



Bear Valley Community Services District
Tehachapi, California

Annual Financial Report

For the Fiscal Year Ended
June 30, 2016



BEAR VALLEY COMMUNITY SERVICES DISTRICT

List of Elected and Appointed Officials

June 30, 2016

Elected Officials

BOARD OF DIRECTORS

President	Rick Zanutto
Vice-President	Gil Grace
Director	Jane Baron
Director	Charlene LaClaire
Director	Walt Ritchie

Appointed Officials

General Manager	David Edmonds
Administrative Services Director	Vacant
Chief of Police	Jeff Kermode
Public Works Director	Vacant

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



Bear Valley Community Services District
Annual Financial Report
For the Fiscal Year Ended June 30, 2016

Prepared by:
Finance Department

**Bear Valley Community Services District
Annual Financial Report
For the Fiscal Year Ended June 30, 2016**

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Financial Section



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Independent Auditors' 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, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal 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 respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof 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 12, budgetary comparison information on pages 52 through 59, and the required supplementary information on pages 60 and 61 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 May 11, 2017, 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 62 and 63.

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
May 11, 2017

**Bear Valley Community Services District
Management's Discussion and Analysis
For the Year Ended June 30, 2016**

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, 2016. We encourage readers to consider the information presented here in conjunction with the accompanying basic financial statements and related notes, which follow this section. All amounts, unless otherwise indicated, are expressed in whole dollars.

Financial Highlights

- The District's net position increased 1.3%, or \$270,653 from \$21,408,701 to \$21,679,354 as a result of current year operations.
- Total revenues from all sources decreased 7.6%, or \$599,362 from \$7,869,103 to \$7,269,741, from the prior year, primarily due to decreases of \$334,380 in program revenues and \$264,982 in general revenues.
- Total expenses for District operations decreased 9.1%, or \$697,937 from \$7,697,025 to \$6,999,088, from the prior year, primarily due to decreases of \$366,977 in streets and roads, \$276,724 in public safety expenses, \$238,211 in general government, and \$60,842 in wastewater expenses, which were offset, by increases of \$181,993 in water, \$39,490 in solid waste, and \$37,012 in post office expenses.

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 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

Statement of Net Position and Statement of Activities

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 District's assets and deferred outflows of resources and liabilities and deferred inflows of resources, 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 District is improving or deteriorating.

The statement of activities presents information showing how the 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 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 District include general government, public safety, streets and roads, and parks & recreation. The business-type activities of the District include operations for water, wastewater (sewer), solid waste (trash) and post office.

The government-wide financial statements can be found on pages 13 through 15 of this report.

**Bear Valley Community Services District
Management's Discussion and Analysis
For the Year Ended June 30, 2016**

Fund Financial Statements

Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance

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 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 16 through 22 of this report.

Statement of Net Position and Statement of Revenues, Expenditures and Changes in Fund Balance

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 52 through 59 of this report.

**Bear Valley Community Services District
Management's Discussion and Analysis
For the Year Ended June 30, 2016**

Statement of Net Position and Statement of Revenues, Expenditures and Changes in Fund Balance

Enterprise Funds, continued

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 20 through 22 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 15 on page 48 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 23 through 51 of this report.

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information, which can be found on pages 51 through 60 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 and deferred outflows exceed liabilities and deferred inflows by \$21,679,354 at June 30, 2016, an increase of \$270,653 as the result of current year operations.

By far the largest portion of the Bear Valley Community Services District's net position (66.7%) 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
Management's Discussion and Analysis
For the Year Ended June 30, 2016**

Government-wide Financial Analysis, continued

Bear Valley Community Services District's Net Position

Condensed Statement of Net Position

	Governmental Activities		Business-type Activities		Total District	
	2016	2015	2016	2015	2016	2015
Assets:						
Current and other assets	\$ 6,961,661	6,366,100	4,319,650	4,466,596	11,281,311	10,832,696
Non-current assets	-	-	-	130,000	-	130,000
Capital assets, net	8,377,400	8,512,201	9,421,416	9,670,336	17,798,816	18,182,537
Total assets	15,339,061	14,878,301	13,741,066	14,266,932	29,080,127	29,145,233
Deferred outflows of resources:	203,740	191,993	78,500	53,436	282,240	245,429
Liabilities:						
Current liabilities	604,869	675,215	453,164	510,777	1,058,033	1,185,992
Non-current liabilities	2,927,418	2,848,099	3,095,677	3,128,975	6,023,095	5,977,074
Total liabilities	3,532,287	3,523,314	3,548,841	3,639,752	7,081,128	7,163,066
Deferred inflows of resources:	447,268	625,191	154,617	193,704	601,885	818,895
Net position:						
Net investment in capital assets	7,582,400	7,372,201	6,882,015	6,908,569	14,464,415	14,280,770
Restricted	3,974,621	3,639,032	-	130,000	3,974,621	3,769,032
Unrestricted	6,225	(89,444)	3,234,093	3,448,343	3,240,318	3,358,899
Total net position	\$ 11,563,246	10,921,789	10,116,108	10,486,912	21,679,354	21,408,701

The remaining balance of restricted/unrestricted net position of \$7,214,939 may be used to meet the government's ongoing obligations.

Governmental activities. Governmental activities increased the District's net position by \$641,457 from \$10,921,789 to \$11,563,246 as a result of current-year operations.

Business-type activities. Business-type activities decreased the District's net position by \$370,804 from \$10,486,912 to \$10,116,108 as a result of current-year operations.

**Bear Valley Community Services District
Management's Discussion and Analysis
For the Year Ended June 30, 2016**

Government-wide Financial Analysis, continued

Bear Valley Community Services District's Statement of Activities

Condensed Statement of Activities

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total District</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Revenues:						
Program revenues:						
Charges for services	\$ 1,786,040	1,829,030	3,044,009	3,329,317	4,830,049	5,158,347
Operating grants and contrib.	135,285	147,896	-	-	135,285	147,896
Capital grants and contrib.	-	-	66,969	60,440	66,969	60,440
General revenues:						
Property taxes	1,543,741	1,495,384	-	-	1,543,741	1,495,384
Voter approved taxes	639,586	976,078	-	-	639,586	976,078
Investment earnings	31,415	18,801	22,696	12,157	54,111	30,958
Total revenues	<u>4,136,067</u>	<u>4,467,189</u>	<u>3,133,674</u>	<u>3,401,914</u>	<u>7,269,741</u>	<u>7,869,103</u>
Expenses:						
General government	226,489	464,700	-	-	226,489	464,700
Public safety	2,426,648	2,703,372	-	-	2,426,648	2,703,372
Streets and roads	758,027	1,125,004	-	-	758,027	1,125,004
Interest on long-term debt	39,945	53,623	-	-	39,945	53,623
Water	-	-	2,480,371	2,298,378	2,480,371	2,298,378
Wastewater	-	-	479,918	540,760	479,918	540,760
Solid waste	-	-	506,842	467,352	506,842	467,352
Post office	-	-	80,848	43,836	80,848	43,836
Total expenses	<u>3,451,109</u>	<u>4,346,699</u>	<u>3,547,979</u>	<u>3,350,326</u>	<u>6,999,088</u>	<u>7,697,025</u>
Change in net position	684,958	120,490	(414,305)	51,588	270,653	172,078
Transfers	(43,501)	(22,392)	43,501	22,392	-	-
Change in net position	<u>641,457</u>	<u>98,098</u>	<u>(370,804)</u>	<u>73,980</u>	<u>270,653</u>	<u>172,078</u>
Net position, beginning of year	10,921,789	13,150,354	10,486,912	11,105,095	21,408,701	24,255,449
Prior period adjustment	-	(2,326,663)	-	(692,163)	-	(3,018,826)
Net position – beg of year, as restated	<u>10,921,789</u>	<u>10,823,691</u>	<u>10,486,912</u>	<u>10,412,932</u>	<u>21,408,701</u>	<u>21,236,623</u>
Net position, end of year	<u>\$ 11,563,246</u>	<u>10,921,789</u>	<u>10,116,108</u>	<u>10,486,912</u>	<u>21,679,354</u>	<u>21,408,701</u>

- Revenue from charges for services in the business-type activities decreased by 8.6%, or \$285,308 from \$3,329,317 to \$3,044,009 due primarily to a reduction in water consumption as a result of State imposed water restrictions. The change was primarily sourced to decreases of \$292,608 in water consumption sales and \$18,467 in post office box charges, which was offset by an increase of \$29,795 in solid waste collection charges as compared to the prior year.
- Revenue from charges for services in the governmental-type activities decreased by 2.4%, or \$42,990 from \$1,829,030 to \$1,786,040 due primarily to reductions of \$31,894 in mandated cost reimbursements and \$15,942 in received donations as compared to the prior year.
- Revenue from operating grants and contributions decreased by 8.5%, or \$12,611 from \$147,896 to \$135,285. This change was primarily due to a decrease of \$21,000 in California Law Enforcement grant income, which was offset by an increase of \$8,388 in the COPS Program grant income as compared to prior year.
- Property taxes increased by 3.2%, or \$48,357 from \$1,495,384 to \$1,543,741 due to an overall increase in assessed property valuations.
- Voter approved taxes decreased by 34.5%, or \$336,492 from \$976,078 to \$639,586 due to the maturity of the water bond special property assessment tax.

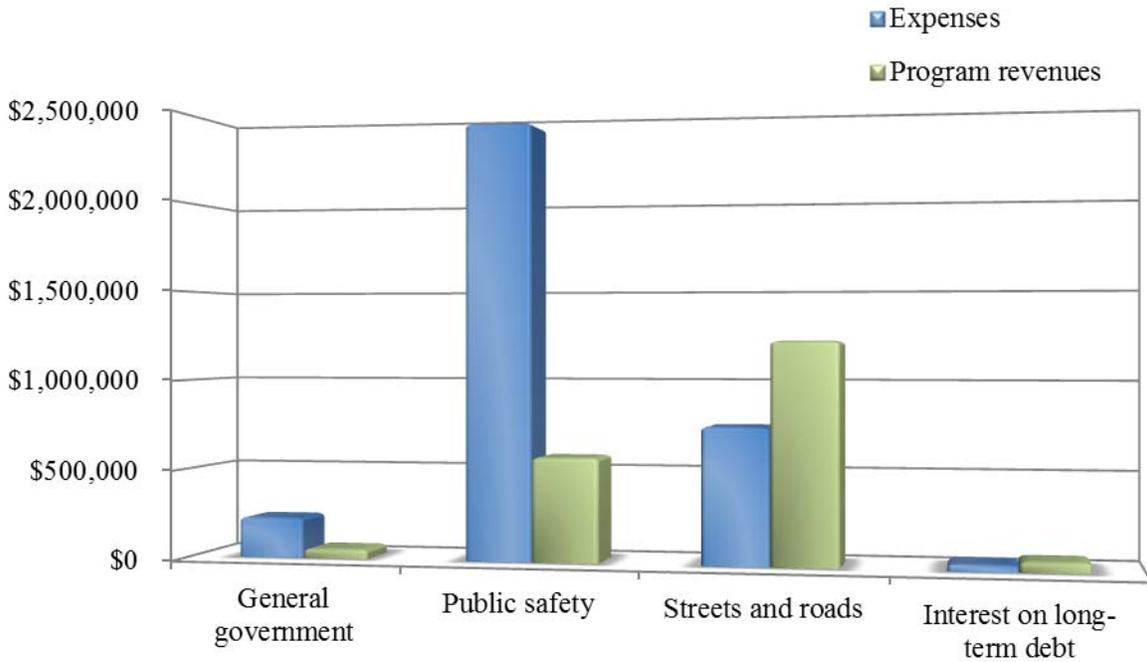
**Bear Valley Community Services District
Management's Discussion and Analysis
For the Year Ended June 30, 2016**

Government-wide Financial Analysis, continued

Bear Valley Community Services District's Statement of Activities, continued

- Total expenses decreased by 9.1%, or \$697,937 from \$7,697,025 to \$6,999,088 primarily due to decreases of \$366,977 in streets and roads, \$276,724 in public safety, \$238,211 in general government, and \$60,842 in wastewater expenses, which were offset by increases of \$181,993 in water, \$39,490 in solid waste, and \$37,012 in post office expenses.

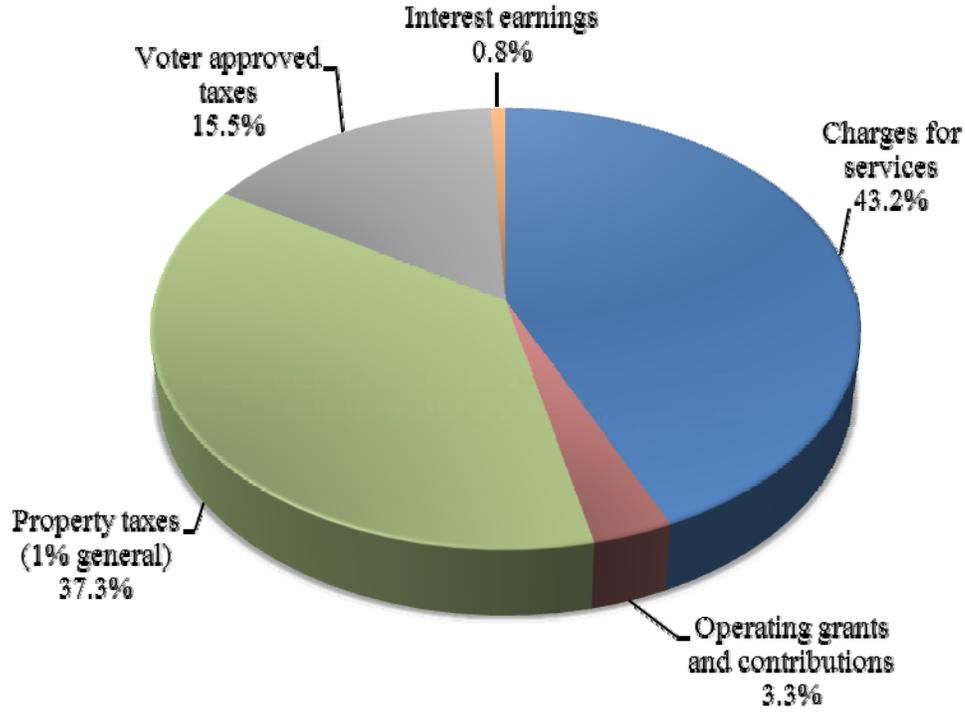
Expenses and Program Revenues – Governmental Activities



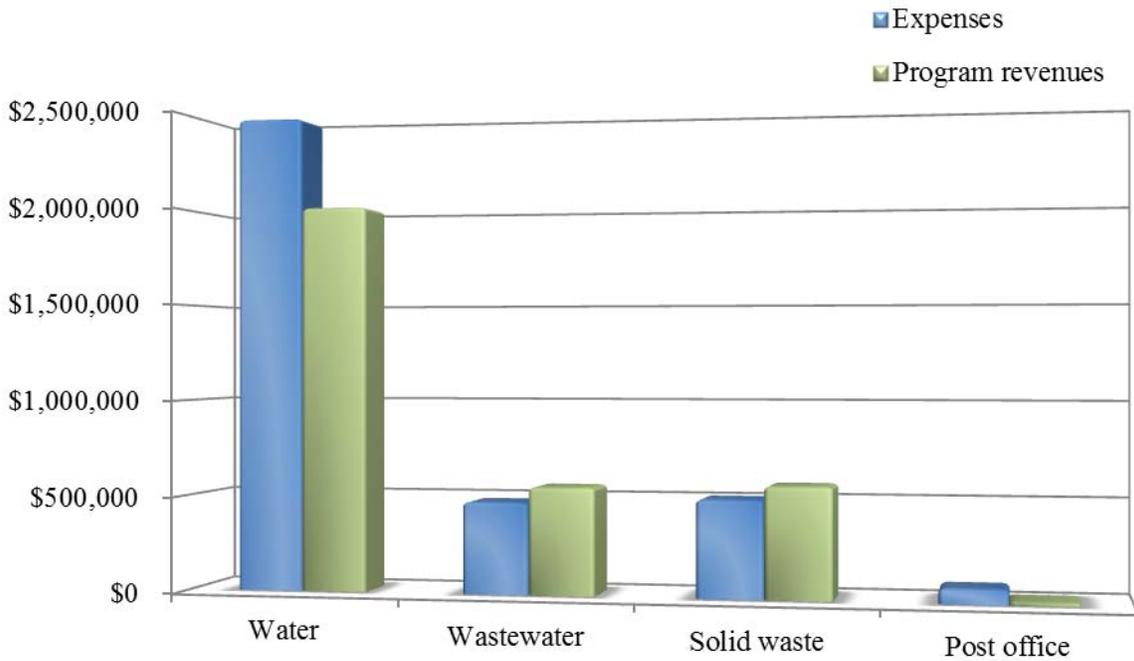
The table above does not include governmental activity general revenues which include property taxes, voter approved taxes, interest earnings, and transfers out. Please see page 15 for further detail.

**Bear Valley Community Services District
Management's Discussion and Analysis
For the Year Ended June 30, 2016**

Revenues by Source – Governmental Activities

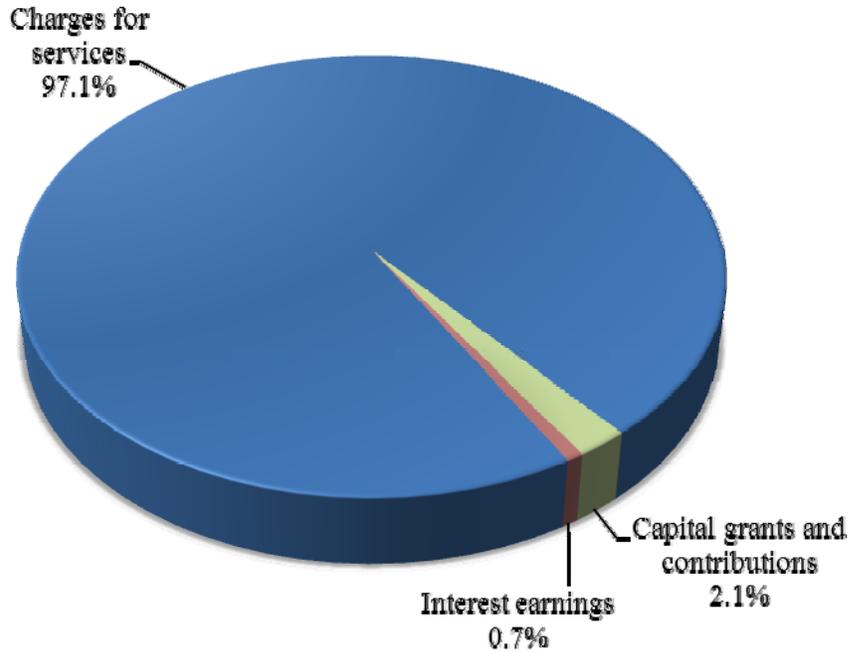


Expense and Program Revenues – Business-type Activities



**Bear Valley Community Services District
Management's Discussion and Analysis
For the Year Ended June 30, 2016**

Revenues by Source – Business-type Activities



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.

The following discussion is correlated to the Balance Sheets – Governmental Funds found on page 16.

As of June 30, 2016, the Bear Valley Community Services District's governmental funds reported combined ending fund balance of \$6,472,396, an increase of \$371,543 in comparison with the prior year. Of this total fund balance, \$2,228,641 or (34.4%) 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 amounted to \$2,463,032 of which \$24,077 is nonspendable for prepaid costs, \$178,541 is assigned for compensated absences, \$31,773 is assigned for unemployment compensation, and \$2,228,641 is unassigned. Of the unassigned fund balance, the Board has reserved \$157,350 for emergencies and disaster response and \$2,071,291 as a 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 87.9% of total general fund expenditures, while total fund balance represents 97.1% of that same amount.

**Bear Valley Community Services District
Management's Discussion and Analysis
For the Year Ended June 30, 2016**

Financial Analysis of the Government's Funds, continued

The following discussion is correlated to the change in fund balance on the Statement of Revenues, Expenditures and Changes in Net Position – Governmental Funds can be found on page 18 and the discussion of fund balance make-up on the Balance Sheets – Governmental Funds can be found on page 16.

The fund balance of the District's general fund increased \$45,540 as a result of the current year's operations. The amount assigned for unemployment compensation decreased \$15,013. The amount unassigned for emergency response decreased \$1,771. The amount unassigned for six-month operating reserve increased by \$7,716 from prior year.

The fund balance of the District's streets and roads fund increased \$457,776 as a result of the current year's operations. The streets and roads fund has a restricted fund balance of \$3,491,486 which will be used for the ongoing maintenance and improvement of streets and roads, including drainage ways and rights of way and \$34,743 for compensated absences.

The fund balance of the District's debt service fund decreased \$237,108 as a result of the current year's operations. The debt service fund has a restricted fund balance of \$218,747 which will be used for the payment for future debt service.

The fund balance of the District's supplemental law enforcement fund increased \$105,335 as a result of the current year's operations. The supplemental law enforcement fund has a restricted fund balance of \$264,338 which will be used to fund law enforcement activity.

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.

The following discussion is correlated to the change in fund balance on the Statement of Revenues, Expenditures and Changes in Net Position – Enterprise Funds can be found on page 21.

Net position for all enterprise funds decreased \$370,804 as a result of current-year operations. Changes in total net position from last year are as a result of current year operations as follows: water enterprise decreased by \$455,686; wastewater enterprise increased by \$24,541; solid waste enterprise increased by \$76,353; post office enterprise decreased by \$16,012.

At June 30, 2016, the post office enterprise fund had a negative unrestricted net position of \$12,971. 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, 2016, there were no differences between the original and final amended budgets.

Capital Asset Administration

The Bear Valley Community Services District's investment in capital assets for its governmental and business type activities as of June 30, 2016, amounts to \$17,798,816 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, park facilities and infrastructure.

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

- \$215,145 for the acquisition of vehicles and equipment and \$242,666 for the disposal of vehicles and equipment for the governmental funds.
- \$115,740 and \$121,165 for the acquisition of water transmission and distribution equipment and vehicles and equipment, respectively, for the business-type funds. \$83,872 for the disposal of vehicles and equipment for the business-type funds.

**Bear Valley Community Services District
Management's Discussion and Analysis
For the Year Ended June 30, 2016**

Capital Asset and Debt Administration, continued

Bear Valley Community Services District's Capital Assets

	Capital Assets					
	Governmental Activities		Business-type Activities		Total District	
	2016	2015	2016	2015	2016	2015
Capital assets:						
Non-depreciable assets	\$ 4,832,757	4,832,757	3,662,053	3,662,053	8,494,810	8,494,810
Depreciable assets	32,084,690	32,112,211	20,133,858	19,980,825	52,218,548	52,093,036
Total capital assets	36,917,447	36,944,968	23,795,911	23,642,878	60,713,358	60,587,846
Accumulated depreciation	(28,540,047)	(28,432,767)	(14,374,495)	(13,972,542)	(42,914,542)	(42,405,309)
Total capital assets, net	<u>\$ 8,377,400</u>	<u>8,512,201</u>	<u>9,421,416</u>	<u>9,670,336</u>	<u>17,798,816</u>	<u>18,182,537</u>

Additional information on the Bear Valley Community Services District's capital assets can be found in Note 6 on pages 35 through 37 of this report.

Debt Administration

At the end of the current fiscal year, the Bear Valley Community Services District had total debt outstanding of \$3,334,401. Of this amount, \$795,000 comprises the remaining balance of the general obligation bond debt backed by the full faith and credit of the Bear Valley Community Services District, \$2,539,401 is the remaining outstanding balance due to the California Infrastructure and Economic Development Bank (CIEDB) for water and wastewater system improvements. At June 30, 2016, the balance of the State Water Resources Control Board (SWRCB) loan, utilized for water and wastewater infrastructure improvements, was paid-in-full.

Bear Valley Community Services District's Outstanding Debt

	Long-term Debt					
	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Long-term debt:						
General obligation bonds	\$ 795,000	1,140,000	-	-	795,000	1,140,000
SWRCB revolving fund loan	-	-	-	108,597	-	108,597
CIEDB loan	-	-	2,539,401	2,653,170	2,539,401	2,653,170
Total long-term debt	<u>\$ 795,000</u>	<u>1,795,000</u>	<u>2,539,401</u>	<u>3,196,882</u>	<u>3,334,401</u>	<u>3,901,767</u>

Additional information on the Bear Valley Community Services District's long-term debt can be found in Notes 8 and 9 on pages 38 through 40 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 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, 2016

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Current assets:			
Cash and cash equivalents (note 2)	\$ 6,591,916	4,006,174	10,598,090
Accrued interest receivable	9,574	5,949	15,523
Accounts receivable – utilities, net (note 3)	-	549,186	549,186
Accounts receivable – other	60,379	6,834	67,213
Property taxes and assessments receivable	25,715	1,507	27,222
Internal balances (note 4)	250,000	(250,000)	-
Prepays	24,077	-	24,077
Total current assets	<u>6,961,661</u>	<u>4,319,650</u>	<u>11,281,311</u>
Non-current assets:			
Capital assets – not being depreciated (note 6)	4,832,757	3,662,053	8,494,810
Capital assets – being depreciated, net (note 6)	<u>3,544,643</u>	<u>5,759,363</u>	<u>9,304,006</u>
Total non-current assets	<u>8,377,400</u>	<u>9,421,416</u>	<u>17,798,816</u>
Total assets	<u>15,339,061</u>	<u>13,741,066</u>	<u>29,080,127</u>
Deferred outflows of resources:			
Deferred pension outflows (note 10)	<u>203,740</u>	<u>78,500</u>	<u>282,240</u>
Total deferred outflows of resources	<u>\$ 203,740</u>	<u>78,500</u>	<u>282,240</u>

Continued on next page

See accompanying notes to the basic financial statements.

Bear Valley Community Services District
Statement of Net Position, continued
June 30, 2016

	Governmental Activities	Business-type Activities	Total
Current liabilities:			
Accounts payable and accrued expenses	\$ 327,746	221,375	549,121
Accrued wages and related payables	74,635	39,158	113,793
Accrued interest on long-term debt	12,283	30,928	43,211
Deposits	40,385	17,999	58,384
Unearned revenue	46,499	-	46,499
Long-term liabilities – due within one year:			
Compensated absences (note 7)	53,321	26,599	79,920
Bond payable (note 8)	50,000	-	50,000
Loans payable (note 9)	-	117,105	117,105
Total current liabilities	604,869	453,164	1,058,033
Non-current liabilities:			
Long-term liabilities – due in more than one year:			
Compensated absences (note 7)	159,963	79,796	239,759
Bond payable (note 8)	745,000	-	745,000
Loans payable (note 9)	-	2,422,296	2,422,296
Net pension liability (note 10)	2,022,455	593,585	2,616,040
Total non-current liabilities	2,927,418	3,095,677	6,023,095
Total liabilities	3,532,287	3,548,841	7,081,128
Deferred inflows of resources:			
Deferred pension inflows (note 10)	447,268	154,617	601,885
Total deferred inflows of resources	447,268	154,617	601,885
Net position: (note 14)			
Net investment in capital assets (note 11)	7,582,400	6,882,015	14,464,415
Restricted (note 12)	3,974,621	-	3,974,621
Unrestricted (note 13)	6,225	3,234,093	3,240,318
Total net position	\$ 11,563,246	10,116,108	21,679,354

See accompanying notes to the basic financial statements

**Bear Valley Community Services District
Statement of Activities
For the Year Ended June 30, 2016**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 226,489	54,981	-	-	(171,508)	-	(171,508)
Public safety	2,426,648	446,398	135,285	-	(1,844,965)	-	(1,844,965)
Streets and roads	758,027	1,223,346	-	-	465,319	-	465,319
Interest on long-term debt	39,945	61,315	-	-	21,370	-	21,370
Total governmental activities	3,451,109	1,786,040	135,285	-	(1,529,784)	-	(1,529,784)
Business-type activities:							
Water	2,480,371	1,950,806	-	60,440	-	(469,125)	(469,125)
Wastewater	479,918	493,501	-	6,529	-	20,112	20,112
Solid waste	506,842	578,367	-	-	-	71,525	71,525
Post office	80,848	21,335	-	-	-	(59,513)	(59,513)
Total business-type activities	3,547,979	3,044,009	-	66,969	-	(437,001)	(437,001)
Total	\$ 6,999,088	4,830,049	135,285	66,969	(1,529,784)	(437,001)	(1,966,785)
General revenues:							
Property taxes					\$ 1,543,741	-	1,543,741
Voter approved taxes					639,586	-	639,586
Interest earnings					31,415	22,696	54,111
Transfers in/(out) (note 4)					(43,501)	43,501	-
Total general revenues					2,171,241	66,197	2,237,438
Change in net position					641,457	(370,804)	270,653
Net position, beginning of year					10,921,789	10,486,912	21,408,701
Net position, end of year					\$ 11,563,246	10,116,108	21,679,354

See accompanying notes to the basic financial statements

Bear Valley Community Services District
Balance Sheets – Governmental Funds
June 30, 2016

	<u>General</u>	<u>Streets and Roads</u>	<u>Debt Service</u>	<u>Supplemental Law Enforcement</u>	<u>Total Governmental Activities</u>
Assets:					
Cash and cash equivalents	\$ 2,344,866	3,757,626	216,754	272,670	6,591,916
Accrued interest receivable	3,174	5,660	330	410	9,574
Accounts receivable – other	47,094	13,285	-	-	60,379
Property taxes and assessments receivable	13,001	11,051	1,663	-	25,715
Due from other funds	250,000	-	-	-	250,000
Prepays	24,077	-	-	-	24,077
Total assets	<u>\$ 2,682,212</u>	<u>3,787,622</u>	<u>218,747</u>	<u>273,080</u>	<u>6,961,661</u>
Liabilities:					
Accounts payable and accrued expenses	\$ 89,614	229,440	-	8,692	327,746
Accrued wages and related payables	66,462	8,173	-	-	74,635
Deposits	16,605	23,780	-	-	40,385
Unearned revenue	46,499	-	-	-	46,499
Total liabilities	<u>219,180</u>	<u>261,393</u>	<u>-</u>	<u>8,692</u>	<u>489,265</u>
Fund balance:					
Restricted:					
Street and road improvements	-	3,491,486	-	-	3,491,486
Debt service	-	-	218,747	-	218,747
Public safety	-	-	-	264,388	264,388
Nonspendable:					
Prepays	24,077	-	-	-	24,077
Assigned:					
Compensated absences	178,541	34,743	-	-	213,284
Unemployment compensation	31,773	-	-	-	31,773
Unassigned:					
Emergency reserve	157,350	-	-	-	157,350
Six-month operating reserve	2,071,291	-	-	-	2,071,291
Total fund balance	<u>2,463,032</u>	<u>3,526,229</u>	<u>218,747</u>	<u>264,388</u>	<u>6,472,396</u>
Total liabilities and fund balance	<u>\$ 2,682,212</u>	<u>3,787,622</u>	<u>218,747</u>	<u>273,080</u>	<u>6,961,661</u>

Continued on next page

Bear Valley Community Services District
Reconciliation of the Balance Sheets of Governmental Funds to the Statement of Net Position
June 30, 2016

Reconciliation:

Total Fund Balances of Governmental Funds	\$	6,472,396
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.		8,377,400
Pension contributions made during the fiscal year after the measurement date are reported as expenditures in governmental funds and as deferred outflows of resources in the government-wide financial statements.	\$	197,923
Recognized differences between the expected and actual experience for the Miscellaneous Plan are reported as deferred outflows of resources in the government-wide financial statements.	<u>5,817</u>	<u>203,740</u>
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		(213,284)
Bonds payable		(795,000)
Net pension liability		(2,022,455)
Recognized changes in assumptions are reported as deferred inflows of resources in the government-wide financial statements.	(109,550)	
Recognized differences between the expected and actual experience for the Safety Plan are reported as deferred inflows of resources in the government-wide financial statements.	(11,852)	
Recognized portion due to differences between the actual employer contribution and the proportionate share of contribution are reported as deferred inflows of resources in the government-wide financial statements.	(65,234)	
Recognized portion due to net differences in proportions are reported as deferred inflows of resources in the government-wide financial statements.	(176,081)	
Recognized net difference between projected and actual earnings on pension plan investments are reported as deferred inflows of resources in the government-wide financial statements.	<u>(84,551)</u>	<u>(447,268)</u>
Interest on long-term debt is not accrued as a governmental fund liability, but rather is recognized as an expenditure when due.		<u>(12,283)</u>
Total adjustments		<u>5,090,850</u>
Net Position of Governmental Activities	\$	<u><u>11,563,246</u></u>

See accompanying notes to the basic financial statements

Bear Valley Community Services District
Statements of Revenues, Expenditures and Changes in Fund Balances– Governmental Funds
For the Year Ended June 30, 2016

	<u>General</u>	<u>Roads</u>	<u>Service</u>	<u>Enforcement</u>	<u>Activities</u>
Revenues:					
Property taxes	\$ 1,543,741	-	-	-	1,543,741
Voter approved taxes	549,421	-	90,165	-	639,586
Special assessments	-	1,205,187	-	-	1,205,187
Charges for services	424,583	-	-	-	424,583
Federal and state aid	20,667	-	-	114,618	135,285
Interest earnings	10,227	19,074	957	1,157	31,415
Rents and royalties	-	-	61,315	-	61,315
Other	76,796	18,159	-	-	94,955
Total revenues	<u>2,625,435</u>	<u>1,242,420</u>	<u>152,437</u>	<u>115,775</u>	<u>4,136,067</u>
Expenditures:					
General government	120,372	-	5,395	-	125,767
Public safety	2,416,022	-	-	10,440	2,426,462
Streets and roads	-	569,499	-	-	569,499
Capital outlay	-	215,145	-	-	215,145
Debt service:					
Bond payments	-	-	345,000	-	345,000
Interest paid	-	-	39,150	-	39,150
Total expenditures	<u>2,536,394</u>	<u>784,644</u>	<u>389,545</u>	<u>10,440</u>	<u>3,721,023</u>
Excess(deficiency) of revenues over expenditures	<u>89,041</u>	<u>457,776</u>	<u>(237,108)</u>	<u>105,335</u>	<u>415,044</u>
Other financing sources(uses):					
Operating transfers in(out)	<u>(43,501)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(43,501)</u>
Net change in fund balance	<u>45,540</u>	<u>457,776</u>	<u>(237,108)</u>	<u>105,335</u>	<u>371,543</u>
Fund balance, beginning of year	<u>2,417,492</u>	<u>3,068,453</u>	<u>455,855</u>	<u>159,053</u>	<u>6,100,853</u>
Fund balance, end of year	<u>\$ 2,463,032</u>	<u>3,526,229</u>	<u>218,747</u>	<u>264,388</u>	<u>6,472,396</u>

Continued on next page

See accompanying notes to the basic financial statements.

Reconciliation:

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, 2016

Reconciliation:

Net Changes in Fund Balances – Total Governmental Funds	\$	371,543
<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		215,145
Depreciation expense		(323,488)
<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>		
		345,000
<p>Unearned revenues which are not expected to be collected until sixty days from fiscal year end.</p>		
		(46,499)
<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		4,600
Net change in compensated absences for the current period		(20,945)
Net change in pension obligations for the current period		96,101
		96,101
Change in Net Position of Governmental Activities	\$	641,457
<p>See accompanying notes to the basic financial statements</p>		

Bear Valley Community Services District
Statements of Net Position – Enterprise Funds
June 30, 2016

	<u>Water</u>	<u>Wastewater</u>	<u>Solid Waste</u>	<u>Post Office</u>	<u>Total Business-type Activities</u>
Current assets:					
Cash and cash equivalents	\$ 2,253,821	848,604	903,238	511	4,006,174
Accrued interest receivable	3,325	1,264	1,360	-	5,949
Accounts receivable – utilities, net	360,279	95,884	93,023	-	549,186
Accounts receivable – other	6,834	-	-	-	6,834
Property assessments receivable	459	1,048	-	-	1,507
Total current assets	<u>2,624,718</u>	<u>946,800</u>	<u>997,621</u>	<u>511</u>	<u>4,569,650</u>
Non-current assets:					
Capital assets – not being depreciated	3,647,319	14,734	-	-	3,662,053
Capital assets, net – being depreciated	<u>5,228,717</u>	<u>498,530</u>	<u>32,116</u>	<u>-</u>	<u>5,759,363</u>
Total non-current assets	<u>8,876,036</u>	<u>513,264</u>	<u>32,116</u>	<u>-</u>	<u>9,421,416</u>
Total assets	<u>11,500,754</u>	<u>1,460,064</u>	<u>1,029,737</u>	<u>511</u>	<u>13,991,066</u>
Deferred outflows of resources:					
Deferred pension outflows	<u>56,966</u>	<u>9,005</u>	<u>11,159</u>	<u>1,370</u>	<u>78,500</u>
Total deferred outflows of resources	<u>56,966</u>	<u>9,005</u>	<u>11,159</u>	<u>1,370</u>	<u>78,500</u>
Current liabilities:					
Accounts payable and accrued expenses	141,646	15,252	62,409	2,068	221,375
Accrued wages and related payables	24,593	9,345	3,361	1,859	39,158
Accrued interest on long-term debt	25,581	5,347	-	-	30,928
Due to other funds	181,843	68,157	-	-	250,000
Deposits	9,051	3,968	4,980	-	17,999
Long-term liabilities – due within one year:					
Compensated absences	20,574	2,054	3,971	-	26,599
Loans payable	<u>96,859</u>	<u>20,246</u>	<u>-</u>	<u>-</u>	<u>117,105</u>
Total current liabilities	<u>500,147</u>	<u>124,369</u>	<u>74,721</u>	<u>3,927</u>	<u>703,164</u>
Non-current liabilities:					
Long-term liabilities – due in more than one year:					
Compensated absences	61,722	6,161	11,913	-	79,796
Loans payable	2,006,493	415,803	-	-	2,422,296
Net pension liability	<u>406,155</u>	<u>71,303</u>	<u>107,312</u>	<u>8,815</u>	<u>593,585</u>
Total non-current liabilities	<u>2,474,370</u>	<u>493,267</u>	<u>119,225</u>	<u>8,815</u>	<u>3,095,677</u>
Total liabilities	<u>2,974,517</u>	<u>617,636</u>	<u>193,946</u>	<u>12,742</u>	<u>3,798,841</u>
Deferred inflows of resources:					
Deferred pension inflows	<u>102,832</u>	<u>18,960</u>	<u>30,715</u>	<u>2,110</u>	<u>154,617</u>
Total deferred inflows of resources	<u>102,832</u>	<u>18,960</u>	<u>30,715</u>	<u>2,110</u>	<u>154,617</u>
Net position:					
Net investment in capital assets	6,772,684	77,215	32,116	-	6,882,015
Restricted	-	-	-	-	-
Unrestricted	<u>1,707,687</u>	<u>755,258</u>	<u>784,119</u>	<u>(12,971)</u>	<u>3,234,093</u>
Total net position	<u>\$ 8,480,371</u>	<u>832,473</u>	<u>816,235</u>	<u>(12,971)</u>	<u>10,116,108</u>

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, 2016

	<u>Water</u>	<u>Wastewater</u>	<u>Solid Waste</u>	<u>Post Office</u>	<u>Total Business-type Activities</u>
Operating revenues:					
Water consumption sales	\$ 1,914,530	-	-	-	1,914,530
Wastewater service charges	-	493,367	-	-	493,367
Solid waste collection charges	-	-	578,068	-	578,068
Post office box charges	-	-	-	14,923	14,923
Other charges for services	36,276	134	299	6,412	43,121
Total operating revenues	<u>1,950,806</u>	<u>493,501</u>	<u>578,367</u>	<u>21,335</u>	<u>3,044,009</u>
Operating expenses:					
Salaries and benefits	895,499	217,654	134,226	61,937	1,309,316
Operations	1,138,481	141,185	369,072	18,911	1,667,649
Total operating expenses	<u>2,033,980</u>	<u>358,839</u>	<u>503,298</u>	<u>80,848</u>	<u>2,976,965</u>
Operating income(loss) before depreciation	(83,174)	134,662	75,069	(59,513)	67,044
Depreciation expense	(384,767)	(97,514)	(3,544)	-	(485,825)
Operating income(loss)	<u>(467,941)</u>	<u>37,148</u>	<u>71,525</u>	<u>(59,513)</u>	<u>(418,781)</u>
Non-operating revenue(expense):					
Interest earnings	13,439	4,429	4,828	-	22,696
Interest expense	(61,624)	(23,565)	-	-	(85,189)
Total non-operating, net	<u>(48,185)</u>	<u>(19,136)</u>	<u>4,828</u>	<u>-</u>	<u>(62,493)</u>
Operating transfers in(out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>43,501</u>	<u>43,501</u>
Capital contributions:					
Capacity charges	60,440	6,529	-	-	66,969
Total capital contributions	<u>60,440</u>	<u>6,529</u>	<u>-</u>	<u>-</u>	<u>66,969</u>
Change in net position	<u>(455,686)</u>	<u>24,541</u>	<u>76,353</u>	<u>(16,012)</u>	<u>(370,804)</u>
Net position, beginning of year	<u>8,936,057</u>	<u>807,932</u>	<u>739,882</u>	<u>3,041</u>	<u>10,486,912</u>
Net position, end of year	<u>\$ 8,480,371</u>	<u>832,473</u>	<u>816,235</u>	<u>(12,971)</u>	<u>10,116,108</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, 2016

	<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	\$ 1,977,749	488,905	553,695	21,335	3,041,684
Cash paid to employees for salaries and benefits	(845,974)	(209,318)	(132,955)	(61,345)	(1,249,592)
Cash paid to vendors and suppliers	<u>(1,155,004)</u>	<u>(128,389)</u>	<u>(343,783)</u>	<u>(17,587)</u>	<u>(1,644,763)</u>
Net cash provided by(used in) operating activities	<u>(23,229)</u>	<u>151,198</u>	<u>76,957</u>	<u>(57,597)</u>	<u>147,329</u>
Cash flows from non-capital financing activities:					
Operating transfers in	-	-	-	43,501	43,501
Cash flows from capital and related financing activities:					
Proceeds from capital contributions	60,440	6,529	-	-	66,969
Principal payments on loans payable	(94,102)	(128,267)	-	-	(222,369)
Interest payments on loans payable	<u>(62,773)</u>	<u>(23,805)</u>	<u>-</u>	<u>-</u>	<u>(86,578)</u>
Net cash used in capital and financing activities	<u>(333,340)</u>	<u>(145,543)</u>	<u>-</u>	<u>-</u>	<u>(478,883)</u>
Cash flows from investing activities:					
Proceeds from bonds receivable	-	130,000	-	-	130,000
Interest earnings	12,062	3,708	4,087	-	19,857
Net cash provided by investing activities	<u>12,062</u>	<u>133,708</u>	<u>4,087</u>	<u>-</u>	<u>149,857</u>
Net (decrease)increase in cash	(344,507)	139,363	81,044	(14,096)	(138,196)
Cash and cash equivalents, beginning of year	<u>2,598,328</u>	<u>709,241</u>	<u>822,194</u>	<u>14,607</u>	<u>4,144,370</u>
Cash and cash equivalents, end of year	<u>\$ 2,253,821</u>	<u>848,604</u>	<u>903,238</u>	<u>511</u>	<u>4,006,174</u>
Reconciliation of operating income to net cash provided by(used in) operating activities:					
Operating income(loss)	\$ (467,941)	37,148	71,525	(59,513)	(418,781)
Adjustments to reconcile operating income to net cash provided by(used in) operating activities:					
Depreciation expense	384,767	97,514	3,544	-	485,825
Changes in assets and liabilities:					
(Increase)decrease in assets:					
Accounts receivable – utilities, net	40,442	(5,556)	(26,939)	-	7,947
Accounts receivable – other	(6,714)	-	-	-	(6,714)
Property assessments receivable	126	(454)	-	-	(328)
Prepaid expenses and other deposits	-	10,684	-	-	10,684
(Increase)decrease in deferred outflows of resources:	(20,777)	(2,537)	(1,150)	(600)	(25,064)
Increase(decrease) in liabilities:					
Accounts payable and accrued expenses	(16,523)	2,112	25,289	1,324	12,202
Accrued wages and related payables	14,126	6,261	1,510	1,140	23,037
Deposits and unearned revenue	(6,911)	1,414	2,267	-	(3,230)
Compensated absences	58,220	5,682	4,233	-	68,135
Net pension liability	26,307	3,415	2,248	733	32,703
Increase(decrease) in deferred inflows of resources:	<u>(28,351)</u>	<u>(4,485)</u>	<u>(5,570)</u>	<u>(681)</u>	<u>(39,087)</u>
Total adjustments	<u>444,712</u>	<u>114,050</u>	<u>5,432</u>	<u>1,916</u>	<u>566,110</u>
Net cash provided by(used in) operating activities	<u>\$ (23,229)</u>	<u>151,198</u>	<u>76,957</u>	<u>(57,597)</u>	<u>147,329</u>

See accompanying notes to the basic financial statements

Bear Valley Community Services District
Notes to the Basic Financial Statements
June 30, 2016

(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 Statement 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, deferred outflows of resources, liabilities, and deferred inflows of resources, 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, 2016

(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, deferred outflows of resources, liabilities, deferred inflows of resources, 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, deferred outflows of resources, liabilities, deferred inflows of resources, 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.

Streets and Roads – 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, 2016

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

B. Basis of Accounting and Measurement Focus, continued

Governmental Funds, continued

Bond Redemption/Debt Service – 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 Reporting

The District’s basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applied to governmental funds. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The District has adopted the following GASB pronouncements in the current year:

Government Accounting Standards Board Statement No. 72

In February 2015, the GASB issued Statement No. 72 – *Fair Value Measurement and Application*, effective for financial statements for periods beginning after June 15, 2015.

The objective of this Statement is to enhance comparability of financial statements among governments by measurement of certain assets and liabilities at their fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement establishes a hierarchy of inputs to valuation techniques used to measure fair value.

Government Accounting Standards Board Statement No. 73

In June 2015, the GASB issued Statement No. 73 – *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statement 67 and 68*, effective for fiscal years beginning after June 15, 2015.

The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement establishes requirements for defined benefit pensions that are not within the Scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions.

Bear Valley Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2016

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

C. Financial Reporting, continued

Government Accounting Standards Board Statement No. 76

In June 2015, the GASB issued Statement No. 76 – *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, effective for financial statements for periods beginning after June 15, 2015.

This Statement replaces the requirements of Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify – in the context of the current governmental financial reporting environment – the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of local governmental entities in conformity with GAAP and the framework for selecting those principles. This statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment is not specified within the source of authoritative GAAP.

Government Accounting Standards Board Statement No. 79

In December 2015, the GASB issued Statement No. 79 – *Certain External Investment Pools and Pool Participants*, effective for financial statements for periods beginning after June 15, 2015.

This Statement enhances comparability of financial statements among governments by establishing specific criteria used to determine whether a qualifying external investment pool may elect to use an amortized cost exception to fair value measurement. Those criteria will provide qualifying external investment pools and participants in those pools with consistent application of an amortized cost-based measurement for financial reporting purposes. That measurement approximates fair value and mirrors the operations of external investment pools that transact with participants at a stable net asset value per share.

D. 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. Fair Value Measurements

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on valuation inputs used to measure the fair value of the asset, as follows:

- **Level 1** – Valuation is based on quoted prices in active markets for identical assets.
- **Level 2** – Valuation is based on directly observable and indirectly observable inputs. These inputs are derived principally from or corroborated by observable market data through correlation or market-corroborated inputs. The concept of market-corroborated inputs incorporates observable market data such as interest rates and yield curves that are observable at commonly quoted intervals.
- **Level 3** – Valuation is based on unobservable inputs where assumptions are made based on factors such as prepayment rates, probability of defaults, loss severity and other assumptions that are internally generated and cannot be observed in the market.

The asset’s fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques attempt to maximize the use of observable inputs and minimize the use of unobservable inputs.

Bear Valley Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2016

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

D. Financial Statement Elements, continued

2. Fair Value Measurements, continued

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the District believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in different fair value measurement at the reporting date.

The District does not currently hold any investments which require the treatment of fair value measurements.

3. 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.

4. 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.

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

5. Prepaids

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

6. Capital Assets

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

Governmental Activities

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

Business-Type Activities

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

Bear Valley Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2016

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

D. Financial Statement Elements, continued

7. Deferred Outflows of Resources

The statement of net position and the governmental funds balance sheet will sometimes report a separate section for deferred outflows of resources. This financial statement element, *deferred outflows of resources*, represents a consumption of resources applicable to future periods and therefore will *not* be recognized as an outflow of resources (expenditure) until that time. The District has two items which qualify for reporting in this category. The first deferred outflow related to pensions is an amount equal to the employer contributions made after the measurement date of the net pension liability. This amount will be amortized-in-full against the net pension liability in the next fiscal year. The second deferred outflow related to pensions is an amount which represents the differences between expected and actual experience which will be amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the Plans determined as of the measurement date June 30, 2015, which is a 3.8 year period.

8. 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.

9. Compensated Absences

It is the District's policy to allow employees to accumulate earned but unused vacation, compensatory time, and sick leave benefits. The vesting method is used to calculate the liability. Depending on the years of service, an employee will be paid 0%, 50%, or 100% of earned sick leave benefits, 100% of earned vacation and compensatory time upon separation. All vacation pay, compensatory time and sick leave is accrued when incurred in the government-wide and enterprise fund financial statements. The current portion of the liability is estimated from prior year payment and adjusted for material expected variances. The non-current portion of the liability will be recorded as fund expenditures in the year in which they are paid or become due on demand to terminated employees. The General and Enterprise Funds are used to liquidate compensated absences, respective to each funds' liability.

The Districts compensated absence benefits are as follows:

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

Bear Valley Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2016

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

D. Financial Statement Elements, continued

10. Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the District's California Public Employees' Retirement System (CalPERS) plans (Plans) and addition to/deduction from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

- Valuation Date: June 30, 2013
- Measurement Date: June 30, 2014
- Measurement Period: July 1, 2013 to June 30, 2014

11. Deferred Inflows of Resources

The statement of net position and the governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This financial statement element, deferred inflows of resources, represents an acquisition of resources applicable to future periods and therefore will not be recognized as an inflow of resources (revenue) until that time. The District has five items which qualify for reporting in this category. The first, second, third and fourth deferred inflows related to pensions represents the differences in expected and actual experience, changes in Plan assumptions, differences between the employer contributions and the proportionate share of contributions, and the net adjustment due to differences of proportions of the net pension liability. The first through fourth deferred inflows related to pensions will be amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the Plans determined as of the measurement date June 30, 2015, which is 3.8 year period. The fifth deferred inflow related to pensions represents the net difference in projected and actual earnings on investments of the pension plans fiduciary net position. This amount is amortized over a 5 year period.

12. 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*.

During the fiscal year ended June 30, 2016, the District has incurred a negative unrestricted net position balance in the Districts Enterprise Post Office fund of \$12,971 due to a current year operating costs exceeding operating revenue and transfers in from the General fund. The District intends to reduce the negative unrestricted net position balance through the collection of property taxes and service revenue in future periods.

Bear Valley Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2016

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

D. Financial Statement Elements, continued

13. 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.

14. 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.

15. 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.

Bear Valley Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2016

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

D. Financial Statement Elements, continued

16. 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, deferred outflows of resources, liabilities, deferred inflows of resources and disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in District net position during the reporting period. Actual results could differ from those estimates.

17. 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, 2016, are classified as follows:

Governmental activity funds:	
General fund	\$ 2,344,866
Streets and roads fund	3,757,626
Bond redemption fund	216,754
Supplemental law enforcement	<u>272,670</u>
Total	<u>6,591,916</u>
Business-type activity funds:	
Water fund	2,253,821
Wastewater fund	848,604
Solid waste fund	903,238
Post office fund	<u>511</u>
Total	<u>4,006,174</u>
Total cash and cash equivalents	<u>\$ 10,598,090</u>

Cash and cash equivalents as of June 30, 2016, consisted of the following:

Cash on hand	\$ 1,300
Deposits held with financial institutions	3,013,008
Deposits held with the County of Kern Treasurer's Pooled Cash Portfolio	7,131,385
Deposits held with the California Local Agency Investment Fund (LAIF)	<u>452,397</u>
Total	<u>\$ 10,598,090</u>

As of June 30, 2016, the District's authorized deposits had the following maturities:

Deposits held with the County of Kern Treasurer's Pooled Cash Portfolio	478 days
Deposits held with the California Local Agency Investment Fund (LAIF)	167 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.

Bear Valley Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2016

(2) Cash and Cash Equivalents, continued

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.

The District's deposit and withdrawal restrictions and limitations are as follows:

- Withdrawls of up to \$10,000,000 require 24 hour advance notice.
- Withdrawls of \$10,000,001 and greater require 72 hour advance notice.

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 Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Amounts held with LAIF are highly liquid, as deposits can be converted to cash within a twenty-four hour period without loss of accrued interest. Credit and market risk is unknown. LAIF detail may be obtained from the State of California Treasurer's website at www.treasurer.ca.gov/pmia-laif/index.asp.

The District's deposit and withdrawal restrictions and limitations are as follows:

- Each agency in the fund may invest up to \$40 million and may invest without limitation in special bond proceeds accounts.
- Same day transaction processing occurs for orders received before 10:00 a.m.
- Next day transactions processing occurs for orders received after 10:00 a.m.
- Maximum limit of 15 transactions (combination of deposits and withdrawals) per month.
- Minimum transaction amount requirement of \$5,000, in increments of a \$1,000 dollars.
- Withdrawals of \$10,000,000 or more require 24 hour advance notice.
- Prior to a funds transfer, an authorized person must call LAIF to do a verbal transaction.

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.

Bear Valley Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2016

(2) Cash and Cash Equivalents, continued

Custodial Credit Risk, continued

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 67% and LAIF is 4% as of June 30, 2016, of the District's total depository and investment portfolio.

(3) Accounts Receivable – Utilities, net

The accounts receivable – utilities, net balance consists of the following balances as of June 30, 2016:

	<u>Water</u>	<u>Wastewater</u>	<u>Solid Waste</u>	<u>Total</u>
Accounts receivable – utilities	\$ 390,936	95,884	93,023	579,843
Allowance for uncollectible receivables	<u>(30,657)</u>	<u>-</u>	<u>-</u>	<u>(30,657)</u>
Accounts receivable – utilities, net	<u>\$ 360,279</u>	<u>95,884</u>	<u>93,023</u>	<u>549,186</u>

(4) Internal Balances

Due To/From Other Funds

Internal balances consist of the following as of June 30, 2016:

<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>\$ 250,000</u>

Bear Valley Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2016

(4) Internal Balances, continued

Due To/From Other Funds, continued

The General fund advanced the Water and Wastewater funds \$250,000 in 2016 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 2016.

Interfund Operational Transfers

Interfund transfers consist of the following for the year ended June 30, 2016:

<u>Transfer from</u>	<u>Transfer to</u>	<u>Amount</u>
General	Post Office	\$ <u>43,501</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.

(5) Improvement District Bonds Receivable

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

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. As of June 30, 2016, the Improvement District No. 95-1 bonds outstanding balance had been paid-in-full.

Bear Valley Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2016

(6) Capital Assets

Governmental Activities

Changes in capital assets for the year were as follows:

	<u>Balance 2015</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance 2016</u>
Non-depreciable assets:				
Land	\$ 4,820,357	-	-	4,820,357
Construction-in-process	12,400	-	-	12,400
Total non-depreciable assets	<u>4,832,757</u>	<u>-</u>	<u>-</u>	<u>4,832,757</u>
Depreciable assets:				
Buildings and improvements	5,982,195	-	-	5,982,195
Infrastructure, streets and roads	24,179,347	-	-	24,179,347
Vehicles and equipment	1,950,669	215,145	(242,666)	1,923,148
Total depreciable assets	<u>32,112,211</u>	<u>215,145</u>	<u>(242,666)</u>	<u>32,084,690</u>
Accumulated depreciation:				
Buildings and improvements	(4,149,475)	(83,135)	-	(4,232,610)
Infrastructure, streets and roads	(22,536,959)	(186,398)	-	(22,723,357)
Vehicles and equipment	(1,746,333)	(53,955)	216,208	(1,584,080)
Total accumulated depreciation	<u>(28,432,767)</u>	<u>(323,488)</u>	<u>216,208</u>	<u>(28,540,047)</u>
Total depreciable assets, net	<u>3,679,444</u>	<u>(108,343)</u>	<u>(26,458)</u>	<u>3,544,643</u>
Total capital assets, net	<u>\$ 8,512,201</u>			<u>8,377,400</u>

Major capital asset additions in the governmental activities area include the acquisition of vehicles and equipment for the governmental general fund. Major capital asset deletions in the governmental activities area include the disposal of vehicles and equipment for the governmental general fund.

Depreciation expense under governmental activities was allotted as follows for the year ended June 30, 2016:

	<u>Depreciation Expense</u>
General government	\$ 55,568
Public safety	61,447
Streets and roads	<u>206,473</u>
Total	<u>\$ 323,488</u>

Bear Valley Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2016

(6) Capital Assets, continued

Business-Type Activities

Changes in capital assets for the year were as follows:

	<u>Balance 2015</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance 2016</u>
Non-depreciable assets:				
Land	\$ 3,662,053	-	-	3,662,053
Total non-depreciable assets	<u>3,662,053</u>	<u>-</u>	<u>-</u>	<u>3,662,053</u>
Depreciable assets:				
Water transmission and distribution	14,279,531	115,740	-	14,395,271
Wastewater collection	4,689,248	-	-	4,689,248
Solid waste collection	156,231	-	-	156,231
Vehicles and equipment	855,815	121,165	(83,872)	893,108
Total depreciable assets	<u>19,980,825</u>	<u>236,905</u>	<u>(83,872)</u>	<u>20,133,858</u>
Accumulated depreciation:				
Water transmission and distribution	(8,987,783)	(372,003)	-	(9,359,786)
Wastewater collection	(4,102,944)	(93,912)	-	(4,196,856)
Solid waste collection	(120,794)	(3,320)	-	(124,114)
Vehicles and equipment	(761,021)	(16,590)	83,872	(693,739)
Total accumulated depreciation	<u>(13,972,542)</u>	<u>(485,825)</u>	<u>83,872</u>	<u>(14,374,495)</u>
Total depreciable assets, net	<u>6,008,283</u>	<u>(248,920)</u>	<u>-</u>	<u>5,759,363</u>
Total capital assets, net	<u>\$ 9,670,336</u>			<u>9,421,416</u>

Major capital asset additions in the business-type activities area include the acquisition of water transmission and distribution equipment and vehicles and equipment for the water enterprise fund. Major capital asset deletions in the business-type activities area include the disposal of vehicles and equipment for the water enterprise fund.

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

<u>Water Enterprise</u>	<u>Balance 2015</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance 2016</u>
Non-depreciable assets:				
Land	\$ 3,647,319	-	-	3,647,319
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	115,740	-	14,395,271
Vehicles and equipment	602,643	121,165	(83,872)	639,936
Total depreciable assets	<u>14,882,174</u>	<u>236,905</u>	<u>(83,872)</u>	<u>15,035,207</u>
Accumulated depreciation:				
Water transmission and distribution	(8,987,783)	(372,003)	-	(9,359,786)
Vehicles and equipment	(517,812)	(12,764)	83,872	(446,704)
Total accumulated depreciation	<u>(9,505,595)</u>	<u>(384,767)</u>	<u>83,872</u>	<u>(9,806,490)</u>
Total depreciable assets, net	<u>5,376,579</u>	<u>(147,862)</u>	<u>-</u>	<u>5,228,717</u>
Total capital assets, net	<u>\$ 9,023,898</u>			<u>8,876,036</u>

Bear Valley Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2016

(6) Capital Assets, continued

Business-Type Activities

A summary of changes of capital assets per Enterprise Funds, continued:

Wastewater Enterprise	Balance 2015	Additions	Deletions/ Transfers	Balance 2016
Non-depreciable assets:				
Land	\$ 14,734	-	-	14,734
Total non-depreciable assets	14,734	-	-	14,734
Depreciable assets:				
Wastewater collection	4,689,248	-	-	4,689,248
Vehicles and equipment	102,291	-	-	102,291
Total depreciable assets	4,791,539	-	-	4,791,539
Accumulated depreciation:				
Wastewater collection	(4,102,944)	(93,912)	-	(4,196,856)
Vehicles and equipment	(92,551)	(3,602)	-	(96,153)
Total accumulated depreciation	(4,195,495)	(97,514)	-	(4,293,009)
Total depreciable assets, net	596,044	(97,514)	-	498,530
Total capital assets, net	\$ 610,778			513,264
Solid Waste Enterprise	Balance 2015	Additions	Deletions/ Transfers	Balance 2016
Depreciable assets:				
Solid waste collection	\$ 156,231	-	-	156,231
Vehicles and equipment	150,881	-	-	150,881
Total depreciable assets	307,112	-	-	307,112
Accumulated depreciation:				
Solid waste collection	(120,794)	(3,320)	-	(124,114)
Vehicles and equipment	(150,658)	(224)	-	(150,882)
Total accumulated depreciation	(271,452)	(3,544)	-	(274,996)
Total depreciable assets, net	35,660	(3,544)	-	32,116
Total capital assets, net	\$ 35,660			32,116

Bear Valley Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2016

(7) Compensated Absences

The District's policy relating to compensated absences is described in note 1. The following liability at June 30, 2016, is expected to be paid by the general fund in future years, consistent with prior year treatment.

Changes in compensated absence as of June 30, 2016, were as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Compensated absences, beginning	\$ 192,339	38,260
Current year employee earnings	241,000	174,019
Employee time taken	<u>(220,055)</u>	<u>(105,884)</u>
Compensated absences, ending	213,284	106,395
Less: current portion payable	<u>(53,321)</u>	<u>(26,599)</u>
Long-term portion payable	<u>\$ 159,963</u>	<u>79,796</u>

(8) Bond Payable

Changes in bond payable for the year ended June 30, 2016, is as follows:

	<u>Balance 2015</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance 2016</u>
General obligation bonds	\$ 1,140,000	<u>-</u>	<u>(345,000)</u>	795,000
Less: current portion due	<u>(345,000)</u>			<u>(50,000)</u>
Long-term portion due	<u>\$ 795,000</u>			<u>745,000</u>

General Obligation Bonds

In fiscal year 2003, the District issued \$4,530,000 in Bear Valley Community Services District Improvement District No. 2 General Obligation Bonds, 2002 Series A. The proceeds of the 2002 Bonds were used to finance certain water system improvements and refund the District's 1995 Bonds. The 2002 Bonds are general 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.

Bear Valley Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2016

(8) Bond Payable, continued

General Obligation Bonds, continued

The bonds are scheduled to mature in fiscal year 2028. Interest is payable semi-annually on September 1st and March 1st each year at an escalating rate from 1.75% to 4.75%, while principal installments ranging from \$50,000 to \$345,000 are payable each year on September 1st. Annual debt service requirements on the bonds are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 50,000	35,788	85,788
2018	55,000	33,487	88,487
2019	55,000	31,013	86,013
2020	60,000	28,425	88,425
2021	60,000	25,687	85,687
2022-2026	350,000	82,013	432,013
2027-2028	<u>165,000</u>	<u>7,957</u>	<u>172,957</u>
Totals	<u>795,000</u>	<u>244,370</u>	<u>1,039,370</u>
Current portion due	<u>(50,000)</u>		
Long-term portion	<u>\$ 745,000</u>		

(9) Loans Payable

Changes in loans payable for the year ended June 30, 2016, are as follows:

	<u>Balance 2015</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance 2016</u>
Water fund:				
CIEBD - Loan	\$ 2,197,452	-	(94,100)	2,103,352
Wastewater fund:				
SWRCB - Loan	108,597	-	(108,597)	-
CIEBD - Loan	<u>455,718</u>	<u>-</u>	<u>(19,669)</u>	<u>436,049</u>
Total loans payable	<u>2,761,767</u>	<u>-</u>	<u>(222,366)</u>	<u>2,539,401</u>
Less: current portion	<u>(222,369)</u>			<u>(117,105)</u>
Long-term portion	<u>\$ 2,539,398</u>			<u>2,422,296</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.

Bear Valley Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2016

(9) Loans Payable, continued

Water and Wastewater Funds

California Infrastructure and Economic Development Bank (CIEDB) Loan, continued

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

Year	Principal	Interest	Total
2017	\$ 117,105	72,512	189,617
2018	120,536	69,031	189,567
2019	124,068	65,447	189,515
2020	127,704	61,759	189,463
2021	131,445	57,962	189,407
2022-2026	717,303	232,878	950,181
2027-2031	828,729	115,796	944,525
2032-2033	372,511	10,815	383,326
Total	2,539,401	686,200	3,225,601
Current portion due	(117,105)		
Long-term portion	\$ 2,422,296		

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, 2016, the remaining unamortized interest balance is as follows:

	Amount
Prepaid interest	\$ 361,999
Accumulated amortization	(361,999)
Prepaid interest, net	\$ -

At June 30, 2016, the balance of the State Water Resources Control Board (SWRCB) loan was paid-in-full.

(10) Defined Benefit Pension Plans

Plans’ Description

All qualified permanent and probationary employees are eligible to participate in the District’s separate Safety and Miscellaneous Employee Pension Plans, cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees’ Retirement System (CalPERS). Benefit provisions under the Plan is established by State statute and Local Government resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website or may be obtained from their executive office: 400 P Street, Sacramento, CA, 95814.

Bear Valley Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2016

(10) Defined Benefit Pension Plans, continued

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: The Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

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. The new legislation closed the District's CalPERS Safety 2.0% at 50 and Miscellaneous 2.0% at 55, Risk Pool Retirement Plans to new employee entrants, not previously employed by an agency under CalPERS, effective December 31, 2013. All employees hired after January 1, 2013 are eligible for the District's CalPERS Safety 2.7% at 57 Retirement Plan or the Miscellaneous 2.0% at 62 Retirement Plan under PEPRA.

The District's Safety and Miscellaneous Plans' provisions and benefits in effect at June 30, 2016 are summarized as follows:

	Miscellaneous Plan		Safety Plan	
	Tier 1	Tier 2	Tier 1	Tier 2
	Prior to January 1, 2013	On or after January 1, 2013	Prior to January 1, 2013	On or after January 1, 2013
Hire date				
Benefit formula	2.0% @ 55	2.0% @ 62	2.0% @ 50	2.7% @ 57
Benefit vesting schedule	5 years of service	5 years of service	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life	monthly for life	monthly for life
Retirement age	55 - 65	52 - 67	50 - 55	52 - 67
Monthly benefits, as a % of eligible compensation	2.0% to 2.5%	1.0% to 2.5%	2.0% to 2.5%	2.7% to 3.5%
Required employee contribution rates	6.89%	6.250%	8.92%	11.500%
Required employer contribution rates	11.522%	6.237%	13.813%	11.153%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates, for all public employers, be determined on an annual basis by the actuary and shall be effective on July 1 following notice of the change in rate. Funding contributions for the Plan is determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

As of the fiscal year ended June 30, 2016, the contributions for the Plan were as follows:

Contribution Source	Miscellaneous Plan 2016	Safety Plan 2016
Contributions – employer	\$ 186,048	86,480
Contributions – employee (paid by employer)	38,269	-
Total employer paid contributions	\$ 224,317	86,480

Bear Valley Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2016

(10) Defined Benefit Pension Plans, continued

Net Pension Liability

As of the fiscal year ended June 30, 2016, the District reported net pension liabilities for its proportionate shares of the net pension liability of the Plan as follows:

Plan Description	Proportionate Share of Pension Liability 2016
Miscellaneous Plan	\$ 1,677,303
Safety Plan	938,737
Total Safety & Miscellaneous Plans	\$ 2,616,040

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2015 (the measurement date), and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 (the valuation date), rolled forward to June 30, 2015, using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined.

The District's proportionate share of the pension liability for the Plan as of June 30, 2014 and 2015 was as follows:

	Miscellaneous Plan	Safety Plan	District's Misc & Safety Plans
Proportional share – June 30, 2014	0.02598%	0.01371%	0.03969%
Proportional share – June 30, 2015	0.02444%	0.01368%	0.03812%
Change – Increase (Decrease)	-0.00154%	-0.00003%	-0.00157%

Bear Valley Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2016

(10) Defined Benefit Pension Plans, continued

Deferred Pension Outflows (Inflows) of Resources

For the fiscal year ended June 30, 2016, the District recognized pension expense of \$165,020.

At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources			Deferred Inflows of Resources		
	Miscellaneous Plan	Safety Plan	Misc & Safety Total	Miscellaneous Plan	Safety Plan	Misc & Safety Total
Pension contributions subsequent to the measurement date	\$ 186,048	86,480	272,528	-	-	-
Differences between actual and expected experience	9,712	-	9,712	-	(11,852)	(11,852)
Changes in assumptions	-	-	-	(91,886)	(54,510)	(146,396)
Differences between actual contribution and proportionate share of contribution	-	-	-	(95,421)	(8,077)	(103,498)
Adjustment due to differences in proportions of the net pension liability	-	-	-	(227,268)	(39,180)	(266,448)
Net differences between projected and actual earnings on plan investments	-	-	-	(46,064)	(27,627)	(73,691)
Total	<u>\$ 195,760</u>	<u>86,480</u>	<u>282,240</u>	<u>(460,639)</u>	<u>(141,246)</u>	<u>(601,885)</u>

As of June 30, 2016, employer pension contributions reported as deferred outflows of resources related to contributions subsequent to the measurement date of \$272,528 will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2017.

At June 30, 2016, the District recognized other amounts reported as deferred outflows of resources and deferred inflows of resources related to the pension liability, which will be recognized as pension expense as follows.

Fiscal Year Ending June 30:	Deferred Outflows/(Inflows) of Resources		
	Miscellaneous Plan	Safety Plan	Misc & Safety Total
2017	\$ (191,869)	(63,714)	(255,583)
2018	(190,853)	(63,642)	(254,495)
2019	(158,534)	(55,294)	(213,828)
2020	90,329	41,404	131,733
2021	-	-	-
Thereafter	-	-	-

Bear Valley Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2016

(10) Defined Benefit Pension Plans, continued

Actuarial Assumptions

The total pension liability in the June 30, 2015 actuarial valuation report was determined using the following actuarial assumptions:

Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial cost method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial assumptions:	
Discount rate	7.50% Net of Administrative Expenses for 2015
Inflation	2.75%
Salary increases	Varies by Entry Age and Service
Investment Rate of Return	7.50 % Net of Pension Plan Investment and Administrative Expenses; includes inflation
Mortality Rate Table*	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

* The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 Experience Study report. Further details of the Experience Study can be found on the CalPERS website.

Discount Rate

For the June 30, 2015 valuation report, the discount rate used to measure the total pension liability was 7.50%, net of administrative expenses, for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore the current 7.50% discount rate used is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50% will be applied to all plans in the Public Employees' Retirement Fund (PERF). The stress test results are presented in a detailed report which can be obtained from the CalPERS website.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50% investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65%. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS confirmed the materiality threshold for the difference in the calculation and did not find it to be a material difference.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the Discount rate will require CalPERS Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the fiscal year ended 2017-2018. CalPERS will continue to check the materiality of the difference in the calculation until such time as it has changed its methodology.

Bear Valley Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2016

(10) Defined Benefit Pension Plans, continued

The long-term expected rate of return on pension plan investments was determine using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

The long-term expected rate of return on pension plan investments was determine using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculates over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation.

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1-10*</u>	<u>Real Return Year 11+**</u>
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	19.0	0.99	2.43
Inflation Sensitive	6.0	0.45	3.36
Private Equity	10.0	6.83	6.95
Real Estate	10.0	4.50	5.13
Infrastructure and Forestland	2.0	4.50	5.09
Liquidity	2.0	(0.55)	(1.05)
Total	<u>100.0%</u>		

* An expected inflation of 2.5% used for this period

** An expected inflation of 3.0% used for this period

Bear Valley Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2016

(10) Defined Benefit Pension Plans, continued

Sensitivity of the Proportionate Share of Net Pension Liability to Changes in the Discount Rate

The following table presents the District's proportionate share of the net position liability for the Plan, calculated using the discount rate, as well as what the District's proportional share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate.

At June 30, 2016, the discount rate comparison was the following:

	Discount Rate - 1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate + 1% (8.65%)
District's Net Pension Liability – Miscellaneous Plan	\$ 2,739,106	1,677,303	804,517
District's Net Pension Liability – Safety Plan	1,533,182	938,737	450,319
Total Miscellaneous and Safety Plans	<u>\$ 4,272,289</u>	<u>2,616,040</u>	<u>1,254,836</u>

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in separately issued CalPERS financial reports. See pages 60 and 61 for the Required Supplementary Schedules.

Payable to the Pension Plan

At June 30, 2016, the District reported \$0 in payables for the outstanding amount of contribution to the pension plan.

(11) Net Investment in Capital Assets

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

The balance consists of the following:	Governmental Activities	Business-type Activities
Capital assets – not being depreciated	\$ 4,832,757	3,662,053
Capital assets – being depreciated, net	3,544,643	5,759,363
Bond payable – current portion	(50,000)	-
Loans payable – current portion	-	(117,105)
Bond payable – long-term portion	(745,000)	-
Loans payable – long-term portion	-	(2,422,296)
Total	<u>\$ 7,582,400</u>	<u>6,882,015</u>

(12) Restricted Net Position

Net position are restricted as follows:	Governmental Activities	Business-type Activities
Street and road improvements	\$ 3,491,486	-
Debt service	218,747	-
Public safety (COPS Program)	264,388	-
	<u>\$ 3,974,621</u>	<u>-</u>

Bear Valley Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2016

(13) Unrestricted Net Position

The District's Board of Directors has designated the use of the District's June 30, 2016, unrestricted net position as follows:

Net position are designated as follows:	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Unemployment compensation	\$ 31,773	-
Emergency reserve	157,350	-
Roads contingencies	35,000	-
Six-month operating reserve	(217,898)	-
Prepaid expenses	-	-
Water operations	-	83,275
Water capital replacement	-	1,624,412
Wastewater operations	-	438,711
Wastewater capital replacement	-	316,547
Solid waste operations	-	69,207
Solid waste capital replacement	-	714,912
Post office operations	-	(12,971)
Total	<u>\$ 6,225</u>	<u>3,234,093</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.

(14) Adjustment to Net Position

Net Pension Liability – GASB 68 Implementation

In fiscal year 2015, the District implemented GASB pronouncements 68 and 71 to recognize its proportionate share of the net pension liability. As a result of the implementation, the District recognized the pension liability and recorded a prior period adjustment, a decrease to net position, of \$3,338,527 at July 1, 2014. The District recorded a prior period adjustment, increase to net position, to reclassify from expense to deferred outflows of resources, the prior year's proportionate share of employer pension of \$319,701 at July 1, 2014.

The adjustment to net position is as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Net position at June 30, 2014, as previously stated	\$ 10,921,789	10,486,912	21,408,701
Effect of adjustment to record net pension liability	(2,572,161)	(766,366)	(3,338,527)
Effect of adjustment to record deferred pension outflows	245,498	74,203	319,701
Total adjustment to net position	<u>(2,326,663)</u>	<u>(692,163)</u>	<u>-</u>
Net position at July 1, 2014, as restated	<u>\$ 8,595,126</u>	<u>9,794,749</u>	<u>21,408,701</u>

Bear Valley Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2016

(15) Deferred Compensation Savings Plan

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

Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of the participants. Accordingly, the District is in compliance with this legislation. Therefore, these assets are not the legal property of the District, and are not subject to claims of the District's general creditors. Market value of all plan assets held in trust by CalPERS at June 30, 2016, was \$631,224.

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.

(16) 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, 2016, 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 \$1,000,000 per loss includes public employee dishonesty, forgery or alteration and theft, disappearance and destruction coverages.
- Property loss is paid at the replacement cost for property on file, if replaced within 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 \$1,000 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.

Bear Valley Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2016

(16) Risk Management, continued

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 2016, 2015 and 2014. 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, 2016, 2015 and 2014.

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

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2016, that have effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 74

In June 2015, the GASB issued Statement No. 74 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness or information about postemployment benefits other than pensions (other postemployment benefits of OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability.

This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No.50, *Pension Disclosures*.

The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2016. 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. 75

In June 2015, the GASB issued Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities.

This Statement replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2017. 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. 77

In August 2015, the GASB issued Statement No. 77 – *Tax Abatement Disclosures*. The objective of this Statement is to improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Financial statement users need information about certain limitations on a government’s ability to raise resources. This includes limitations on revenue-raising capacity resulting from governmental programs that use tax abatements to induce behavior by individuals and entities that is beneficial to the government or its citizens. Tax abatements are widely used by state and local governments, particularly to encourage economic development. This Statement is effective for financial statements for periods beginning after December 15, 2015. It is believed that the implementation of this Statement will not have a material effect to the District’s financial statements.

Bear Valley Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2016

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

Governmental Accounting Standards Board Statement No. 80

In January 2016, the GASB issued Statement No. 80 – *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*. The objective of this Statement is to improve financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. This Statement is effective for financial statements for periods beginning after June 15, 2016. It is believed that the implementation of this Statement will not have a material effect to the District’s financial statements.

Governmental Accounting Standards Board Statement No. 81

In March 2016, the GASB issued Statement No. 81 – *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests.

This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. This Statement is effective for financial statements for periods beginning after December 15, 2016. It is believed that the implementation of this Statement will not have a material effect to the District’s financial statements.

Governmental Accounting Standards Board Statement No. 82

In March 2016, the GASB issued Statement No. 82 – *Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No.73*. This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement is effective for financial statements for periods beginning after June 15, 2016. It is believed that the implementation of this Statement will not have a material effect to the District’s financial statements.

(18) 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.

Bear Valley Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2016

(19) Subsequent Events

2016 Refunding General Obligation Bond

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.

On July 14, 2016, \$792,000 of 2016 Refunding General Obligation Bonds, were issued for the purpose of refinancing the General Obligation Bonds, 2002 Series A. The bonds are scheduled to mature on September 1, 2027. Principal is payable annually on September 1st and interest is payable semi-annually on September 1st and March 1st at a rate of 2.940%.

Other Events

Management is not aware of any other events occurring after June 30, 2016, have been evaluated for possible adjustment to the financial statements or disclosure as of May 11, 2017, 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, 2016

	<u>Adopted Original Budget</u>	<u>Board Approved Changes</u>	<u>Revised Final Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance Positive (Negative)</u>
Revenues:					
Property taxes	\$ 1,648,662	-	1,648,662	1,543,741	(104,921)
Voter approved taxes	561,100	-	561,100	549,421	(11,679)
Charges for services	385,000	-	385,000	424,583	39,583
Federal and state aid	47,000	-	47,000	20,667	(26,333)
Interest earnings	5,000	-	5,000	10,227	5,227
Rents and royalties	30,000	-	30,000	-	(30,000)
Other	45,150	-	45,150	76,796	31,646
Total revenues	<u>2,721,912</u>	<u>-</u>	<u>2,721,912</u>	<u>2,625,435</u>	<u>(96,477)</u>
Expenditures:					
General government	429,742	-	429,742	120,372	309,370
Public safety	2,933,170	-	2,933,170	2,416,022	517,148
Capital outlay	272,500	-	272,500	-	272,500
Total expenditures	<u>3,635,412</u>	<u>-</u>	<u>3,635,412</u>	<u>2,536,394</u>	<u>1,099,018</u>
Excess(deficiency) of revenues over expenditures	<u>(913,500)</u>	<u>-</u>	<u>(913,500)</u>	<u>89,041</u>	<u>1,002,541</u>
Other financing sources(uses):					
Operating transfers	(65,831)	-	(65,831)	(43,501)	22,330
Net change in fund balance	<u>(979,331)</u>	<u>-</u>	<u>(979,331)</u>	<u>45,540</u>	<u>1,024,871</u>
Fund balance, beginning of year	<u>1,447,439</u>	<u>-</u>	<u>1,447,439</u>	<u>2,417,492</u>	
Fund balance, end of year	<u>\$ 468,108</u>	<u>-</u>	<u>468,108</u>	<u>2,463,032</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 – Streets and Roads Fund – Major Fund
For the Year Ended June 30, 2016

	<u>Adopted Original Budget</u>	<u>Board Approved Changes</u>	<u>Revised Final Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance Positive (Negative)</u>
Revenues:					
Special assessments	\$ 1,230,120	-	1,230,120	1,205,187	(24,933)
Interest earnings	-	-	-	19,074	19,074
Other	8,500	-	8,500	18,159	9,659
Total revenues	<u>1,238,620</u>	<u>-</u>	<u>1,238,620</u>	<u>1,242,420</u>	<u>3,800</u>
Expenditures:					
Streets and roads	1,112,071	-	1,112,071	569,499	542,572
Capital outlay	2,561,000	-	2,561,000	215,145	2,345,855
Total expenditures	<u>3,673,071</u>	<u>-</u>	<u>3,673,071</u>	<u>784,644</u>	<u>2,888,427</u>
Net change in fund balance	<u>(2,434,451)</u>	<u>-</u>	<u>(2,434,451)</u>	<u>457,776</u>	<u><u>2,892,227</u></u>
Fund balance, beginning of year	<u>(94,193)</u>	<u>-</u>	<u>(94,193)</u>	<u>3,068,453</u>	
Fund balance, end of year	<u>\$ (2,528,644)</u>	<u>-</u>	<u>(2,528,644)</u>	<u>3,526,229</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, 2016

	<u>Adopted Original Budget</u>	<u>Board Approved Changes</u>	<u>Revised Final Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance Positive (Negative)</u>
Revenues:					
Voter approved taxes	\$ 26,419	-	26,419	90,165	63,746
Interest earnings	251	-	251	957	706
Rents and royalties	<u>30,980</u>	<u>-</u>	<u>30,980</u>	<u>61,315</u>	<u>30,335</u>
Total revenues	<u>57,650</u>	<u>-</u>	<u>57,650</u>	<u>152,437</u>	<u>94,787</u>
Expenditures:					
Debt service:					
General government	800	-	800	5,395	(4,595)
Bond payments	345,000	-	345,000	345,000	-
Interest paid	<u>43,750</u>	<u>-</u>	<u>43,750</u>	<u>39,150</u>	<u>4,600</u>
Total expenditures	<u>389,550</u>	<u>-</u>	<u>389,550</u>	<u>389,545</u>	<u>5</u>
Net change in fund balance	(331,900)	-	(331,900)	(237,108)	<u>94,792</u>
Fund balance, beginning of year	<u>341,156</u>	<u>-</u>	<u>341,156</u>	<u>455,855</u>	
Fund balance, end of year	<u>\$ 9,256</u>	<u>-</u>	<u>9,256</u>	<u>218,747</u>	

Bear Valley Community Services District
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual – Supplemental Law Enforcement Fund – Major Fund
For the Year Ended June 30, 2016

	<u>Adopted Original Budget</u>	<u>Board Approved Changes</u>	<u>Revised Final Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance Positive (Negative)</u>
Revenues:					
Federal and state aid	\$ 100,000	-	100,000	114,618	14,618
Interest earnings	-	-	-	1,157	1,157
Total revenues	<u>100,000</u>	<u>-</u>	<u>100,000</u>	<u>115,775</u>	<u>15,775</u>
Expenditures:					
Public safety	40,000	-	40,000	10,440	29,560
Capital outlay	60,000	-	60,000	-	60,000
Total expenditures	<u>100,000</u>	<u>-</u>	<u>100,000</u>	<u>10,440</u>	<u>89,560</u>
Excess(deficiency) of revenues over expenditures	-	-	-	105,335	105,335
Net change in fund balance	-	-	-	105,335	<u>105,335</u>
Fund balance, beginning of year	<u>109,974</u>	<u>-</u>	<u>109,974</u>	<u>159,053</u>	
Fund balance, end of year	<u>\$ 109,974</u>	<u>-</u>	<u>109,974</u>	<u>264,388</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, 2016

	<u>Adopted Original Budget</u>	<u>Board Approved Changes</u>	<u>Revised Final Budget</u>	<u>Actual Basis</u>	<u>Variance Positive (Negative)</u>
Operating revenues:					
Water consumption sales	\$ 2,230,000	-	2,230,000	1,914,530	(315,470)
Other charges for services	<u>42,500</u>	<u>-</u>	<u>42,500</u>	<u>36,276</u>	<u>(6,224)</u>
Total operating revenues	<u>2,272,500</u>	<u>-</u>	<u>2,272,500</u>	<u>1,950,806</u>	<u>(321,694)</u>
Operating expenses:					
Salaries and benefits	1,136,114	-	1,136,114	895,499	240,615
Operations	<u>1,973,246</u>	<u>-</u>	<u>1,973,246</u>	<u>1,138,481</u>	<u>834,765</u>
Total operating expenses	<u>3,109,360</u>	<u>-</u>	<u>3,109,360</u>	<u>2,033,980</u>	<u>1,075,380</u>
Operating income(loss) before capital	(836,860)	-	(836,860)	(83,174)	753,686
Depreciation expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>(384,767)</u>	<u>384,767</u>
Operating income(loss)	<u>(836,860)</u>	<u>-</u>	<u>(836,860)</u>	<u>(467,941)</u>	<u>368,919</u>
Non-operating revenue(expense):					
Interest earnings	-	-	-	13,439	13,439
Interest expense	<u>(62,773)</u>	<u>-</u>	<u>(62,773)</u>	<u>(61,624)</u>	<u>1,149</u>
Total non-operating, net	<u>(62,773)</u>	<u>-</u>	<u>(62,773)</u>	<u>(48,185)</u>	<u>14,588</u>
Capital contributions and purchases:					
Capital outlay	(309,000)	-	(309,000)	-	(309,000)
Standby charges	29,590	-	29,590	-	(29,590)
Capacity charges	<u>52,885</u>	<u>-</u>	<u>52,885</u>	<u>60,440</u>	<u>7,555</u>
Total capital contributions	<u>(226,525)</u>	<u>-</u>	<u>(226,525)</u>	<u>60,440</u>	<u>(286,965)</u>
Change in net position	<u>(1,126,158)</u>	<u>-</u>	<u>(1,126,158)</u>	<u>(455,686)</u>	<u>96,542</u>
Net position, beginning of year	<u>8,417,268</u>	<u>-</u>	<u>8,417,268</u>	<u>8,936,057</u>	
Fund balance, end of year	<u>\$ 7,291,110</u>	<u>-</u>	<u>7,291,110</u>	<u>8,480,371</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, 2016

	<u>Adopted Original Budget</u>	<u>Board Approved Changes</u>	<u>Revised Final Budget</u>	<u>Actual Basis</u>	<u>Variance Positive (Negative)</u>
Operating revenues:					
Wastewater service charges	\$ 505,000	-	505,000	493,367	(11,633)
Other charges for services	<u>3,000</u>	<u>-</u>	<u>3,000</u>	<u>134</u>	<u>(2,866)</u>
Total operating revenues	<u>508,000</u>	<u>-</u>	<u>508,000</u>	<u>493,501</u>	<u>(14,499)</u>
Operating expenses:					
Salaries and benefits	318,625	-	318,625	217,654	100,971
Operations	<u>315,581</u>	<u>-</u>	<u>315,581</u>	<u>141,185</u>	<u>174,396</u>
Total operating expenses	<u>634,206</u>	<u>-</u>	<u>634,206</u>	<u>358,839</u>	<u>275,367</u>
Operating income(loss) before capital	(126,206)	-	(126,206)	134,662	260,868
Depreciation expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>(97,514)</u>	<u>97,514</u>
Operating income(loss)	<u>(126,206)</u>	<u>-</u>	<u>(126,206)</u>	<u>37,148</u>	<u>163,354</u>
Non-operating revenue(expense):					
Interest earnings	150	-	150	4,429	4,279
Interest expense	<u>(6,705)</u>	<u>-</u>	<u>(6,705)</u>	<u>(23,565)</u>	<u>(16,860)</u>
Total non-operating, net	<u>(6,555)</u>	<u>-</u>	<u>(6,555)</u>	<u>(19,136)</u>	<u>(12,581)</u>
Capital contributions and purchases:					
Capital outlay	(170,000)	-	(170,000)	-	(170,000)
Capacity charges	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,529</u>	<u>6,529</u>
Total capital contributions	<u>(170,000)</u>	<u>-</u>	<u>(170,000)</u>	<u>6,529</u>	<u>(176,529)</u>
Change in net position	<u>(302,761)</u>	<u>-</u>	<u>(302,761)</u>	<u>24,541</u>	<u>(25,756)</u>
Net position, beginning of year	<u>1,112,713</u>	<u>-</u>	<u>1,112,713</u>	<u>807,932</u>	
Fund balance, end of year	<u>\$ 809,952</u>	<u>-</u>	<u>809,952</u>	<u>832,473</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, 2016

	<u>Adopted Original Budget</u>	<u>Board Approved Changes</u>	<u>Revised Final Budget</u>	<u>Actual Basis</u>	<u>Variance Positive (Negative)</u>
Operating revenues:					
Solid waste collection charges	\$ 550,000	-	550,000	578,068	28,068
Other charges for services	<u>1,300</u>	<u>-</u>	<u>1,300</u>	<u>299</u>	<u>(1,001)</u>
Total operating revenues	<u>551,300</u>	<u>-</u>	<u>551,300</u>	<u>578,367</u>	<u>27,067</u>
Operating expenses:					
Salaries and benefits	147,054	-	147,054	134,226	12,828
Operations	<u>495,913</u>	<u>-</u>	<u>495,913</u>	<u>369,072</u>	<u>126,841</u>
Total operating expenses	<u>642,967</u>	<u>-</u>	<u>642,967</u>	<u>503,298</u>	<u>139,669</u>
Operating income(loss) before capital	(91,667)	-	(91,667)	75,069	166,736
Depreciation expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,544)</u>	<u>(3,544)</u>
Operating income(loss)	<u>(91,667)</u>	<u>-</u>	<u>(91,667)</u>	<u>71,525</u>	<u>170,280</u>
Non-operating revenue(expense):					
Interest earnings	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,828</u>	<u>4,828</u>
Total non-operating, net	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,828</u>	<u>(4,828)</u>
Change in net position	<u>(91,667)</u>	<u>-</u>	<u>(91,667)</u>	<u>76,353</u>	<u>165,452</u>
Net position, beginning of year	<u>498,918</u>	<u>-</u>	<u>498,918</u>	<u>739,882</u>	
Fund balance, end of year	<u>\$ 407,251</u>	<u>-</u>	<u>407,251</u>	<u>816,235</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, 2016

	<u>Adopted Original Budget</u>	<u>Board Approved Changes</u>	<u>Revised Final Budget</u>	<u>Actual Basis</u>	<u>Variance Positive (Negative)</u>
Operating revenues:					
Post office box charges	\$ 33,500	-	33,500	14,923	(18,577)
Other charges for services	<u>3,350</u>	<u>-</u>	<u>3,350</u>	<u>6,412</u>	<u>3,062</u>
Total operating revenues	<u>36,850</u>	<u>-</u>	<u>36,850</u>	<u>21,335</u>	<u>(15,515)</u>
Operating expenses:					
Salaries and benefits	68,899	-	68,899	61,937	6,962
Operations	<u>33,782</u>	<u>-</u>	<u>33,782</u>	<u>18,911</u>	<u>14,871</u>
Total operating expenses	<u>102,681</u>	<u>-</u>	<u>102,681</u>	<u>80,848</u>	<u>21,833</u>
Operating income(loss) before capital	(65,831)	-	(65,831)	(59,513)	6,318
Other financing sources(uses):					
Operating transfers	<u>65,831</u>	<u>-</u>	<u>65,831</u>	<u>43,501</u>	
Change in net position	<u>-</u>	<u>-</u>	<u>-</u>	<u>(16,012)</u>	<u>6,318</u>
Net position, beginning of year	<u>15,603</u>	<u>-</u>	<u>15,603</u>	<u>3,041</u>	
Fund balance, end of year	<u>\$ 15,603</u>	<u>-</u>	<u>15,603</u>	<u>(12,971)</u>	

Bear Valley Community Services District
District's Proportionate Share of the Net Pension Liability – Last Ten Years*
As of June 30, 2016

<u>Description</u>	<u>Miscellaneous Plan</u>	<u>Safety Plan</u>	<u>Measurement Date 6/30/2015</u>	<u>Measurement Date 6/30/2014</u>
District's Proportion of the Net Pension Liability	0.02444%	0.01368%	0.03812%	0.03969%
District's Proportionate Share of the Net Pension Liability	\$ 1,677,303	938,738	\$ 2,616,041	\$ 2,469,727
District's Covered-Employee Payroll	\$ 1,554,187	544,599	\$ 2,098,786	\$ 2,369,855
District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	92.66%	58.01%	80.23%	95.96%
Plan's Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	82.97%	79.89%	81.98%	82.50%

Notes:

Changes in Benefit Terms – The figures above do not include any liability impact that may have resulted from Plan changes which occurred after the June 30, 2014, valuation date.

Changes of Assumptions – For the June 30, 2015, measurement date, the discount rate was changed from 7.50% (net of administrative expense) to 7.65% percent to correct for an adjustment to exclude administrative expense.

* Fiscal Year 2015 was the first year of implementation, therefore only two years are shown.

**Bear Valley Community Services District
Pension Plan Contributions – Last Ten Years*
As of June 30, 2016**

Schedule of Pension Plan Contributions:	Miscellaneous Plan	Safety Plan	Fiscal Year 2015-2016	Fiscal Year 2014-2015	Fiscal Year 2013-2014
Actuarially Determined Contribution	\$ 224,325	111,937	\$ 336,262	\$ 264,183	\$ 266,841
Contributions in Relation to the Actuarially Determined Contribution	(186,048)	(86,480)	(272,528)	(242,540)	(266,841)
Contribution Deficiency (Excess)	\$ 38,277	25,457	\$ 63,734	\$ 21,643	\$ -
Covered Payroll	\$ 1,442,689	398,464	\$ 1,841,153	\$ 2,098,786	\$ 2,369,855
Contribution's as a percentage of Covered-employee Payroll	15.55%	28.09%	18.26%	12.59%	11.26%

Notes:

The actuarial methods and assumptions used to set the actuarially determined contributions from June 30, 2014 through June 30, 2015 (the measurement period), were derived from the June 30, 2012, funding valuation report.

There were no changes in methods or assumptions used to determine the legally required contributions, which are actuarially determined, from the June 30, 2011 to the June 30, 2012, funding valuation report.

* Fiscal Year 2015 was the first year of implementation, therefore only three years are shown.

Report on Compliance and Internal Controls



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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, 2016, and the related notes to the financial statements, which collectively comprises the District's basic financial statements, and have issued our report thereon dated May 11, 2017.

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.

A handwritten signature in black ink that reads "Fedak & Brown LLP". The signature is written in a cursive, slightly slanted style.

Fedak & Brown LLP
Cypress, California
May 11, 2017