

**CAMBRIA
COMMUNITY SERVICES DISTRICT**

Independent Auditor's Report
and
Financial Statements

For the Year Ended
June 30, 2010

CAMBRIA COMMUNITY SERVICES DISTRICT
INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS
For the Year Ended June 30, 2010

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CAMBRIA COMMUNITY SERVICES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ending June 30, 2010

Our discussion and analysis of the Cambria Community Services District's (CCSD) financial performance provides an overview of the CCSD's financial activities for the fiscal year ended June 30, 2010. The Management's Discussion & Analysis is to be read in conjunction with the CCSD's financial statements, which follow this section.

The Cambria Community Services District is a multi-purpose special district formed on December 9, 1976. Formation took place under the Community Services District Law, Section 61000, et. seq. of the California Government Code. At the time of formation it absorbed and combined the responsibilities of five existing special districts. These independently operated districts were as follows:

- The Cambria Community Services District - Moonstone Beach Drive area
- The Cambria County Water District
- The Cambria Fire Protection District
- The Cambria Garbage Disposal District
- San Luis Obispo County Service Area No. 6 - Street Lighting Service

The CCSD is a political subdivision of the State of California and operates under a Board of Directors-Manager form of government. A five-member Board of Directors governs it with each member serving a four-year term. The CCSD has a population of 6,400 residents within its boundaries. Tourism in the summer months and on holiday weekends creates seasonal increases in the population. The CCSD provides the following services:

- Water
- Wastewater
- Fire Protection
- Facilities and Resources
- Parks and Recreation
- Resource Conservation
- Administration

Fund Financial Statements

The accounting system of the CCSD is organized and operated on a fund basis. A fund is considered a separate self-balancing entity with assets, liabilities, fund equity, revenues, and expenditures/expenses.

The basis of accounting depends on the fund. Basis of accounting refers to "when" revenues and expenses are recognized in the accounts and reported in the financial statements.

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Governmental funds use the modified-accrual basis of accounting. Revenues are recognized when measurable and available as net current assets. Measurable means the amounts can be estimated or determined. Available means the amounts were collected during the reporting period or soon enough to finance the expenditures accrued for the reporting period.

Enterprise or business-like funds use the accrual basis of accounting. Revenues, expenses, assets and liabilities are recognized when the event happens.

Financial Statements

There are two government-wide financial statements that include all of the CCSD's funds. These are:

- STATEMENT OF NET ASSETS
- STATEMENT OF ACTIVITIES

The Statement of Net Assets includes all of the CCSD's assets and liabilities, with the difference between the two reported as net assets. Net assets may be displayed in the following categories:

- Invested in Capital Assets, Net of Related Debt
- Restricted Net Assets
- Unrestricted Net Assets

The Statement of Net Assets provides the basis for computing rate of return, evaluating the capital structure of the CCSD and assessing the liquidity and financial flexibility of the CCSD.

The Statement of Activities includes all of the CCSD's individual functions presented using the accrual basis of accounting. One objective of the Statement of Activities is to report the relative financial burden of each of the CCSD's functions.

The remainder of the CCSD's financial statements is grouped into 2 categories:

- Governmental Activities
- Business-Type Activities

Governmental Activities

Governmental activities include the following funds:

- General Fund
- Resource Conservation Fund

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The General Fund includes the following Departments:

- Fire Department
- Administration
- Facilities and Resources
- Parks and Recreation

The CCSD's financial statements for governmental activities include six components:

- BALANCE SHEET
- RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS
- STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
- RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
- STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-Budget and Actual-Governmental Funds
- NOTES TO THE FINANCIAL STATEMENTS

The Balance Sheet-Governmental Funds first presents the CCSD's assets (resources it controls that enable it to provide services), liabilities (financial obligations) and fund balance (in essence, what would be left over if the assets were used to satisfy the liabilities). The assets and liabilities are current in nature. Notably absent are capital assets. This is due to the statement being presented using the modified accrual basis of accounting. Fund balance is the difference between assets and liabilities. Fund balance is reported in two components:

- Reserved
- Unreserved

The Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets is the final component of the Balance Sheet. The reconciling items explain the differences in the accounting bases (the presence of capital assets and long-term liabilities in the government-wide financial statements, but their absence in the governmental funds).

The Statement of Revenues, Expenditures, and Changes in Fund Balances is the governmental funds' income statement, tracking the flow of resources in as Revenues and out as Expenditures. Revenues and Expenditures are not the only resources that flow in

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and out. Other financing sources (uses) identify transfers in and out of the governmental funds. Besides the fact that transfers are neither revenues nor expenditures, they are shown separately to assist the statement reader in assessing the balance between ongoing revenues and expenditures related to the basic operations of the CCSD. For this same reason, special items such as prior period adjustments (corrections of material errors related to a prior period or periods) are shown separately.

The Reconciliation of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities describes the differences between change in fund balance and change in governmental activities net assets in the government-wide statement of activities. Items are individually described.

The Statement of Revenues, Expenditures, and Changes in Fund Balances-Budget and Actual-Governmental Funds compares the budgeted amounts to the actual amounts.

The Notes to the Financial Statements are disclosures presented to assist the reader in understanding the information found in the financial statements.

Business-Type Activities

Business-type activities include the following funds:

- Water Fund
- Wastewater (Sewer) Fund

The CCSD's financial statements for business-type activities include four components:

- STATEMENT OF NET ASSETS-Proprietary Funds
- STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS-Proprietary Funds
- STATEMENT OF CASH FLOWS-Proprietary Funds
- NOTES TO THE FINANCIAL STATEMENTS

The Statement of Net Assets includes all of the proprietary funds' assets and liabilities, with the difference between the two reported as net assets. Net assets may be displayed in the following categories:

- Invested in Capital Assets, Net of Related Debt
- Restricted Net Assets
- Unrestricted Net Assets

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The Statement of Net Assets provides the basis for computing rate of return, evaluating the capital structure of the Water and Wastewater Funds and assessing their liquidity and financial flexibility.

The Statement of Revenues, Expenditures, and Changes in Net Assets presents information which shows how the Water and Wastewater Fund's net assets changed during the year. All of the current year's revenues and expenditures are recorded when the underlying transaction occurs, regardless of the timing of the related cash flows. The Statement of Revenues, Expenditures, and Changes in Fund Balance measures the success of the CCSD's operations over the past year and determines whether the CCSD has recovered its costs through user fees, property taxes and other changes.

The Statement of Cash Flows provides information regarding the Water and Wastewater Fund's cash receipts and cash disbursements during the fiscal year. The statement reports cash activity in three categories:

- Operations
- Capital and Related Financing
- Noncapital Financing

The Notes to the Financial Statements are disclosures presented to assist the reader in understanding the information found in the financial statements.

A new note (**NOTE 9**) is required by the Governmental Accounting Standards Board (GASB) Statements 43 & 45. While the note is titled Post-Employment Benefits, the purpose of the note is to report on Other Post-Employment Benefits (OPEB) with "Other" signifying other than pensions. For the purposes of the CCSD, this means retiree healthcare benefits. The actuarial is based on the number of employees, retirees and their spouses as well as their ages (and presumed life spans) and presumed retirement dates as of June 30, 2009. The estimated costs are projected forward through the year 2069. (It should be noted that while there were 30 eligible employees as of June 30, 2009, there were currently 26 eligible employees as of December 31, 2010, although one Operator position in the Water Department remains vacant).

The CCSD currently operates on a "pay as you go" basis for OPEB. Current retiree costs are fully paid, but nothing is set-aside for future benefits. To account for these future benefits an additional expenditure of \$265,918 was recorded as a future obligation, with no outflow of cash. \$180,756 of this balance is related to the Governmental Funds, \$47,350 is related to the Water Fund and \$37,812 is related to the Wastewater Fund. The CCSD's OPEB amounts were compared to other governmental entities and appeared consistent.

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Fiscal Year 2009/2010 Financial Highlights

The following increases/ (decreases) occurred during the year ended June 30, 2010 as compared to the year ended June 30, 2009:

	As of June 30, 2010	As of June 30, 2009	Increase (Decrease)
Net assets – Governmental Activities	\$ 20,540,388	\$ 20,630,534	\$ (90,146)
Net assets – Business Activities	<u>22,527,658</u>	<u>22,919,504</u>	<u>(391,846)</u>
Total net assets	<u>\$ 43,068,046</u>	<u>\$ 43,550,038</u>	<u>\$ (481,992)</u>
Cash & investments – Governmental Activities	\$ 4,256,640	\$ 4,237,597	\$ 19,043
Cash & investments – Business Activities	<u>242,400</u>	<u>27,551</u>	<u>214,849</u>
Total cash & investments	<u>\$ 4,499,040</u>	<u>\$ 4,265,148</u>	<u>\$ 233,892</u>
Compensated absences – Gov't Activities	\$ 259,109	\$ 247,931	\$ 11,178
Compensated absences – Business Activities	123,121	148,494	(25,373)
Capital lease – Governmental Activities	248,328	282,990	(34,662)
Loan/note/bonds payable – Business Activities	<u>3,673,281</u>	<u>4,109,909</u>	<u>(436,628)</u>
Total long-term liabilities (external)	<u>\$ 4,303,839</u>	<u>\$ 4,789,324</u>	<u>\$ (485,485)</u>
Operating revenue – Governmental Activities	\$ 3,965,464	\$ 4,257,727	\$ (292,263)
Operating revenue – Business Activities	<u>3,720,885</u>	<u>3,370,100</u>	<u>350,785</u>
Total operating revenue	<u>\$ 7,686,349</u>	<u>\$ 7,627,827</u>	<u>\$ 58,522</u>
Operating expenditures – Gov't Activities	\$ 3,836,614	\$ 4,114,206	\$ (277,592)
Operating expenses – Business Activities	<u>4,212,295</u>	<u>4,176,354</u>	<u>35,941</u>
Total operating expenditures/expenses	<u>\$ 8,048,909</u>	<u>\$ 8,290,560</u>	<u>\$ (241,651)</u>
Non-operating revenue – Gov't Activities	\$ -	\$ -	\$ -
Non-operating revenue – Business Activities	<u>294,544</u>	<u>298,544</u>	<u>(4,000)</u>
Total non-operating revenue	<u>\$ 294,544</u>	<u>\$ 298,544</u>	<u>\$ (4,000)</u>
Non-operating expenditures – Gov't Activities	\$ -	\$ -	\$ -
Non-operating expenses – Business Activities	<u>194,980</u>	<u>204,587</u>	<u>(9,607)</u>
Total non-operating expenditures/expenses	<u>\$ 194,980</u>	<u>\$ 204,587</u>	<u>\$ (9,607)</u>
Transfers out – Governmental Activities	\$ -	\$ (524,395)	\$ 524,395
Transfers in – Business Activities	\$ -	\$ 524,395	\$ (524,395)

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Analysis of the Financial Statements-Governmental Activities
Assets, Liabilities and Fund Balance

	As of June 30, 2010	As of June 30, 2009	Increase (Decrease)
Total assets	\$ 4,574,378	\$ 4,508,897	\$ 65,481
Total liabilities	\$ 175,439	\$ 238,808	\$ (63,369)
Fund balance – reserved	\$ 11,084	\$ 15,301	\$ (4,217)
Fund balance – unreserved	\$ 4,387,855	\$ 4,254,788	\$ 133,067
Capital assets (net of depreciation)	\$ 16,829,670	\$ 16,891,366	\$ (61,696)
Long-term liabilities, compensated absences, & OPEB*	\$ 688,221	\$ 530,921	\$ 157,300

*Other Post Employment Benefits (OPEB) represents future retiree healthcare insurance benefits and was not required to be reported in prior years.

This is the first increase in Total Assets and Fund Balance (Unreserved) since June 30, 2006. A significant reason for this is the lack of transfers to the Enterprise Funds for the first time in several years. The increase in Total Liabilities is less than the accrual for the current year unfunded OPEB liability. The decrease in Capital Assets-Net of Depreciation is due to the depreciation allowance for fiscal year 2009-2010 being greater than the Capital Asset Additions.

Revenues, Expenditures and Change in Fund Balance

	As of June 30, 2010	As of June 30, 2009	Increase (Decrease)
Total revenues	\$ 3,965,464	\$ 4,257,727	\$ (292,263)
Total expenditures	3,836,614	4,114,206	(277,592)
Other financing uses	-	524,395	(524,395)
Net change in fund balance	128,850	(380,874)	509,724
Fund balance at beginning of year	4,270,089	4,650,963	(380,874)
Fund balance at end of year	\$ 4,398,939	\$ 4,270,089	\$ 128,850

The decrease in Other Financing Uses is due to a reduction in the amount transferred to the Enterprise Funds.

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Revenues, Expenditures and Change in Fund Balance (continued)

	As of <u>June 30, 2010</u>	As of <u>June 30, 2009</u>	Increase (Decrease)
Property taxes & assessments	\$ 2,297,939	\$ 2,340,969	\$ (43,030)
Grant income	83,548	194,225	(110,677)
Weed abatement	62,972	57,315	5,657
Franchise fees	68,089	67,884	205
Use of money & property	27,132	90,009	(62,877)
Charges for administrative services	1,367,118	1,450,902	(83,784)
Other	<u>58,666</u>	<u>56,423</u>	<u>2,243</u>
 Total revenue	 <u>3,965,464</u>	 <u>4,257,727</u>	 <u>(292,263)</u>
 Administrative expenditures	 1,320,154	 1,509,253	 (189,099)
Fire expenditures	1,780,744	1,847,374	(66,630)
Parks & recreation expenditures	12,420	71,832	(59,412)
Facilities & recreation expenditures	450,713	460,022	(9,309)
Resource conservation expenditures	147,437	146,258	1,179
Capital outlay	76,080	30,401	45,679
Debt Service:			
Principal	34,662	32,983	1,679
Interest	<u>14,404</u>	<u>16,083</u>	<u>(1,679)</u>
 Total expenditures	 <u>3,836,614</u>	 <u>4,114,206</u>	 <u>(277,592)</u>
 Excess of revenue over/(under) Expenditures	 <u>\$ 128,850</u>	 <u>\$ 143,521</u>	 <u>\$ (14,671)</u>

Capital Assets

Amounts shown are historical cost and no allowance for depreciation is included.

	As of <u>June 30, 2010</u>	As of <u>June 30, 2009</u>	Increase (Decrease)
Land & trails	\$ 14,964,063	\$ 14,715,493	\$ 248,570
Buildings & leasehold improvements	1,753,270	1,753,270	-
Equipment	1,772,176	1,777,663	(5,487)
Construction in progress	<u>220,550</u>	<u>415,475</u>	<u>(194,925)</u>
 Total capital assets	 <u>\$ 18,710,059</u>	 <u>\$ 18,661,901</u>	 <u>\$ 48,158</u>

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Analysis of the Financial Statements-Business-Type Activities
Assets, Liabilities and Net Assets

	As of June 30, 2010	As of June 30, 2009	Increase (Decrease)
Current assets	\$ 907,313	\$ 615,615	\$ 291,698
Capital assets	49,987,194	49,570,290	416,904
Accumulated depreciation	(25,961,999)	(24,698,776)	1,263,223
Other assets	1,853,648	1,888,750	(35,102)
Total assets	\$ 26,786,156	\$ 27,375,879	\$ (589,723)
Current liabilities	\$ 918,069	\$ 634,600	\$ 283,469
Non-current liabilities	3,340,429	3,821,775	(481,346)
Total liabilities	\$ 4,258,498	\$ 4,456,375	\$ (197,877)
Net assets – invested in capital assets- net of related debt	\$ 20,351,914	\$ 20,761,605	\$ (409,691)
Net assets – unrestricted	2,175,744	2,157,899	17,845
Total net assets	\$ 22,527,658	\$ 22,919,504	\$ (391,846)

Revenues, Expenditures and Change in Net Assets

	As of June 30, 2010	As of June 30, 2009	Increase (Decrease)
Operating revenues	\$ 3,720,885	\$ 3,370,100	\$ 350,785
Operating expenses	4,212,295	4,176,354	35,941
Operating income (loss)	(491,410)	(806,254)	314,844
Non-operating income	292,299	290,118	2,181
Non-operating expenses	194,980	204,587	(9,607)
Net non-operating income	97,319	85,531	11,788
Capital contributions	2,245	8,426	(6,181)
Transfers-in	-	524,395	(524,395)
Change in net assets	(391,846)	(187,902)	(203,944)
Net assets at beginning of year	22,919,504	23,107,406	(187,902)
Net assets at end of year	\$ 22,527,658	\$ 22,919,504	\$ (391,846)

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Revenues, Expenditures and Change in Net Assets (continued)

	As of June 30, 2010	As of June 30, 2009	Increase (Decrease)
Utility sales	\$ 3,710,851	\$ 3,364,806	\$ 346,045
Service charges & fees	10,034	5,294	4,740
Total operating revenues	3,720,885	3,370,100	350,785
Salaries & wages	672,478	727,429	(54,951)
Payroll taxes & benefits	513,489	508,861	4,628
Maintenance & repairs	315,947	223,519	92,428
Utilities	303,210	306,518	(3,308)
Professional services	92,656	132,313	(39,657)
Operating supplies	91,376	59,727	31,649
Licenses & fees	63,671	62,548	1,123
Depreciation & amortization	1,303,119	1,266,671	36,448
General & administrative overhead	794,023	809,527	(15,504)
Other expenditures	62,326	79,241	(16,915)
Total operating expenditures	4,212,295	4,176,354	35,941
Operating income (loss)	(491,410)	(806,254)	314,844
Availability charges revenues	292,102	290,118	1,984
Investment income	197	-	197
Total non-operating revenues	292,299	290,118	2,181
Interest expense	182,040	204,587	(22,547)
Loss on disposition of assets	12,940	-	12,940
Total non-operating expenditures	194,980	204,587	(9,607)
Total non-operating income (loss)	97,319	85,531	11,788
Capital contributions	2,245	8,426	(6,181)
Transfers-in	-	524,395	(524,395)
Change in net assets	(391,846)	(187,902)	(203,944)
Net assets at beginning of year	22,919,504	23,107,406	(187,902)
Net assets at end of year	\$ 22,527,658	\$ 22,919,504	\$ (391,846)

The most significant reason for the increase in Operating Revenue, by far, is the increase in utility rates in FY 2009-2010.

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Capital Assets

Amounts shown are historical cost and no allowance for depreciation is included.

	As of June 30, 2010	As of June 30, 2009	Increase (Decrease)
Land	\$ 2,274,379	\$ 2,274,379	\$ -
Plant & facilities	41,398,360	41,324,225	74,135
Machinery & equipment	1,368,313	1,378,684	(10,371)
Construction in progress	4,946,142	4,593,002	353,140
Totals capital assets	<u>\$ 49,987,194</u>	<u>\$ 49,570,290</u>	<u>\$ 416,904</u>

The only project completed during fiscal year 2009-2010 was the relocation and replacement of the water and sewer lines on the Leffingwell Bridge. While the total cost of this project was \$74,135, of that amount, \$35,822 was costs incurred in prior years.

The actual additions to Capital Assets represented by fiscal year 2009-2010 expenditures were mainly the following projects:

Desalination	\$ 267,201
SCADA	\$ 81,797
Leffingwell Bridge Utilities Replacement/Relocation	\$ 38,313
Rodeo Grounds Pump Station Replacement	\$ 19,983
Stuart Street Tank	\$ 19,983

Other Assets

Amounts shown are net of applicable allowance for amortization. (Intangible Assets are shown at historical costs as no amortization has been realized).

	As of June 30, 2010	As of June 30, 2009	Increase (Decrease)
Intangible assets	\$ 1,611,290	\$ 1,611,290	\$ -
Deferred loss on refunding	242,358	277,460	(35,102)
Total other assets	<u>\$ 1,853,648</u>	<u>\$ 1,888,750</u>	<u>\$ (35,102)</u>

Long-Term Debt

At fiscal year end June 30, 2010, the CCSD had long-term debt of \$507,437 in general governmental activities. The following is the detail of each debt item in the governmental funds.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
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Long-Term Debt (continued)

	As of June 30, 2010	As of June 30, 2009	Increase (Decrease)
Capital lease - Fire Pumper	\$ 248,328	\$ 282,990	\$ (34,662)
Compensated balances	259,109	247,931	11,178
Totals	<u>\$ 507,437</u>	<u>\$ 530,921</u>	<u>\$ (23,484)</u>

The CCSD entered into a lease purchase agreement for a Pierce Dash Pumper in 2006. A down payment of \$100,000 was made at that time. Ten annual payments in the amount of \$49,066 are subsequently due. The interest rate is 5.09% and prepayment penalties apply. Payments were current at June 30, 2010.

Compensated absences are the employee accumulated sick and vacation leave. CCSD policy allows employees to accumulate earned but unused vacation and sick pay. Unused vacation and sick leave are paid at termination of employment. One half of sick leave is paid up to maximum of 320 hours. No more than two years worth of vacation pay is to be accrued. Accrued leave balances are an obligation of the CCSD. Reporting requirements dictate that this be included in long-term liabilities.

At fiscal year end June 30, 2010, the CCSD had long-term outstanding debt of \$3,340,429 in water and sewer. Following is the detail of each debt item in the enterprise funds (for the purpose of this analysis, the current portion of the loan, note and bond payable totaling \$455,973 is included):

	As of June 30, 2010	As of June 30, 2009	Increase (Decrease)
Water bank loan	\$ 695,825	\$ 842,140	\$ (146,315)
Wastewater revenue bonds	1,660,000	1,730,000	(70,000)
Wastewater bank loan	374,675	453,460	(78,785)
Wastewater SWCRB note	942,781	1,084,309	(141,528)
Compensated absences – Water	76,248	99,560	(23,312)
Compensated absences – Wastewater	46,873	48,934	(2,062)
Totals	<u>\$ 3,796,402</u>	<u>\$ 4,258,403</u>	<u>\$ (462,002)</u>

The water and wastewater bank loan is a 4.5% note held by Citizens Bank for the original water and sewer infrastructure when the CCSD was formed. It is a refinance of 1995 bonds and matures in May, 2015. Payments were current at June 30, 2010.

The wastewater revenue bond has an interest rate that ranges from 3.5% to 5.7% for the upgrade to the wastewater treatment plant bringing plant capacity to one million gallons per day treatment capability and were scheduled to mature in October 2024. Payments were current at June 30, 2010. This bond was subsequently refinanced by a direct privately

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placed bank loan on September 23, 2010. The interest rate on the new loan is 4.55% and the loan matures on September 23, 2023. It is projected that the new loan will result in a **Long-Term Debt (continued)**

savings of interest and bond administrative fees of \$216,084 net of the issuance costs of \$24,000.

The wastewater SWCRB note is a 3.0% note from the State Water Resources Control Board under the State Revolving Fund Loan Program. It was also used to fund the upgrade to the wastewater treatment plant and matures in May, 2016. Payments were current at June 30, 2010.

Cash vs. (External) Debt

	As of June 30, 2010	As of June 30, 2009	Increase (Decrease)
Cash & investments – Government Funds	\$ 4,256,640	\$ 4,237,597	\$ 19,043
Cash & investments – Enterprise Funds	242,400	27,551	214,849
Total cash & investments	4,499,040	4,265,148	233,892
Capital lease payable	248,328	282,990	(34,662)
Bank loan payable	1,070,500	1,295,600	(225,100)
Revenue bonds payable	1,660,000	1,730,000	(70,000)
Note payable	942,781	1,084,309	(141,528)
Total debt service	3,921,609	4,392,899	(471,290)
Total cash less total debt service	\$ 577,431	\$ (127,751)	\$ 705,182

Economic Factors and Budget

The United States and especially California's economy took a significant turn for the worse during fiscal year 2008-2009. This downturn continued through the 2009-2010 fiscal year. A large component of the downturn is depressed prices for real property. This negatively impacted property tax revenue, although the impact to the CCSD was less than for San Luis Obispo County as a whole and much less than for all of California. Ad valorem property tax revenue decreased by \$49,829 (2.5%) for fiscal year 2009-2010 from fiscal year 2008-2009 after deducting the County's administrative charge. Two significant factors other than the general economic situation, which appear to be resulting in slightly reduced property tax revenue and may be at least partly responsible for significant reductions in utility sales, impact the financial strength of the CCSD. They are:

- Minimal impact fee revenue; and
- Stagnate customer base

CAMBRIA COMMUNITY SERVICES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ending June 30, 2010

Economic Factors and Budget (continued)

These conditions present significant fiscal challenges to the CCSD. To meet these challenges, the CCSD increased water fees by 9.75% and sewer fees by 15% as of July 1, 2009 and reduced staffing and employee benefits costs as well as reducing other operating costs. A hiring freeze was imposed by the Board of Directors and two Administrative Technicians were laid off. Management, confidential and firefighter employees began to contribute to their pensions. After increasing from \$2,563,201 in fiscal year 2007-2008 to \$2,566,283 in fiscal year 2008-2009, total salaries and wages decreased to \$2,386,305 in fiscal year 2009-2010 and is projected to be \$2,410,052 in fiscal year 2010-2011. The annual pension cost decreased from \$675,070 in fiscal year 2007-2008 to \$647,662 in fiscal year 2008-2009, to \$628,216 in fiscal year 2009-2010, and is projected to be \$613,773 in fiscal year 2010-2011. The preceding amounts include all salaries and wages, including any capitalized amounts.

The Board of Directors approved the operating budget for fiscal year 2010-2011 on June 24, 2010.

CAMBRIA COMMUNITY SERVICES DISTRICT
BOARD OF DIRECTORS AND ADMINISTRATION
June 30, 2010

BOARD OF DIRECTORS

<u>NAME</u>	<u>TERM EXPIRES</u>
Gregory Sanders, President	December 2010
Muril Clift, Vice President	December 2012
Peter Chaldecott, Director	December 2010
Frank DeMicco, Director	December 2012
Allan MacKinnon, Director	December 2012

ADMINISTRATION

Tammy Rudock	General Manager
Tim Carmel	District Counsel
Kathy Choate	District Clerk

CROSBY COMPANY, CERTIFIED PUBLIC ACCOUNTANT

1457 MARSH STREET, SUITE 100 - SAN LUIS OBISPO, CA 93401

PHONE: (805)543-6100 FAX: (805)858-9505

Independent Auditor's Report

Board of Directors
Cambria Community Services District
Cambria, California

I have audited the accompanying financial statements of the governmental activities and the business-type activities of Cambria Community Services District (CCSD), as of and for the year ended June 30, 2010, which collectively comprise CCSD's basic financial statements as listed in the table of contents. These financial statements are the responsibility of CCSD's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with U.S. generally accepted auditing standards. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe my audit provides a reasonable basis for our opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental and the business-type activities of the Cambria Community Services District as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis on pages i through xiv, are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

The management's budgetary comparison information on page 9 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of required supplementary information. However, I did not audit the information and express no opinion on it.

 Robert Berry CPA

CROSBY COMPANY
Certified Public Accountant

December 8, 2010

CAMBRIA COMMUNITY SERVICES DISTRICT

STATEMENT OF NET ASSETS

June 30, 2010

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments	\$ 4,256,640	\$ 242,400	\$ 4,499,040
Receivables:			
Interest receivable	6,165		6,165
Taxes	83,518		83,518
Note	5,631		5,631
Grants	8,925		8,925
Other	50,320	664,712	715,032
Prepaid costs	5,453	201	5,654
Due from other funds	157,726		157,726
Intangible-water master plan		1,611,290	1,611,290
Deferred loss on refunding, net of accumulated amortization		242,358	242,358
Capital assets:			
Nondepreciable	15,184,613	7,220,521	22,405,134
Depreciable, net	1,645,057	16,804,674	18,449,731
Total capital assets, net of depreciation	16,829,670	24,025,195	40,854,865
 Total assets	 \$ 21,404,048	 \$ 26,786,156	 \$ 48,190,204
LIABILITIES			
Accounts payable	\$ 77,120	\$ 99,398	\$ 176,518
Accrued expenses	273,824	121,701	395,525
Accrued interest payable		33,491	33,491
Refundable deposits	4,279	34,780	39,059
Deferred revenue	1,000	15,000	16,000
Due to other funds		157,726	157,726
Long-term liabilities			
Due within one year	36,426	455,973	492,399
Due within more than one year	471,011	3,340,429	3,811,440
Total liabilities	863,660	4,258,498	5,122,158
 NET ASSETS			
Invested in capital assets-net of related debt	16,581,342	20,351,914	36,933,256
Unrestricted	3,959,046	2,175,744	6,134,790
 Total net assets	 \$ 20,540,388	 \$ 22,527,658	 \$ 43,068,046

The accompanying notes are an integral part of these financial statements

CAMBRIA COMMUNITY SERVICES DISTRICT

BALANCE SHEET Governmental Funds June 30, 2010

	<u>General Fund</u>
ASSETS	
Cash and investments	\$ 4,256,640
Receivables:	
Interest	6,165
Taxes	83,518
Notes	5,631
Grants	8,925
Other	50,320
Prepaid items	5,453
Amount due from other funds	157,726
 Total assets	 \$ 4,574,378
LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts payable	\$ 77,120
Accrued expenses	93,040
Deferred revenue	1,000
Deposits	4,279
 Total liabilities	 175,439
Fund balances:	
Reserved:	
Reserved for prepaids	5,453
Reserved for notes receivable	5,631
Unreserved;	
Unreserved	4,387,855
 Total fund balances	 4,398,939
 Total liabilities and fund balances	 \$ 4,574,378

CAMBRIA COMMUNITY SERVICES DISTRICT
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET ASSETS
 June 30, 2010

Total fund balances - government funds	\$ 4,398,939
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	16,829,670
Long-term liabilities and compensated absences have not been included in the governmental funds activity:	
Other post employment benefits payable	(180,784)
Capital lease payable	(248,328)
Compensated absences	(259,109)
Net assets of governmental activities	\$ 20,540,388

CAMBRIA COMMUNITY SERVICES DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

Governmental Funds

For the Year Ended June 30, 2010

	General Fund
Revenues:	
Property taxes and assessments	\$ 2,297,939
Grant income	83,548
Weed abatement	62,972
Franchise fees	68,089
Use of money and property	27,132
Charges for administrative services	1,367,118
Other	58,666
 Total revenues	 3,965,464
Expenditures:	
Administration	1,320,153
Fire	1,780,744
Parks and Recreation	12,420
Facilities and Resources	450,713
Resource Conservation	147,437
Capital outlay	76,081
Debt service:	
Principal	34,662
Interest	14,404
 Total expenditures	 3,836,614
 Net change in fund balance	 128,850
 Fund balance at beginning of year	 4,270,089
 Fund balance at end of year	 \$ 4,398,939

CAMBRIA COMMUNITY SERVICES DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES OF GOVERNMENT FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2010

Net Change in Governmental Fund Balances	\$ 128,850
Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	34,662
In the statement of activities, compensated absences are measured by the amounts earned during the fiscal year. In governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially the amount paid).	(11,178)
In the statement of activities, other post employment benefits are measured by the amounts accrued during the fiscal year. In governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially the amount paid).	(180,784)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives and expensed as depreciation expense. In the current period, these amounts are:	
Capital outlay	\$ 76,080
Depreciation expense	(125,897)
Loss on disposal of equipment	(11,880)
Excess of depreciation expense and loss over capital outlay	(61,697)
Change in Net Assets of Governmental Activities	<u>\$ (90,147)</u>

CAMBRIA COMMUNITY SERVICES DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE

Budget and Actual - Governmental Funds
For the Year Ended June 30, 2010

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property taxes and assessments	\$ 2,278,747	\$ 2,278,747	\$ 2,297,939	\$ 19,192
Grant income			83,548	83,548
Weed abatement	40,848	67,848	62,972	(4,876)
Franchise fees	67,857	67,857	68,089	232
Use of money and property	39,800	29,000	27,132	(1,868)
Charges for administrative services	1,306,697	1,320,091	1,367,118	47,027
Other	79,466	108,777	58,666	(50,111)
Total revenues	3,813,415	3,872,320	3,965,464	93,144
Expenditures:				
Administration	1,413,277	1,397,071	1,320,153	76,918
Fire	1,722,238	1,658,392	1,780,744	(122,352)
Parks and Recreation	55,757	43,571	12,420	31,151
Facilities and Resources	457,362	463,923	450,713	13,210
Resource Conservation	149,449	147,760	147,437	323
Capital outlay			76,081	(76,081)
Debt service:				
Principal	34,662	34,662	34,662	-
Interest	14,404	14,404	14,404	-
Total expenditures	3,847,149	3,759,783	3,836,614	(76,831)
Excess of revenues over (under) expenditures	\$ (33,734)	\$ 112,537	128,850	\$ 16,313
Fund balance at beginning of year			4,270,089	
Fund balance at end of year			\$ 4,398,939	

CAMBRIA COMMUNITY SERVICES DISTRICT

STATEMENT OF NET ASSETS

Proprietary Funds

June 30, 2010

ASSETS	Business-type Activities Enterprise Funds		
	Water Fund	Wastewater Fund	Totals
Current assets:			
Cash and investments	\$ -	\$ 242,400	\$ 242,400
Accounts receivable, net of allowance	299,027	365,685	664,712
Prepaid expense		201	201
Total current assets	299,027	608,286	907,313
Noncurrent assets:			
Capital assets:			
Construction in progress	4,623,114	323,028	4,946,142
Land	898,949	1,375,430	2,274,379
Plant and facilities	17,823,149	23,575,211	41,398,360
Machinery and equipment	471,431	896,882	1,368,313
Less: accumulated depreciation	(9,729,218)	(16,232,781)	(25,961,999)
Total noncurrent assets	14,087,425	9,937,770	24,025,195
Other assets:			
Intangible-water master plan	1,611,290		1,611,290
Deferred loss on refunding, net of amortization	83,146	159,212	242,358
Total other assets	1,694,436	159,212	1,853,648
Total assets	\$ 16,080,888	\$ 10,705,268	\$ 26,786,156
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 36,186	\$ 63,212	\$ 99,398
Accrued expenses	67,861	53,840	121,701
Accrued interest payable	5,219	28,272	33,491
Deferred revenue	15,000		15,000
Deposits	34,780		34,780
Due to other funds	157,726		157,726
Current portion of noncurrent liabilities	152,880	303,093	455,973
Total current liabilities	469,652	448,417	918,069
Noncurrent liabilities:			
Compensated absences	76,248	46,873	123,121
Loan payable, less current portion	542,945	292,355	835,300
Bonds payable, less current portion		1,585,000	1,585,000
Note payable, less current portion		797,008	797,008
Total noncurrent liabilities	619,193	2,721,236	3,340,429
Total liabilities	\$ 1,088,845	\$ 3,169,653	\$ 4,258,498
NET ASSETS			
Invested in capital assets - net of related debt	\$ 13,391,600	\$ 6,960,314	20,351,914
Unrestricted	1,600,443	575,301	2,175,744
Total net assets	\$ 14,992,043	\$ 7,535,615	\$ 22,527,658

The accompanying notes are an integral part of these financial statements

CAMBRIA COMMUNITY SERVICES DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Proprietary Funds
For the Year Ended June 30, 2010

	Business-type Activities		Totals
	Enterprise Funds		
	Water Fund	Wastewater Fund	
Operating revenues:			
Utility sales	\$ 1,751,707	\$ 1,959,144	\$ 3,710,851
Service charges and fees	9,384	650	10,034
Total operating revenues	1,761,091	1,959,794	3,720,885
Operating expenses:			
Salaries and wages	336,704	335,774	672,478
Payroll taxes and benefits	254,575	258,914	513,489
Maintenance and repairs	147,859	168,088	315,947
Office supplies, publications, and dues	14,106	13,310	27,416
Licenses and fees	16,240	47,431	63,671
Rent	26,000	1,870	27,870
Professional services	80,113	12,543	92,656
Operating supplies	47,758	43,618	91,376
Employee travel and training	3,572	2,679	6,251
Utilities	131,531	171,679	303,210
Bad debts	789		789
General and administrative overhead	459,485	334,538	794,023
Amortized bond costs	17,202	17,900	35,102
Depreciation	575,325	692,692	1,268,017
Total expenses	2,111,259	2,101,036	4,212,295
Net operating loss	(350,168)	(141,242)	(491,410)
Non-operating revenues			
Availability charges	177,114	114,988	292,102
Investment income	10	187	197
Loss on disposal of equipment	(11,466)	(1,474)	(12,940)
Interest expense	(36,799)	(145,241)	(182,040)
Total non-operating revenues (expenses)	128,859	(31,540)	97,319
Non-operating revenues			
Capital contribution - connection fees		2,245	2,245
Change in net assets	(221,309)	(170,537)	(391,846)
Net assets at beginning of year	15,213,352	7,706,152	22,919,504
Net assets at end of year	\$ 14,992,043	\$ 7,535,615	\$ 22,527,658

The accompanying notes are an integral part of these financial statements

CAMBRIA COMMUNITY SERVICES DISTRICT

STATEMENT OF CASH FLOWS
Proprietary Funds
For the Year Ended June 30, 2010

	Business-type Activities		
	Enterprise Funds		Totals
	Water Fund	Wastewater Fund	
Cash flows from operating activities:			
Cash received from operating revenue	\$ 1,730,676	\$ 1,906,947	\$ 3,637,623
Payments to suppliers	(999,970)	(986,319)	(1,986,289)
Payments to employees	(339,374)	(338,349)	(677,723)
Net cash provided by operating activities	391,332	582,279	973,611
Cash flows from capital and related financing activities:			
Interest payments	(36,799)	(145,241)	(182,040)
Principal payments	(146,315)	(290,313)	(436,628)
Purchase of capital assets	(385,342)	(49,296)	(434,638)
Standby availability	177,114	114,988	292,102
Capital contributions	-	2,245	2,245
Net cash used by capital and related financing activities	(391,342)	(367,617)	(758,959)
Cash flows from investing activities			
Investment income	10	187	197
Net cash provided from investing activities	10	187	197
Net change in cash	-	214,849	214,849
Cash and cash equivalents-beginning		27,551	27,551
Cash and cash equivalents-end	\$ -	\$ 242,400	\$ 242,400
Reconciliation of operating loss to net cash provided by operating activities:			
Operating loss	\$ (350,168)	\$ (141,242)	\$ (491,410)
Adjustments to reconcile operating loss to net cash used by operating activities:			
Depreciation	575,325	692,692	1,268,017
Amortization	17,202	17,900	35,102
Net changes in assets and liabilities:			
Increase in accounts receivable	(30,415)	(52,847)	(83,262)
(Increase) decrease in prepaid expense	1,137	(201)	936
Decrease in inventory		5,477	5,477
Increase (decrease) in accounts payable	(16,965)	29,100	12,135
Increase in accrued expenses	44,519	35,237	79,756
Decrease in accrued interest payable	(1,097)	(1,776)	(2,873)
Increase in deferred revenue	15,000		15,000
Increase in deposits	2,380		2,380
Increase in due to other funds	157,726		157,726
Decrease in compensated absences	(23,312)	(2,061)	(25,373)
Net cash provided by operating activities	\$ 391,332	\$ 582,279	\$ 973,611

CAMBRIA COMMUNITY SERVICES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

NOTE 1: REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Cambria Community Services District (CCSD) is a multi-purpose special district established on December 9, 1976. CCSD is a political subdivision of the State of California and operates under a Board of Directors-Manager form of government. CCSD provides water, wastewater, fire protection, parks and recreation, open space, street lighting, and general administrative services.

There are no component units included in this report which meet the criteria of Governmental Accounting Standards Board (GASB) Statement No. 14, The Financial Reporting Entity as amended by GASB Statement No. 39.

Basis of Accounting, Measurement Focus, and Financial Statements Presentation

The basic financial statements of CCSD are composed of the following:

- Government-Wide and Fund Financial Statements
- Fund Financial Statements
- Notes to the Financial Statements

Government-Wide Financial Statements

Government-wide financial statements display information about the reporting government as a whole. These Statements include separate columns for the governmental activities and business-type activities of the primary government (including its blended component units), as well as its discreetly presented component units. Eliminations have been made in the Statement of Activities so that certain allocated expenses are recorded only once (by the function to which they were allocated). However, general government expenses have not been allocated as indirect expenses to the various functions of CCSD.

Government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the reporting government are reported in the government-wide financial statement. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains losses, assets, and liabilities resulting from non-exchange transaction are recognized in accordance with the requirements of GASB Statement number 33.

Program revenues include charges for services, special assessments, and payments made by parties outside of the reporting government's citizenry if that money is restricted to a particular program. Program revenues are netted with program expenses in the statement of activities to present the net cost of each program.

CAMBRIA COMMUNITY SERVICES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

NOTE 1: REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

Basis of Accounting, Measurement Focus, and Financial Statements Presentation (continued)

Fund Financial Statements

The underlying accounting system of CCSD is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Fund financial statements for the primary government are presented after the government-wide financial statements. These statements display information about major funds individually and non-major funds in the aggregate for governmental and enterprise funds.

Governmental Funds

In the fund financial statements, governmental funds are presented using the modified – accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets. Measurable means that the amounts can be estimated, or otherwise determined. Available means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. Revenue recognition is subject to the measurable and availability criteria for the governmental funds in the fund financial statements. Exchange transactions are recognized as revenues in the period in which they are earned (i.e., the related goods or services are provided). Locally imposed derived tax revenues are recognized as revenues in the period in which the underlying exchange transaction upon which they are based takes place. Imposed non-exchange transactions are recognized as revenues in the period for which they were imposed. If the period of use is not specified, they are recognized as revenues in the period for which they were imposed. If the period of use is not specified, they are recognized as revenues when an enforceable legal claim to the revenues arises or when they are received, whichever occurs first. Government-mandated and voluntary non-exchange transactions are recognized as revenues when all applicable eligibility requirements have been met.

In the fund financial statements, governmental funds are presented using the current financial resources measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. The reported fund balance (net current assets) is considered to be a measure of “available spendable resources.” Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of “available spendable resources” during a period.

CAMBRIA COMMUNITY SERVICES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

NOTE 1: REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

Basis of Accounting, Measurement Focus, and Financial Statements Presentation (continued)

Non-current portions of long-term receivables due to governmental funds are reported on their balance sheets in spite of their spending measurement focus. Special reporting treatments are used to indicate, however, that they should not be considered "available spendable resources," since they do not represent net current assets. Recognition of governmental fund type revenue represented by non-current receivables are deferred until they become current receivables. Non-current portions of other long-term receivables are offset by fund balance reserve accounts. Because of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

Amounts expended to acquire capital assets are recorded as expenditures in the fiscal year that resources were expended, rather than as capital assets. The proceeds of long-term debt are recorded as an other financing sources rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

When both restricted and unrestricted resources are combined in a fund, expenditures/expenses are considered to be paid first from restricted resources, and then from unrestricted resources.

CCSD reports the following major governmental fund:

General Fund: is the primary operating fund of CCSD. It is used to account for all financial resources except those required to be accounted for in another fund.

CCSD reports the following major proprietary funds:

Water Fund: accounts for the activities of CCSD's water operations.

Wastewater Fund: accounts for activities of CCSD's sewer operations.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary 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.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services, and producing and delivering goods in connection with proprietary funds' principal ongoing operations. The principal operating revenues of the Water and Wastewater Funds are charges to customers. Operating expenses for the Water and Wastewater Funds include non-capital expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

CAMBRIA COMMUNITY SERVICES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

NOTE 1: REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles require management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Encumbrances

Encumbrance accounting is used for the General Fund. Encumbrances are recorded when purchase orders are issued but are not considered expenditures until liabilities for payments are incurred. Encumbrances are reported as a reservation of fund balance on the balance sheet. Encumbrances do not lapse at the close of the fiscal year but are carried forward as reserved fund balance until liquidated.

Cash and Cash Equivalents

For purposes of the statement of cash flows, CCSD considers all highly liquid investments with a maturity of three months or less to be cash and cash equivalents.

Investments

Investments are stated at fair value.

Accounts Receivable

CCSD water and wastewater charges are billed bimonthly for all residential and commercial customers. Customer accounts receivable are placed on the tax roll when the receivable is deemed uncollectible by CCSD. Management has determined that an allowance for doubtful accounts is zero and not considered necessary since it would not be material.

Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond June 30, 2010, are recorded as prepaid expenses.

Property Taxes

The County of San Luis Obispo bills and collects property taxes for CCSD. The County charges CCSD for these services. Tax revenues are recognized as soon as the County indicates that they are due to the CCSD.

CAMBRIA COMMUNITY SERVICES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

NOTE 1: REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or business-type activities fund type statement of net assets. In the fund financial statements, governmental fund types report the face amount of debt issued as other financing sources.

Property, Plant and Equipment

General capital assets generally result from expenditures in governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are valued at historical cost or estimated historical cost, if actual costs are not available. Donated fixed assets are stated at their fair market value on the date donated. CCSD currently maintains a capitalization threshold of \$5,000 and an estimated useful life exceeding two years. Improvements are capitalized and the cost of normal maintenance and repairs that do not add to the value of the net asset or materially extend the asset's life are not.

Capital assets used in operations are depreciated over their estimated useful lives using the straight-line method in the applicable governmental or business-type activity column in the government-wide financial statements. Depreciation is charged as an expense against operations and accumulated depreciation is reported on the respective statement of net assets. The estimated useful lives are as follows:

Equipment	3 to 10 years
Improvements	5 to 20 years

Compensated Absences

The accrual for vacation/sick time earned but not taken by staff employees was calculated based on actual vacation/sick days and applied to the individual employees' hourly rate.

Concentrations

CCSD will provide water/wastewater services to customers located in the County of San Luis Obispo. Consequently, its ability to collect amounts due from customers may be affected by economic fluctuations, within this region and within the State of California as a whole.

CAMBRIA COMMUNITY SERVICES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

NOTE 1: REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures. Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund, are recorded as expenses/expenditures in the reimbursing fund and as reductions of expenses/expenditures in the fund that is reimbursed.

With the exception of the loan between the general fund and the water fund, all other interfund transactions except quasi-external transactions and reimbursements are reported as transfers. Nonrecurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

Intergovernmental Revenues

For governmental funds, intergovernmental revenues, such as contributions awarded on a non-reimbursement basis, are recorded as receivables and revenues when measurable and available.

Reservations of Fund Balance

Reserved Fund Balance indicates that portion of fund balance which has been legally segregated for specific purposes;

Designated Fund Balance indicates that portion of fund balance for which the Board of Directors has made tentative plans for financial resource utilization in a future period; and

Undesignated Fund Balance indicates that portion of fund balance which is available for budgeting in future periods.

Net Assets

Net assets present the difference between assets and liabilities in the statement of net assets. Net assets invested in capital assets are reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are legal limitations imposed on their use by external restrictions by creditors, grantors, laws or regulations of other governments.

CAMBRIA COMMUNITY SERVICES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

NOTE 2: CASH AND INVESTMENTS

CCSD pools idle cash from all funds for the purpose of increasing income through investment. Earnings from such investments are allocated to the respective funds on the basis of applicable cash balances of each fund.

The values of cash and investments at June 30, 2010 are summarized as follows:

Petty cash	\$	700
Demand deposits (overdraft)		(8,578)
Cash and investments with:		
Local Agency Investment Fund (LAIF)		4,506,918
Total cash and investments	\$	4,499,040

The California Government Code requires California banks and savings and loan associations to secure a district's deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of a district's deposits. California law also allows financial institutions to secure district deposits by pledging first trust deed mortgage notes having a value of 150% of a district's total deposits. CCSD may waive collateral requirements for deposits which are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). Effective October 3, 2008, the FDIC limit was temporarily increased to \$250,000 for interest bearing accounts until December 31, 2013. Effective November 9, 2010, the FDIC established unlimited coverage for public funds held in a noninterest-bearing account until December 31, 2012.

Credit Risk, Carrying Amount, and Market Value

Cash is classified in three categories of credit risk as follows:

- Category 1 -insured or collateralized with securities held by the entity or by its agent in the entity's name;
- Category 2 -collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name; and
- Category 3 -uncollateralized.

At June 30, 2010, the carrying amount of CCSD's cash overdrafts were \$8,578. The bank's balances were \$126,883. This difference is due to the normal deposits in transit and outstanding checks. CCSD cash deposits by category as of June 30, 2010, were as follows:

		Category			Bank	Carrying
	<u>1</u>	<u>2</u>	<u>3</u>		<u>Balance</u>	<u>Amount</u>
Bank accounts	\$ <u>126,883</u>	\$ <u>-0-</u>	\$ <u>-0-</u>	\$	<u>126,883</u>	\$ <u>(8,578)</u>

CAMBRIA COMMUNITY SERVICES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

NOTE 3- NOTES RECEIVABLE

CCSD has recorded a note receivable for \$20,631. The Cambria Tennis Club has agreed to pay CCSD \$20,631 to reimburse CCSD for tennis court construction. The interest free note is due in annual installments of \$5,000 with the first payment made on September 1, 2007. The balance at June 30, 2010 was \$5,631.

NOTE 4: PROPERTY, PLANT AND EQUIPMENT

A summary of capital assets by major classifications is as follows:

	<u>Balance</u> <u>June 30, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2010</u>
Governmental activities:				
Nondepreciable capital assets				
Land	\$ 14,715,493	\$ 248,570	\$ -	\$ 14,964,063
Construction in progress	415,475	53,645	(248,570)	220,550
	<u>15,130,968</u>	<u>302,215</u>	<u>(248,570)</u>	<u>15,184,613</u>
Total nondepreciable Capital assets				
	15,130,968	302,215	(248,570)	15,184,613
Depreciable capital assets				
Buildings and improvements	1,753,270	-	-	1,753,270
Equipment	1,777,663	22,436	(27,923)	1,772,176
	<u>3,530,933</u>	<u>22,436</u>	<u>(27,923)</u>	<u>3,525,446</u>
Total depreciable capital assets	3,530,933	22,436	(27,923)	3,525,446
Less accumulated depreciation	(1,770,535)	(125,897)	16,043	(1,880,389)
Net depreciable capital assets	<u>1,760,398</u>	<u>(103,461)</u>	<u>(11,880)</u>	<u>1,645,057</u>
Net capital assets	<u>\$ 16,891,366</u>	<u>\$ 198,754</u>	<u>\$ (260,450)</u>	<u>\$ 16,829,670</u>

CAMBRIA COMMUNITY SERVICES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

NOTE 4: PROPERTY, PLANT AND EQUIPMENT (continued)

	Balance July 1, 2009	Additions	Deletions	Balance June 30, 2010
Business-type activities:				
Nondepreciable capital assets				
Land	\$ 2,274,379	\$ -	\$ -	\$ 2,274,379
Construction in progress	4,593,002	389,563	(36,423)	4,946,142
	6,867,381	389,563	(36,423)	7,220,521
Depreciable capital assets				
Buildings and facilities	41,324,225	74,134	(17,734)	41,380,625
Machinery and equipment	1,378,684	7,364		1,386,048
	42,702,909	81,498	(17,734)	42,766,673
Less accumulated depreciation	(24,698,776)	(1,268,017)	4,794	(25,961,999)
Net depreciable capital assets	18,004,133	(1,186,519)	(12,940)	16,804,674
Net capital assets	\$ 24,871,514	\$ (796,956)	\$ (49,363)	\$ 24,025,195

Depreciation expense for all funds was \$1,268,017 for the year ended June 30, 2010.

NOTE 5: ACCRUED EXPENSES

Accrued expenses as of June 30, 2010, are summarized as follows:

Salaries payable	\$ 115,399
Other post employment benefits (OPEB) payable	265,946
Other	14,180
	395,525
Total accrued liabilities	\$ 395,525

CAMBRIA COMMUNITY SERVICES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

NOTE 6: LONG-TERM DEBT

Loan Payable

On February 17, 2006, CCSD entered into a loan agreement for \$1,897,500 with the Municipal Finance Corporation to advance refund its 1995 water and wastewater bonds. The interest rate on the loan is 4.5%. The loan is allocated 65% to water operations and 35% to wastewater operations. The balance of the loan payable at June 30, 2010, is \$1,070,500.

The loan matures on May 1st of the following fiscal years through 2015, as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2011	\$ 235,200	\$ 48,173	\$ 283,373
2012	245,800	37,589	283,389
2013	256,900	26,528	283,428
2014	268,500	14,967	283,467
2015	64,100	2,883	66,983
Totals	\$ <u>1,070,500</u>	\$ <u>130,140</u>	\$ <u>1,200,640</u>

1999 Revenue Bond

Wastewater revenue bonds totaling \$2,245,000 were issued on October 5, 1999, with interest rates ranging from 3.5 to 5.7 percent. At June 30, 2010, the revenue bonds principal balance outstanding was \$1,660,000. This bond was subsequently refinanced on September 23, 2010 with a private placement bank loan

The bonds mature on May 1st of the following fiscal years through 2025, as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2011	\$ 75,000	\$ 90,582	\$ 165,582
2012	75,000	86,870	161,870
2013	80,000	82,955	162,955
2014	85,000	78,535	163,535
2015	95,000	73,495	168,495
2016-2020	535,000	282,855	817,855
2021-2025	715,000	107,018	822,018
Totals	\$ <u>1,660,000</u>	\$ <u>802,310</u>	\$ <u>2,462,310</u>

CAMBRIA COMMUNITY SERVICES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

NOTE 6: LONG-TERM DEBT (continued)

Note Payable:

A State Water Resource Control Board (SWRCB) note payable totaling \$2,512,330 was issued on September 13, 1994, with an interest rate at 3 percent. At June 30, 2010, the note payable principal balance outstanding was \$942,781.

The note payments are due annually on May 28th of the following fiscal years through 2016, as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2011	\$ 145,773	\$ 28,284	\$ 174,057
2012	150,212	23,845	174,057
2013	154,653	19,404	174,057
2014	159,293	14,764	174,057
2015	164,071	9,986	174,057
2016	168,779	5,049	173,828
Totals	\$ <u>942,781</u>	\$ <u>101,332</u>	\$ <u>1,044,113</u>

Capital Lease Payable

CCSD entered into a capital lease agreement on May 16, 2006, with OshKosh Capital for the purchase of a Fire Engine. The terms of the lease are for ten annual payments of \$49,066, commencing May 19, 2007, with an interest rate of 5.09%. At June 30, 2010, the capital lease principal balance outstanding was \$248,328.

The lease payments are due annually on May 19th, until 2016 as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2011	\$ 36,426	\$ 12,640	\$ 49,066
2012	38,280	10,786	49,066
2013	40,229	8,837	49,066
2014	42,276	6,790	49,066
2015	44,428	4,638	49,066
2016	46,689	2,376	49,065
Totals	\$ <u>248,328</u>	\$ <u>46,067</u>	\$ <u>294,395</u>

CAMBRIA COMMUNITY SERVICES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

NOTE 6: LONG-TERM DEBT (continued)

Total future debt service payments by activity are as follows:

Fiscal Year Ending June 30,	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	Principal	Interest	Principal	Interest
2011	36,426	12,640	455,973	167,039
2012	38,280	10,786	471,012	148,304
2013	40,229	8,837	491,553	128,887
2014	42,276	6,790	512,793	108,266
2015	44,428	4,638	323,171	86,364
2016-2020	46,689	2,376	703,779	287,904
2021-2025			715,000	107,018
Totals	\$ <u>248,328</u>	\$ <u>46,067</u>	\$ <u>3,673,281</u>	\$ <u>1,033,782</u>

Changes in long-term liabilities

The following is a summary of long-term liabilities activity for the fiscal year ended June 30, 2010:

	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010	Current
Governmental activities:					
Capital leases	\$ 282,990	\$ -	\$ 34,662	\$ 248,328	\$ 36,426
Compensated absences	247,931	11,178		259,109	
Governmental activity Long-term liabilities	\$ <u>530,921</u>	\$ <u>11,178</u>	\$ <u>34,662</u>	\$ <u>507,437</u>	\$ <u>36,426</u>
	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010	Current
Business-type activities:					
Bonds payable	\$ 1,730,000	\$ -	\$ 70,000	\$ 1,660,000	\$ 75,000
Loan payable	1,295,600		225,100	1,070,500	235,200
Note payable	1,084,309		141,528	942,781	145,773
Compensated absences	148,494		25,373	123,121	
Business-type activity Long-term liabilities	\$ <u>4,258,403</u>	\$ <u>-</u>	\$ <u>462,001</u>	\$ <u>3,796,402</u>	\$ <u>455,973</u>

CAMBRIA COMMUNITY SERVICES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

NOTE 7: LOSS ON BOND REFUNDING

On February 17, 2006, CCSD defeased the 1995 Revenue Bonds. CCSD placed \$2,417,216 in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1995 Revenue Bonds. The bonds are considered to be defeased and the related liability has been removed from the financial statements. The amount of bonds considered defeased at June 30, 2010 is \$0 as the bonds were paid in full on May 1, 2006. The economic gain resulting from the refunding was \$174,494 and CCSD recognized a loss on refunding of \$61,061, which is being amortized along with prior bond refunding through May 15, 2015. The unamortized balance of all bond refundings at June 30, 2010 is \$242,358.

NOTE 8: PENSION PLAN

The Cambria Community Services District contributes to the California Public Employees Retirement System (CalPERS), an agent multiple-employer public employee 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 entities within the State of California. Benefit provisions and all other requirements are established by State statute and CCSD resolutions. Copies of CalPERS' annual financial report may be obtained from their Executive Office (400 P Street, Sacramento, CA 95814).

Participants are required to contribute 8% of their annual covered salary for miscellaneous members. A new memorandum of understanding with the International Association of Firefighters took effect on April 23, 2010 where they pay 2% (two ninths) of the 9% employee share of retirement. As of July 1, 2010, all management and confidential exempt employees started paying 2% of the 8% employee share of retirement too. CCSD makes the contributions required of CCSD employees on their behalf and for their account. CCSD is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The contribution requirements of the plan members are established by State statute and the employer contribution rate are established and may be amended by CalPERS.

The annual PERS pension cost for the year ended June 30, 2010 was \$628,216, and was equal to CCSD's required and actual contributions. The required contribution was determined as part of the June 30, 2009, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service, and (c) no cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.0%. The actuarial value of CalPERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a fifteen year period. CalPERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The three year trend information was not made available to CCSD for both CCSD participants and safety participants

CAMBRIA COMMUNITY SERVICES DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2010

NOTE 9: POST-EMPLOYMENT BENEFITS

In addition to pension benefits, the District provides post-retirement health care benefits through the California Public Employees' Retirement System. Employees who retire on or after attaining age 50 and are vested, are eligible for District paid health insurance. On June 30, 2010, the District conducted an internal actuarial calculation to determine the required funding for this health care benefits program.

The actuarial liability for the District's retiree health benefits program on this measurement date was determined to be \$6,864,101. This value is based on a discount rate of 5.5%. The District's funding policy is to fund 100% of the annual required contribution determined through the California Employers' Retiree Benefit Trust (CERBT). Currently, 27 retired employees are receiving 95% paid health care benefits totaling \$16,114 per month.

Below are the required disclosures for this plan:

Number of active participants		30
Employer's actuarially required contributions	\$	414,464
Employer's actual contributions	\$	148,546
Actuarial Accrued Liability(AAL)	\$	4,615,089
Actuarial Valuation of Assets(AVA)	\$	-
Unfunded Actuarial Accrued Liability(UAAL)=(AAL less AVL)	\$	4,615,089
Funded Ratio(AVA/AAL)		0%
Estimated Payroll	\$	2,386,307
UAAL as a Percentage of Covered Payroll		193%

CAMBRIA COMMUNITY SERVICES DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2010

NOTE 10: JOINT POWERS AGENCIES

The Cambria Community Services District participates in a joint venture under a Joint Power Agency (JPA), the Special District Risk Management Authority (SDRMA). The SDRMA was established to provide general liability, workers compensation, automobile, errors and omission, and property loss coverage to special districts. The SDRMA is administered by a Board of Directors, consisting of two members appointed by the California Special Districts Association and five members elected by districts participating. The Board is responsible for establishing premium rates and making budgeting decisions.

Coverage under current policies includes property loss, general liability, auto liability and comprehensive/collision, and public officials' and employees' errors and omissions. Claims over the self-insured amounts are covered by the SDRMA within the limits of the policy. Each member district is assessed a premium in accordance with the JPA agreement creating the agency.

CCSD is also participating in two separate Joint Powers Agreements. The first is an agreement with the City of Morro Bay, the Cayucos Fire District, and the South Bay Fire Department to operate an air fill compressor station for the respective fire departments. CCSD pays their share of the member contributions due on an annual basis, not to exceed \$1,000 per year. There is no contingent liability for CCSD at June 30, 2010.

The second is an agreement with the Coast Unified School District (CUSD) to lease property for the operation of the Santa Rosa Creek Well #4, the CUSD water well, pump, and distribution facilities for the purpose of securing the conveying groundwater. CCSD pays CUSD \$26,000 per year for the easement and access to the site operation and maintenance repairs. The total cost of the 10 year agreement is \$266,000. The first payment of \$32,000 was made in December 2000. This agreement expired in 2010. A 10-year extension is currently being processed (this will be presented to the Board of Directors on January 20, 2011).