	<u>9,816,072</u>	<u>9,388,066</u>	

**Bear Valley Community Services District**  
**Schedule of Revenues, Expenses and Changes in Net Position**  
**Budget and Actual – Wastewater Fund**  
**For the Year Ended June 30, 2014**

	<u>Adopted Original Budget</u>	<u>Board Approved Changes</u>	<u>Revised Final Budget</u>	<u>Actual Basis</u>	<u>Variance Positive (Negative)</u>
<b>Operating revenues:</b>					
Wastewater service charges	\$ 490,787	-	490,787	494,610	3,823
Other charges for services	8,550	-	8,550	3,473	(5,077)
<b>Total operating revenues</b>	<u>499,337</u>	<u>-</u>	<u>499,337</u>	<u>498,083</u>	<u>(1,254)</u>
<b>Operating expenses:</b>					
Salaries and benefits	298,410	-	298,410	215,103	83,307
Operations	154,468	-	154,468	170,931	(16,463)
<b>Total operating expenses</b>	<u>452,878</u>	<u>-</u>	<u>452,878</u>	<u>386,034</u>	<u>66,844</u>
Operating income(loss) before capital	46,459	-	46,459	112,049	65,590
Depreciation expense	-	-	-	(177,929)	177,929
<b>Operating income(loss)</b>	<u>46,459</u>	<u>-</u>	<u>46,459</u>	<u>(65,880)</u>	<u>(112,339)</u>
<b>Non-operating revenue(expense):</b>					
Interest earnings	1,500	-	1,500	966	(534)
Interest expense	(15,728)	-	(15,728)	(14,242)	(1,486)
Total non-operating, net	<u>(14,228)</u>	<u>-</u>	<u>(14,228)</u>	<u>(13,276)</u>	<u>952</u>
<b>Capital contributions and purchases:</b>					
Capital outlay	-	-	-	-	-
Standby charges	2,260	-	2,260	-	2,260
Capacity charges	-	-	-	39,174	39,174
Total capital contributions	<u>2,260</u>	<u>-</u>	<u>2,260</u>	<u>39,174</u>	<u>(39,174)</u>
<b>Change in net position</b>	<u>34,491</u>	<u>-</u>	<u>34,491</u>	<u>(39,982)</u>	<u>(150,561)</u>
<b>Other financing sources(uses):</b>					
Operating transfers	-	-	-	-	-
<b>Net position, beginning of year</b>	<u>1,241,529</u>	<u>-</u>	<u>1,241,529</u>	<u>970,742</u>	
<b>Net position, end of year</b>	<u>\$ 1,276,020</u>	<u>-</u>	<u>1,276,020</u>	<u>930,760</u>	

**Bear Valley Community Services District**  
**Schedule of Revenues, Expenses and Changes in Net Position**  
**Budget and Actual – Solid Waste Fund**  
**For the Year Ended June 30, 2014**

	<u>Adopted Original Budget</u>	<u>Board Approved Changes</u>	<u>Revised Final Budget</u>	<u>Actual Basis</u>	<u>Variance Positive (Negative)</u>
<b>Operating revenues:</b>					
Solid waste collection charges	\$ 549,243	-	549,243	547,948	(1,295)
Other charges for services	350	-	350	4,398	4,048
<b>Total operating revenues</b>	<u>549,593</u>	<u>-</u>	<u>549,593</u>	<u>552,346</u>	<u>2,753</u>
<b>Operating expenses:</b>					
Salaries and benefits	191,570	-	191,570	171,189	20,381
Operations	316,997	-	316,997	342,753	(25,756)
<b>Total operating expenses</b>	<u>508,567</u>	<u>-</u>	<u>508,567</u>	<u>513,942</u>	<u>(5,375)</u>
Operating income(loss) before capital	41,026	-	41,026	38,404	(2,622)
Depreciation expense	-	-	-	(17,432)	(17,432)
<b>Operating income(loss)</b>	<u>41,026</u>	<u>-</u>	<u>41,026</u>	<u>20,972</u>	<u>14,810</u>
<b>Non-operating revenue(expense):</b>					
Interest earnings	3,575	-	3,575	1,385	(2,190)
Total non-operating, net	<u>3,575</u>	<u>-</u>	<u>3,575</u>	<u>1,385</u>	<u>(2,190)</u>
<b>Capital contributions and purchases:</b>					
Capital outlay	(5,843)	-	(5,843)	-	5,843
Total capital contributions	<u>(5,843)</u>	<u>-</u>	<u>(5,843)</u>	<u>-</u>	<u>5,843</u>
<b>Change in net position</b>	38,758	-	38,758	22,357	<u>18,463</u>
<b>Net position, beginning of year</b>	<u>510,372</u>	<u>-</u>	<u>510,372</u>	<u>763,660</u>	
<b>Net position, end of year</b>	<u>\$ 549,130</u>	<u>-</u>	<u>549,130</u>	<u>786,017</u>	

**Bear Valley Community Services District**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual – Post Office Fund**  
**For the Year Ended June 30, 2014**

	<u>Adopted Original Budget</u>	<u>Board Approved Changes</u>	<u>Revised Final Budget</u>	<u>Actual Basis</u>	<u>Variance Positive (Negative)</u>
<b>Operating revenues:</b>					
Post office box charges	\$ 34,600	-	34,600	32,708	(1,892)
Other charges for services	<u>2,250</u>	<u>-</u>	<u>2,250</u>	<u>799</u>	<u>(1,451)</u>
<b>Total operating revenues</b>	<u>36,850</u>	<u>-</u>	<u>36,850</u>	<u>33,507</u>	<u>(3,343)</u>
<b>Operating expenses:</b>					
Salaries and benefits	46,131	-	46,131	41,995	4,136
Operations	<u>6,440</u>	<u>-</u>	<u>6,440</u>	<u>7,373</u>	<u>(933)</u>
<b>Total operating expenses</b>	<u>52,571</u>	<u>-</u>	<u>52,571</u>	<u>49,368</u>	<u>3,203</u>
Operating income(loss) before capital	(15,721)	-	(15,721)	(15,861)	(140)
Depreciation expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Operating income(loss)</b>	<u>(15,721)</u>	<u>-</u>	<u>(15,721)</u>	<u>(15,861)</u>	<u>(140)</u>
<b>Capital contributions and purchases:</b>					
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>
<b>Change in net position</b>	<u>(15,721)</u>	<u>-</u>	<u>(15,721)</u>	<u>(15,861)</u>	<u>(140)</u>
<b>Other financing sources(uses):</b>					
Operating transfers	<u>15,721</u>	<u>-</u>	<u>15,721</u>	<u>16,113</u>	
<b>Net position, beginning of year</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	
<b>Net position, end of year</b>	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>252</u>	

**Bear Valley Community Services District  
Schedule of Funding Status  
For the Year Ended June 30, 2014**

**(1) Defined Benefit Pension Plan – Safety Plan**

<b>Development of the Actuarial Value of Assets Calculation in a Risk Pool</b>			
The District is part of the CalPERS Safety 2.0% at 50 yrs. Risk Pool	<b>June 30, 2011</b>	<b>June 30, 2012</b>	<b>June 30, 2013</b>
1. Plan's accrued liability	\$ 3,495,730	3,833,706	4,141,097
2. Plan's side fund	240,497	N/A	-
3. Pool's accrued liability	503,491,275	N/A	497,072,850
4. Pool's side fund	24,932,098	N/A	20,781,079
5. Pool's actuarial value of assets (AVA) including receivables	421,374,728	N/A	N/A
6. Plan's actuarial value of assets (AVA) including receivables [(1+2) / (3+4) x 5]	2,866,256	N/A	N/A
7. Pool's market value of assets (MVA) including receivables	377,235,284	N/A	N/A
8. Plan's market value of assets (MVA) including receivables [(1+2) / (3+4) x 7]	2,566,012	2,864,096	3,265,060

**Funding History**

The Funding History below shows the actuarial accrued liability, the actuarial value of assets, the market value of assets, funded ratios and the annual covered payroll. The actuarial value of assets is used to establish funding requirements and the funded ratio on this basis represents the progress toward fully funding future benefits for current plan participants. The funded ratio based on the market value of assets is an indicator of the short-term solvency of the plan in the risk pool.

Actuarial Valuation Date	Accrued Accrued Liability (a)	Share of Pool's Market Value of Assets (MVA) (b)	Plan's Share of Pool's Unfunded Liability (a) - (b)	Funded Ratio MVA (b/a)	Annual Covered Payroll
June 30, 2011	\$ 3,495,730	2,566,012	929,718	26.60%	\$ 491,043
June 30, 2012	3,833,706	2,864,096	969,610	25.29%	481,120
June 30, 2013	4,141,097	3,265,060	876,037	21.15%	435,941

**(2) Defined Benefit Pension Plan – Miscellaneous Plan**

<b>Development of the Actuarial Value of Assets Calculation in a Risk Pool</b>			
The District is part of the CalPERS Miscellaneous 2.0% at 55 yrs. Risk Pool	<b>June 30, 2011</b>	<b>June 30, 2012</b>	<b>June 30, 2013</b>
1. Plan's accrued liability	\$ 7,485,957	7,837,478	8,569,635
2. Plan's side fund	7,445	-	-
3. Pool's accrued liability	3,619,835,876	4,175,139,166	4,434,848,248
4. Pool's side fund	115,840,552	132,335,224	108,339,918
5. Pool's actuarial value of assets (AVA) including receivables	3,203,214,899	3,686,598,343	N/A
6. Plan's actuarial value of assets (AVA) including receivables [(1+2) / (3+4) x 5]	6,836,562	7,146,929	N/A
7. Pool's market value of assets (MVA) including receivables	2,867,303,802	3,120,110,130	N/A
8. Plan's market value of assets (MVA) including receivables [(1+2) / (3+4) x 7]	6,119,633	6,048,721	6,964,507

**Funding History**

The Funding History below shows the actuarial accrued liability, the actuarial value of assets, the market value of assets, funded ratios and the annual covered payroll. The actuarial value of assets is used to establish funding requirements and the funded ratio on this basis represents the progress toward fully funding future benefits for current plan participants. The funded ratio based on the market value of assets is an indicator of the short-term solvency of the plan in the risk pool.

Actuarial Valuation Date	Accrued Accrued Liability (a)	Share of Pool's Market Value of Assets (MVA) (b)	Plan's Share of Pool's Unfunded Liability (a) - (b)	Funded Ratio MVA (b/a)	Annual Covered Payroll
June 30, 2011	\$ 7,485,957	6,119,633	1,366,324	18.25%	\$ 1,923,442
June 30, 2012	7,837,478	6,048,721	1,788,757	22.82%	1,855,084
June 30, 2013	8,569,635	6,964,507	1,605,128	18.73%	1,740,402

**Bear Valley Community Services District**  
**Schedule of Funding Status, continued**  
**For the Year Ended June 30, 2014**

**(1) Defined Benefit Pension Plan – Safety Plan - PEPRA**

**Development of the Actuarial Value of Assets Calculation in a Risk Pool**

The District is part of the CalPERS Safety 2.0% at 62 yrs. Risk Pool under PEPRA	June 30, 2011	June 30, 2012	June 30, 2013
1. Plan's accrued liability	\$ N/A	N/A	361
2. Plan's side fund	N/A	N/A	N/A
3. Pool's accrued liability	N/A	N/A	605,474
4. Pool's side fund	N/A	N/A	N/A
5. Pool's actuarial value of assets (AVA) including receivables	N/A	N/A	N/A
6. Plan's actuarial value of assets (AVA) including receivables [(1+2) / (3+4) x 5]	N/A	N/A	N/A
7. Pool's market value of assets (MVA) including receivables	N/A	N/A	N/A
8. Plan's market value of assets (MVA) including receivables [(1+2) / (3+4) x 7]	N/A	N/A	530

**Funding History**

The Funding History below shows the actuarial accrued liability, the actuarial value of assets, the market value of assets, funded ratios and the annual covered payroll. The actuarial value of assets is used to establish funding requirements and the funded ratio on this basis represents the progress toward fully funding future benefits for current plan participants. The funded ratio based on the market value of assets is an indicator of the short-term solvency of the plan in the risk pool.

Actuarial Valuation Date	Actuarial Accrued Liability (a)	Share of Pool's Market Value of Assets (MVA) (b)	Plan Share of Pool's Unfunded Liability (a) - (b)	Funded Ratio MVA (b/a)	Annual Covered Payroll
June 30, 2011	*	N/A	N/A	N/A	N/A
June 30, 2012	*	N/A	N/A	N/A	N/A
June 30, 2013	\$ 361	530	(169)	146.81%	\$ 47,029

\* PEPRA Tier (Tier 2) became effective January 1, 2013.

**(2) Defined Benefit Pension Plan – Miscellaneous Plan - PEPRA**

**Development of the Actuarial Value of Assets Calculation in a Risk Pool**

The District is part of the CalPERS Misc 2.0% at 62 yrs. Risk Pool under PEPRA	June 30, 2011	June 30, 2012	June 30, 2013
1. Plan's accrued liability	\$ N/A	N/A	2,908
2. Plan's side fund	N/A	N/A	N/A
3. Pool's accrued liability	N/A	N/A	1,063,294
4. Pool's side fund	N/A	N/A	N/A
5. Pool's actuarial value of assets (AVA) including receivables	N/A	N/A	N/A
6. Plan's actuarial value of assets (AVA) including receivables [(1+2) / (3+4) x 5]	N/A	N/A	N/A
7. Pool's market value of assets (MVA) including receivables	N/A	N/A	N/A
8. Plan's market value of assets (MVA) including receivables [(1+2) / (3+4) x 7]	N/A	N/A	3,902

**Funding History**

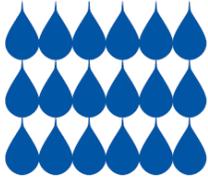
The Funding History below shows the actuarial accrued liability, the actuarial value of assets, the market value of assets, funded ratios and the annual covered payroll. The actuarial value of assets is used to establish funding requirements and the funded ratio on this basis represents the progress toward fully funding future benefits for current plan participants. The funded ratio based on the market value of assets is an indicator of the short-term solvency of the plan in the risk pool.

Actuarial Valuation Date	Actuarial Accrued Liability (a)	Share of Pool's Market Value of Assets (MVA) (b)	Plan Share of Pool's Unfunded Liability (a) - (b)	Funded Ratio MVA (b/a)	Annual Covered Payroll
June 30, 2011	*	N/A	N/A	N/A	N/A
June 30, 2012	*	N/A	N/A	N/A	N/A
June 30, 2013	\$ 2,908	3,902	(994)	134.18%	\$ 77,458

\* PEPRA Tier (Tier 2) became effective January 1, 2013.

# **Report on Compliance and Internal Controls**





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

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## **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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Bear Valley Community Services District (District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprises the District's basic financial statements, and have issued our report thereon dated April 3, 2015.

### **Internal Control Over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

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

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

**Purpose of this Report**

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



Charles Z. Fedak: Company CPAs - An Accountancy Corporation

**Charles Z. Fedak and Company, CPAs – An Accountancy Corporation**  
Cypress, California  
April 3, 2015