

KEYES COMMUNITY SERVICES DISTRICT
ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2010

BOARD OF SUPERVISORS

2011 JAN 31 A 10:13

KEYES COMMUNITY SERVICES DISTRICT, CALIFORNIA

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INDEPENDENT AUDITOR'S REPORT

To The Board of Directors
Keyes Community Service District
Keyes, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Keyes Community Service District, as of and for the years ended June 30, 2010 and 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These general purpose financial statements are the responsibility of the Keyes Community Service District's management. Our responsibility is to express an opinion on these general purpose 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Keyes Community Service District as of June 30, 2010 and 2009, and the respective changes in financial position thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 6 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board.

We 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, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 15, 2010 on our consideration of the Keyes Community Service District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Clendenin Bird & Company,

CLENDENIN BIRD & COMPANY, PC

Modesto, California
December 15, 2010

**KEYES COMMUNITY SERVICE DISTRICT
MANAGEMENTS DISCUSSION AND ANALYSIS
JUNE 30, 2010
(UNAUDITED)**

This section of the Keyes Community Services District annual financial report provides important background information and management's analysis of the District's financial performance during the fiscal year that ended on June 30, 2010. Please read this section in conjunction with the basic financial statements and the notes to the basic financial statements.

Financial Highlights

- Total Net Assets of the District were approximately \$4,520,576 in 2010 and \$4,372,900 in 2009, a increase of approximately \$147,676.
- Total liabilities decreased by approximately \$64,259 during the same period.
- Operating revenues grew approximately \$203,808 due to an increase in the rates.
- Operating expenses decreased by \$106,173 due to increase demand on systems and new water regulations.

Overview of the Financial Statements

This financial report consists of the following basic parts: management's discussion and analysis (this section) the basic financial statements.

The basic financial statements contained in this report are presented using Governmental Accounting Standard's Board (GASB) accounting principles. These statements provide overall information about The District's financial activities on both a short-term and long-term basis. The statement of net assets presents information about its assets (resources) and liabilities (the amount obligated to its creditors). The statements of revenues, expenses, and changes in net assets present information about the current year revenues and expenses. The statement also provides useful information for determining whether the District's service revenue and other revenue sources were sufficient to allow the District to recover all of its costs. The final financial statement in this report is the statement of cash flows, which provides information about The District's cash from operations, investing, and financing activities. In addition, this statement provides useful information to answer questions such as where cash came from, what cash was used for, and what was the change in cash balance during the reporting period.

Governmental fund- The District uses a governmental fund to provide information on its street lighting activities. This fund uses the modified accrual accounting method which measures financial resources that can readily be converted to cash. This information aids in determining whether there are more or fewer financial resources available to spend in the near future.

**KEYES COMMUNITY SERVICE DISTRICT
MANAGEMENTS DISCUSSION AND ANALYSIS
JUNE 30, 2010
(UNAUDITED)**

Proprietary fund - All of the District's expenses incurred for the provision of Sewer and Water services are reported to a proprietary fund, which focuses on measuring the total costs, including depreciation, of the service, and primarily recovering those costs through user charges or other revenue sources. This fund is reported using the accrual basis of accounting, which recognizes revenue when earned and expenses when incurred.

NET ASSETS

As of June 30, 2010, the District had net assets totaling \$4,520,576. Below is a table showing the District's net assets at year end.

Keyes Community Service District				
Net Assets				
June 30, 2010				
	Governmental	Proprietary	Totals	
	Activities	Activities	2010	2009
Cash and Investments	2,361	811,092	813,453	656,512
Other Assets	3,507	186,885	190,392	174,318
Capital Assets	0	4,598,200	4,598,200	4,687,789
Total Assets	<u>5,868</u>	<u>5,596,177</u>	<u>5,602,045</u>	<u>5,518,619</u>
Long-Term Liabilities	0	908,296	908,296	910,755
Other Liabilities	4,635	168,538	173,173	234,973
Total Liabilities	<u>4,635</u>	<u>1,076,834</u>	<u>1,081,469</u>	<u>1,145,728</u>
Net Assets:				
Invested In Capital Assets				
Net of Related Debt	0	3,689,904	3,689,904	3,652,795
Restricted	0	32,419	32,419	31,375
Unrestricted	1,233	797,020	798,253	688,730
Total Net Assets	<u>1,233</u>	<u>4,519,343</u>	<u>4,520,576</u>	<u>4,372,900</u>

The District has invested 84% of its total net assets in capital assets, which total \$3,689,904, less related debt.

Restricted net assets in the amount of \$32,419 account for less than 1% of the total. These restrictions are established to meet the districts debt covenants.

Unrestricted net assets total \$798,253 or 18%. This represents resources that the district may use to provide services to its users and meet its obligations to creditors.

KEYES COMMUNITY SERVICE DISTRICT
MANAGEMENTS DISCUSSION AND ANALYSIS
JUNE 30, 2010
(UNAUDITED)

GOVERNMENTAL ACTIVITIES

The District's total revenues exceeded expenses by \$147,676. Total revenues for the year were \$1,300,321. Of this, \$1,271,367 was received from fees, county grant and service revenues, \$1,456 was received from property taxes and \$27,498 was received from investment earnings and miscellaneous sources. Prior year's total revenue was \$1,009,935.

Expenses totaled \$1,152,645 with \$28,619 attributable to street lighting and the remaining expenses of \$1,124,026 attributable to water and sewer service. Prior year's expense was \$1,249,718.

CAPITAL ASSETS

At the end of 2010, the District purchased \$5,830 in capital assets with District funds.

Capital Assets At June 30, 2010

	Water	Sewer	Totals	
			2010	2009
Land	23,074	25,059	48,133	48,133
Buildings And Improvements	37,865	39,811	77,676	75,786
Equipment And Vehicles	277,370	332,446	609,816	607,143
Infrastructure	1,644,153	2,559,453	4,203,606	4,203,606
Less-Accumulated Depreciation	<u>(1,049,605)</u>	<u>(1,383,474)</u>	<u>(2,433,079)</u>	<u>(2,292,065)</u>
	<u>932,857</u>	<u>1,573,295</u>	<u>2,506,152</u>	<u>2,642,603</u>

This year's major Work In Process addition included:

Fresh Drinking Water	\$ 44,814
Anna Lift Station	\$ 8,068
Main Lift Station	\$ 593

LONG-TERM DEBT

At year-end, Keyes Community Services District had \$37,048 in State of California Department of Water Resource Bonds. Payments of principal for 2010 and 2009 totaled \$7,549 and \$7,320, respectively. Interest paid for 2010 and 2009 totaled \$1,547 and \$1,517, respectively.

**KEYES COMMUNITY SERVICE DISTRICT
MANAGEMENTS DISCUSSION AND ANALYSIS
JUNE 30, 2010
(UNAUDITED)**

The Water District also had an USDA Rural Development Loan of \$13,997. Payments of principal for 2010 and 2009 totaled \$12,000 and \$12,000, respectively. Interest paid for 2010 and 2009 totaled \$950 and \$1,520, respectively.

Keyes Community Service District signed a reimbursement agreement with the City of Turlock for the district request for construction of a sewer pipeline which provides the District 50% of the capacity located on Tegner Road. For this percentage of pipeline capacity the District is obligated to pay \$1,071,564. Payment of \$107,156 began on July 1, 2008 and extends for ten years. At year-end, Keyes Community Services District had an outstanding balance of \$857,251.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens and taxpayers with a general overview of the finances of those funds maintained by the District and to show the District's accountability for the money it receives. If you have questions about this report or need additional information, contact Keyes Community Service District at 5601 7th Street, Keyes, Ca 95328.

KEYES COMMUNITY SERVICE DISTRICT
STATEMENTS OF NET ASSETS
JUNE 30, 2010
WITH COMPARATIVE ACTUAL AMOUNTS FOR JUNE 30, 2009

	Primary Government		Totals	
	Governmental Activities	Proprietary Activities	2010	2009
ASSETS				
Cash And Investments	2,361	811,092	813,453	656,512
Accounts Receivable	3,507	133,167	136,674	120,600
Prepaid Expenses	0	21,428	21,428	21,428
Easements	0	32,290	32,290	32,290
Capital Assets (Net Of Accumulated Depreciation):				
Land	0	48,133	48,133	48,133
Construction In Progress	0	2,090,440	2,090,440	2,036,965
Buildings And Improvements	0	6,812	6,812	6,835
Equipment And Vehicles	0	188,313	188,313	215,617
Loan Fees	0	1,607	1,607	2,020
Infrastructure	0	2,262,895	2,262,895	2,378,228
Total Assets	5,868	5,596,177	5,602,045	5,518,628
LIABILITIES				
Current Liabilities				
Accounts Payable	2,274	37,851	40,125	9,465
Deferred Revenue	2,361	0	2,361	0
Payroll Liabilities	0	6,431	6,431	6,889
Developers Payable	0	6,743	6,743	3,874
Compensated Absences	0	55,722	55,722	54,692
Customer Deposits	0	60,906	60,906	34,837
Accrued Interest	0	885	885	968
Long-Term Liabilities:				
Due Within One Year	0	128,941	128,941	124,248
Due In More Than One Year	0	779,355	779,355	910,755
Total Liabilities	4,635	1,076,834	1,081,469	1,145,728
NET ASSETS				
Invested In Capital Assets Net Of Related Debt	0	3,689,904	3,689,904	3,652,795
Restricted For				
Bond Payment	0	32,419	32,419	31,375
Unrestricted	1,233	797,020	798,253	688,730
Total Net Assets	1,233	4,519,343	4,520,576	4,372,900

SEE ACCOMPANYING NOTES TO BASIC FINANCIAL STATEMENTS

KEYES COMMUNITY SERVICE DISTRICT
STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010
WITH COMPARATIVE ACTUAL AMOUNTS FOR JUNE 30, 2009

Functions/Programs	Expenses
Primary Government:	
Governmental Activities:	
Street Lighting	28,619
Total Governmental Activities:	<u>28,619</u>
Business-Type Activities	
Water Services	454,755
Sewer Services	669,271
Total Business-Type Activities	<u>1,124,026</u>
Total Primary Government	<u><u>1,152,645</u></u>

Program Revenues			Net (Expense) Revenue And Changes In Net Assets Primary Government			
Fines, Fees And Charges For Services	Operating Grants And Contributions	Capital Grants And Contributions	Governmental Activities	Proprietary Activities	Totals	
					2010	2009
<u>763</u>	<u>39,639</u>	<u>0</u>	<u>11,783</u>	<u>0</u>	<u>11,783</u>	<u>4,566</u>
<u>763</u>	<u>39,639</u>	<u>0</u>	<u>11,783</u>	<u>0</u>	<u>11,783</u>	<u>4,566</u>
567,840	0	0	0	113,085	113,085	(172,950)
<u>663,125</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(6,146)</u>	<u>(6,146)</u>	<u>(124,026)</u>
<u>1,230,965</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>106,939</u>	<u>106,939</u>	<u>(296,976)</u>
<u><u>1,231,728</u></u>	<u><u>39,639</u></u>	<u><u>0</u></u>	<u><u>11,783</u></u>	<u><u>106,939</u></u>	<u><u>118,722</u></u>	<u><u>(292,410)</u></u>

General Revenues:

Property Taxes	0	1,456	1,456	12,350
Miscellaneous	0	17,156	17,156	20,296
Investment Earnings	<u>23</u>	<u>10,319</u>	<u>10,342</u>	<u>19,981</u>
Total General Revenues And Transfers	<u>23</u>	<u>28,931</u>	<u>28,954</u>	<u>52,627</u>
Change In Net Assets	11,806	135,870	147,676	(239,783)
Net Assets - Beginning	<u>(10,573)</u>	<u>4,383,473</u>	<u>4,372,900</u>	<u>4,612,683</u>
Net Assets - Ending	<u><u>1,233</u></u>	<u><u>4,519,343</u></u>	<u><u>4,520,576</u></u>	<u><u>4,372,900</u></u>

KEYES COMMUNITY SERVICE DISTRICT
GOVERNMENTAL FUND
BALANCE SHEETS
JUNE 30, 2010
WITH COMPARATIVE ACTUAL AMOUNTS FOR JUNE 30, 2009

	<u>Street Lighting</u>	<u>Total Governmental Fund</u>	
		<u>2010</u>	<u>2009</u>
Assets			
Cash And Investments	0	0	0
Accounts Receivable	3,507	3,507	5,344
Restricted Assets			
Cash And Investments	2,361	2,361	0
Loans Receivable	0	0	0
Prepaid Expenses	0	0	0
Due From Other Funds	0	0	0
Total Assets	<u>5,868</u>	<u>5,868</u>	<u>5,344</u>
Liabilities			
Accounts Payable	2,274	2,274	0
Deferred Revenue	2,361	2,361	0
Due To Other Funds	0	0	15,917
Total Liabilities	<u>4,635</u>	<u>4,635</u>	<u>15,917</u>
Fund Balances			
Reserved	0	0	0
Unreserved	1,233	1,233	(10,573)
Total Fund Balances	<u>1,233</u>	<u>1,233</u>	<u>(10,573)</u>
Total Liabilities And Fund Balances	<u>5,868</u>	<u>5,868</u>	<u>5,344</u>

SEE ACCOMPANYING NOTES TO BASIC FINANCIAL STATEMENTS

KEYES COMMUNITY SERVICE DISTRICT
GOVERNMENTAL FUND
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2010
WITH COMPARATIVE ACTUAL AMOUNTS FOR JUNE 30, 2009

	<u>Street Lighting</u>	<u>Total Governmental fund</u>	
		<u>2010</u>	<u>2009</u>
Revenues			
Street Light Fee	763	763	23,545
Intergovernmental	39,639	39,639	0
Investment Earnings	23	23	0
Total Revenues	<u>40,425</u>	<u>40,425</u>	<u>23,545</u>
Expenditures			
Supplies And Services	<u>28,619</u>	<u>28,619</u>	<u>18,979</u>
Total Expenditures	<u>28,619</u>	<u>28,619</u>	<u>18,979</u>
Excess (Deficiency) Of Revenues			
Over Expenditures	<u>11,806</u>	<u>11,806</u>	<u>4,566</u>
Other Financing Sources (Uses)			
Operating Transfers Out	<u>0</u>	<u>0</u>	<u>0</u>
Total Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>0</u>
Net Change In Fund Balances			
Fund Balance - Beginning	(10,573)	(10,573)	(15,139)
Fund Balance- Ending	<u>1,233</u>	<u>1,233</u>	<u>(10,573)</u>

SEE ACCOMPANYING NOTES TO BASIC FINANCIAL STATEMENTS

KEYES COMMUNITY SERVICE DISTRICT
STREET LIGHTING FUND
STATEMENTS OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2010
WITH COMPARATIVE ACTUAL AMOUNTS FOR JUNE 30, 2009

	2010		Actual	Variance With Final Budget Over (Under)	2009 Actual
	Budgeted Amounts				
	Original	Final			
REVENUES					
Street Light Fees	2,250	2,250	763	(1,487)	23,545
Investment Earnings	0	0	23	23	0
Intergovernmental	0	0	39,639	39,639	0
Total Revenues	<u>2,250</u>	<u>2,250</u>	<u>40,425</u>	<u>38,175</u>	<u>23,545</u>
EXPENDITURES					
Salaries And Benefits	0	0	0	0	0
Supplies And Services	<u>22,000</u>	<u>22,000</u>	<u>28,619</u>	<u>6,619</u>	<u>18,979</u>
Total Expenditures	<u>22,000</u>	<u>22,000</u>	<u>28,619</u>	<u>6,619</u>	<u>18,979</u>
Excess (Deficiency) Of Revenues Over Expenditures	(19,750)	(19,750)	<u>11,806</u>	<u>31,556</u>	<u>4,566</u>
Net Change In Fund Balance	(19,750)	(19,750)	11,806	31,556	4,566
Fund Balance - Beginning	(10,573)	(10,573)	(10,573)	0	(15,139)
Fund Balance - Ending	<u>(30,323)</u>	<u>(30,323)</u>	<u>1,233</u>	<u>31,556</u>	<u>(10,573)</u>

SEE ACCOMPANYING NOTES TO BASIC FINANCIAL STATEMENTS

KEYES COMMUNITY SERVICE DISTRICT
PROPRIETARY FUNDS
STATEMENTS OF NET ASSETS
JUNE 30, 2010
WITH COMPARATIVE ACTUAL AMOUNTS FOR JUNE 30, 2009

Business-Type Activities-Enterprise Funds

	Sewer		Water		Totals	
	Operating Fund	Capital Improve-ments Fund	Operating Fund	Capital Improve-ments Fund		
Assets						
Cash And Investments	421,041	154,778	0	202,854	778,673	625,137
Accounts Receivable	68,010	0	65,157	0	133,167	115,256
Prepaid Expenses	10,714	0	10,714	0	21,428	21,428
Restricted Assets						
Cash And Investments	0	0	32,419	0	32,419	31,375
Construction in Process	2,045,626	0	44,814	0	2,090,440	2,036,965
Easement	32,290	0	0	0	32,290	32,290
Due From Other Funds	27,395	0	0	0	27,395	242,967
Fixed Assets	2,956,769	0	1,990,690	0	4,947,459	4,942,895
Accumulated Depreciation	(1,390,094)	0	(1,049,605)	0	(2,439,699)	(2,292,064)
Total Assets	<u>4,171,751</u>	<u>154,778</u>	<u>1,094,189</u>	<u>202,854</u>	<u>5,623,572</u>	<u>5,756,249</u>
Liabilities						
Accounts Payable	27,762	0	10,089	0	37,851	9,465
Developers Payable	69	0	6,674	0	6,743	3,874
Compensated Absences	27,861	0	27,861	0	55,722	54,692
Payroll Liabilities	0	0	6,431	0	6,431	6,889
Customer Deposits	0	0	60,906	0	60,906	34,837
Due To Other Funds	0	0	27,395	0	27,395	227,050
Accrued Interest	0	0	885	0	885	968
Loans Payable	857,251	0	51,045	0	908,296	1,035,001
Total Liabilities	<u>912,943</u>	<u>0</u>	<u>191,286</u>	<u>0</u>	<u>1,104,229</u>	<u>1,372,776</u>
Net Assets						
Invested In Capital Assets						
Net Of Related Debt	2,755,050	0	934,854	0	3,689,904	3,652,795
Restricted	0	0	32,419	0	32,419	31,375
Unrestricted	503,758	154,778	(64,370)	202,854	797,020	699,303
Total Net Assets	<u>3,258,808</u>	<u>154,778</u>	<u>902,903</u>	<u>202,854</u>	<u>4,519,343</u>	<u>4,383,473</u>

SEE ACCOMPANYING NOTES TO BASIC FINANCIAL STATEMENTS

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**KEYES COMMUNITY SERVICE DISTRICT
PROPRIETARY FUNDS
STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2010
WITH COMPARATIVE ACTUAL AMOUNTS FOR JUNE 30, 2009**

Business-Type Activities-Enterprise Funds

	Sewer		Water		Totals	
	Operating Fund	Capital Improve-ments Fund	Operating Fund	Capital Improve-ments Fund		
Operating Revenues						
Service Charges	617,930	0	476,658	0	1,094,588	876,443
Property Taxes	1,456	0	0	0	1,456	12,350
Late Charges	0	0	23,427	0	23,427	22,968
Miscellaneous	195	0	255	0	450	4,352
Total Operating Revenues	<u>619,581</u>	<u>0</u>	<u>500,340</u>	<u>0</u>	<u>1,119,921</u>	<u>916,113</u>
Operating Expenses						
Salaries And Benefits	196,429	0	203,167	0	399,596	352,966
Supplies And Services	395,270	0	177,763	0	573,033	713,682
Depreciation	77,572	0	71,328	0	148,900	161,054
Total Operating Expenses	<u>669,271</u>	<u>0</u>	<u>452,258</u>	<u>0</u>	<u>1,121,529</u>	<u>1,227,702</u>
Operating Income (Loss)	<u>(49,690)</u>	<u>0</u>	<u>48,082</u>	<u>0</u>	<u>(1,608)</u>	<u>(311,589)</u>
Nonoperating Revenues (Expenses)						
Investment Earnings	6,170	1,208	1,354	1,587	10,319	19,981
Miscellaneous	0	0	17,156	0	17,156	20,296
Connection Fees	0	45,000	0	67,500	112,500	30,000
Interest Expense	0	0	(2,497)	0	(2,497)	(3,037)
Total Nonoperating Revenues (Expenses)	<u>6,170</u>	<u>46,208</u>	<u>16,013</u>	<u>69,087</u>	<u>137,478</u>	<u>67,240</u>
Net Income (Loss)	<u>(43,520)</u>	<u>46,208</u>	<u>64,095</u>	<u>69,087</u>	<u>135,870</u>	<u>(244,349)</u>
Operating Transfer In	115,817	0	104,967	0	220,784	210,508
Operating Transfer Out	(52,085)	(115,817)	0	(52,882)	(220,784)	(210,508)
Change In Net Assets	20,212	(69,609)	169,062	16,205	135,870	(244,349)
Total Net Assets - Beginning	<u>3,238,596</u>	<u>224,387</u>	<u>733,841</u>	<u>186,649</u>	<u>4,383,473</u>	<u>4,627,822</u>
Total Net Assets - Ending	<u>3,258,808</u>	<u>154,778</u>	<u>902,903</u>	<u>202,854</u>	<u>4,519,343</u>	<u>4,383,473</u>

SEE ACCOMPANYING NOTES TO BASIC FINANCIAL STATEMENTS

**KEYES COMMUNITY SERVICE DISTRICT
PROPRIETARY FUNDS
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2010
WITH COMPARATIVE ACTUAL AMOUNTS FOR JUNE 30, 2009**

Business-Type Activities-Enterprise Funds

	Sewer		Water		Totals	
	Operating Fund	Capital Improve- ments Fund	Operating Fund	Capital Improve- ments Fund	2010	2009
Cash Flows From Operating Activities						
Receipts From Customers	607,221	0	520,882	0	1,128,103	880,573
Receipts From Interfund Service Provider	331,389	0	104,967	0	436,356	210,508
Payments To Suppliers	(372,033)	0	(169,827)	0	(541,860)	(718,429)
Payments To Employees	(195,914)	0	(203,132)	0	(399,046)	(346,581)
Due To/From	0	0	0	0	0	0
Payments For Interfund Service Used	(52,085)	(115,817)	(199,655)	(52,882)	(420,439)	(226,425)
Net Cash Provided By (Used In)						
Operating Activities	<u>318,578</u>	<u>(115,817)</u>	<u>53,235</u>	<u>(52,882)</u>	<u>203,114</u>	<u>(200,354)</u>
Cash Flows From Capital And Related Financing Activities						
Connection Fees And Other	0	45,000	17,156	67,500	129,656	50,296
Purchase Of Equipment	(1,991)	0	(3,839)	0	(5,830)	0
Work In Progress	(8,661)	0	(44,815)	0	(53,476)	(699,227)
Principal Payments On Long Term Debt	(107,156)	0	(19,550)	0	(126,706)	(126,477)
Interest Paid	0	0	(2,497)	0	(2,497)	(3,037)
Net Cash Provided By (Used In) Capital And Related Financing Activities	<u>(117,808)</u>	<u>45,000</u>	<u>(53,545)</u>	<u>67,500</u>	<u>(58,853)</u>	<u>(778,445)</u>
Cash Flows From Investing Activities						
Interest Received	6,170	1,208	1,354	1,587	10,319	19,981
Net Cash Provided By (Used In)						
Investing Activities	<u>6,170</u>	<u>1,208</u>	<u>1,354</u>	<u>1,587</u>	<u>10,319</u>	<u>19,981</u>
Net Increase (Decrease) In Cash Cash And Investments At Beginning Of Year	206,940	(69,609)	1,044	16,205	154,580	(958,818)
	<u>214,101</u>	<u>224,387</u>	<u>31,375</u>	<u>186,649</u>	<u>656,512</u>	<u>1,615,330</u>
Cash And Investments At End Of Year	<u>421,041</u>	<u>154,778</u>	<u>32,419</u>	<u>202,854</u>	<u>811,092</u>	<u>656,512</u>

KEYES COMMUNITY SERVICE DISTRICT
PROPRIETARY FUNDS
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2010
WITH COMPARATIVE ACTUAL AMOUNTS FOR JUNE 30, 2009

Business-Type Activities-Enterprise Funds

	<u>Sewer</u>		<u>Water</u>		<u>Totals</u>	
	Operating Fund	Capital Improve- ments Fund	Operating Fund	Capital Improve- ments Fund	2010	2009
Reconciliation Of Operating Income To Net Cash						
Provided (Used) By Operating Activities						
Net Income (Loss)	(49,690)	0	48,082	0	(1,608)	(311,589)
Non-Cash Items Included In Net Income						
Depreciation	77,572	0	71,328	0	148,900	161,054
Transfers	63,732	(115,817)	104,967	(52,882)	0	(15,917)
Due To/From	215,573	0	(199,655)	0	15,918	0
(Increase) Decrease In						
Accounts Receivable	(12,360)	0	(5,551)	0	(17,911)	(35,140)
Prepaid Expenses	0	0	0	0	0	(2,392)
Increase (Decrease) In						
Developer Payable	0	0	2,849	0	2,849	(203)
Accounts Payable	23,236	0	5,150	0	28,386	(2,082)
Payroll Liabilities	0	0	(458)	0	(458)	929
Compensated Absences	515	0	515	0	1,030	5,250
Customer Deposits	0	0	26,091	0	26,091	400
Accrued Interest	0	0	(83)	0	(83)	(664)
Net Cash Provided By (Used In)						
Operating Activities	<u>318,578</u>	<u>(115,817)</u>	<u>53,235</u>	<u>(52,882)</u>	<u>203,114</u>	<u>(200,354)</u>

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The basic financial statements of the Keyes Community Service District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. In June 1999, the GASB unanimously approved Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- The financial statements include:
 - A Management and Discussion and Analysis (MD&A) section providing an analysis of the District’s overall financial position and results of operations.
 - Financial statements prepared using the full accrual accounting for all of the District’s activities, including infrastructure.
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements).

The more significant of the District’s accounting policies are described below:

A. Reporting Entity

The Keyes Community Services District was incorporated in December 1972. The District provides the following services: Street Lighting, Water and Wastewater Treatment.

The District operates under a Board of Directors form of government. The Board of Directors consists of five members elected at large for overlapping four year terms. The district appoints a District Attorney.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to

KEYES COMMUNITY SERVICE DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

B. Government-wide and fund financial statements (continued)

customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements (note that the District has no fiduciary funds). Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers all revenues available if they are collected within 60 days after year end. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Property taxes and interest are susceptible to accrual. Other receipts and taxes become measurable and available when cash is received by the District and are recognized as revenue at that time.

The District reports the following major governmental fund:

The **Street Light fund** accounts for the activities of the District's street light service.

The District reports the following major proprietary funds:

The **Water fund** accounts for the activities of the District's water service.

The **Sewer fund** accounts for the activities of the District's sewer service.

KEYES COMMUNITY SERVICE DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

D. Assets, Liabilities, Net Assets or Equity

1. Cash and Investments

Cash and cash equivalents include amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the District. The District follows the practice of pooling the cash from all funds for investment purposes. Investments consist primarily of passbook savings and Stanislaus County Treasurer's Pool public deposits. All investments are stated at cost, which approximates market value.

California State statute authorizes the District to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds and repurchase agreements.

2. Receivables and Payables

Transactions between funds that are representative of lending/borrowing outstanding at the end of the fiscal year are referred to as either "interfund receivables/payables" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

3. Property Taxes

Property taxes are levied on the first day of March by the County assessor, and are payable to the County Tax Collector in two installments.

The first installment is due November 1st, and becomes delinquent December 10th; the second installment is due February 1st, and becomes delinquent April 10th. Taxes become a lien on the property on March 1st., and on the date of transfer of title, and the date of new construction.

The minimum property value which is taxed is \$2,000; however, tax bills are prepared for properties valued at less than \$2,000 if there is a special assessment to be collected.

Article 13A of the California Constitution states, "The maximum amount of any ad valorem tax on real property shall not exceed one percent (1%) of the full cash value of such property. The one percent tax is to be collected by the counties and apportioned according to law to the districts within the counties."

The District has elected under state law (Teeter) to receive all of the annual property assessments in three installments as follows:

December	55%
April	40%
June	5%
	<u>100%</u>

KEYES COMMUNITY SERVICE DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

4. Prepaid Items

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

5. Restricted Assets

Certain proceeds of revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

6. Capital Assets

Capital assets, which include property, plant, and equipment are reported in the applicable governmental columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of \$1000 for property, plant and equipment. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at their estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Depreciation is recorded in the Proprietary Funds in amounts sufficient to relate the cost of the depreciable assets to operations over their estimated service life using the straight-line method.

7. Compensated Absences

District employees earn vacation leave, accrued holiday and compensation time. It may be either taken or accumulated until paid upon termination or retirement. Sick leave may be accumulated without limitation, but upon retirement, an employee will be paid for a maximum of 200 hours of any unused sick leave. Sick leave is not paid if an employee quits or is terminated. In accordance with generally accepted accounting principles, an accrual for compensated absences is reflected in the accompanying general purpose financial statements.

Compensation time was discontinued on December 1, 1999. The compensation time that was accumulated before December 1, 1999, will be maintained on the books and is available for use.

8. Long-term Debt

Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds.

KEYES COMMUNITY SERVICE DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

9. Net Assets & Fund Equity

In the government-wide financial statements and proprietary fund financial statements, net assets are reported in three categories: net assets invested in capital assets, net of related debt; restricted net assets and unrestricted net assets. Restricted net assets represent net assets restricted by parties outside the District (such as creditors, grantors, contributors, laws and regulations of other governments) and include unspent proceeds of bonds issued to acquire or construct capital assets.

The District's other restricted net assets are temporarily restricted (ultimately expendable assets). All other net assets are considered unrestricted.

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. Proprietary funds contributed capital represents equity acquired through capital grants and capital contributions from developers, customers, or other funds.

10. Use of Estimates

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

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for all funds. All annual appropriations lapse at fiscal year end.

Prior to June 30th, the proposed budget is presented to the Board of Directors for review. The Board of Directors holds public hearings and may add to, subtract from or change appropriations.

B. Street Light Fund Prior Year Deficit:

Due to deficit in the Street Light Fund, the property owners within the district approved on February 23, 2010 an increased assessment for year 2010-2011. Property owners will now be assessed \$46.56 street light fee per year.

KEYES COMMUNITY SERVICE DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. Cash And Investments

Cash and investments as of June 30, 2010 are classified in the accompanying financial statements as follows:

Statement of net assets:

Cash and investments	\$ <u>813,453</u>
Total cash and investments	\$ <u>813,453</u>

Cash and investments as of June 30, 2010 consist of the following:

Cash on hand	\$ 1,000
Deposit with financial institution	96,883
Investments in Stanislaus County Treasurer's Pool	<u>715,750</u>
Total cash and investments	\$ <u>813,453</u>

The District maintains its cash and investment in the - Stanislaus County Treasurer's Pool - for the purpose of increasing interest income through investment activities. This pool, which is available for use by all funds, is displayed on the statement of net assets/balance sheet as "cash and investments." The Stanislaus County Treasurer's Pool generally limits participation in the pool to those agencies and districts required to participate by legal provisions of the California State Government Code for those agencies and districts.

The share of each fund in the Stanislaus County Treasurer's Pool is separately accounted for and interest is apportioned quarterly based on the relationship of the fund's average daily cash balance to the total of the pooled cash and investments.

The Stanislaus County Treasurer's Pool is not SEC-registered, but is invested in accordance with California State Government Code section 53600 et. seq. California State Government Code requires the formation of an Investment Oversight Committee, which is charged with overseeing activity in the pool for compliance to policy and code requirements. To this end, the Oversight Committee reviews the monthly investment report prior to presentation to the Board of Supervisors and causes an audit of investments to occur annually.

In addition to the restrictions and guidelines of the Government Code, cash and investments with the County Treasurer are invested pursuant to investment policy guidelines established by the County Treasurer and accepted by the Board of Supervisors. The objectives of the policy are, in order of priority, legality of investment, safety of principal, liquidity and yield.

KEYES COMMUNITY SERVICE DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

A. Cash And Investments (Continued)

Interest Rate Risk - This is the risk of loss due to the fair value of an investment falling due to rising interest rates. The County's policy for interest rate risk for The Stanislaus County Treasurer's Pool, are to allow investments to be sold prior to maturity at a loss if such sale will allow investment in a higher yield vehicle and any loss upon sale can be more than compensated by additional interest earning within a six month period. Of the County's \$1.0 billion portfolio, over 69% of the investments have a maturity of 6 months or less. No investment has maturity greater than 4 years.

Credit Risk - This is the risk of loss due to credit quality rating of investments in debt securities as described by nationally recognized rating agencies. Stanislaus County Treasurer's Pool is permitted to hold investments of issuers with a short-term rating of "A-1" and a minimum long-term rating of "A" by two of the top nationally recognized statistical rating organizations (rating agencies). Additionally, the County is permitted to invest in U.S. Treasuries, Government Sponsored Enterprises (Agencies), the State's Local Agency Investment Fund and collateralized certificates of deposit that are un-rated.

Concentration of Credit Risk - This is the risk of loss due to a large concentration of investments in any one issuer. Investments issued or explicitly guaranteed by the U.S. Government and investments in the mutual funds, external investment pools and other pooled investments are not considered at risk.

In the Stanislaus County Treasurer's Pool, over 52% of the County's investments, including collateral on repurchase agreements, were in the U.S. Government or Government Sponsored Enterprises (Agencies). Of the 48.0% of the portfolio invested in other types of investments, no investment in a single issuer exceeds 5%.

Custodial Risk - This is the risk of loss due to uninsured or uncollateralized deposits.

In the Stanislaus County Treasurer's Pool, all negotiable instruments are held by the County's custodian or a third party in the County's name. The County did not participate in securities lending.

KEYES COMMUNITY SERVICE DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

B. Accounts Receivable

Receivables at June 30, 2010 for the District's individual major funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows. All receivables are expected to be collected within one year.

	<u>Street Lights</u>	<u>Total</u>	
Governmental Activities:			
Utility Billing	<u>3,507</u>	<u>3,507</u>	
Total	<u>3,507</u>	<u>3,507</u>	
Business-Type Activities	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Utility Billing	<u>65,157</u>	<u>68,010</u>	<u>133,167</u>
	<u>65,157</u>	<u>68,010</u>	<u>133,167</u>

C. Payables And Other Liabilities

Payables at June 30, 2010 for the District's individual major funds in the aggregate are as follows:

Business-Type Activities	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Vendors/Developers	16,763	27,831	44,594
Salaries and Benefits	6,431	0	6,431
Interest Payable	<u>885</u>	<u>0</u>	<u>885</u>
	<u>24,079</u>	<u>27,831</u>	<u>51,910</u>

**KEYES COMMUNITY SERVICE DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

D. Capital Assets

Capital asset activity for the year ended June 30, 2010 was as follows:

Business-type Activities:	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	48,133	0	0	48,133
Construction in progress	<u>2,036,965</u>	<u>53,475</u>	<u>0</u>	<u>2,090,440</u>
Total capital assets not being depreciated	<u>2,085,098</u>	<u>53,475</u>	<u>0</u>	<u>2,138,573</u>
Capital assets being depreciated:				
Loan Fees	8,227	0	0	8,227
System	4,203,606	0	0	4,203,606
Equipment And Vehicles	607,143	3,316	(643)	609,816
Building And Improvements	<u>75,786</u>	<u>2,514</u>	<u>(622)</u>	<u>77,678</u>
Total capital assets being depreciated	<u>4,894,762</u>	<u>5,830</u>	<u>(1,265)</u>	<u>4,899,327</u>
Less accumulated depreciation for:				
Loan Fees	(6,207)	(413)	0	(6,620)
System	(1,825,376)	(115,335)	0	(1,940,711)
Equipment And Vehicles	(391,527)	(30,619)	643	(421,503)
Building And Improvements	<u>(68,954)</u>	<u>(2,534)</u>	<u>622</u>	<u>(70,866)</u>
Total accumulated depreciation	<u>(2,292,064)</u>	<u>(148,901)</u>	<u>1,265</u>	<u>(2,439,700)</u>
Net capital assets being depreciated	<u>2,602,698</u>	<u>(143,071)</u>	<u>0</u>	<u>2,459,627</u>
Total net capital assets - business-type activities	<u>4,687,796</u>	<u>(89,596)</u>	<u>0</u>	<u>4,598,200</u>

Depreciation was charged to functions/programs of the primary government as follows:

Business- Type Activities:

Water	71,328
Sewer	<u>77,573</u>
Total Depreciation expense – business-type activities	<u>148,901</u>

KEYES COMMUNITY SERVICE DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

E. Long-Term Debt

The following is a summary of water debt transactions including annual redemption requirements for the year ended June 30, 2010.

	Original <u>Issue</u>	Balance <u>6/30/09</u>	<u>Maturities</u>	Balance <u>6/30/10</u>
USDA Farmers Home Administration, interest at 4.75%, interest payable semi-annually, principal payable annually to be paid by Water Enterprise operating revenues	250,000	25,997	12,000	13,997
California Department of Water Resources, interest at 3.1488%, interest and principal payable semi-annually, to be paid by Water Enterprise operating revenues	131,250	<u>44,597</u>	<u>7,549</u>	<u>37,048</u>
		<u>70,594</u>	<u>19,549</u>	<u>51,045</u>

The annual debt service requirements of the water funds are as follows:

Year Ending	June 30		FHA Loan		CDWR Loan		Total		Total Debt
	Principal	Interest	Principal	Interest	Principal	Interest	Service		
2011	13,997	665	7,788	1,105	21,785	1,770	23,555		
2012	0	0	8,035	858	8,035	858	8,893		
2013	0	0	8,292	603	8,292	603	8,895		
2014	0	0	8,553	340	8,553	340	8,893		
2015	0	0	4,380	75	4,380	75	4,455		
Total	<u>13,997</u>	<u>665</u>	<u>37,048</u>	<u>2,981</u>	<u>51,045</u>	<u>3,646</u>	<u>54,691</u>		

**KEYES COMMUNITY SERVICE DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

E. Long-Term Debt (Continued)

Keyes Community Service District signed a reimbursement agreement with the City of Turlock for the District request for construction of a sewer pipeline which provides the District 50% of the capacity located on Tegner Road. For this percentage of pipeline capacity the District is obligated to pay \$1,071,564. Payment of \$107,156 began on July 1, 2008 and extends for ten years. The reimbursement balance for the year ended June 30, 2010 was \$857,251.

The annual debt service requirements of the sewer funds are as follows:

Year Ending June 30	Turlock Agreement
2011	107,156
2012	107,156
2013	107,156
2014	107,156
2015	107,156
2016-2018	<u>321,471</u>
Total	<u><u>857,251</u></u>

The following is a summary of changes in the District's long-term debt and other long-term liabilities during the year ended June 30, 2010:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Business-type Activities:					
Loans Payable	70,595	0	(19,550)	51,045	21,785
City of Turlock Agreement	964,407	0	(107,156)	857,251	107,156
Compensated Absences	<u>55,722</u>	<u>0</u>	<u>0</u>	<u>55,722</u>	<u>5,572</u>
Long-term liabilities of business-type activities	<u><u>1,090,724</u></u>	<u><u>0</u></u>	<u><u>(126,706)</u></u>	<u><u>964,018</u></u>	<u><u>134,513</u></u>

KEYES COMMUNITY SERVICE DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

F. Employee Retirement Systems and Plans

All District full-time employees participate in the Stanislaus County Employees Retirement Association (SCERA), a cost sharing multiple-employer public employee defined benefit pension plan. SCERA provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Copies of SCERA annual financial report may be obtained from their Executive Office – 1100 H Street – Modesto, CA 95354.

For covered employees, the employer and employee contributions vary by individual. For June 30, 2010, the District's annual pension costs of \$14,843 for SCERA was equal to the District's required and actual contributions. The District is required to contribute based on rate schedules issued by SCERA.

The required contribution was determined as part of the June 30, 2008, actuarial valuation using the entry age normal actuarial cost method. The contribution is determined by the member's age and date of entry into the retirement system and the member's salary level. The actuarial assumptions include (a) 8.0% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service, and (c) 2% per year cost-of-living adjustments. Both (a) and (b) include an inflation component of 4.5%.

THREE-YEAR TREND INFORMATION FOR SCERA
(dollar amounts in thousands)

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
06/30/08	24,690	100	0
06/30/09	21,477	100	0
06/30/10	14,843	100	0

IV. CONTINGENCY

A. Wastewater Contract

The District's wastewater disposal is contracted with the City of Turlock. The District is dependent on the City of Turlock's ability to provide collection services. The District's wastewater disposal rates are based on the fees the City of Turlock charges the District for collection services. Uncertainty of any rate changes by the City of Turlock exists due to the future growth of the District and the City of Turlock, and the potential future demands for expansion of Turlock's wastewater collection facilities. The amount of the liability cannot be determined at this time.

KEYES COMMUNITY SERVICE DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

B. Stanislaus County Storm Drain Project

Stanislaus County has approved a major storm drain construction project starting in late 2008. The project will install new storm drains, curbs and new street sections. During this project it will be required to relocate sanitary sewer and water lines. Keyes Community Service District cost portion is \$879,200 of which \$792,015 has been paid as of June 30, 2010.

C. Interfund Receivables and Payables

Interfund receivable/payable balances at June 30, 2010 consist of the following:

The Water Operating Fund borrowed \$27,395 from the Sewer Operating Fund to cover overdrafts of the cash and investment pool. The Water Operating will reimburse the Sewer Operating Fund from future Water fees.

D. Transfers

Interfund transfers for the year ended June 30, 2010 consisted of the following amounts:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Water Operating Fund	27,395	0
Sewer Operating Fund	0	27,395
Total	<u>27,395</u>	<u>27,395</u>

E. Evaluation of Subsequent Events

The District has evaluated subsequent events through December 15, 2010, the date which the financial statements were available to be issued.

The District has secured a State Safe Drinking Water loan for \$500,000. The project has an estimated cost of \$675,000, of which the balance \$175,000 is the District's share. At December 15, 2010, an amount of \$28,660 has been received from the State.

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Constance Hillias Bird, CPA
William J. Young, CPA
Robert C. Kehl
Sara Goer

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF GENERAL PURPOSE
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

To The Board of Directors
Keyes Community Services District
Keyes, California

We have audited the general-purpose financial statements of the Keyes Community Services District, as of and for the years ended June 30, 2010 and 2009, and have issued our report thereon dated December 15, 2010. We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States

Compliance

As part of obtaining reasonable assurance about whether Keyes Community Services District's general-purpose 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*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Keyes Community Services District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the audit committee, management and the Board of Directors. However, this report is a matter of public record and its distribution is not limited.

Clendenin Bird & Company,

CLENDENIN BIRD & COMPANY, PC

Modesto, California
December 15, 2010