

Bear Valley Community Services District

Management Report

June 30, 2010



Charles Z. Fedak & Company

Certified Public Accountants

An Accountancy Corporation

Bear Valley Community Services District

Management Report

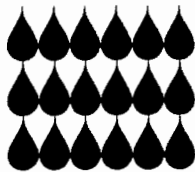
June 30, 2010

Bear Valley Community Services District

Management Report

Table of Contents

<u>Item</u>	<u>Page No.</u>
General Introduction	1
Summary of Current & Prior Year Comments and Recommendations	2
Appendix:	
Audit/Finance Committee Letter	1-3
Schedule of Audit Adjusting Journal Entries	



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

Dear Members of the Board:

We have audited the basic financial statements of the Bear Valley Community Services District (the District) as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of District's internal control. Accordingly, we do not express an opinion on the effectiveness of District's internal control.

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

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

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

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

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

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

Summary of Current & Prior Year Comments and Recommendations

Disclosure of Audit Adjustments and Reclassifications

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

Management's Response

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

Current Year Assessment

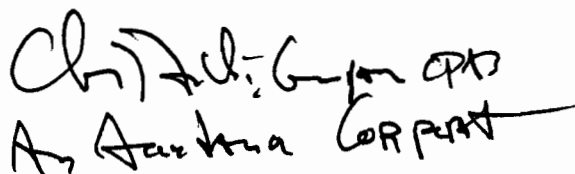
District management and the auditor discussed, reviewed and received approval all of the audit adjustment and reclassification entries provided to the District.

* * * * *

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

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

Cypress, California
October 5, 2010



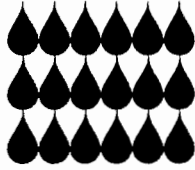
Charles Z. Fedak
CPA

APPENDIX

Bear Valley Community Services District

Audit/Finance Committee Letter

June 30, 2010



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

Charles Z. Fedak & Company

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Board of Directors
Bear Valley Community Services District
Tehachapi, California

We have audited the basic financial statements of the Bear Valley Community Services District (District) for the year ended June 30, 2010 and have issued our report thereon dated October 5, 2010. Generally accepted auditing standards require that we provide the Governing Board and management with the following information related to our audit of the District's basic financial statements.

Auditor's Responsibility under United States Generally Accepted Auditing Standards

As stated in our Audit Engagement Letter dated March 24, 2010, our responsibility, as described by professional standards, is to express an opinion about whether the basic financial statements prepared by management with oversight of the Governing Board are fairly presented, in all material respects, in conformity with United States generally accepted accounting principles. Our audit of the financial statements does not relieve the Governing Board or management of its responsibilities of oversight in the District's external financial reporting process or any other processes.

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

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

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

Planned Scope and Timing of the Audit

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

Qualitative Aspects of Accounting Practices

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

We noted no transactions entered into by the District during fiscal year 2010 for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Management's Judgments, Accounting Estimates and Financial Disclosures

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

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

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

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

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

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

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

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

Corrected and Uncorrected Misstatements

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

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

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Difficulties Encountered in Performing the Audit

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

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the Management Representational Letter to the Auditor dated October 5, 2010.

Conclusion

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

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

Cypress, California
October 5, 2010

Charles Z. Fedak
An Accountancy Corporation

Board of Directors
 Bear Valley Community Services District

Bear Valley Community Services District
June 30, 2010
Schedule of Audit Adjusting Journal Entries

Entry #	Status	Account	Description	Debit	Credit
AJE 1	Posted	40-12332-00	A/R DELINQUENT TAXES	50,884.86	
		64-12332-00	A/R DELINQUENT TAXES	3,126.02	
		40-12385-00	A/R ASSESSMENTS		50,884.86
		64-12385-00	A/R ASSESSMENTS		3,126.02
RJE - Reclass Assessments Rec. to Prop Tax Receivable					
AJE 2	Posted	60-21361-00	CIEDB LOAN PAYABLE	1,000.00	
		60-50721-70	INTEREST EXPENS		1,000.00
AJE - Adjust Debt and Interest Expense					
AJE 3	Posted	49-50296-55	TRASH PICKUPS	27,208.29	
		49-24000-00	ACCOUNTS PAYABLE		27,208.29
AJE - To Accrue Solid Waste Expense for June 2010					
AJE 4	Posted	42-12311-00	A/R UTILITY CUSTOMERS	12,738.15	
		43-12311-00	A/R UTILITY CUSTOMERS	3,919.31	
		42-24400-00	CUSTOMER REFUNDS PAYABLE		12,738.15
		43-24400-00	Customer Refunds Payable		3,919.31
RJE - To Reclass Customer Credits in A/R to Customer Deposits.					
AJE 5	Posted	40-50405-58	DEPRECIATION	26,525.00	
		40-50404-58	DISPOSITION		26,525.00
RJE - To Reclass Loss on Disposition to Depreciation Expense					
AJE 6	Posted	41-36000-00	EQUITY TRANSFER	34,192.43	
		41-31110-00	UNAPPROPRIATED FUND BALANCES		34,192.43
		40-31110-00	UNAPPROPRIATED FUND BALANCE	34,192.43	
		40-36000-00	EQUITY TRANSFER		34,192.43
		69-36000-00	EQUITY TRANSFER	129.00	
		70-36000-00	EQUITY TRANSFER		129.00
RJE - To Reclass Transfer Accounts					
TOTALS				193,915.49	193,915.49



Bear Valley Community Services District
Tehachapi, California

Comprehensive Annual Financial Report

For the Year Ended June 30, 2010



BEAR VALLEY COMMUNITY SERVICES DISTRICT

List of Elected and Appointed Officials

June 30, 2010

Elected Officials

BOARD OF DIRECTORS

President	Eldon Kordes
Vice-President	Alfonso Romano
Director	Robert Northcutt
Director	Ronald Samuels
Director	Richard Zanutto

Appointed Officials

General Manager	John C. Yeakley
Assistant General Manager	Sandy Janzen
Finance Director	Rudy Hernandez
Chief of Police	Terry Freeman
Superintendent of Public Works	Clint Stewart

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



Bear Valley Community Services District
Comprehensive Annual Financial Report
For the Year Ended June 30, 2010

Prepared by:
Finance Department
Rudy Hernandez, Finance Director

**Bear Valley Community Services District
Annual Financial Report
For the Year Ended June 30, 2010**

Table of Contents

	<u>Page No.</u>
Table of Contents	i
Introductory Section	
Letter of Transmittal	1-5
Organizational Chart	6
GFOA Certificate of Achievement for Excellence in Financial Reporting	7
Financial Section	
Independent Auditor's Report	8-9
Management's Discussion and Analysis	10-21
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	22
Statement of Activities	23
Fund Financial Statements:	
Balance Sheets – Governmental Funds	24
Reconciliation – Balance Sheets – Governmental Funds	25
Statements of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	26
Reconciliation – Statements of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	27
Statements of Net Assets – Enterprise Funds	28
Statements of Revenues, Expenses and Changes in Fund Net Assets – Enterprise Funds	29
Statements of Cash Flows – Enterprise Funds	30
Notes to the Basic Financial Statements	31-50
Required Supplementary Information	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund – Major Fund	51
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Streets and Roads Fund – Major Fund	52
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Supplemental Law Enforcement Fund – Major Fund	53
Supplemental Information	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Bond Redemption Fund – Debt Service Fund	54
Schedule of Revenues, Expenses and Changes in Net Assets – Budget and Actual – Water Fund	55
Schedule of Revenues, Expenses and Changes in Net Assets – Budget and Actual – Wastewater Fund	56
Schedule of Revenues, Expenses and Changes in Net Assets – Budget and Actual – Solid Waste Fund	57
Schedule of Revenues, Expenses and Changes in Net Assets – Budget and Actual – Post Office Fund	58

**Bear Valley Community Services District
Annual Financial Report
For the Year Ended June 30, 2010**

Table of Contents, continued

	<u>Page No.</u>
Statistical Information Section	
Table of Contents	59
Net Assets by Component – Last Five Fiscal Years	60
Changes in Net Assets – Last Five Fiscal Years	61
Fund Balances, Governmental Funds – Last Ten Fiscal Years	62
Changes in Fund Balances, Governmental Funds – Last Ten Fiscal Years	63
Governmental Funds Revenues – Last Ten Fiscal Years	64
Governmental Funds Expenditures – Last Ten Fiscal Years	65
Assessed Value and Estimated Actual Value of Property – Last Ten Fiscal Years	66
Direct and Overlapping Property Tax Rates – Last Ten Fiscal Years	67
Property Tax Levies and Collections– Last Ten Fiscal Years	68
Principal Property Tax Payers – Current Fiscal Year and Five Years Ago	69
Water Sales Revenue and Quantities Sold by Customer Class – Last Ten Fiscal Years	70
Water Rates by Customer Class – Last Ten Fiscal Years	71
Ratios of Outstanding Debt by Type – Last Ten Fiscal Years	72
Ratios of General Bonded Debt Outstanding – Last Ten Fiscal Years	73
Direct and Overlapping Governmental Activities Debt – As of June 30, 2010	74
Legal Debt Margin Information – Last Ten Fiscal Years	75
Demographic and Economic Statistics – Last Ten Calendar Years	76
Pledged-Revenue Coverage – Water Fund – Last Ten Fiscal Years	77
Pledged-Revenue Coverage – Wastewater Fund – Last Ten Fiscal Years	78
Principal Employers – Current Fiscal and Ten Years Ago	79
Operating and Capacity Indicators – Last Ten Fiscal Years	80
Operating Indicators by Function – Last Ten Fiscal Years	81
Miscellaneous Statistics – As of June 30, 2010	82
Report on Compliance and Internal Controls	
Independent Auditor’s Report on Internal Control Over Financial Reporting And on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	83

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Introductory Section



October 5, 2010

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

State law requires that all general-purpose local governments publish within six months of the close of each fiscal year a complete set of financial statements presented in conformance with generally accepted accounting principals (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the Bear Valley Community Services District for the fiscal year ended June 30, 2010.

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

The Bear Valley Community Services District's financial statements have been audited by Charles Z. Fedak & Company, Certified Public Accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Bear Valley Community Services District for the fiscal year ended June 30, 2010 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the Bear Valley Community Services District's financial statements for the fiscal year ended June 30, 2010 are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

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

Profile of the Bear Valley Community Services District

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

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

Under law, community services districts may perform a variety of municipal services if authorized to do so by the residents thereof. Bear Valley Community Services District currently provides water, wastewater, police, roads, solid waste, parks and recreation, post office and certain other services. The District serves a population of 7,841 (District estimate based on number of houses and registered voters).

The annual budget serves as the foundation for the Bear Valley Community Services District's financial planning and control. All departments of the Bear Valley Community Services District are required to submit requests for appropriations to the general manager on or before March 20 each year. The general manager, together with the treasurer and the Finance Committee prepare the draft budget. The Board conducts at least two public hearings on the proposed budget and adopts a preliminary budget no later than June 30 and a final budget no later than September 1. The appropriated budget is prepared by fund (e.g. general) and department (e.g. police). Department heads may make transfers of appropriations within a department (e.g. underspend on small tools and overspend on office supplies). Transfers of appropriations between departments, however, require the special approval of the Board. Budget-to-actual comparisons are provided in this report for each individual fund maintained by the District. For governmental funds this comparison is presented beginning on page 51. For enterprise funds the comparison is presented beginning on page 55.

Factors Affecting Financial Condition

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

Local economy. Since Bear Valley Community Services District receives no sales taxes, fuel taxes or other revenues that are sensitive to the business cycle, revenues tend to be stable over time. Property taxes are the main source of general revenues. Due to the booming housing market that prevailed from 2002 to 2006, the market value of residential properties has increased sharply with the result that the assessed valuation of the District has increased much more rapidly than just a few years ago. However, the growth rate for fiscal 2010 was much lower than the recent trend because the housing bubble burst. Going forward, the rate of growth could be in the low single-digits for a while. Although property tax revenues are high now, there will probably be very little growth in this primary revenue source for the next few years, until the housing market stabilizes.

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

The recent development boom had also brought in development (capacity) fees for water and wastewater systems. That money can be used for future capital projects to increase the District's water and wastewater capacity and to retire debt associated with the projects. During fiscal year 2010 there was a further curtailment of the number of new water and sewer connections due to the slow real estate market, a trend that began early in fiscal year 2008. The number of new connections during the year was far less than the long-term averages.

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

The District has developed a five-year asset replacement plan for each of its enterprise funds and will be developing similar plans for its governmental funds soon. This will assist the Board in making decisions about user fees, rates and charges.

Cash management policies and practices. Cash temporarily idle during the year was invested in the Local Agency Investment Fund of the State Treasurer and the Kern County Treasury Pool. Both of these pooled investment accounts are considered completely liquid since the District has next-day access to its monies. The average yield on these investments was 1.2% which is slightly lower than last year. Management endeavors to maintain balances within the FDIC insured limits of \$250,000 in its operating accounts (checking and savings). California law requires banks to collateralize government accounts up to \$1 million.

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

Employee pension benefits. District employees are members of the California Public Employees' Retirement System (CalPERS). As of July 1, 2005, all plan assets and liabilities for the two plans (miscellaneous and safety) have been pooled with other public agencies with similar plans. Contribution rates for fiscal year 2010 for both plans were higher than the normal cost for each risk pool because the individual plans were underfunded when they entered the pools. Also, the safety plan was recently upgraded, which added significantly to the employer contribution rate. In addition, the District pays the 7% miscellaneous employees' contribution.

Net Assets. The Board has established several "reserve targets" for the end of each fiscal year. The amounts actually existing on June 30, 2010 are compared with their respective targets in the schedule on the next page. Net assets that are below their "reserve targets" are shown in **bold print**.

On July 23, 2010, the Board of Directors approved a contract with Carollo engineers to perform a water and wastewater rate study. The purpose of the rate study was to analyze our current water and wastewater billing rate structure to ensure that District rates support a level where the District is able to recover the cost of operations (day-to-day), adequate reserves, and asset replacement funds. The study will be completed sometime in November 2010. A point worth noting are the District's reserve funds. As part of the fiscal 07/08 independent audit report, the District's auditor expressed concern regarding the District's reserve funding levels as well as the targets the District has set.

**Bear Valley Community Services District
Reserves Target and Actual as of June 30, 2010**

Category Fund	6/30/2010 Target	6/30/2010 Actual	6/30/2009 Actual
Emergency/disaster response	\$ 155,979	\$ 154,250	\$ 152,187
Contingencies:			
General fund	1,282,500	1,277,863	1,328,900
Roads	383,700	333,967	371,000
Water enterprise	606,115	504,751	573,200
Wastewater enterprise	85,160	79,700	89,500
Solid waste enterprise	95,100	91,500	108,100
Post office enterprise	-	-	-
Police contingencies:			
General fund	383,900	361,200	384,400
Rate stabilization:			
Water enterprise	121,225	100,950	121,225
Wastewater enterprise	21,300	19,200	21,300
Solid waste enterprise	23,775	22,870	23,775
General fund	674,120	1,061,359	686,600
Asset replacements:			
Roads	1,441,412	1,597,725	1,441,412
Water Reserve	1,386,131	1,448,588	1,417,587
Wastewater enterprise	31,456	66,113	85,160
Solid waste enterprise	232,525	257,815	232,525
Self-insurance:			
SUI reserve	63,802	51,742	40,137
Debt service:			
Bond redemption	395,400	395,400	392,875
Water enterprise	61,386	61,386	18,396
Water development	104,272	104,272	104,272
Wastewater development	33,682	33,682	33,682
AD 95-1 bond (wastewater)	108,600	108,600	108,600
Capital improvements:			
Water development	-	-	-
Supp law enforcement svcs	160,000	101,015	43,425

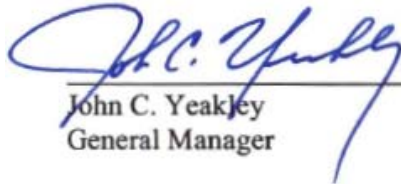
Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a *Certificate of Achievement for Excellence in Financial Reporting* to the District for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2009. This was the third consecutive year that the District has achieved this prestigious award. In order to be awarded a Certificate of Achievement, the District had to publish an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principals and applicable legal requirements.

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

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

Respectfully submitted,



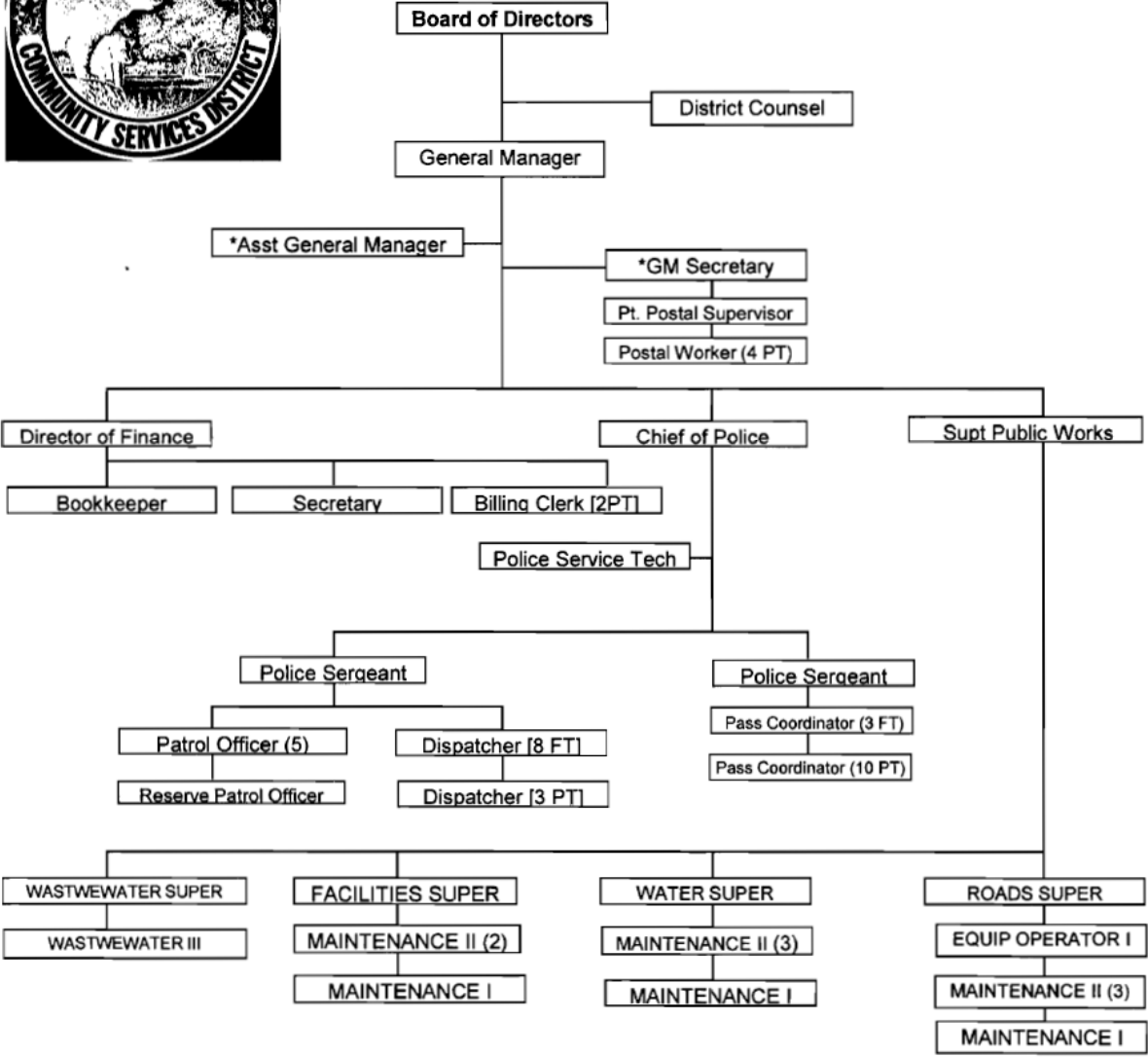
John C. Yeakley
General Manager



Rudy Hernandez
Treasurer



BEAR VALLEY COMMUNITY SERVICES DISTRICT ORGANIZATIONAL CHART 2009



*SAME PERSON

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Bear Valley
Community Services District
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2009

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



President

Executive Director

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Financial Section



Charles Z. Fedak & Company

Certified Public Accountants
An Accountancy Corporation

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Cypress, California 90630
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EMAIL czfco@czfcpa.com

Independent Auditor's Report

Board of Directors
Bear Valley Community Services District
Tehachapi, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Bear Valley Community Services District (District) as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Bear Valley Community Services District as of June 30, 2010, and the respective changes in net assets and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 5, 2010 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis and the budgetary comparison information are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The supplemental information section is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Independent Auditor's Report, continued

Our audits were conducted for the purpose of forming an opinion on the basic financial statements that collectively comprise the District's basic financial statements. The introductory and statistical sections listed in the table of contents are presented for purposes of additional analysis and are not required parts of the basic financial statements. These sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

October 5, 2010
Cypress, California

Chapman & Partners
An Accounting Corporation

**Bear Valley Community Services District
Management's Discussion and Analysis
For the Year Ended June 30, 2010**

Management's Discussion and Analysis

As management of the Bear Valley Community Services District, we offer readers of the Bear Valley Community Services District's financial statements this narrative overview and analysis of the financial activities of the Bear Valley Community Services District for the fiscal year ended June 30, 2010. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 1-5 of this report. All amounts, unless otherwise indicated, are expressed in whole dollars.

Financial Highlights

- Government-wide cash balance increased \$708,853 (9%).
- Government-wide net assets increased \$147,478 (.01%).
- General fund achieved its full contingency reserve funding levels of 50% of next year's expenditure budget for general contingencies and 94% of the 20% of next year's police department expenditure budget for police contingencies.
- Water enterprise fund net assets decreased \$12,922
- Wastewater enterprise fund net assets decreased \$234,453.
- Solid waste enterprise fund net assets improved \$69,610.
- Rate stabilization reserves are funded in the water, wastewater and solid waste enterprise funds.
- All debt service obligations were met and Standard & Poor's "A-" rating was maintained.

Overview of the Financial Statements

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

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

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

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

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

The government-wide financial statements can be found on pages 22-23 of this report.

**Bear Valley Community Services District
Management's Discussion and Analysis
For the Year Ended June 30, 2010**

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Bear Valley Community Services District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Bear Valley Community Services District can be divided into three categories: governmental funds, enterprise funds and fiduciary funds.

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

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

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

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

The basic governmental fund financial statements can be found on pages 24-27 of this report.

**Bear Valley Community Services District
Management's Discussion and Analysis
For the Year Ended June 30, 2010**

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 55-58 of this report.

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 28-30 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 in trust for the exclusive benefit of the plan participants. Additional information about this program can be found in Note 13 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 31-50 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 51-53 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Bear Valley Community Services District, assets exceed liabilities by \$24,500,315 at the close of the most recent fiscal year, an increase of \$147,478 compared with the prior year. This \$147,478 shows that the District operated at a break even point for fiscal year ending June 30, 2010.

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

**Bear Valley Community Services District
Management's Discussion and Analysis
For the Year Ended June 30, 2010**

Bear Valley Community Services District's Net Assets

	Condensed Statement of Net Assets					
	Governmental Activities		Business-type Activities		Total District	
	2010	2009	2010	2009	2010	2009
Assets:						
Current and other assets	\$ 5,646,451	5,150,480	3,094,552	3,140,282	8,741,003	8,290,762
Capital assets, net	10,368,403	10,769,277	12,809,348	13,064,246	23,177,751	23,833,523
Total assets	<u>16,014,854</u>	<u>15,919,757</u>	<u>15,903,900</u>	<u>16,204,528</u>	<u>31,918,754</u>	<u>32,124,285</u>
Liabilities:						
Current liabilities	604,342	548,139	552,856	473,764	1,157,198	1,021,903
Non-current liabilities	2,554,485	2,840,834	3,706,756	3,908,711	6,261,241	6,749,545
Total liabilities	<u>3,158,827</u>	<u>3,388,973</u>	<u>4,259,612</u>	<u>4,382,475</u>	<u>7,418,439</u>	<u>7,771,448</u>
Net assets:						
Net investment in capital assets	7,326,882	7,427,958	8,108,596	8,129,164	15,435,478	15,557,122
Unrestricted	5,529,145	5,102,826	3,535,692	3,692,889	9,064,837	8,795,715
Total net assets	<u>\$ 12,856,027</u>	<u>12,530,784</u>	<u>11,644,288</u>	<u>11,822,053</u>	<u>24,500,315</u>	<u>24,352,837</u>

The remaining balance of unrestricted net assets (\$9,064,837) may be used to meet the government's ongoing obligations.

At the end of the current fiscal year, the Bear Valley Community Services District is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year. There was an increase of \$325,243 in net assets for governmental activities, an increase of 3%.

Net assets for business-type activities decreased \$177,765, a decrease of 2%.

Governmental activities. Governmental activities increased the Bear Valley Community Services District's net assets by \$325,243. This was mainly due to additions of cash from higher property tax revenues, increased revenues from charges for services, and decreases in long-term liabilities from retirement of general obligation bonds.

**Bear Valley Community Services District
Management's Discussion and Analysis
For the Year Ended June 30, 2010**

Condensed Statement of Activities

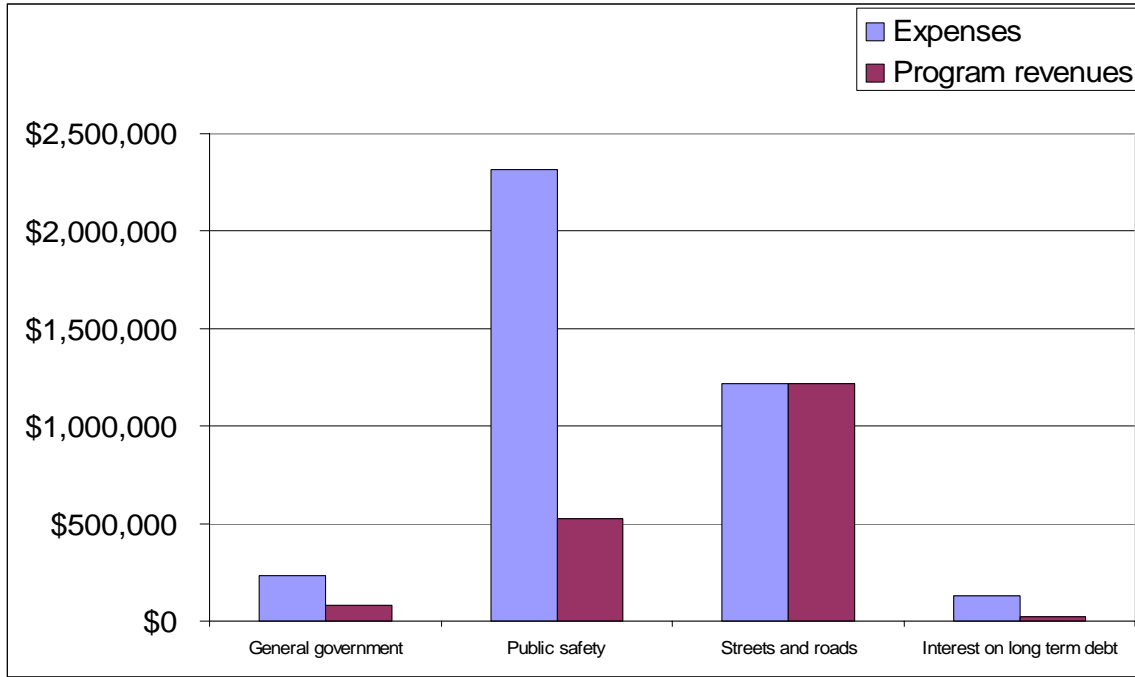
	Governmental Activities		Business-type Activities		Total District	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program revenues:						
Charges for services	\$ 1,746,159	1,654,983	3,333,150	3,439,339	5,079,309	5,094,322
Operating grants and contrib.	100,000	8,775	-	-	100,000	8,775
Capital grants and contrib.	-	117,498	52,885	10,108	52,885	127,606
General revenues:						
Property taxes	1,501,422	1,476,498	-	-	1,501,422	1,476,498
Voter approved taxes	856,299	907,149	-	-	856,299	907,149
Investment earnings	46,137	104,606	27,369	56,110	73,506	160,716
Total revenues	4,250,017	4,269,509	3,413,404	3,505,557	7,663,421	7,775,066
Expenses:						
General government	231,959	129,117	-	-	231,959	129,117
Public safety	2,314,935	2,148,707	-	-	2,314,935	2,148,707
Streets and roads	1,215,221	1,413,192	-	-	1,215,221	1,413,192
Interest on long-term debt	130,010	138,360	-	-	130,010	138,360
Water	-	-	2,418,407	2,730,138	2,418,407	2,730,138
Wastewater	-	-	655,946	636,048	655,946	636,048
Solid waste	-	-	487,778	489,239	487,778	489,239
Post office	-	-	61,687	62,206	61,687	62,206
Total expenses	3,892,125	3,829,376	3,623,818	3,917,631	7,515,943	7,747,007
Change in net assets	357,892	440,133	(210,414)	(412,074)	147,478	28,059
Transfers	(32,649)	(34,193)	32,649	34,193	-	-
Change in net assets	325,243	405,940	(177,765)	(377,881)	147,478	28,059
Net assets, beginning of year	12,530,784	12,124,844	11,822,053	12,199,934	24,352,837	24,324,778
Net assets, end of year	\$ 12,856,027	12,530,784	11,644,288	11,822,053	24,500,315	24,352,837

Bear Valley Community Services District's Changes in Net Assets

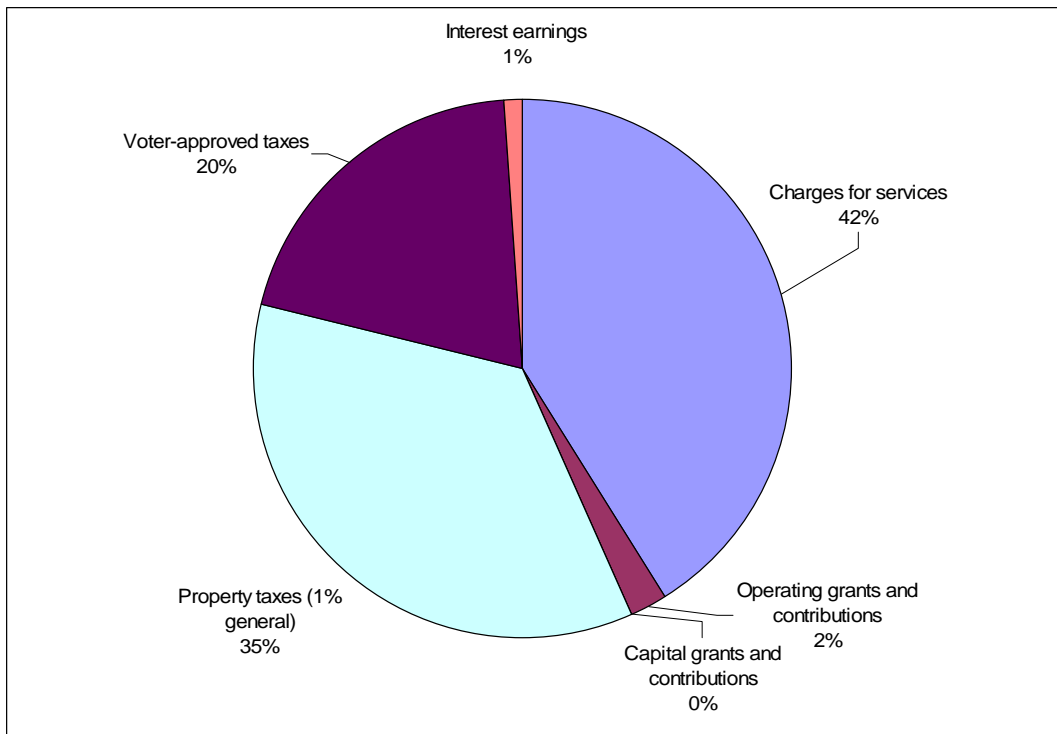
- Revenue from charges for services in the governmental activities increased \$17,086 (5%) due to the police dispatch service contract with the City of Tehachapi.
- Revenue from grants and contributions decreased \$74,721 (59%). The decrease is mainly due to a decrease in capital improvements made by the police department.
- Property taxes increased \$42,015 (2%).
- Total expenses decreased \$231,064 (3%).
- Costs for salaries and benefits decreased \$37,118 (.1%). Costs for operations and maintenance decreased \$121,492 (5%).

**Bear Valley Community Services District
Management's Discussion and Analysis
For the Year Ended June 30, 2010**

Expenses and Program Revenues – Governmental Activities



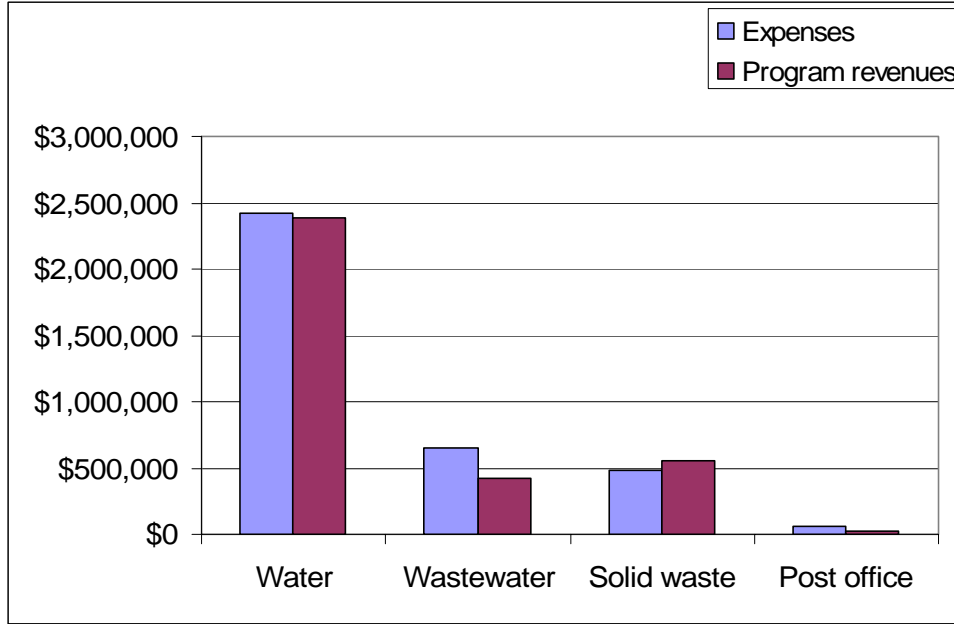
Revenues by Source – Governmental Activities



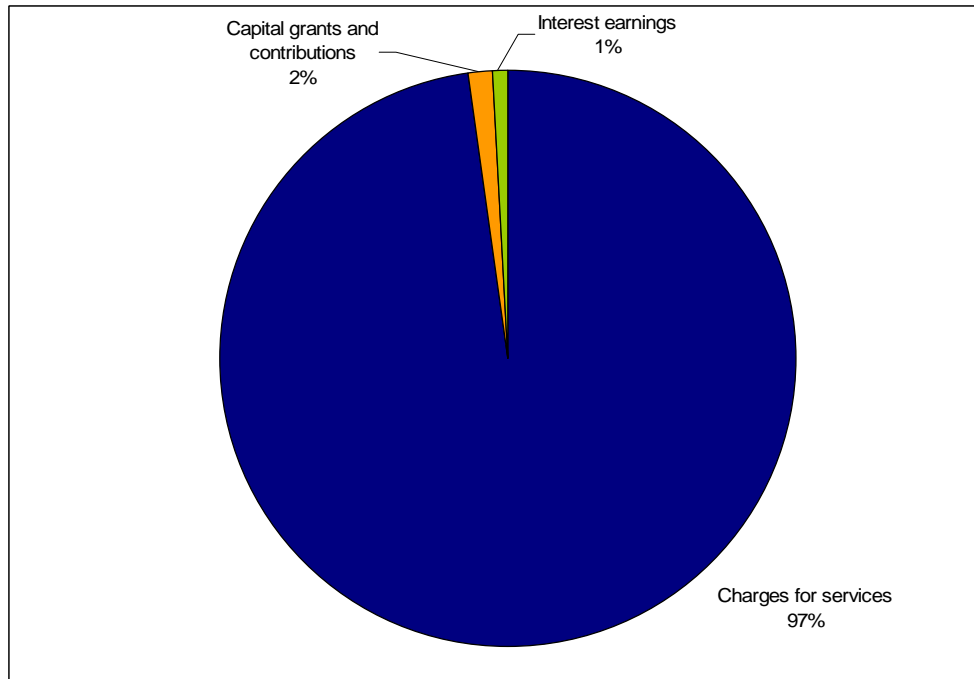
**Bear Valley Community Services District
Management's Discussion and Analysis
For the Year Ended June 30, 2010**

Business-type activities. Business-type activities decreased the Bear Valley Community Services District's net assets by \$177,765 primarily due to the depreciation of capital assets.

Expense and Program Revenues – Business-type Activities



Revenues by Source – Business-type Activities



**Bear Valley Community Services District
Management's Discussion and Analysis
For the Year Ended June 30, 2010**

Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the Bear Valley Community Services District's governmental funds reported combined ending fund balances of \$5,416,125, an increase of \$448,246 in comparison with the prior year, primarily due to the fact that there was no major road paving project done during the year. Of the total fund balance for all governmental funds, \$2,955,409 or 55%, constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for general spending because it has already been committed to 1) future road maintenance and improvement, 2) bond debt service, 3) public safety grant-related expenditures, 4) unemployment compensation and 5) prepaid expenditures.

The general fund is the chief operating fund of the Bear Valley Community Services District. At the end of the current fiscal year, the fund balance of the general fund was \$3,007,150 of which \$51,741 is reserved for unemployment compensation. In addition, \$154,250 of the fund balance is designated by the Board for emergencies and disaster response and \$361,200 is designated for police contingencies, leaving \$2,491,700 designated for a six-month operating reserve. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 122% of total general fund expenditures, while total fund balance represents 124% of that same amount.

The fund balance of the Bear Valley Community Services District's general fund increased \$134,038 during the current fiscal year because of (1) higher property tax revenues, (2) new revenues from the contract with the City of Tehachapi whereby the District provides the city's dispatch and 9-1-1 service in exchange for monthly cash payments, and (3) generally good control of expenditures. The amount reserved for unemployment compensation increased \$11,459 and the amount reserved for prepaid expenditures decreased \$7,166. The amount designated for emergency response increased \$1,451 and the amount set aside for police contingencies decreased by \$13,800. The remaining general fund balance for future operations increased \$4,745.

The roads fund has a total fund balance of \$1,931,692, which will be used for the ongoing maintenance and improvement of streets and roads, including drainage ways and rights of way. The increase in fund balance during the year was \$326,299, primarily due to a decrease in major road paving expenditures.

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

Net assets for all enterprise funds decreased \$177,765 compared with last year. Changes in total net assets from last year are as follows: water enterprise (\$12,922); wastewater enterprise (\$234,453); solid waste enterprise \$69,610; post office enterprise \$0.

The post office enterprise fund had unrestricted net assets of \$0 on June 30, 2010. Revenues to this fund cover less than half of the cost to provide this service, with the balance being subsidized by the general fund. Each year the general fund backfills the post office enterprise fund's financial needs.

General Fund Budgetary Highlights

Differences between the original budget and the final amended were \$52,627.

**Bear Valley Community Services District
Management's Discussion and Analysis
For the Year Ended June 30, 2010**

Capital Asset and Debt Administration

Capital assets. The Bear Valley Community Services District's investment in capital assets for its governmental and business type activities as of June 30, 2010 amounts to \$21,956,291 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, park facilities and infrastructure.

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

- \$48,233 was spent to acquire a multi-purpose storage building in the public works yard.
- \$30,436 for the purchase of a 2010 Toyota Tacoma.
- \$61,727 for the purchase of two 2010 Dodge Chargers.
- \$19,197 for the purchase of a 2010 Dodge Durango.
- \$10,280 for the purchase of a computer recording system.
- \$34,123 was spent on a 4" water main (Wagon Wheel) - Pipeline.
- \$8,841 for the purchase of a fire hydrant.
- \$20,559 for the purchase of a BobCat.

Bear Valley Community Services District's Capital Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total District</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Capital assets:						
Non-depreciable assets	\$ 4,804,415	4,932,970	3,662,053	3,662,053	8,466,468	8,595,023
Depreciable assets	31,454,994	31,269,454	19,382,447	18,945,246	50,837,441	50,214,700
Total capital assets	36,259,409	36,202,424	23,044,500	22,607,299	59,303,909	58,809,723
Accumulated depreciation	(26,232,527)	(25,794,466)	(11,115,091)	(10,453,053)	(37,347,618)	(36,247,519)
Total capital assets, net	\$ <u>10,026,882</u>	<u>10,407,958</u>	<u>11,929,409</u>	<u>12,154,246</u>	<u>21,956,291</u>	<u>22,562,204</u>

Additional information on the Bear Valley Community Services District's capital assets can be found in note 7 on pages 40-42 of this report.

**Bear Valley Community Services District
Management's Discussion and Analysis
For the Year Ended June 30, 2010**

Long-term debt. At the end of the current fiscal year, the Bear Valley Community Services District had total debt outstanding of \$6,520,813. Of this amount, \$2,700,000 comprises debt backed by the full faith and credit of the Bear Valley Community Services District, \$651,585 is owed to the State Water Resources Control Board (SWRCB) for wastewater plant improvements and \$3,169,228 is owed to the California Infrastructure and Economic Development Bank (CIEDB) for water and wastewater system improvements.

Bear Valley Community Services District's Outstanding Debt

General Obligation, Special Assessment and Revenue Bonds

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Long-term debt:						
General obligation bonds	\$ 2,700,000	2,980,000	-	-	2,700,000	2,980,000
SWRCB revolving fund loan	-	-	651,585	760,182	651,585	760,182
CIEDB loan	-	-	3,169,228	3,264,900	3,169,228	3,264,900
Total Long-term debt	\$ 2,700,000	2,980,000	3,820,813	4,025,082	6,520,813	7,005,082

The Bear Valley Community Services District's total debt decreased \$484,269 (7%) during the current fiscal year. The key factors in this decrease were the retirement of \$280,000 of general obligation bonds as well as principal payments of \$108,598 on the SWRCB loan and \$95,672 on the CIEDB loan.

The Bear Valley Community Services District maintains an "A-" rating from Standard & Poor's for general obligation debt. General obligation bonds issued in 2002 have a "AAA" rating due to the existence of bond insurance purchased from Financial Security Assurance, Inc.

State statutes limit the amount of bonded debt a community services district may issue to 15 percent of its total assessed valuation at the time the bonds are issued. The current debt limitation for the Bear Valley Community Services District is \$102,546,000, which is significantly in excess of the Bear Valley Community Services District's outstanding debt.

In June 2003, the Bear Valley Community Services District entered into two contracts with the California Infrastructure and Economic Development Bank for loans totaling \$3,588,844 for water and wastewater infrastructure improvement and reconstruction projects (\$2,964,600 for water and \$624,244 for wastewater). For the purpose of this report these loans will be treated as revenue bonds, since they are contractual obligations of the water and wastewater enterprises. As of June 30, 2010, there was \$3,169,228 of outstanding principal and accrued interest payable of \$31,989.

Additional information on the Bear Valley Community Services District's long-term debt can be found in notes 9 and 10 on pages 44-46 of this report.

**Bear Valley Community Services District
Management's Discussion and Analysis
For the Year Ended June 30, 2010**

Economic Factors and Next Year's Budgets and Rates

- Assessed valuation of the Bear Valley Community Services District decreased 3.2% for fiscal year 2009-10. This decrease is the result of the sharp decline in real estate activity and prices. This is extremely important for public safety activities because property taxes provide most of the funding for public safety. Growth in property tax revenues has allowed the Bear Valley Community Services District to maintain a police force of one sworn officer per 1,000 residents. Maintaining a positive ratio in future years will be difficult if property tax assessed values continue to decline as reflected in fiscal 2009-10.
- Residential development will continue, but at a much slower pace compared with the past several years, resulting in revenues from water and wastewater capacity fees that are far lower than recent years. During the year there were only 7 new water connections and no capacity fees for new sewer connections. This is extremely low compared to the five-year average of 27 new water accounts and 2 new sewer accounts per year. Water capacity fee revenue will be used for projects increasing water system capacity, including debt service pertaining to such projects funded by the CIEDB loan. Wastewater capacity fee revenue will accumulate and will be held in reserve for repayment of the CIEDB loan relating to new wastewater treatment facilities that have already been built.
- Investment earnings will decrease in the coming year.. The average yield on District investments for fiscal year 2009-10 was .98%. The estimated yield for next year is .70%, a conservative figure.
- Employee benefit costs are 30% of all personnel costs.
- On May 26, 2010, the Board of Directors of Tehachapi-Cummings County Water District (TCCWD) approved an increase in M & I rate from (\$456 acre foot/\$15 acre foot Recharge Surcharge) \$471 to (\$455 acre foot/\$15 acre foot Recharge Surcharge/\$27 acre foot spreading loss surcharge) \$497 effective June 1, 2010. This increase of (\$497-471) \$26.00 per acre foot translates to an increase in the Water Pass-Through Charge from \$1.17 per hundred cubic feet (hcf) to \$1.21. At the Finance Committee meeting of July 8, 2010, staff presented a report on the FY 2009-10 projected fund balance for the Water Pass-Through Fund which was estimated to be \$22,000. Based on this information, the Finance Committee expressed an interest in using part of the \$22,000 to pay for the added cost of purchased water. Based on this feedback, the District used \$8,325 from the Water Pass-Through Fund reserves to pay for the added cost of purchased water and as a result did not increase the Water Pass-Through charge.
- Prices for energy complex products and services have increased over the past year. Budgets for motor fuel, natural gas and electricity have increased as a result.
- As in prior years, the District will not establish a budget for depreciation expense. Rather than using the utility approach for rate-setting, the District has adopted the cash-needs approach, which includes budgets for all current-period operating expenditures and capital expenditures, but excludes depreciation expense. To accommodate this shortfall, the District sets aside an amount equal to 7% of the enterprise fund's operating expenditure budget each year for future asset replacement projects. Each enterprise fund (water, wastewater and solid waste) has a dedicated asset replacement reserve. Available balances in these funds are monitored regularly to ensure adequacy. Expenditures from water reserves are replenished at the rate of 20% of the expended amount annually.
- The District's long-term water tank maintenance contract, whereby 100% of the water storage tanks have now been recoated, carries a cost of \$175,000 per year. For the first three years of the contract this cost was covered by proceeds from the CIEDB loan, but starting in 2006-07, the cost was borne by current water rate payers, as the construction period for the CIEDB loan had expired.

**Bear Valley Community Services District
Management's Discussion and Analysis
For the Year Ended June 30, 2010**

- On July 23, 2010, the Board of Directors approved a contract with Carollo engineers to perform a water and wastewater rate study. The purpose of the rate study was to analyze our current water and wastewater billing rate structure to ensure that District rates support a level allowing the District to recover the cost of operations (day-to-day), adequate reserves, and asset replacement funds. The study was completed during December 2010.
- In preparing the FY 2009-10 general fund budget, staff received a letter from the Kern County Auditor-Controllers office advising agencies to reduce the FY 2009-10 ad-valorem property tax revenues by 10% due a sharp decline in county assessed values. This 10% decrease translated to a reduction of \$145,000 in the FY 2009-10 adopted general fund property tax revenues. After receiving an updated assessed valuation report for FY 2010-11, it showed that Bear Valley Springs assessed values did not decrease by 10% and in fact the District received almost the same amount of general fund property tax revenues in fiscal year 2009-10 as in prior year 2008-09.
- In FY 2009-10, the State of California borrowed \$119,247 from Bear Valley Community Services District to balance it's budget. To make up for the property tax loss of \$119,247, the District borrowed this money from the General Fund reserves to balance the FY 09/10 budget.
- On July 28, 2009, Governor Arnold Schwarzenegger signed the 2009-2010 California State Budget (the "Budget"), pursuant to which cities, counties, and special districts ("local governments") will be required to lend property tax revenues to the State, with the promise of repayment in three years.
- As part of the Budget package, local governments have the opportunity to receive the monies being borrowed by the State upfront through a securitization financing offered by California Communities, a joint powers authority sponsored by the League of California Cities and California State Association of Counties. California Communities will issue bonds securitizing the future payments by the State and remit the proceeds of the bonds to the local governments who opt to participate in the securitization. The State will then repay the bondholders, to pay off the outstanding bonds including interest costs.

Bear Valley Community Services District Board of Directors voted unanimously to participate in this proposition 1A securitization program and as result received the entire amount of the loan proceeds (\$119,247) during fiscal year 2009-10.

All of these factors were considered in preparing the Bear Valley Community Services District's budget for the FY 2010-11.

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 Finance Director, Bear Valley Community Services District, 28999 South Lower Valley Road, Tehachapi, CA 93561.

Basic Financial Statements

Bear Valley Community Services District
Statement of Net Assets
June 30, 2010

<i>Assets</i>	Governmental Activities	Business-type Activities	Total
Current assets:			
Cash and cash equivalents (note 2)	\$ 5,273,638	2,942,650	8,216,288
Accrued interest receivable	10,983	6,464	17,447
Accounts receivable – utilities, net (note 3)	-	387,196	387,196
Accounts receivable – other	43,170	6,278	49,448
Property taxes and assessments receivable	68,660	1,964	70,624
Internal balances (note 4)	250,000	(250,000)	-
Prepaid expenses and other deposits	-	99,939	99,939
Total current assets	5,646,451	3,194,491	8,840,942
Non-current assets:			
Improvement district bonds receivable (note 5)	-	780,000	780,000
Deferred charges, net (note 6)	341,521	-	341,521
Capital assets – not being depreciated (note 7)	4,804,415	4,034,639	8,839,054
Capital assets – being depreciated, net (note 7)	5,222,467	7,894,770	13,117,237
Total non-current assets	10,368,403	12,709,409	23,077,812
Total assets	16,014,854	15,903,900	31,918,754
<i>Liabilities and Net Assets</i>			
Current liabilities:			
Accounts payable and accrued expenses	66,649	195,635	262,284
Accrued wages and related payables	123,812	63,595	187,407
Deposits and deferred revenue	39,865	16,873	56,738
Accrued interest on long-term debt	35,854	38,676	74,530
Long-term liabilities – due within one year:			
Compensated absences (note 8)	48,162	31,005	79,167
Bond payable (note 9)	290,000	-	290,000
Loans payable (note 10)	-	207,072	207,072
Total current liabilities	604,342	552,856	1,157,198
Non-current liabilities:			
Long-term liabilities – due in more than one year:			
Compensated absences (note 8)	144,485	93,015	237,500
Bond payable (note 9)	2,410,000	-	2,410,000
Loans payable (note 10)	-	3,613,741	3,613,741
Total non-current liabilities	2,554,485	3,706,756	6,261,241
Total liabilities	3,158,827	4,259,612	7,418,439
Net assets:			
Net investment in capital assets (note 11)	7,326,882	8,108,596	15,435,478
Unrestricted (note 12)	5,529,145	3,535,692	9,064,837
Total net assets	\$ 12,856,027	11,644,288	24,500,315

See accompanying notes to the basic financial statements

**Bear Valley Community Services District
Statement of Activities
For the Year Ended June 30, 2010**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 231,959	81,361	-	-	(150,598)	-	(150,598)
Public safety	2,314,935	424,014	100,000	-	(1,790,921)	-	(1,790,921)
Streets and roads	1,215,221	1,218,883	-	-	3,662	-	3,662
Interest on long-term debt	130,010	21,901	-	-	(108,109)	-	(108,109)
Total governmental activities	3,892,125	1,746,159	100,000	-	(2,045,966)	-	(2,045,966)
Business-type activities:							
Water	2,418,407	2,333,175	-	52,885	-	(32,347)	(32,347)
Wastewater	655,946	417,962	-	-	-	(237,984)	(237,984)
Solid waste	487,778	552,975	-	-	-	65,197	65,197
Post office	61,687	29,038	-	-	-	(32,649)	(32,649)
Total business-type activities	3,623,818	3,333,150	-	52,885	-	(237,783)	(237,783)
Total	\$ 7,515,943	5,079,309	100,000	52,885	(2,045,966)	(237,783)	(2,283,749)
General revenues:							
Property taxes					\$ 1,501,422	-	1,501,422
Voter-approved taxes					856,299	-	856,299
Interest earnings					46,137	27,369	73,506
Transfers in/(out) (note 4)					(32,649)	32,649	-
Total general revenues					2,371,209	60,018	2,431,227
Change in net assets					325,243	(177,765)	147,478
Net assets, beginning of year					12,530,784	11,822,053	24,352,837
Net assets, end of year					\$ 12,856,027	11,644,288	24,500,315

Bear Valley Community Services District
Balance Sheets – Governmental Funds
June 30, 2010

	<u>General</u>	<u>Streets and Roads</u>	<u>Bond Redemption</u>	<u>Supplemental Law Enforcement</u>	<u>Total Governmental Activities</u>
Assets:					
Cash and cash equivalents	\$ 2,847,737	1,973,966	337,730	114,205	5,273,638
Accrued interest receivable	6,094	4,226	663	-	10,983
Accounts receivable – other	160	2,873	3,902	36,235	43,170
Property taxes and assessments receivable	50,885	14,649	3,126	-	68,660
Due from other funds	250,000	-	-	-	250,000
Prepays and other deposits	-	-	-	-	-
Total assets	<u>3,154,876</u>	<u>1,995,714</u>	<u>345,421</u>	<u>150,440</u>	<u>5,646,451</u>
Liabilities:					
Accounts payable and accrued expenses	39,374	8,697	-	18,578	66,649
Accrued wages and related payables	96,902	26,910	-	-	123,812
Due to other funds	-	-	-	-	-
Deposits and deferred revenue	11,450	28,415	-	-	39,865
Total liabilities	<u>147,726</u>	<u>64,022</u>	<u>-</u>	<u>18,578</u>	<u>230,326</u>
Fund balance:					
Reserved for street and road improvements	-	1,931,692	-	-	1,931,692
Reserved for debt service	-	-	345,421	-	345,421
Reserved for public safety	-	-	-	131,862	131,862
Reserved for unemployment compensation	51,741	-	-	-	51,741
Reserved for prepaid expenditures	-	-	-	-	-
Unreserved:					
Designated for emergency reserve	154,250	-	-	-	154,250
Designated for police contingencies	361,200	-	-	-	361,200
Designated for six-month operating reserve	2,439,959	-	-	-	2,439,959
Total fund balance	<u>3,007,150</u>	<u>1,931,692</u>	<u>345,421</u>	<u>131,862</u>	<u>5,416,125</u>
Total liabilities and fund balance	<u>\$ 3,154,876</u>	<u>1,995,714</u>	<u>345,421</u>	<u>150,440</u>	<u>5,646,451</u>

Bear Valley Community Services District
Reconciliation of the Balance Sheets of Governmental Funds to the Statement of Net Assets
June 30, 2010

Reconciliation:

Fund balance of governmental funds	\$ 5,416,125
Amounts reported for governmental activities in the statement of net assets is different because:	
Deferred charges are expended in governmental funds as a cost of debt issuance, while the statement of net assets includes those deferred charges among the assets of the District and amortizes them over the life of the debt service.	341,521
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet. However, the statement of net assets includes those capital assets among the assets of the District as a whole.	10,026,882
Interest on long-term debt is not accrued as a governmental fund liability, but rather is recognized as an expenditure when due.	(35,854)
Long-term liabilities applicable to the District are not due and payable in the current period and accordingly are not reported as governmental fund liabilities. All liabilities, both current and long-term, are reported in the statement of net assets as follows:	
Compensated absences	(192,647)
Bonds payable	<u>(2,700,000)</u>
Net assets of governmental activities	<u><u>\$ 12,856,027</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, 2010

	<u>General</u>	<u>Streets and Roads</u>	<u>Bond Redemption</u>	<u>Supplemental Law Enforcement</u>	<u>Total Governmental Activities</u>
Revenues:					
Property taxes	\$ 1,501,422	-	-	-	1,501,422
Voter-approved taxes	545,548	-	310,751	-	856,299
Special assessments	-	1,199,706	-	-	1,199,706
Charges for services	366,778	-	-	-	366,778
Federal and state aid	7,920	-	-	100,000	107,920
Interest earnings	27,122	16,745	2,270	-	46,137
Rents and royalties	-	-	21,901	-	21,901
Other	119,442	19,177	-	11,235	149,854
Total revenues	<u>2,568,232</u>	<u>1,235,628</u>	<u>334,922</u>	<u>111,235</u>	<u>4,250,017</u>
Expenditures:					
General government	158,701	-	-	-	158,701
Public safety	2,120,906	-	-	47,799	2,168,705
Streets and roads	-	835,455	-	-	835,455
Capital outlay	139,436	73,874	-	-	213,310
Debt service:	-	-	-	-	-
Bond payments	-	-	280,000	-	280,000
Interest paid	-	-	112,951	-	112,951
Total expenditures	<u>2,419,043</u>	<u>909,329</u>	<u>392,951</u>	<u>47,799</u>	<u>3,769,122</u>
Excess(deficiency) of revenues over expenditures	<u>149,189</u>	<u>326,299</u>	<u>(58,029)</u>	<u>63,436</u>	<u>480,895</u>
Other financing sources(uses):					
Operating transfers out	<u>(15,151)</u>	<u>-</u>	<u>-</u>	<u>(17,498)</u>	<u>(32,649)</u>
Net change in fund balance	134,038	326,299	(58,029)	45,938	448,246
Fund balance, beginning of year	<u>2,873,112</u>	<u>1,605,393</u>	<u>403,450</u>	<u>85,924</u>	<u>4,967,879</u>
Fund balance, end of year	<u>\$ 3,007,150</u>	<u>1,931,692</u>	<u>345,421</u>	<u>131,862</u>	<u>5,416,125</u>

Bear Valley Community Services District
Reconciliation of the Statements of Revenues, Expenditures and Changes in Fund Balance of
Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2010

Reconciliation:

Net changes in fund balance of total governmental funds	\$	448,246
<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		213,310
Depreciation expense		(594,386)
<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 assets and do not result in an expense in the statement of activities.</p>		
		280,000
<p>Deferred charges consist of capitalized debt issuance costs on the statement of net assets. These amounts are amortized over the life of the debt service liability on the statement of activities.</p>		
		(19,798)
<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		2,739
Net change in compensated absences for the current period		(4,868)
Change in net assets of governmental activities	\$	325,243
<p>See accompanying notes to the basic financial statements</p>		

Bear Valley Community Services District
Statements of Net Assets – Enterprise Funds
June 30, 2010

<i>Assets</i>	Water	Wastewater	Solid Waste	Post Office	Total Business-type Activities
Current assets:					
Cash and cash equivalents	\$ 1,966,058	441,495	531,431	3,666	2,942,650
Accrued interest receivable	4,467	862	1,135	-	6,464
Accounts receivable – utilities, net	245,444	75,672	66,080	-	387,196
Accounts receivable – other	6,278	-	-	-	6,278
Property assessments receivable	465	1,499	-	-	1,964
Due from other funds	33,682	-	-	-	33,682
Prepaid expenses and other deposits	-	99,939	-	-	99,939
Total current assets	2,256,394	619,467	598,646	3,666	3,478,173
Non-current assets:					
Improvement district bonds receivable	-	780,000	-	-	780,000
Capital assets – not being depreciated	4,019,905	14,734	-	-	4,034,639
Capital assets, net – being depreciated	6,414,264	1,363,663	116,843	-	7,894,770
Total non-current assets	10,434,169	2,158,397	116,843	-	12,709,409
Total assets	12,690,563	2,777,864	715,489	3,666	16,187,582
Liabilities and Net Assets					
Current liabilities:					
Accounts payable and accrued expenses	151,188	13,518	30,707	222	195,635
Accrued wages and related payables	38,467	14,534	7,927	2,667	63,595
Accrued interest on long-term debt	31,989	6,687	-	-	38,676
Due to other funds	250,000	33,682	-	-	283,682
Deposits and deferred revenue	12,954	3,919	-	-	16,873
Long-term liabilities – due within one year:					
Compensated absences	12,919	13,392	4,500	-	30,811
Loans payable	81,449	125,623	-	-	207,072
Total current liabilities	578,966	211,355	43,134	2,889	836,344
Non-current liabilities:					
Long-term liabilities – due in more than one year:					
Compensated absences	38,756	40,177	13,499	777	93,209
Loans payable	2,539,842	1,073,899	-	-	3,613,741
Total non-current liabilities	2,578,598	1,114,076	13,499	777	3,706,950
Total liabilities	3,157,564	1,325,431	56,633	3,666	4,543,294
Net assets:					
Net investment in capital assets	7,812,878	178,875	116,843	-	8,108,596
Unrestricted	1,720,121	1,273,558	542,013	-	3,535,692
Total net assets	\$ 9,532,999	1,452,433	658,856	-	11,644,288

See accompanying notes to the basic financial statements

Bear Valley Community Services District
Statements of Revenues, Expenses and Changes in Fund Net Assets – Enterprise Funds
For the Year Ended June 30, 2010

	<u>Water</u>	<u>Wastewater</u>	<u>Solid Waste</u>	<u>Post Office</u>	<u>Total Business-type Activities</u>
Operating revenues:					
Water consumption sales	\$ 2,275,924	-	-	-	2,275,924
Wastewater service charges	-	408,387	-	-	408,387
Solid waste collection charges	-	-	543,482	-	543,482
Post office box charges	-	-	-	26,557	26,557
Other charges for services	57,251	9,575	9,493	2,481	78,800
Total operating revenues	<u>2,333,175</u>	<u>417,962</u>	<u>552,975</u>	<u>29,038</u>	<u>3,333,150</u>
Operating expenses:					
Salaries and benefits	759,520	262,753	167,751	52,544	1,242,568
Operations	1,134,067	148,566	289,654	9,143	1,581,430
Total operating expenses	<u>1,893,587</u>	<u>411,319</u>	<u>457,405</u>	<u>61,687</u>	<u>2,823,998</u>
Operating income(loss) before depreciation	439,588	6,643	95,570	(32,649)	509,152
Depreciation expense	(439,721)	(208,987)	(30,373)	-	(679,081)
Operating income(loss)	<u>(133)</u>	<u>(202,344)</u>	<u>65,197</u>	<u>(32,649)</u>	<u>(169,929)</u>
Non-operating revenue(expense):					
Interest earnings	19,296	3,660	4,413	-	27,369
Interest expense	(85,099)	(35,640)	-	-	(120,739)
Total non-operating, net	(65,803)	(31,980)	4,413	-	(93,370)
Operating transfers in(out)	<u>129</u>	<u>(129)</u>	<u>-</u>	<u>32,649</u>	<u>32,649</u>
Capital contributions:					
Capacity charges	52,885	-	-	-	52,885
Total capital contributions	52,885	-	-	-	52,885
Change in net assets	<u>(12,922)</u>	<u>(234,453)</u>	<u>69,610</u>	<u>-</u>	<u>(177,765)</u>
Net assets, beginning of year	<u>9,545,921</u>	<u>1,686,886</u>	<u>589,246</u>	<u>-</u>	<u>11,822,053</u>
Net assets, end of year	<u>\$ 9,532,999</u>	<u>1,452,433</u>	<u>658,856</u>	<u>-</u>	<u>11,644,288</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, 2010

	<u>Water</u>	<u>Wastewater</u>	<u>Solid Waste</u>	<u>Post Office</u>	<u>Total Business-type Activities</u>
Cash flows from operating activities:					
Cash receipts from customers	\$ 2,434,286	417,844	551,524	29,038	3,432,692
Cash paid to employees for salaries and benefits	(749,922)	(258,255)	(164,987)	(52,060)	(1,225,224)
Cash paid to vendors and suppliers	(1,084,817)	(122,102)	(283,050)	(9,191)	(1,499,160)
Net cash provided(used) by operating activities	<u>599,547</u>	<u>37,487</u>	<u>103,487</u>	<u>(32,213)</u>	<u>708,308</u>
Cash flows from non-capital financing activities:					
Operating transfers in	<u>129</u>	<u>(129)</u>	-	<u>32,649</u>	<u>32,649</u>
Cash flows from capital and related financing activities:					
Acquisition and construction of capital assets	(433,685)	(20,559)	-	-	(454,244)
Proceeds from capital contributions	52,885	-	-	-	52,885
Payments made from(to) other funds	(33,682)	33,682	-	-	-
Principal payments on loans payable	(79,131)	(125,138)	-	-	(204,269)
Interest payments on loans payable	(86,064)	(35,842)	-	-	(121,906)
Net cash used in capital and financing activities	<u>(579,677)</u>	<u>(147,857)</u>	<u>-</u>	<u>-</u>	<u>(727,534)</u>
Cash flows from investing activities:					
Proceeds from bonds receivable	-	130,000	-	-	130,000
Interest earnings	<u>21,524</u>	<u>4,510</u>	<u>4,796</u>	<u>-</u>	<u>30,830</u>
Net cash provided by investing activities	<u>21,524</u>	<u>134,510</u>	<u>4,796</u>	<u>-</u>	<u>160,830</u>
Net increase(decrease) in cash	41,523	24,011	108,283	436	174,253
Cash and cash equivalents, beginning of year	<u>1,924,535</u>	<u>417,484</u>	<u>423,148</u>	<u>3,230</u>	<u>2,768,397</u>
Cash and cash equivalents, end of year	<u>\$ 1,966,058</u>	<u>441,495</u>	<u>531,431</u>	<u>3,666</u>	<u>2,942,650</u>
Reconciliation of operating income to net cash provided(used) by operating activities:					
Operating income(loss)	<u>\$ (133)</u>	<u>(202,344)</u>	<u>65,197</u>	<u>(32,649)</u>	<u>(169,929)</u>
Adjustments to reconcile operating income to net cash provided(used) by operating activities:					
Depreciation expense	439,721	208,987	30,373	-	679,081
Changes in assets and liabilities:					
(Increase)decrease in assets:					
Accounts receivable – utilities, net	103,944	(3,453)	(1,451)	-	99,040
Accounts receivable – other	(5,826)	915	-	-	(4,911)
Property assessments receivable	(465)	(1,499)	-	-	(1,964)
Prepaid expenses and other deposits	3,873	19,260	1,232	53	24,418
Increase(decrease) in liabilities:					
Accounts payable and accrued expenses	45,377	7,204	5,372	(101)	57,852
Accrued wages and related payables	7,476	1,905	888	252	10,521
Deposits and deferred revenue	3,458	3,919	-	-	7,377
Compensated absences	<u>2,122</u>	<u>2,593</u>	<u>1,876</u>	<u>232</u>	<u>6,823</u>
Total adjustments	<u>599,680</u>	<u>239,831</u>	<u>38,290</u>	<u>436</u>	<u>878,237</u>
Net cash provided(used) by operating activities	<u>\$ 599,547</u>	<u>37,487</u>	<u>103,487</u>	<u>(32,213)</u>	<u>708,308</u>

See accompanying notes to the basic financial statements

Bear Valley Community Services District
Notes to the Basic Financial Statements
June 30, 2010

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

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

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

B. Basis of Accounting and Measurement Focus

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

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

Government-wide Financial Statements

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

Fund Financial Statements

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

Bear Valley Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2010

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

B. Basis of Accounting and Measurement Focus, continued

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

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

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

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

Bear Valley Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2010

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

B. Basis of Accounting and Measurement Focus, continued

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity with a self-balancing set of accounts established for the purpose of carrying out specific activities or attaining certain objectives in accordance with specific regulations, restrictions or limitations.

Funds are organized into two major categories: governmental and proprietary categories. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operation fund of the District or meets the following criteria:

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

The funds of the financial reporting entity are described below:

Governmental Funds

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

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

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

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

Enterprise Funds

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

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

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

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

C. Financial Statement Elements

1. Cash and Cash Equivalents

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

2. Accounts Receivable

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

Bear Valley Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2010

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

C. Financial Statement Elements, continued

3. Property Taxes and Assessments

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

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

4. Prepaid Expenses

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

5. Deferred Charges

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

6. Capital Assets

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

Governmental Activities

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

Business-Type Activities

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

Bear Valley Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2010

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

C. Financial Statement Elements, continued

7. Gate pass/device deposits

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

8. Net Assets/Fund Balances

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

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

In the fund financial statements, reserves and designations segregate portions of fund balances that are either not available or have been earmarked for specific purposes. Reservations and designations of fund balance are described below:

- **Reserved** – Some of the assets reported in governmental funds are not available for spending in the subsequent year's budget. Fund balance also is reserved to indicate situations where a position of fund balance is not available for spending on any and all purposes of the fund.
- **Unreserved Designated** – Designations essentially reflect a government's self imposed limitations on the use of otherwise available current financial resources.

9. 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.

10. 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.

11. Use of Estimates

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

Bear Valley Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2010

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

C. Financial Statement Elements, continued

12. Budgetary Policies

The District follows specific procedures in establishing the budgetary data reflected in the financial statements. Each April, the District's General Manager prepares and submits a capital and operating budget to the Board of Directors no later than June of each year. 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 funds. The legal level of budgetary control is at the fund level. Budget information is presented as required supplementary information for the general fund, streets and roads fund, and the supplemental law enforcement fund.

(2) Cash and Cash Equivalents

Cash and cash equivalents as of June 30, 2010, are classified by fund as follows:

Governmental activity funds:

General fund	\$ 2,847,737
Streets and roads fund	1,973,966
Bond redemption fund	337,730
Supplemental law enforcement	114,205
Total	5,273,638

Business-type activity funds:

Water fund	1,966,058
Wastewater fund	441,495
Solid waste fund	531,431
Post office fund	3,666
Total	2,942,650

Total cash and cash equivalents	\$ 8,216,288
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Cash and cash equivalents as of June 30, 2010, consisted of the following:

Cash on hand	\$ 500
Deposits held with financial institutions	272,111
Deposits held with the County of Kern Treasurer's Pooled Cash Portfolio	5,596,450
Deposits held with the California Local Agency Investment Fund (LAIF)	2,347,127
Total	\$ 8,216,188

As of June 30, 2010, the District's authorized deposits had the following maturities:

Deposits held with the County of Kern Treasurer's Pooled Cash Portfolio	520 days
Deposits held with the California Local Agency Investment Fund (LAIF)	203 days

Bear Valley Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2010

(2) Cash and Cash Equivalents, continued

Authorized Deposits and Investments

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

Kern County Treasurer Fund

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

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

Investment in the California State Investment Pool

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

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District's investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. The District had deposits with a bank balance of \$373,652 as of June 30, 2010. Of the bank balance, up to \$250,000 is federally insured. The remaining balance is to be collateralized by the bank.

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

Bear Valley Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2010

(2) Cash and Cash Equivalents, continued

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 33% and LAIF is 62% as of June 30, 2010, 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, 2010.

	<u>Water</u>	<u>Wastewater</u>	<u>Solid Waste</u>	<u>Total</u>
Accounts receivable – utilities	\$ 333,864	75,672	66,080	475,616
Allowance for uncollectible receivables	(88,420)	-	-	(88,420)
Accounts receivable – utilities, net	<u>\$ 245,444</u>	<u>75,672</u>	<u>66,080</u>	<u>387,196</u>

(4) Internal Balances

Due To/From Other Funds

Internal balances consist of the following as of June 30, 2010.

<u>Purpose</u>	<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Advancement	General	Water	\$ <u>250,000</u>
Advancement	Water	Wastewater	\$ <u>33,682</u>

The General fund advanced the Water fund \$250,000 in 2010 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 2011.

The Water fund advanced the Wastewater fund \$33,682 in 2010 due to a negative cash position in that fund.

Bear Valley Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2010

(4) Internal Balances, continued

Interfund Operational Transfers

Interfund transfers consist of the following for the year ended June 30, 2010.

Transfer from	Transfer to	Amount
General	Post Office	\$ 32,649
Supp. Law	General	\$ 17,498
Wastewater	Water	\$ 129

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.

(5) Improvement District Bonds Receivable

The District maintains the records for Improvement District No. 95-1. The Improvement District was established under the Municipal Improvement Act of 1913 and the improvement bonds that were issued were partially financed with 1915 Improvement Act Bonds. The District accounts for the Improvement District No. 95-1 under GASB No. 6, *Accounting and Financial Reporting for Special Assessments*. The Improvement District has levied a special assessment amongst the property owners to repay the improvement bonds that were issued. Since the District is not directly liable for the for the improvement district debt and it is expected that all such debt will be repaid from the property owners via the special assessment and not the District's general revenues, the improvement district debt is not included on the District's financial statements. The District acts solely as an agent for the bondholders in collecting and forwarding the special assessments to pay-off the debt. As of June 30, 2010, the Improvement District No. 95-1 bonds outstanding totaled \$780,000.

The District had elected to hold the Improvement District No. 95-1 Bonds rather than to sell them on the open market. Since the District has elected to hold these bonds, the District is entitled to receive the special assessment payments from the property owners to pay-down these bonds. The Improvement District bonds receivable principal balance totaled \$780,000 as of June 30, 2010. The principal balance of \$130,000 is due and payable to the District each year until 2016.

(6) Deferred Charges, net

The deferred charges balance consists of the following as of June 30, 2010.

	Amount
General obligation bond issuance costs	\$ 576,169
Accumulated amortization	(234,648)
Deferred charges, net	\$ 341,521

Bear Valley Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2010

(7) Capital Assets

Governmental Activities

Changes in capital assets for the year were as follows:

	<u>Balance 2009</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance 2010</u>
Non-depreciable assets:				
Land	\$ 4,804,415	-	-	4,804,415
Construction-in-process	128,555	-	(128,555)	-
Total non-depreciable assets	<u>4,932,970</u>	<u>-</u>	<u>(128,555)</u>	<u>4,804,415</u>
Depreciable assets:				
Buildings and improvements	5,746,361	176,787	-	5,923,148
Infrastructure, streets and roads	23,912,036	-	-	23,912,036
Vehicles and equipment	1,611,057	165,078	(156,325)	1,619,810
Total depreciable assets	<u>31,269,454</u>	<u>341,865</u>	<u>(156,325)</u>	<u>31,454,994</u>
Accumulated depreciation:				
Buildings and improvements	(3,650,249)	(80,794)	-	(3,731,043)
Infrastructure, streets and roads	(20,935,239)	(332,682)	-	(21,267,921)
Vehicles and equipment	(1,208,978)	(180,910)	156,325	(1,233,563)
Total accumulated depreciation	<u>(25,794,466)</u>	<u>(594,386)</u>	<u>156,325</u>	<u>(26,232,527)</u>
Total depreciable assets, net	<u>5,474,988</u>	<u>(252,521)</u>	<u>-</u>	<u>5,222,467</u>
Total capital assets, net	<u>\$ 10,407,958</u>			<u>10,026,882</u>

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

Depreciation expense under governmental activities was allotted as follows for the year ended June 30, 2010.

General government	\$ 73,258
Public safety	140,825
Streets and roads	<u>380,303</u>
Total	<u>\$ 594,386</u>

Bear Valley Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2010

(7) Capital Assets, continued

Business-Type Activities

Changes in capital assets for the year were as follows:

	<u>Balance 2009</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance 2010</u>
Non-depreciable assets:				
Land	\$ 3,662,053	-	-	3,662,053
Construction in progress	12,303	360,283	-	372,586
Total non-depreciable assets	<u>3,674,356</u>	<u>360,283</u>	<u>-</u>	<u>4,034,639</u>
Depreciable assets:				
Water transmission and distribution	13,379,109	-	-	13,379,109
Wastewater collection	4,677,114	-	-	4,677,114
Solid waste collection	156,231	-	-	156,231
Vehicles and equipment	720,489	93,961	(17,043)	797,407
Total depreciable assets	<u>18,932,943</u>	<u>93,961</u>	<u>(17,043)</u>	<u>19,009,861</u>
Accumulated depreciation:				
Water transmission and distribution	(6,726,265)	(377,776)	-	(7,104,041)
Wastewater collection	(3,167,031)	(198,721)	-	(3,365,752)
Solid waste collection	(74,655)	(9,703)	-	(84,358)
Vehicles and equipment	(485,102)	(92,881)	17,043	(560,940)
Total accumulated depreciation	<u>(10,453,053)</u>	<u>(679,081)</u>	<u>17,043</u>	<u>(11,115,091)</u>
Total depreciable assets, net	<u>8,479,890</u>	<u>(585,120)</u>	<u>-</u>	<u>7,894,770</u>
Total capital assets, net	<u>\$ 12,154,246</u>			<u>11,929,409</u>

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

Bear Valley Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2010

(7) Capital Assets, continued

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

Water Enterprise	Balance 2009	Additions	Deletions/ Transfers	Balance 2010
Non-depreciable assets:				
Land	\$ 3,647,319	-	-	3,647,319
Construction in progress	12,303	360,283	-	372,586
Total non-depreciable assets	3,659,622	360,283	-	4,019,905
Depreciable assets:				
Water transmission and distribution	13,379,109	-	-	13,379,109
Vehicles and equipment	487,876	73,402	(17,043)	544,235
Total depreciable assets	13,866,985	73,402	(17,043)	13,923,344
Accumulated depreciation:				
Water transmission and distribution	(6,726,265)	(377,776)	-	(7,104,041)
Vehicles and equipment	(360,137)	(61,945)	17,043	(405,039)
Total accumulated depreciation	(7,086,402)	(439,721)	17,043	(7,509,080)
Total depreciable assets, net	6,780,583	(366,319)	-	6,414,264
Total capital assets, net	\$ 10,440,205			10,434,169
<hr/>				
Wastewater Enterprise	Balance 2009	Additions	Deletions/ Transfers	Balance 2010
Non-depreciable assets:				
Land	\$ 14,734	-	-	14,734
Total non-depreciable assets	14,734	-	-	14,734
Depreciable assets:				
Wastewater collection	4,677,114	-	-	4,677,114
Vehicles and equipment	81,732	20,559	-	102,291
Total depreciable assets	4,758,846	20,559	-	4,779,405
Accumulated depreciation:				
Wastewater collection	(3,167,031)	(198,721)	-	(3,365,752)
Vehicles and equipment	(39,724)	(10,266)	-	(49,990)
Total accumulated depreciation	(3,206,755)	(208,987)	-	(3,415,742)
Total depreciable assets, net	1,552,091	(188,428)	-	1,363,663
Total capital assets, net	\$ 1,566,825			1,378,397
<hr/>				
Solid Waste Enterprise	Balance 2009	Additions	Deletions/ Transfers	Balance 2010
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	(74,655)	(9,703)	-	(84,358)
Vehicles and equipment	(85,241)	(20,670)	-	(105,911)
Total accumulated depreciation	(159,896)	(30,373)	-	(190,269)
Total depreciable assets, net	147,216	(30,373)	-	116,843
Total capital assets, net	\$ 147,216			116,843

Bear Valley Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2010

(8) Compensated Absences

The District provides employees with compensated absence benefits as follows:

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

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

Changes in compensated absences as of June 30, 2010, were as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Compensated absences, beginning	\$ 187,779	117,197
Current year employee earnings	176,892	62,587
Employee time taken	<u>(172,024)</u>	<u>(55,764)</u>
Compensated absences, ending	192,647	124,020
Less: current portion payable	<u>(48,162)</u>	<u>(31,005)</u>
Long-term portion payable	<u>\$ 144,485</u>	<u>93,015</u>

Bear Valley Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2010

(9) Bond Payable

Changes in bond payable for the year ended June 30, 2010 is as follows:

	<u>Balance</u> <u>2009</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>2010</u>
General obligation bonds	\$ 2,980,000	-	(280,000)	2,700,000
Less: current portion due	(280,000)			(290,000)
Long-term portion due	<u>\$ 2,700,000</u>			<u>2,410,000</u>

General Obligation Bonds

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

The 2002 Bonds are scheduled to mature in fiscal year 2031. Interest is payable semi-annually on September 1st and March 1st each year at an escalating rate from 1.75% to 4.75% while principal installments ranging from \$50,000 to \$345,000 are payable each year on September 1st. Annual debt service requirements on the bonds are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 290,000	102,134	392,134
2012	305,000	91,903	396,903
2013	310,000	81,140	391,140
2014	320,000	69,715	389,715
2015	335,000	57,183	392,183
2016-2020	565,000	172,463	737,463
2021-2025	335,000	98,081	433,081
2026-2028	240,000	17,576	257,576
Totals	<u>2,700,000</u>	<u>690,195</u>	<u>3,390,195</u>
Current portion due	<u>(290,000)</u>		
Long-term portion	<u>\$ 2,410,000</u>		

Bear Valley Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2010

(10) Loans Payable

Changes in loans payable for the year ended June 30, 2010 are as follows:

	<u>Balance 2009</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance 2010</u>
Water fund:				
CIEBD - Loan	\$ 2,700,422	-	(79,131)	2,621,291
Wastewater fund:				
SWRCB - Loan	760,182	-	(108,597)	651,585
CIEBD - Loan	564,478	-	(16,541)	547,937
Total loans payable	4,025,082	-	(204,269)	3,820,813
Less: current portion due	(204,269)			(207,072)
Long-term portion due	\$ 3,820,813			3,613,741

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.

In 2010, the District drew additional funds under this loan agreement. Proceeds of \$698,200 were received by the Water Fund and \$398,960 by the Wastewater Fund. 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 \$185,877 are payable each year on August 1st. Annual debt service requirements on the loan are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 98,475	91,416	189,891
2012	101,360	88,488	189,848
2013	104,330	85,475	189,805
2014	107,386	82,373	189,759
2015	110,533	79,181	189,714
2016-2020	603,185	344,643	947,828
2021-2025	696,884	249,572	946,456
2026-2030	805,139	139,733	944,872
2031-2033	541,936	24,123	566,059
Total	3,169,228	1,185,004	4,354,232
Current portion due	(98,475)		
Long-term portion	\$ 3,070,753		

Bear Valley Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2010

(10) Loans Payable, continued

State Water Resources Control Board (SWRCB) Loan

In fiscal year 1995, the District entered into a loan financing agreement with the State Water Resources Control Board (SWRCB). The SWRCB issued the District \$2,171,950 under the State Revolving Fund Loan Contract. In fiscal year 1996, the District paid the SWRCB \$361,999 in exchange for reducing the existing 3.10% interest rate loan to a zero interest loan. The \$361,999 has been recorded as a prepaid expense in the Wastewater Fund's statement of net assets and is being amortized to interest expense over the twenty-year loan payment period. As of June 30, 2010, the remaining unamortized interest balance is as follows:

	Amount
Prepaid interest	\$ 361,999
Accumulated amortization	(262,060)
Prepaid interest, net	\$ 99,939

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

Year	Principal
2011	\$ 108,597
2012	108,598
2013	108,598
2014	108,597
2015	108,598
2016	108,597
Total	651,585
Current portion due	(108,597)
Long-term portion	\$ 542,988

Bear Valley Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2010

(11) Net Investment in Capital Assets

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

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
The balance consists of the following:		
Capital assets – not being depreciated	\$ 4,804,415	4,034,639
Capital assets – being depreciated, net	5,222,467	7,894,770
Bond payable – current portion	(290,000)	-
Loans payable – current portion	-	(207,072)
Bond payable – long-term portion	(2,410,000)	-
Loans payable – long-term portion	-	(3,613,741)
Total	<u>\$ 7,326,882</u>	<u>8,108,596</u>

(12) Unrestricted Net Assets

The District's Board of Directors has designated the use of the District's June 30, 2010 unrestricted net assets as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Net assets are designated as follows:		
Street and road improvements	\$ 1,872,353	-
Debt service	651,088	-
Public safety (COPS Program)	131,862	-
Unemployment compensation	51,741	-
Emergency reserve	154,250	-
Police contingencies	361,200	-
Six-month operating reserve	1,965,130	-
Deferred charges, net	341,521	99,939
Prepaid expenses	-	-
Improvement bond receivable	-	780,000
Water operations	-	431,114
Water capital replacement	-	1,289,007
Wastewater operations	-	249,560
Wastewater capital replacement	-	144,059
Solid waste operations	-	432,931
Solid waste capital replacement	-	109,082
Total	<u>\$ 5,529,145</u>	<u>3,535,692</u>

Six-Month Operating Reserve

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

Bear Valley Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2010

(13) Deferred Compensation Savings Plan

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

Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of the participants. Accordingly, the District is in compliance with this legislation. Therefore, these assets are not the legal property of the District, and are not subject to claims of the District's general creditors. Market value of all plan assets held in trust by CalPERS at June 30, 2010 was \$431,987.

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

(14) Defined Benefit Pension Plan

Plan Description

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

Funding Policy

The contribution rate for plan members in the CalPERS 2.0% at 50 Risk Pool Retirement Plan for Safety Employees is 9% and CalPERS 2.0% at 55 Risk Pool Retirement Plan for Miscellaneous Employees is 7% of their annual covered salary. The District paid 0% of the Safety Employees member portion and the District paid all of the Miscellaneous Employees 7% member portion. Also, the District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The required employer contribution rates are equal to the annual pension cost (APC) percentage of payroll for fiscal years 2010, 2009 and 2008 as noted below. The contribution requirements of the plan members are established by State statute, and the employer contribution rate is established and may be amended by CalPERS. For fiscal years 2010, 2009 and 2008, the District's annual contributions for the CalPERS plan were equal to the District's required and actual contributions for each fiscal year as follows:

Three Years CalPERS Funding Information – Safety Employees Plan

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation	APC Percentage of Payroll
2007-2008	\$ 116,611	100%	\$ -	21.098%
2008-2009	92,500	100%	-	20.215%
2009-2010	104,772	100%	-	20.128%

Bear Valley Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2010

(14) Defined Benefit Pension Plan, continued

Three Years CalPERS Funding Information – Miscellaneous Plan

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>	<u>APC Percentage of Payroll</u>
2007-2008	\$ 125,865	100%	\$ -	7.979%
2008-2009	134,121	100%	-	8.201%
2009-2010	140,320	100%	-	8.244%

(15) Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of the Special District Risk Management Authority (SDRMA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California special districts. The purpose of the SDRMA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage. At June 30, 2010, the District participated in the liability and property programs of the SDRMA as follows:

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

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

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

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years. There were no reductions in insurance coverage in fiscal year 2010, 2009 and 2008. 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, 2010, 2009 and 2008.

Bear Valley Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2010

(16) Property Taxes and Sale of a Receivable

Under the provisions of the State of California Proposition 1A and as part of the 2010 fiscal year State of California budget package passed by the California State Legislature on July 28, 2009, the State of California borrowed 8.0% of the amount of property tax revenue apportioned to cities, counties and special districts. The State of California is required to repay this borrowing plus interest by June 30, 2013. After repayment of this initial borrowing, the California State Legislature may consider only one additional borrowing within a ten-year period. The amount of the borrowing pertaining to the District was \$119,247.

Authorized with the 2010 fiscal year State of California budget package, the State of California Proposition 1A Securitization Program (Securitization Program) was instituted by the California Statewide Communities Development Authority (California Communities), a joint-powers authority sponsored by the California State Association of Counties and the League of California Cities, to enable local governments to sell their State of California Proposition 1A receivables to California Communities. Under the Securitization Program, California Communities simultaneously purchased the State of California Proposition 1A receivables and issued bonds (Prop 1A Bonds) to provide California local governmental agencies with cash proceeds in two equal installments, on January 15, 2010 and May 3, 2010. The purchase price paid to the California local governmental agencies equaled 100% of the amount of the property tax reduction. All transaction costs of the issuance and interest were paid by the State of California. Participating California local governmental agencies have no obligation on the bonds and no credit exposure to the State of California. The District participated in the Securitization Program and accordingly property tax revenue has been recorded in the same manner as if the State of California had not exercised its rights under State of California Proposition 1A. The receivable sale proceeds were equal to the book value of the property tax reduction for each agency and, as a result, no gain or loss was recorded to recognize these proceeds.

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

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2010, that have effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 54

In February 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. This statement is not effective for this District until the fiscal year ended June 30, 2011. This statement is not expected to have a significant impact on the presentation of 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.

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, 2010

	<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	\$ 1,188,059	119,247	1,307,306	1,501,422	194,116
Voter-approved taxes	531,755	-	531,755	545,548	13,793
Charges for services	366,765	-	366,765	366,778	13
Federal and state aid	9,000	-	9,000	7,920	(1,080)
Interest earnings	58,140	-	58,140	27,122	(31,018)
Rents and royalties	26,194	-	26,194	-	(26,194)
Other	48,100	50,000	98,100	119,442	21,342
Total revenues	<u>2,228,013</u>	<u>169,247</u>	<u>2,397,260</u>	<u>2,568,232</u>	<u>170,972</u>
Expenditures:					
General government	411,368	50,000	461,368	158,701	302,667
Public safety	1,914,821	-	1,914,821	2,120,906	(206,085)
Capital outlay	5,610	81,620	87,230	139,436	(52,206)
Total expenditures	<u>2,331,799</u>	<u>131,620</u>	<u>2,463,419</u>	<u>2,419,043</u>	<u>44,376</u>
Excess(deficiency) of revenues over expenditures	<u>(103,786)</u>	<u>37,627</u>	<u>(66,159)</u>	<u>149,189</u>	<u>215,348</u>
Other financing sources(uses):					
Operating transfers	(36,788)	-	(36,788)	(15,151)	21,637
Net change in fund balance	<u>(140,574)</u>	<u>37,627</u>	<u>(102,947)</u>	<u>134,038</u>	<u>236,985</u>
Fund balance, beginning of year	<u>2,873,112</u>	<u>-</u>	<u>2,873,112</u>	<u>2,873,112</u>	
Fund balance, end of year	<u>\$ 2,732,538</u>	<u>37,627</u>	<u>2,770,165</u>	<u>3,007,150</u>	

(1) Budgets and Budgetary Data

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

Bear Valley Community Services District
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual – Road Fund – Major Fund
For the Year Ended June 30, 2010

	<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	\$ 1,157,500	-	1,157,500	1,199,706	42,206
Interest earnings	27,303	-	27,303	16,745	(10,558)
Other	13,500	-	13,500	19,177	5,677
Total revenues	<u>1,198,303</u>	<u>-</u>	<u>1,198,303</u>	<u>1,235,628</u>	<u>37,325</u>
Expenditures:					
Streets and roads	905,167	-	905,167	835,455	69,712
Capital outlay	54,115	180,000	234,115	73,874	160,241
Total expenditures	<u>959,282</u>	<u>180,000</u>	<u>1,139,282</u>	<u>909,329</u>	<u>229,953</u>
Excess(deficiency) of revenues over expenditures	<u>239,021</u>	<u>(180,000)</u>	<u>59,021</u>	<u>326,299</u>	<u>267,278</u>
Net change in fund balance	<u>239,021</u>	<u>(180,000)</u>	<u>59,021</u>	<u>326,299</u>	<u>267,278</u>
Fund balance, beginning of year	<u>1,605,393</u>	<u>-</u>	<u>1,605,393</u>	<u>1,605,393</u>	
Fund balance, end of year	<u>\$ 1,844,414</u>	<u>(180,000)</u>	<u>1,664,414</u>	<u>1,931,692</u>	

Bear Valley Community Services District
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual – Supplemental Law Enforcement – Major Fund
For the Year Ended June 30, 2010

	<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	111,235	11,235
Interest earnings	-	-	-	-	-
Total revenues	<u>100,000</u>	<u>-</u>	<u>100,000</u>	<u>111,235</u>	<u>11,235</u>
Expenditures:					
Public safety	100,000	60,000	160,000	47,799	112,201
Capital outlay	-	-	-	-	-
Total expenditures	<u>100,000</u>	<u>60,000</u>	<u>160,000</u>	<u>47,799</u>	<u>112,201</u>
Excess(deficiency) of revenues over expenditures	-	(60,000)	(60,000)	63,436	123,436
Net change in fund balance	<u>-</u>	<u>(60,000)</u>	<u>(60,000)</u>	<u>63,436</u>	<u>123,436</u>
Other financing sources(uses):					
Operating transfers	-	-	-	(17,498)	(17,498)
Net change in fund balance	<u>-</u>	<u>(60,000)</u>	<u>(60,000)</u>	<u>45,938</u>	<u>105,938</u>
Fund balance, beginning of year	<u>85,924</u>	<u>-</u>	<u>85,924</u>	<u>85,924</u>	
Fund balance, end of year	<u>\$ 85,924</u>	<u>(60,000)</u>	<u>25,924</u>	<u>131,862</u>	

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Supplemental Information

Bear Valley Community Services District
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual – Bond Redemption Fund – Debt Service Fund
For the Year Ended June 30, 2010

	<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	\$ 334,719	-	334,719	310,751	(23,968)
Interest earnings	5,235	-	5,235	2,270	(2,965)
Rents and royalties	23,230	-	23,230	21,901	(1,329)
Total revenues	<u>363,184</u>	<u>-</u>	<u>363,184</u>	<u>334,922</u>	<u>(28,262)</u>
Expenditures:					
Debt service:					
Bond payments	280,000	-	280,000	280,000	-
Interest paid	112,203	-	112,203	112,951	(748)
Total expenditures	<u>392,203</u>	<u>-</u>	<u>392,203</u>	<u>392,951</u>	<u>(748)</u>
Excess(deficiency) of revenues over expenditures	<u>(29,019)</u>	<u>-</u>	<u>(29,019)</u>	<u>(58,029)</u>	<u>(29,010)</u>
Net change in fund balance	<u>(29,019)</u>	<u>-</u>	<u>(29,019)</u>	<u>(58,029)</u>	<u>(29,010)</u>
Fund balance, beginning of year	<u>403,450</u>	<u>-</u>	<u>403,450</u>	<u>403,450</u>	
Fund balance, end of year	<u>\$ 374,431</u>	<u>-</u>	<u>374,431</u>	<u>345,421</u>	

Bear Valley Community Services District
Schedule of Revenues, Expenses and Changes in Net Assets
Budget and Actual – Water Fund
For the Year Ended June 30, 2010

	<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	\$ 2,345,081	(48,000)	2,297,081	2,275,924	(21,157)
Other charges for services	<u>166,000</u>	<u>-</u>	<u>166,000</u>	<u>57,251</u>	<u>(108,749)</u>
Total operating revenues	<u>2,511,081</u>	<u>(48,000)</u>	<u>2,463,081</u>	<u>2,333,175</u>	<u>(129,906)</u>
Operating expenses:					
Salaries and benefits	833,579	-	833,579	759,520	74,059
Operations	<u>1,466,961</u>	<u>(48,000)</u>	<u>1,418,961</u>	<u>1,134,067</u>	<u>284,894</u>
Total operating expenses	<u>2,300,540</u>	<u>(48,000)</u>	<u>2,252,540</u>	<u>1,893,587</u>	<u>358,953</u>
Operating income(loss) before capital	210,541	-	210,541	439,588	229,047
Depreciation expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>(439,721)</u>	<u>439,721</u>
Operating income(loss)	<u>210,541</u>	<u>-</u>	<u>210,541</u>	<u>(133)</u>	<u>(210,674)</u>
Non-operating revenue(expense):					
Interest earnings	33,532	-	33,532	19,296	(14,236)
Interest expense	<u>(86,064)</u>	<u>-</u>	<u>(86,064)</u>	<u>(85,099)</u>	<u>(965)</u>
Total non-operating, net	<u>(52,532)</u>	<u>-</u>	<u>(52,532)</u>	<u>(65,803)</u>	<u>(13,271)</u>
Capital contributions and purchases:					
Capital outlay	(92,175)	(382,463)	(474,638)	-	(474,638)
Standby charges	27,600	-	27,600	-	(27,600)
Capacity charges	<u>-</u>	<u>-</u>	<u>-</u>	<u>52,885</u>	<u>52,885</u>
Total capital contributions	<u>(64,575)</u>	<u>(382,463)</u>	<u>(447,038)</u>	<u>52,885</u>	<u>(499,923)</u>
Change in net assets	<u>93,434</u>	<u>(382,463)</u>	<u>(289,029)</u>	<u>(13,051)</u>	<u>(723,868)</u>
Other financing sources(uses):					
Operating transfers	<u>(34,531)</u>	<u>-</u>	<u>(34,531)</u>	<u>129</u>	<u>34,660</u>
Net assets, beginning of year	<u>9,545,921</u>	<u>-</u>	<u>9,545,921</u>	<u>9,545,921</u>	
Net assets, end of year	<u>\$ 9,604,824</u>	<u>(382,463)</u>	<u>9,222,361</u>	<u>9,532,999</u>	

Bear Valley Community Services District
Schedule of Revenues, Expenses and Changes in Net Assets
Budget and Actual – Wastewater Fund
For the Year Ended June 30, 2010

	<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	\$ 387,000	-	387,000	408,387	21,387
Other charges for services	28,500	-	28,500	9,575	(18,925)
Total operating revenues	<u>415,500</u>	<u>-</u>	<u>415,500</u>	<u>417,962</u>	<u>2,462</u>
Operating expenses:					
Salaries and benefits	277,000	-	277,000	262,753	14,247
Operations	143,883	-	143,883	148,566	(4,683)
Total operating expenses	<u>420,883</u>	<u>-</u>	<u>420,883</u>	<u>411,319</u>	<u>9,564</u>
Operating income(loss) before capital	(5,383)	-	(5,383)	6,643	12,026
Depreciation expense	-	-	-	(208,987)	208,987
Operating income(loss)	<u>(5,383)</u>	<u>-</u>	<u>(5,383)</u>	<u>(202,344)</u>	<u>(196,961)</u>
Non-operating revenue(expense):					
Interest earnings	8,103	-	8,103	3,660	(4,443)
Interest expense	(17,990)	-	(17,990)	(35,640)	17,650
Total non-operating, net	<u>(9,887)</u>	<u>-</u>	<u>(9,887)</u>	<u>(31,980)</u>	<u>(22,093)</u>
Capital contributions and purchases:					
Capital outlay	(4,915)	(27,500)	(32,415)	-	(32,415)
Standby charges	2,300	-	2,300	-	2,300
Capacity charges	-	-	-	-	-
Total capital contributions	<u>(2,615)</u>	<u>(27,500)</u>	<u>(30,115)</u>	<u>-</u>	<u>(32,415)</u>
Change in net assets	<u>(17,885)</u>	<u>(27,500)</u>	<u>(45,385)</u>	<u>(234,324)</u>	<u>(251,469)</u>
Other financing sources(uses):					
Operating transfers	34,531	-	34,531	(129)	(34,660)
Net assets, beginning of year	<u>1,686,886</u>	<u>-</u>	<u>1,686,886</u>	<u>1,686,886</u>	
Net assets, end of year	<u>\$ 1,703,532</u>	<u>(27,500)</u>	<u>1,676,032</u>	<u>1,452,433</u>	

Bear Valley Community Services District
Schedule of Revenues, Expenses and Changes in Net Assets
Budget and Actual – Solid Waste Fund
For the Year Ended June 30, 2010

	<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	\$ 542,425	-	542,425	543,482	1,057
Other charges for services	200	-	200	9,493	9,293
Total operating revenues	<u>542,625</u>	<u>-</u>	<u>542,625</u>	<u>552,975</u>	<u>10,350</u>
Operating expenses:					
Salaries and benefits	180,810	-	180,810	167,751	13,059
Operations	283,610	-	283,610	289,654	(6,044)
Total operating expenses	<u>464,420</u>	<u>-</u>	<u>464,420</u>	<u>457,405</u>	<u>7,015</u>
Operating income(loss) before capital	78,205	-	78,205	95,570	17,365
Depreciation expense	-	-	-	(30,373)	(30,373)
Operating income(loss)	<u>78,205</u>	<u>-</u>	<u>78,205</u>	<u>65,197</u>	<u>47,738</u>
Non-operating revenue(expense):					
Interest earnings	4,776	-	4,776	4,413	(363)
Total non-operating, net	<u>4,776</u>	<u>-</u>	<u>4,776</u>	<u>4,413</u>	<u>(363)</u>
Capital contributions and purchases:					
Capital outlay	(11,035)	-	(11,035)	-	11,035
Total capital contributions	<u>(11,035)</u>	<u>-</u>	<u>(11,035)</u>	<u>-</u>	<u>11,035</u>
Change in net assets	<u>71,946</u>	<u>-</u>	<u>71,946</u>	<u>69,610</u>	<u>58,410</u>
Net assets, beginning of year	<u>589,246</u>	<u>-</u>	<u>589,246</u>	<u>589,246</u>	
Net assets, end of year	<u>\$ 661,192</u>	<u>-</u>	<u>661,192</u>	<u>658,856</u>	

Bear Valley Community Services District
Schedule of Revenues, Expenses and Changes in Net Assets
Budget and Actual – Post Office Fund
For the Year Ended June 30, 2010

	<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	\$ 25,800	-	25,800	26,557	757
Other charges for services	2,000	-	2,000	2,481	481
Total operating revenues	<u>27,800</u>	<u>-</u>	<u>27,800</u>	<u>29,038</u>	<u>1,238</u>
Operating expenses:					
Salaries and benefits	55,499	-	55,499	52,544	2,955
Operations	8,939	-	8,939	9,143	(204)
Total operating expenses	<u>64,438</u>	<u>-</u>	<u>64,438</u>	<u>61,687</u>	<u>2,751</u>
Operating income(loss) before capital	(36,638)	-	(36,638)	(32,649)	3,989
Depreciation expense	-	-	-	-	-
Operating income(loss)	<u>(36,638)</u>	<u>-</u>	<u>(36,638)</u>	<u>(32,649)</u>	<u>3,989</u>
Non-operating revenue(expense):					
Interest earnings	-	-	-	-	-
Total non-operating, net	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Capital contributions and purchases:					
Capital outlay	(150)	-	(150)	-	150
Total capital contributions	<u>(150)</u>	<u>-</u>	<u>(150)</u>	<u>-</u>	<u>150</u>
Change in net assets	<u>(36,788)</u>	<u>-</u>	<u>(36,788)</u>	<u>(32,649)</u>	<u>4,139</u>
Other financing sources(uses):					
Operating transfers	<u>36,788</u>	<u>-</u>	<u>36,788</u>	<u>32,649</u>	
Net assets, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Net assets, end of year	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	

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Statistical Section

**Bear Valley Community Services District
Statistical Section**

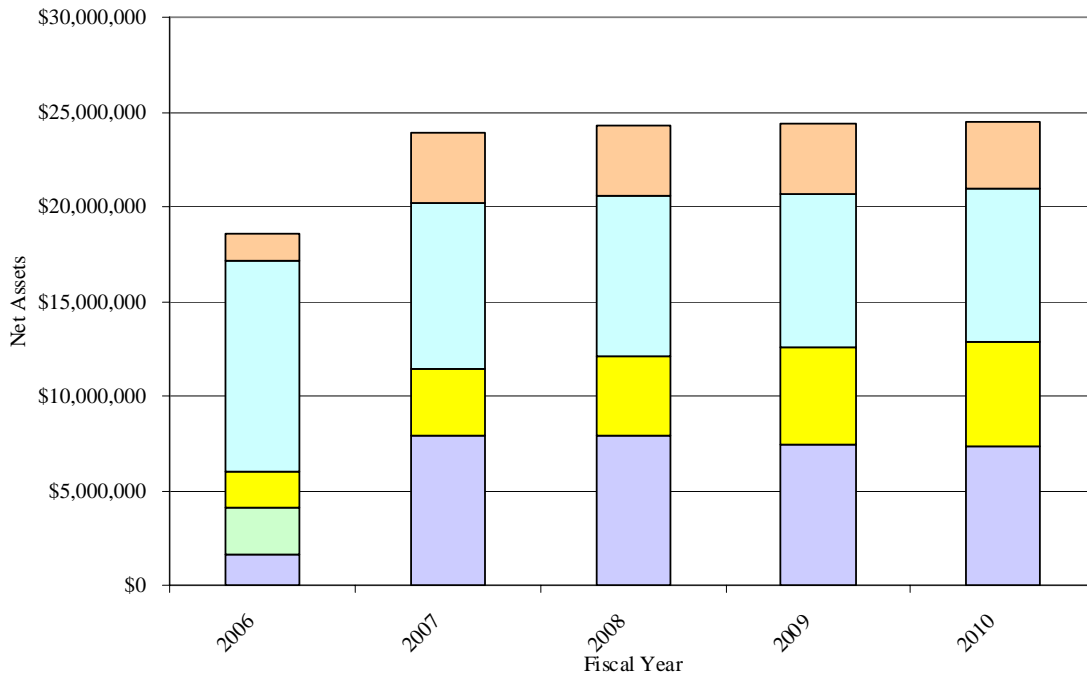
This part of the Bear Valley Community Services District’s comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures and required supplementary information says about the government’s overall financial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

Contents	Page
<i>Financial Trends</i>	60
These schedules contain trend information to help the reader understand how the government’s financial performance and well-being have changed over time.	
<i>Revenue Capacity</i>	66
These schedules contain information to help the reader assess the government’s most significant local revenue source, the property tax. Additional information is provided for the agency’s other significant own-source revenue, water rates and charges.	
<i>Debt Capacity</i>	72
These schedules present information to help the reader assess the affordability of the government’s current levels of outstanding debt and the government’s ability to issue additional debt in the future.	
<i>Demographic and Economic Information</i>	76
These schedules offer demographic and economic indicators to help the reader understand the environment within which the government’s financial activities take place.	
<i>Operating Information</i>	80
These schedules contain service and infrastructure data to help the reader understand how the information in the government’s financial report relates to the services the government provides and the activities it performs.	

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

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

	Fiscal Year				
	2006	2007	2008	2009	2010
Governmental activities					
Invested in capital assets, net of related debt	\$ 1,607,199	7,864,201	7,908,553	7,427,958	7,326,882
Restricted	2,504,289	-	-	-	-
Unrestricted	1,918,583	3,528,118	4,216,291	5,102,826	5,529,145
Total governmental activities net assets	6,030,071	11,392,319	12,124,844	12,530,784	12,856,027
Business-type activities					
Invested in capital assets, net of related debt	\$ 11,135,070	8,820,104	8,446,326	8,129,164	8,108,596
Unrestricted	1,384,444	3,685,682	3,753,608	3,692,889	3,535,692
Total business-type activities net assets	12,519,514	12,505,786	12,199,934	11,822,053	11,644,288
Primary government					
Invested in capital assets, net of related debt	\$ 12,742,269	16,684,305	16,354,879	15,557,122	15,435,478
Restricted	2,504,289	-	-	-	-
Unrestricted	3,303,027	7,213,800	7,969,899	8,795,715	9,064,837
Total primary government net assets	\$ 18,549,585	23,898,105	24,324,778	24,352,837	24,500,315



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

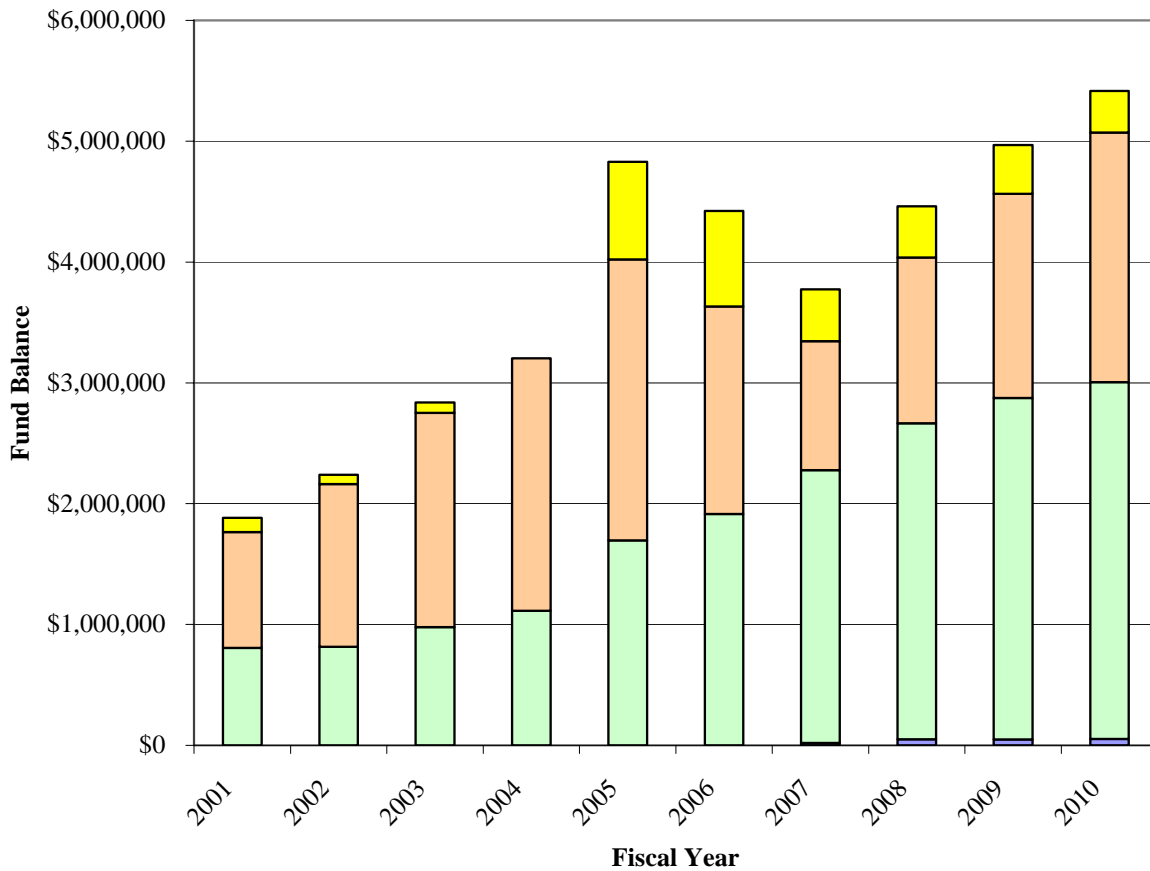
Bear Valley Community Services District
Changes in Net Assets
Last Five Fiscal Years

	Fiscal Year				
	2006	2007	2008	2009	2010
Expenses					
Governmental activities:					
General government	\$ 98,348	224,617	153,306	129,117	231,959
Public safety	1,482,548	1,939,116	2,049,192	2,148,707	2,314,935
Streets and roads	1,121,971	1,074,429	1,206,404	1,413,192	1,215,221
Parks and recreation	104,866	-	-	-	130,010
Interest on long-term debt	166,916	152,237	145,589	138,360	
Total governmental activities expenses	<u>2,974,649</u>	<u>3,390,399</u>	<u>3,554,491</u>	<u>3,829,376</u>	<u>3,892,125</u>
Business-type activities:					
Water	2,294,063	2,530,935	2,580,769	2,730,138	2,418,407
Wastewater	523,576	585,732	624,276	636,048	655,946
Solid Waste	417,933	391,902	435,828	489,239	487,778
Post office	78,025	40,346	62,314	62,206	61,687
Total business-type activities:	<u>3,313,597</u>	<u>3,548,915</u>	<u>3,703,187</u>	<u>3,917,631</u>	<u>3,623,818</u>
Total primary government expenses	<u>6,288,246</u>	<u>6,939,314</u>	<u>7,257,678</u>	<u>7,747,007</u>	<u>7,515,943</u>
Program Revenues					
Governmental activities:					
Charges for services:					
General government	39,957	39,842	39,757	45,088	81,361
Public safety	13,471	77,713	335,067	385,665	424,014
Streets and roads	1,215,321	1,265,861	1,213,381	1,209,750	1,218,883
Interest on long-term debt	7,240	14,480	14,480	14,480	21,901
Operating grants and contributions	123,796	187,440	7,947	8,775	100,000
Capital grants and contributions	-	752,970	170,371	117,498	-
Total governmental activities program revenues	<u>1,399,785</u>	<u>2,338,306</u>	<u>1,781,003</u>	<u>1,781,256</u>	<u>1,846,159</u>
Business-type activities:					
Charges for services:					
Water	2,066,904	2,147,079	2,163,588	2,457,211	2,333,175
Wastewater	357,970	391,355	389,739	413,618	417,962
Solid waste	473,136	501,944	534,044	540,497	552,975
Post office	24,835	27,326	26,217	28,013	29,038
Capital grants and contributions	464,614	241,022	148,103	10,108	52,885
Total business-type activities program revenues	<u>3,387,459</u>	<u>3,308,726</u>	<u>3,261,691</u>	<u>3,449,447</u>	<u>3,386,035</u>
Net (Expense)/Revenue					
Governmental activities	(1,574,864)	(1,052,093)	(1,773,488)	(2,048,120)	(2,045,966)
Business-type activities	73,862	(240,189)	(441,496)	(468,184)	(237,783)
Total primary government net expense	<u>(1,501,002)</u>	<u>(1,292,282)</u>	<u>(2,214,984)</u>	<u>(2,516,304)</u>	<u>(2,283,749)</u>
General Revenues and Other Changes in Net Assets					
Governmental activities:					
Property taxes	1,142,598	1,328,452	1,470,491	1,476,498	1,501,422
Voter-approved taxes	682,805	939,297	905,597	907,149	856,299
Investment income	170,877	179,756	166,022	104,606	46,137
Gain on sale of land	157,268	-	-	-	-
Transfers	(50,864)	(26,901)	(36,097)	(34,193)	(32,649)
Total governmental activities	<u>2,102,684</u>	<u>2,420,604</u>	<u>2,506,013</u>	<u>2,454,060</u>	<u>2,371,209</u>
Business-type activities:					
Investment income	61,340	95,721	99,547	56,110	27,369
Transfers	50,864	26,901	36,097	34,193	32,649
Total business-type activities	<u>112,204</u>	<u>122,622</u>	<u>135,644</u>	<u>90,303</u>	<u>60,018</u>
Total primary government	<u>2,214,888</u>	<u>2,543,226</u>	<u>2,641,657</u>	<u>2,544,363</u>	<u>2,431,227</u>
Changes in Net Assets					
Governmental activities	527,820	1,368,511	732,525	405,940	325,243
Business-type activities	186,066	(117,567)	(305,852)	(377,881)	(177,765)
Total primary government	<u>\$ 713,886</u>	<u>1,250,944</u>	<u>426,673</u>	<u>28,059</u>	<u>147,478</u>

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

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

		Fiscal Year				
		2001	2002	2003	2004	2005
General Fund						
Reserved	\$	-	-	-	-	-
Unreserved		805,800	815,744	979,652	1,114,249	1,695,509
Total general fund		805,800	815,744	979,652	1,114,249	1,695,509
All Other Governmental Funds						
Reserved						
Special revenue	\$	959,867	1,347,000	1,771,054	2,087,867	2,324,332
Debt service funds		117,304	75,393	86,308	-	807,895
Total all other governmental funds		1,077,171	1,422,393	1,857,362	2,087,867	3,132,227

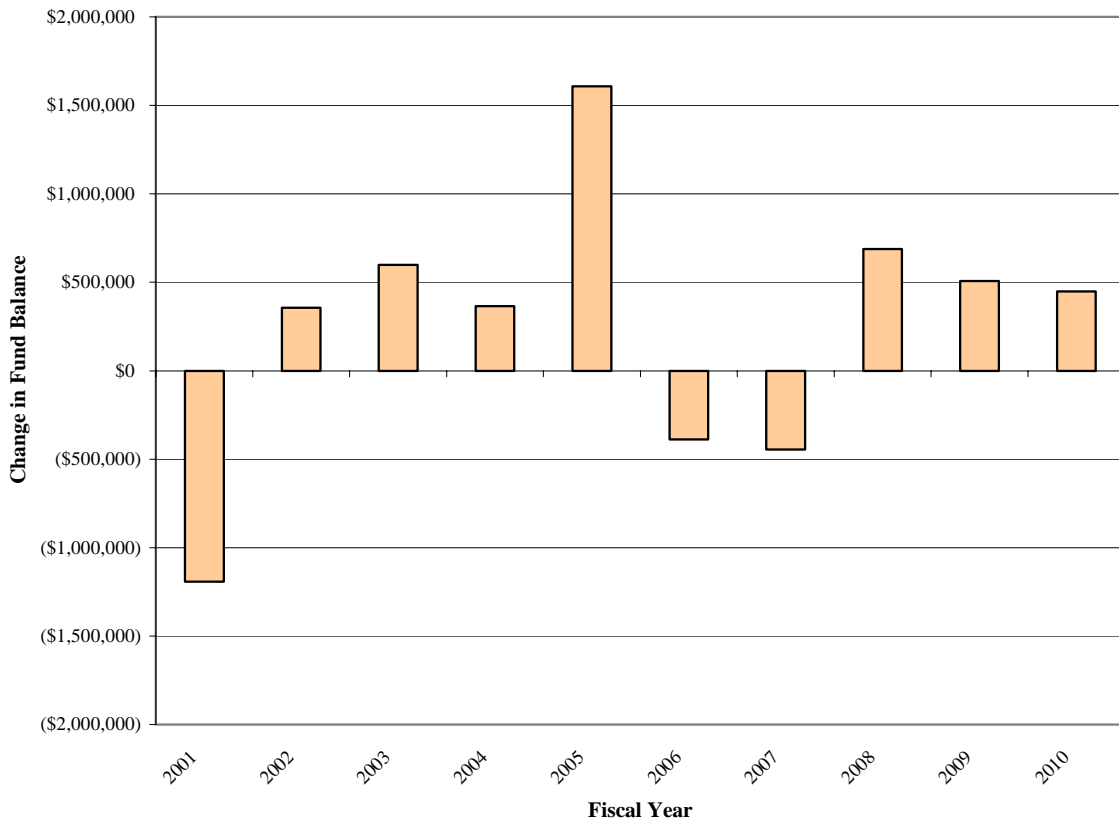


Fiscal Year

<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
-	19,472	50,511	47,448	51,741
<u>1,913,145</u>	<u>2,256,870</u>	<u>2,614,706</u>	<u>2,825,664</u>	<u>2,955,409</u>
<u>1,913,145</u>	<u>2,276,342</u>	<u>2,665,217</u>	<u>2,873,112</u>	<u>3,007,150</u>
1,719,080	1,067,617	1,373,221	1,691,317	2,063,554
<u>790,647</u>	<u>430,073</u>	<u>422,693</u>	<u>403,450</u>	<u>345,421</u>
<u>2,509,727</u>	<u>1,497,690</u>	<u>1,795,914</u>	<u>2,094,767</u>	<u>2,408,975</u>

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

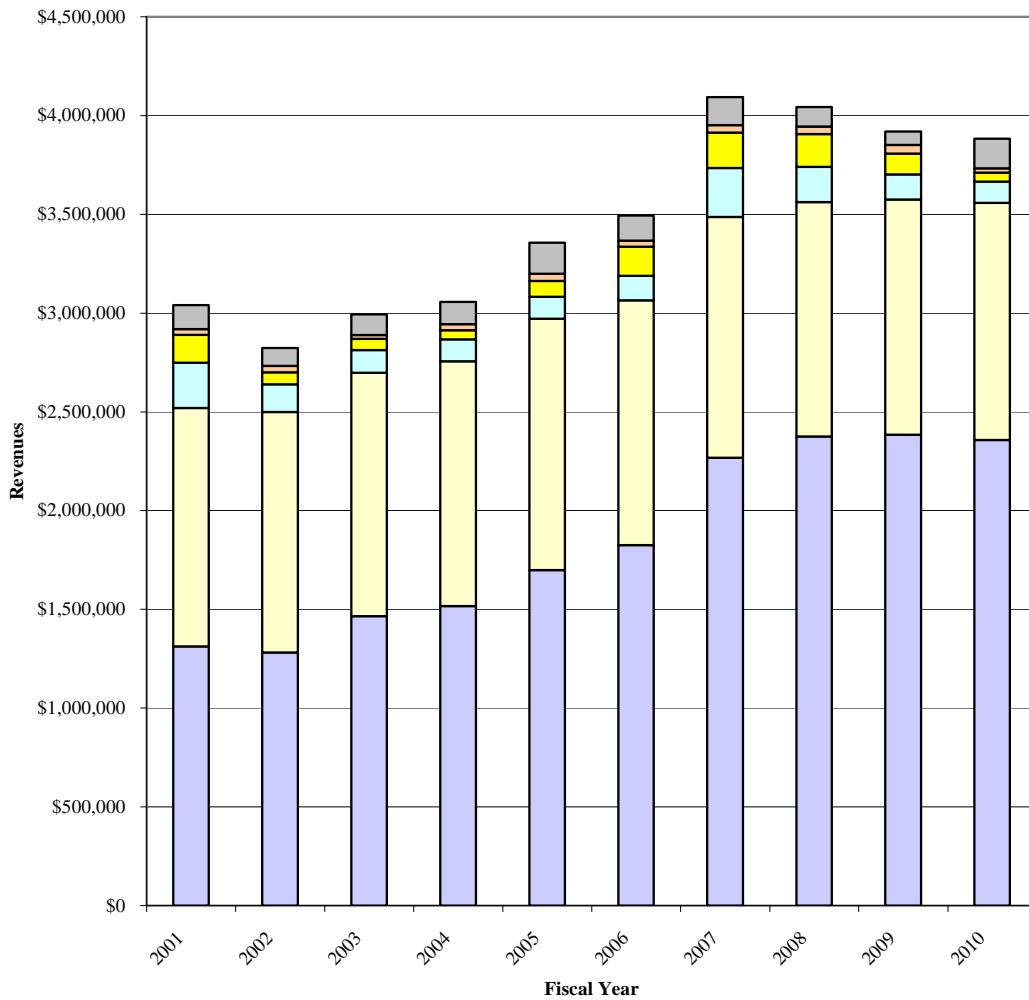
	Fiscal Year				
	2001	2002	2003	2004	2005
Revenues (see page)	\$ 3,040,335	2,823,737	2,994,192	3,055,666	3,356,765
Expenditures (see page)	<u>4,274,726</u>	<u>2,358,588</u>	<u>2,412,857</u>	<u>2,948,970</u>	<u>2,870,809</u>
Excess of revenues over (under) expenditures	<u>(1,234,391)</u>	<u>465,149</u>	<u>581,335</u>	<u>106,696</u>	<u>485,956</u>
Other Financing Sources (Uses)					
Sale of capital assets	49,556	43,855	63,912	182,800	700,666
Operating transfers in	-	59,756	2,015	231,559	490,800
Operating transfers out	<u>(7,912)</u>	<u>(213,594)</u>	<u>(48,385)</u>	<u>(155,953)</u>	<u>(68,958)</u>
Total Other Financing Sources (Uses)	<u>41,644</u>	<u>(109,983)</u>	<u>17,542</u>	<u>258,406</u>	<u>1,122,508</u>
Prior year adjustments	-	-	-	-	-
Net change in fund balances	<u><u>\$ (1,192,747)</u></u>	<u><u>355,166</u></u>	<u><u>598,877</u></u>	<u><u>365,102</u></u>	<u><u>1,608,464</u></u>
Debt service as a percentage of noncapital expenditures	9.0%	13.4%	13.1%	15.1%	15.6%



Fiscal Year				
2006	2007	2008	2009	2010
3,493,767	4,092,951	4,323,113	4,269,509	4,250,017
<u>4,005,035</u>	<u>4,510,653</u>	<u>3,599,917</u>	<u>3,728,568</u>	<u>3,769,122</u>
<u>(511,268)</u>	<u>(417,702)</u>	<u>723,196</u>	<u>540,941</u>	<u>480,895</u>
157,268	-	-	-	-
762	-	-	-	-
<u>(51,626)</u>	<u>(26,901)</u>	<u>(36,097)</u>	<u>(34,193)</u>	<u>(32,649)</u>
<u>106,404</u>	<u>(26,901)</u>	<u>(36,097)</u>	<u>(34,193)</u>	<u>(32,649)</u>
<u>17,156</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u><u>(387,708)</u></u>	<u><u>(444,603)</u></u>	<u><u>687,099</u></u>	<u><u>506,748</u></u>	<u><u>448,246</u></u>
14.3%	12.7%	12.2%	11.2%	11.1%

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

	Fiscal Year				
	2001	2002	2003	2004	2005
Property taxes	\$ 1,312,937	1,281,113	1,465,391	1,515,960	1,698,795
Special property assessments	1,207,349	1,217,906	1,232,509	1,240,719	1,273,712
Charges for services	-	-	-	-	-
Federal/state aid	228,699	139,974	115,000	110,836	109,647
Interest	141,798	62,262	56,502	46,271	81,212
Rents and royalties	29,104	30,868	19,360	30,877	35,576
Other	120,448	91,614	105,430	111,003	157,823
Total governmental revenues	\$ 3,040,335	2,823,737	2,994,192	3,055,666	3,356,765

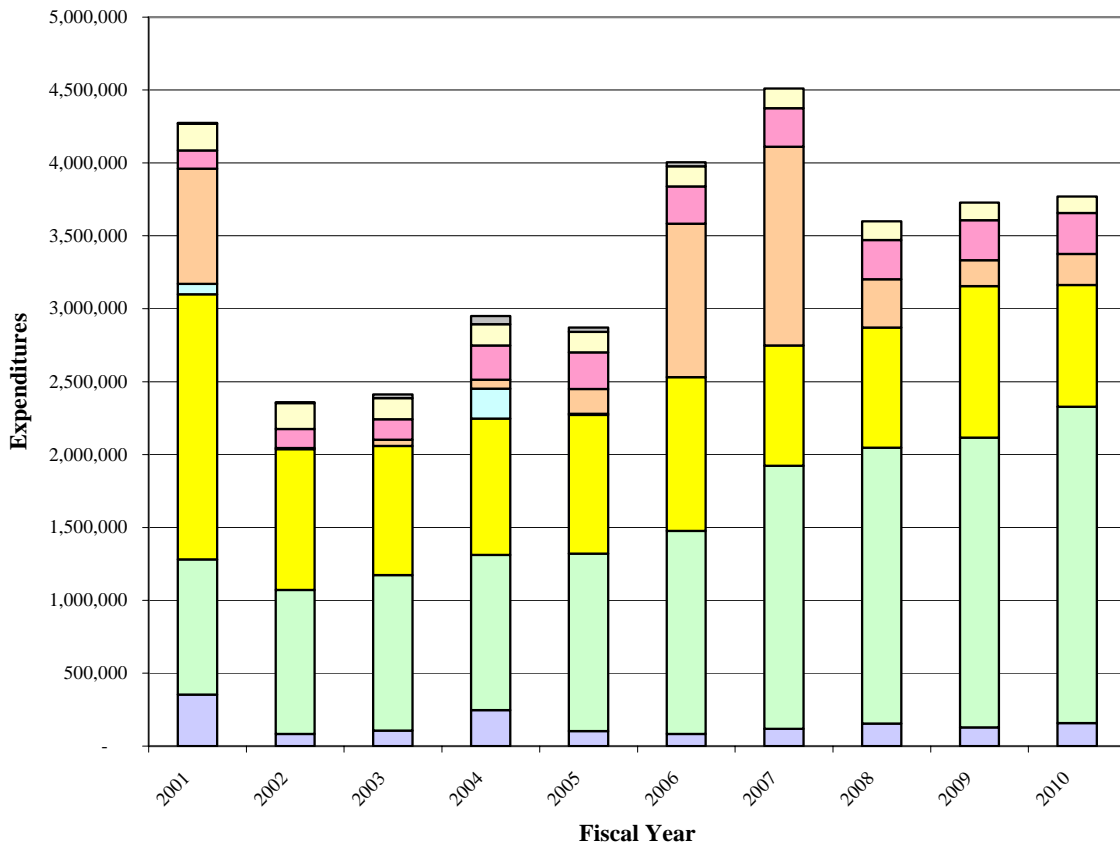


Fiscal Year

<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
1,825,403	2,267,749	2,376,088	2,383,647	2,357,721
1,240,300	1,218,853	1,185,734	1,192,104	1,199,706
-	-	279,351	349,692	366,778
123,796	247,550	178,318	126,273	107,920
147,413	179,756	166,022	104,606	46,137
30,704	37,944	37,944	44,384	21,901
126,151	141,099	99,656	68,803	149,854
<u>3,493,767</u>	<u>4,092,951</u>	<u>4,323,113</u>	<u>4,269,509</u>	<u>4,250,017</u>

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

	Fiscal Year				
	2001	2002	2003	2004	2005
General government	\$ 354,008	83,385	106,129	246,209	102,034
Public safety	926,505	986,538	1,067,301	1,065,187	1,218,355
Streets and roads	1,818,233	967,202	885,243	935,046	952,333
Parks and recreation	72,150	-	-	205,343	6,548
Capital outlay	789,691	7,068	43,589	60,512	170,300
Debt service:					
Principal	125,000	130,000	140,000	235,000	250,000
Interest	184,233	178,902	145,023	146,173	141,276
Amortization of bond discount	4,906	5,493	25,572	55,500	29,963
Total governmental expenditures	\$ 4,274,726	2,358,588	2,412,857	2,948,970	2,870,809



Fiscal Year				
2006	2007	2008	2009	2010
82,358	119,262	153,306	129,117	158,701
1,394,221	1,802,181	1,894,283	1,986,061	2,168,705
1,054,528	826,982	822,488	1,040,140	835,455
-	-	-	-	-
1,052,012	1,363,044	331,798	177,148	213,310
255,000	265,000	270,000	275,000	280,000
138,609	134,184	128,042	121,102	112,951
28,307	-	-	-	-
<u>4,005,035</u>	<u>4,510,653</u>	<u>3,599,917</u>	<u>3,728,568</u>	<u>3,769,122</u>

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

Fiscal Year	Real Property	Personal Property	Less: Tax Exempt Real Property	Total Taxable Assessed Value	Estimated Actual Taxable Value	Assessed Value¹ as a Percentage of Actual Value
2001	352,618	3,850	8,652	347,816	531,510	67.07%
2002	366,430	3,181	8,988	360,623	591,521	62.48%
2003	385,369	3,177	9,191	379,355	738,014	52.65%
2004	418,852	3,025	9,415	412,462	863,520	48.86%
2005	467,654	3,278	9,702	461,230	1,087,500	43.30%
2006	526,488	3,036	9,765	519,759	1,271,895	41.63%
2007	613,445	3,354	9,667	607,132	1,223,563	50.41%
2008	681,582	3,406	9,800	675,188	1,021,675	67.05%
2009	724,762	4,169	10,038	718,893	597,680	121.96%
2010	680,296	3,347	10,213	673,430	579,750	117.92%

Source: Kern County Auditor-Controller

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

¹ Includes tax-exempt property

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

Fiscal Year	BVCSD Debt Service Rate	Overlapping						Total Direct & Overlapping Rates
		County Operating Rate ¹	TCCWD Debt Service Rate	KCWA Debt Service Rate	TUSD Debt Service Rate	TVHD Debt Service Rate ²	KCCD Debt Service Rate	
2001	0.067231	1.000000	0.156234	0.012578	0.052287			1.288330
2002	0.062078	1.000000	0.155068	0.011595	0.053628			1.282369
2003	0.071473	1.000000	0.124953	0.013881	0.096829			1.307136
2004	0.071632	1.000000	0.096978	0.015312	0.097077		0.011803	1.292802
2005	0.073532	1.000000	0.100100	0.014513	0.058577	0.026677	0.009176	1.282575
2006	0.065039	1.000000	0.101195	0.010638	0.057986	0.035246	0.009630	1.279734
2007	0.054344	1.000000	0.086239	0.008349	0.015944	0.007097	0.005283	1.177256
2008	0.048649	1.000000	0.089213	0.010017	0.043727	0.021849	0.008036	1.221491
2009	0.044993	1.000000	0.094669	0.008404	0.041620	0.018615	0.009053	1.217354
2010	0.043648	1.000000	0.066360	0.010943	0.045908	0.025048	0.009401	1.201308

Source: Kern County Treasurer-Tax Collector

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

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

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

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

Fiscal Year	Taxes Levied	Collected within the Fiscal Year of the Levy		Collections of Delinquent Amounts	Total Collections	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2001	707,392	693,580	98.05%	13,812	707,392	100.00%
2002	743,853	727,801	97.84%	16,052	743,853	100.00%
2003	778,168	763,825	98.16%	14,343	778,168	100.00%
2004	828,036	814,454	98.36%	13,582	828,036	100.00%
2005	924,561	910,536	98.48%	14,025	924,561	100.00%
2006	1,032,982	1,014,902	98.25%	18,080	1,032,982	100.00%
2007	1,252,669	1,228,310	98.06%	24,359	1,252,669	100.00%
2008	1,383,943	1,332,477	96.28%	51,466	1,383,943	100.00%
2009	1,462,554	1,420,412	97.12%	42,142	1,462,554	100.00%
2010	1,400,063	1,363,709	97.40%	36,353	1,400,063	100.00%

Source: Kern County Auditor-Controller

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

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

<u>Customer</u>	<u>2010</u>		<u>2003</u>	
	<u>Assessed Value</u>	<u>Percentage of Total</u>	<u>Assessed Value</u>	<u>Percentage of Total</u>
Federal National Mortgage Assn	\$ 2,491,370	0.34%	\$	
John M & Sandra L Canizo	1,320,735	0.18%		
Jamie E & Diana S Osbrink	1,139,132	0.16%		
Bo & Melissa Thevelius	1,137,849	0.16%		
Widget Checkered Flag Trust	1,101,619	0.15%		
Stephen & Beverly Berg Hansen	998,007	0.14%		
Edward J & Karen A Duval Rev Liv Tr	930,301	0.13%		
Jones Family Trust	928,232	0.13%		
Schroder Family Trust	901,775	0.12%		
Rabinder S & Madhu Bhogal	860,383	0.12%		
Paul M & Joan N Benz			674,990	0.09%
Kenneth & Celestie Karas			664,995	0.09%
Hurley Family Trust			644,573	0.09%
Duplan Family Trust			634,568	0.09%
Richard & Pocahontas K Young			608,860	0.08%
Russell & Patricia Frazier			586,740	0.08%
Fisher Family Trust			570,439	0.08%
Susan Falkenhagen			565,814	0.08%
Dennis Nelson			564,161	0.08%
Louis & Anne McCutcheon			552,138	0.08%
Total	<u>11,809,403</u>	<u>1.62%</u>	<u>6,067,278</u>	<u>0.83%</u>
Total Assessed Value	<u>728,931,000</u>	<u>100.00%</u>	<u>388,546,000</u>	<u>100.00%</u>

Source: KernData

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

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

Fiscal Year	Water Sales Revenue				Quantity of Water Sold (acre feet)			
	Residential	Commercial/ Institutional	Lake Fill	Total	Residential	Commercial/ Institutional	Lake Fill	Total
2001	750,459	48,256	68,592	867,307	889	54	154	1,097
2002	949,658	103,849	115,040	1,168,547	938	72	203	1,213
2003	1,224,393	111,263	92,461	1,428,117	898	71	144	1,113
2004	1,631,132	138,455	105,607	1,875,194	968	66	152	1,186
2005	1,595,508	114,157	130,739	1,840,404	844	52	159	1,055
2006	1,710,226	147,673	134,530	1,992,429	912	66	172	1,150
2007	1,839,068	160,987	80,902	2,080,957	960	69	95	1,124
2008	1,842,254	145,795	142,501	2,130,550	939	62	145	1,146
2009	2,047,720	172,338	190,074	2,410,132	889	71	177	1,138
2010	1,990,372	149,690	108,195	2,248,257	795	49	139	983

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

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

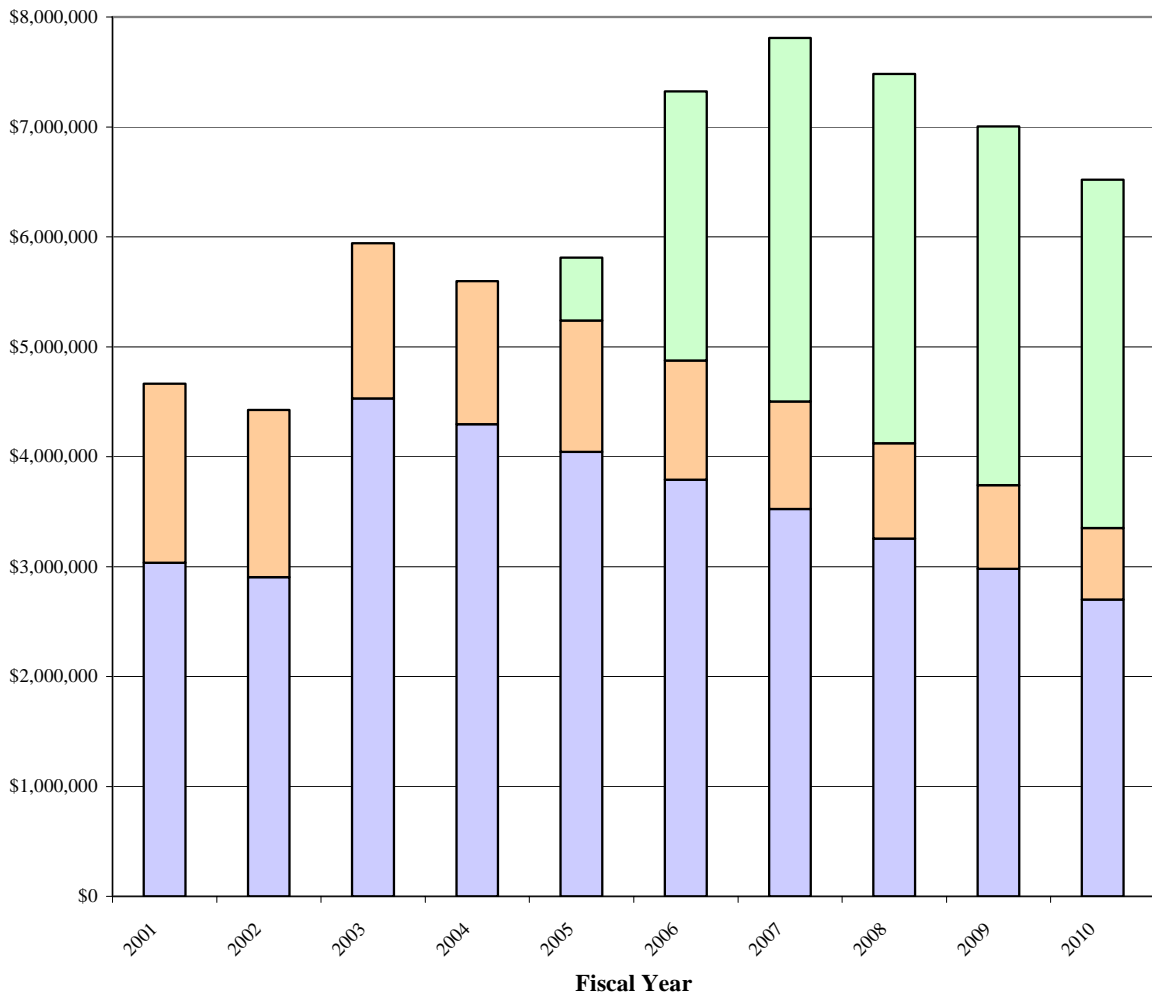
Fiscal Year	Monthly Water Base Charge ¹			Average Volume Charge Per Billing Unit ²			Average Price Per Billing Unit ³		
	Residential	Commercial/ Institutional	Lake Fill	Residential	Commercial/ Institutional	Lake Fill	Residential	Commercial/ Institutional	Lake Fill
2001	10.00	10.00	0.00	1.28	1.96	1.30	1.95	2.13	1.30
2002	15.00	15.00	0.00	1.52	2.96	1.50	2.26	3.11	1.50
2003	22.50	22.50	0.00	1.78	3.61	1.65	3.14	3.85	1.65
2004	22.50	22.50	0.00	2.18	4.87	1.76	3.83	4.73	1.76
2005	22.50	22.50	0.00	2.41	5.00	1.99	4.38	5.45	1.99
2006	22.50	22.50	0.00	2.46	5.31	1.99	4.34	5.63	1.99
2007	23.45	23.45	0.00	2.48	5.28	2.05	4.35	5.59	2.05
2008	24.22	24.22	0.00	2.57	5.42	2.30	4.58	5.78	2.30
2009	25.33	25.33	0.00	3.02	6.14	2.44	5.22	6.45	2.44
2010	25.33	25.33	0.00	3.20	6.22	2.44	5.72	6.72	2.44

Source: Bear Valley CSD billing records.

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

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

Fiscal Year	Governmental Activities	Business-type Activities		Total		
	General Obligation Bonds	State Revolving Fund Loan	Installment Sale Contract (CIEDB)	Debt	Per Capita	As a Share of Personal Income
2001	3,035,000	1,628,963	-	4,663,963	755.54	2.74%
2002	2,905,000	1,520,365	-	4,425,365	690.38	2.33%
2003	4,530,000	1,411,768	-	5,941,768	889.49	3.03%
2004	4,295,000	1,303,170	-	5,598,170	793.62	2.65%
2005	4,045,000	1,194,573	572,910	5,812,483	783.35	2.53%
2006	3,790,000	1,085,975	2,447,274	7,323,249	993.25	3.05%
2007	3,525,000	977,378	3,307,147	7,809,525	1,062.66	3.13%
2008	3,255,000	868,780	3,357,848	7,481,628	993.05	2.81%
2009	2,980,000	760,182	3,264,900	7,005,082	893.39	2.42%
2010	2,700,000	651,585	3,169,228	6,520,813	804.15	2.16%



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

<u>Fiscal Year</u>	<u>General Obligation Bonds</u>	<u>Percentage of Estimated Actual Taxable Value of Property</u>	<u>Percentage of Personal Income</u>	<u>Per Capita</u>
2001	3,035,000	0.68%	1.95%	533.24
2002	2,905,000	0.55%	1.53%	453.20
2003	4,530,000	0.77%	2.31%	678.14
2004	4,295,000	0.58%	2.03%	608.87
2005	4,045,000	0.47%	1.76%	545.15
2006	3,790,000	0.35%	1.58%	514.04
2007	3,525,000	0.28%	1.41%	479.66
2008	3,255,000	0.27%	1.22%	432.04
2009	2,980,000	0.29%	1.03%	380.05
2010	2,700,000	0.47%	0.90%	332.96

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

**Bear Valley Community Services District
Direct and Overlapping Governmental Activities Debt
As of June 30, 2010**

	Debt Outstanding	Estimated Percentage Applicable	Estimated Share of Direct and Overlapping Debt
Overlapping Debt:			
Tehachapi Unified School District	\$ 20,531,367	20.51%	\$ 4,210,983
Kern Community College District	217,476,518	1.03%	2,240,008
Tehachapi Valley Healthcare District	11,800,000	19.22%	2,267,960
Total overlapping debt			8,718,952
BVCSD Governmental Activities Direct Debt		100.00%	2,700,000
Total direct and overlapping debt			\$ 11,418,952

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

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

	Fiscal Year									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Debt limit	\$ 49,494	\$ 50,926	\$ 53,470	\$ 55,442	\$ 58,282	\$ 63,282	\$ 70,640	\$ 79,429	\$ 109,340	\$ 102,546
Total debt applicable to limit	4,664	4,425	5,942	5,598	5,802	7,215	7,810	7,482	7,005	6,520
Legal Debt Margin	<u>\$ 44,830</u>	<u>\$ 46,501</u>	<u>\$ 47,528</u>	<u>\$ 49,844</u>	<u>\$ 52,480</u>	<u>\$ 56,067</u>	<u>\$ 62,830</u>	<u>\$ 71,947</u>	<u>\$ 102,335</u>	<u>\$ 96,026</u>
Total debt applicable to the limit as a percentage of debt limit	9.4%	8.7%	11.1%	10.1%	10.0%	11.4%	11.1%	9.4%	6.4%	6.4%

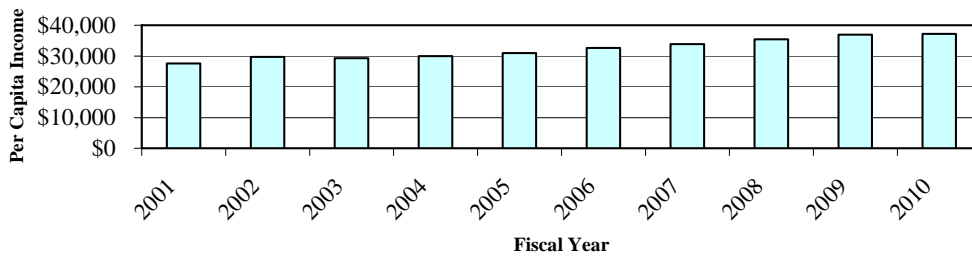
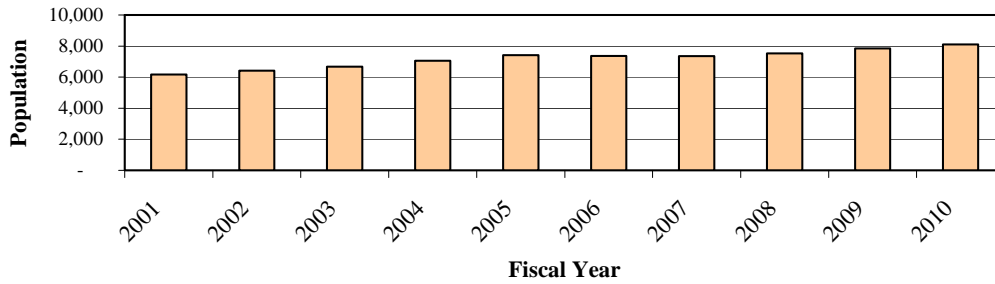
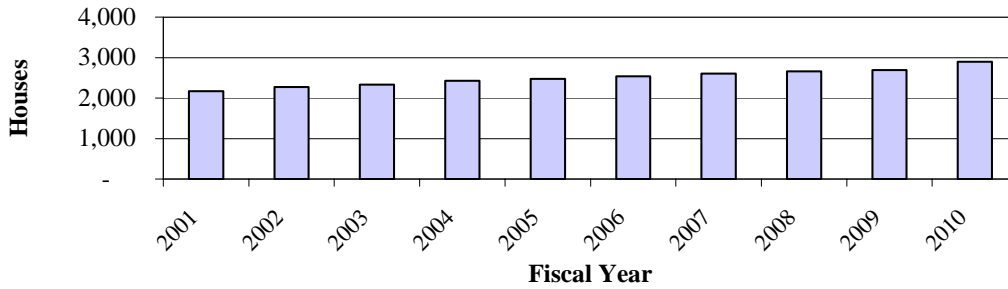
Legal Debt Margin Calculation for Fiscal Year 2010

Assessed value	\$ 673,430
Add back: exempt real property	<u>10,213</u>
Total assessed value	683,643
Debt limit (15% of total assessed value)	102,546
Debt applicable to limit:	
General obligation bonds	2,700
State loans	<u>3,820</u>
Total debt applicable to limit	<u>6,520</u>
Legal debt margin	<u>\$ 96,026</u>

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

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

Year	Completed Houses ¹	Population ²	Personal Income per Capita ³	Housing Vacancy Rate ⁴	Houses Sold ⁵	Average Selling Price ⁵
2001	2,170	6,173	27,540	16.7%	143	150,660
2002	2,269	6,410	29,694	15.2%	158	154,101
2003	2,337	6,680	29,316	13.8%	170	170,236
2004	2,429	7,054	29,994	13.8%	252	191,804
2005	2,476	7,420	30,977	12.9%	203	241,830
2006	2,539	7,373	32,607	14.1%	189	325,757
2007	2,605	7,349	33,898	15.1%	162	390,475
2008	2,661	7,534	35,396	15.2%	141	385,312
2009	2,697	7,841	36,961	15.5%	94	370,017
2010	2,895	8,109	37,190	15.8%	121	253,440



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

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

Fiscal Year	Revenues¹	Less: Expenses²	Net Available Revenues	Debt Service		Total	Coverage Ratio
				Principal	Interest³		
2001	-	-	-	-	-	-	
2002	-	-	-	-	-	-	
2003	-	-	-	-	-	-	
2004	2,477,993	1,644,979	833,014	-	29,452	29,452	28.28
2005	2,457,101	1,768,833	688,268	-	61,324	61,324	11.22
2006	2,544,753	1,829,194	715,559	-	38,799	38,799	18.44
2007	2,442,194	1,889,287	552,907	112,611	69,810	182,421	3.03
2008	2,359,040	2,045,359	313,681	74,690	85,009	159,699	1.96
2009	2,506,051	2,212,710	293,341	76,878	88,503	165,381	1.77
2010	2,360,485	1,893,587	466,898	79,130	85,098	164,228	2.84

Notes: CIEDB = California Infrastructure and Economic Development Bank

¹ Revenue pledged includes amounts collected from all sources

² Expenses do not include interest or depreciation.

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

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

Fiscal Year	Revenues¹	Less: Expenses²	Net Available Revenues	Debt Service			Coverage Ratio
				Principal	Interest³	Total	
2001	-	-	-	-	-	-	
2002	-	-	-	-	-	-	
2003	-	-	-	-	-	-	
2004	325,515	279,432	46,083	-	3,309	3,309	13.93
2005	393,670	273,702	119,968	-	16,088	16,088	7.46
2006	382,997	305,084	77,913	12,004	19,739	31,743	2.45
2007	422,839	339,243	83,596	16,078	14,778	30,856	2.71
2008	431,483	366,969	64,514	15,613	18,367	33,980	1.90
2009	411,889	381,048	30,841	16,070	18,320	34,390	0.90
2010	408,665	411,319	(2,654)	16,167	17,788	33,956	(0.08)

Notes: CIEDB = California Infrastructure and Economic Development Bank

¹ Revenue pledged includes amounts collected from all sources

² Expenses do not include interest or depreciation.

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

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

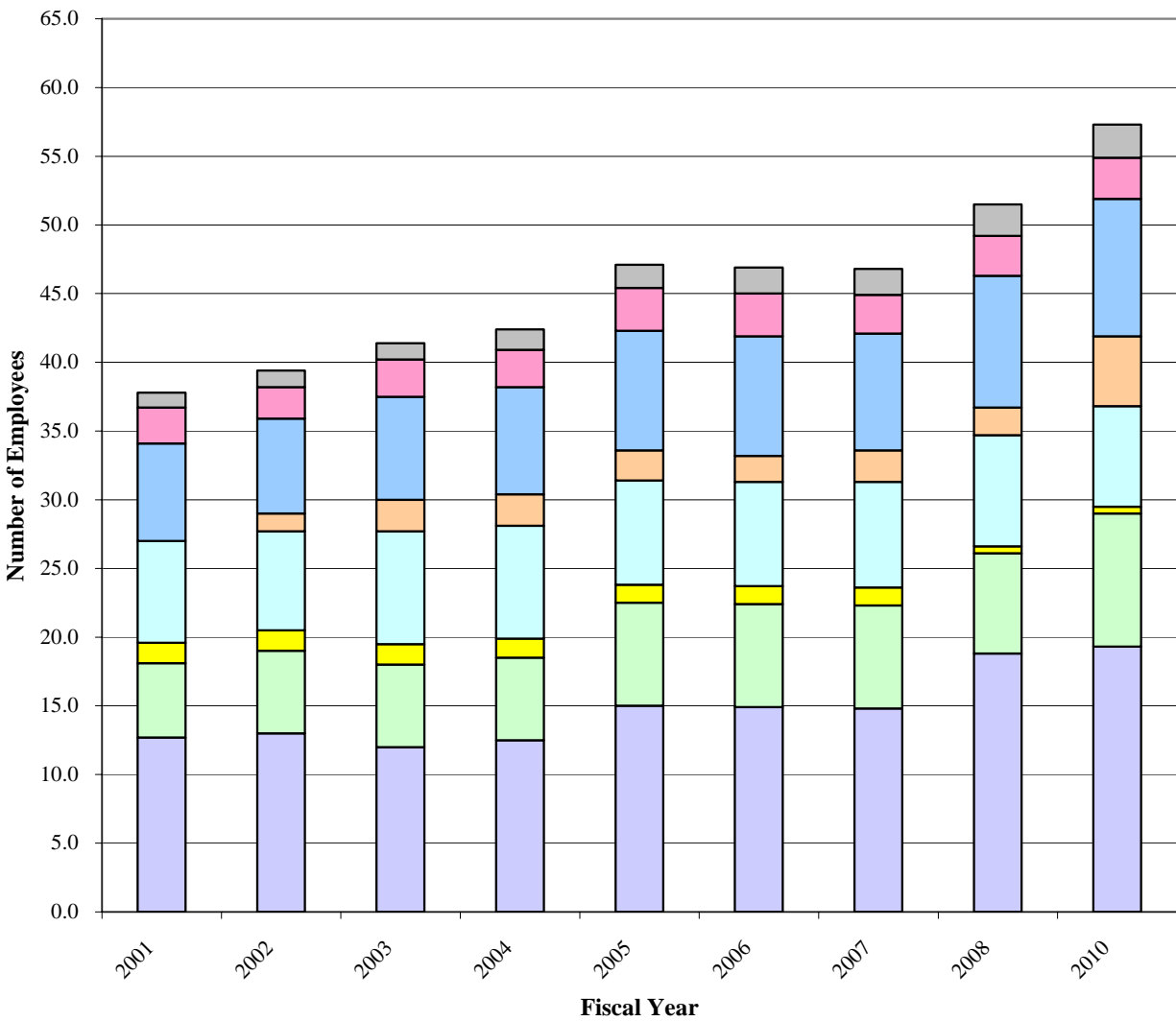
<u>Employer</u>	<u>Production/Services</u>	<u>2010</u>		<u>2001</u>	
		<u>Employees</u>	<u>Rank</u>	<u>Employees</u>	<u>Rank</u>
California Correctional Inst.	State prison	1,700	1	1,600	1
Tehachapi Unified School D.	Public school system	447	2	500	2
Tehachapi Hospital	Healthcare	175	3	105	7
GE Energy	Wind energy production/manuf.	150	4		
Lehigh Southwest Cement	Cement production	123	5		
Home Depot	Retail store	123	5		
Albertson's Supermarket	Retail grocery store	120	6	110	5
K Mart	Retail store	120	6	110	5
Benz Sanitation	Trash/septic/propane	70	9	70	8
City of Tehachapi	Municipality	68	10	50	10
Enron Wind Corp.	Wind energy production/manuf.			450	3
Calveras Cement Co.	Cement production			120	4
Selecta Switch	Electrical parts manufacturing			55	9
Total		<u>3,096</u>		<u>3,170</u>	

Source: Greater Tehachapi Chamber of Commerce

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

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

Department	Fiscal Year									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Public Safety	12.7	13.0	12.0	12.5	15.0	14.9	14.8	18.8	19.5	19.3
Gate	5.4	6.0	6.0	6.0	7.5	7.5	7.5	7.3	6.7	9.7
General Services	1.5	1.5	1.5	1.4	1.3	1.3	1.3	0.5	0.5	0.5
Roads	7.4	7.2	8.2	8.2	7.6	7.6	7.7	8.1	7.3	7.3
Post Office	0.0	1.3	2.3	2.3	2.2	1.9	2.3	2.0	2.3	5.1
Water	7.1	6.9	7.5	7.8	8.7	8.7	8.5	9.6	9.1	10.0
Wastewater	2.6	2.3	2.7	2.7	3.1	3.1	2.8	2.9	2.9	3.0
Solid Waste	1.1	1.2	1.2	1.5	1.7	1.9	1.9	2.3	2.3	2.4
	<u>37.8</u>	<u>39.4</u>	<u>41.4</u>	<u>42.4</u>	<u>47.1</u>	<u>46.9</u>	<u>46.8</u>	<u>51.5</u>	<u>50.6</u>	<u>57.3</u>



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

Function	Fiscal Year									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Public safety										
Physical arrests	N/A	N/A	N/A	43	41	80	72	63	79	50
Traffic violations	N/A	N/A	N/A	292	333	529	511	437	406	199
Parking violations	N/A	N/A	N/A	6	2	8	12	24	39	14
Highways and streets										
Street resurfacing (lane miles)	9.4	0.0	0.0	0.0	0.0	12.8	9.1	0.0	0.0	0.0
Parks & recreation										
Bear Valley Springs Assn. annual dues	\$810	\$845	\$855	\$860	\$940	\$888	\$1,065	\$1,193	\$1,218	1,250
Water										
New connections	41	107	59	89	89	77	34	13	3	7
Total well production (acre feet)	1,229	1,308	1,170	1,282	1,138	1,261	1,231	1,250	1,183	956
Daily average well production (1,000 gal.)	1,097	1,168	1,045	1,141	1,016	1,126	1,099	1,113	1,056	853
Maximum day well production (1,000 gal.)	2,249	2,068	2,249	2,154	2,083	2,206	2,133	2,159	1,882	2,364
Imported water as % of total supply	35%	43%	54%	50%	51%	57%	57%	63%	46%	46%
Unaccounted-for water (% of production)	10.7%	7.3%	4.8%	7.4%	7.4%	8.8%	8.2%	7.8%	6.4%	6.9%
Electricity used for pumping (1,000 kWh)	2,414	2,549	2,501	2,291	2,227	2,493	2,587	2,682	2,682	2,632
Average residential consumption (gal/d)	393	397	366	379	323	343	355	343	328	294
Wastewater										
New connections	7	11	15	20	2	5	4	0	0	0
Effluent production (acre feet)	N/A	70	48	74	83	83	86	103	86	100
Effluent sales (acre feet)	33	22	24	19	32	22	29	26	18	26
Sanitation										
Refuse collected (tons/day)	7.9	8.6	9.2	9.8	10.6	10.9	10.7	10.6	9.6 #	9.7
Greenwaste collected (tons/day)	4.3	5.7	6.9	8.9	10.9	11.5	11.9	12.8	11.0	12.1

Source: Various government departments.

**Bear Valley Community Services District
Miscellaneous Statistics
As of June 30, 2010**

Date of incorporation	May 4, 1970
Form of government	Council/Manager
Number of employees:	
Classified	57
Exempt	5
Area in square miles	40
Bear Valley Community Services District facilities and services:	
Miles of streets	110
Parks and recreation:	
Parks (includes athletic parks, campgrounds and equestrian center)	8
Park acreage (includes lakes)	220
Golf course acreage (includes driving range)	85
Community facilities	4
Swimming pools	2
Tennis courts	4
Miles of equestrian/hiking trails	50
Open space acreage	8,250
Police protection	
Number of stations	1
Number of sworn officers	8
Number of dispatchers	11
Number of law violations:	
Physical arrests	50
Traffic violations	199
Parking violations	14
Water system:	
Miles of water mains	120
Number of wells	27
Number of steel tank reservoirs	43
Storage capacity in gallons	4,570,000
Number of pneumatic pressure tanks	8
Number of booster pumps	80
Number of pressure zones	40
Number of service connections	2,860
Number of fire hydrants	600
Daily average well production in gallons	853,652
Maximum day well production in gallons	2,364,624
Sewerage system:	
Miles of sanitary sewers	7
Daily treatment capacity of treatment plant in gallons	250,000
Number of service connections	472
Daily average treatment in gallons	89,746
Maximum day treatment in gallons	237,313
Facilities and services not included in the primary government:	
Fire Protection (Kern County Fire Department):	
Number of stations	1
Number of on-duty fire fighters	3
Bear Valley Springs Association	
Number of employees	139
Annual revenues	\$ 6,380,666
Annual property owners association dues	
Community Emergency Response Team	
Number of registered disaster service workers	230

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 the basic financial statements of the Bear Valley Community Services District (District) as of and for the year ended June 30, 2010, and have issued our report thereon dated October 5, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control. Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

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

October 5, 2010
Cypress, California

Charles Z. Fedak, CPA
An Accountancy Corporation