

**PAUMA VALLEY
COMMUNITY SERVICES DISTRICT
AUDIT REPORT
For the Fiscal Year Ended
June 30, 2017**

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

For the Fiscal Year Ended June 30, 2017

Table of Contents

FINANCIAL SECTION

	<u>Page</u>
Independent Auditors' Report.....	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Statement of Net Position	7
Statement of Revenues, Expenses and Changes in Net Position	8
Statement of Cash Flows	9
Notes to Financial Statements	10

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of the Net Pension Liability	22
Schedule of Pension Contributions.....	23
Notes to the Required Supplementary Information	24

OTHER INDEPENDENT AUDITORS' REPORTS

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	25
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FINDINGS AND RECOMMENDATIONS

Schedule of Audit Findings and Recommendations.....	27
Summary Schedule of Prior Audit Findings.....	28

Financial Section

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Fiscal Year Ended June 30, 2017

Management's Discussion and Analysis (MD&A) offers readers of Pauma Valley Community Services District's financial statements a narrative overview of the District's financial activities for the fiscal year ended June 30, 2017. This MD&A presents financial highlights, an overview of the accompanying financial statements, an analysis of net position and results of operations, a current-to prior year analysis, a discussion on restrictions, commitments and limitations, and a discussion of significant activity involving capital assets and long-term debt. Please read in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- District's net position increased by \$109,033 or 4.25%.
- The District had an operating loss of \$6,935, as compared to an operating loss of \$18,946 in 2015-16.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to the District's financial statements. The District's basic financial statements reflect the combined results of the Operating and Capital Programs and include four components: (1) Statement of Net Position; (2) Statements of Revenues, Expenses, and Changes in Net Position; (3) Statements of Cash Flows; and (4) Notes to the Financial Statements.

The financial statements accompanying this MD&A present the net position, results of operations, and changes in cash flow during the fiscal year ending June 30, 2017. These financial statements have been prepared using the accrual basis of accounting, which is similar to the accounting basis used by for-profit entities. Each financial statement is identified and defined in this section, and analyzed in subsequent sections of this MD&A.

REQUIRED FINANCIAL STATEMENTS

Statement of Net Position

The Statement of Net Position presents information on the District's assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. However, other factors such as changes in economic conditions, population growth, zoning, and new or changed legislation or regulations also need to be considered when establishing financial position. Assets and deferred outflows of resources exceed liabilities and deferred inflow of resources, resulting in a net position of \$2,674,438 as of June 30, 2017.

Statements of Revenues, Expenses, and Changes in Net Position

The Statements of Revenues, Expenses, and Changes in Net Position present information showing how the District's net position changed during the fiscal year. All of the year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Position. This statement measures the results of the District's operations for the year and can be used to determine if the District has successfully recovered all of its costs through user fees and other charges. Operating revenues and expenses are related to the District's core activities (providing wastewater and security, patrol and gate services). Non-operating revenues and expenses are not directly related to the core activities of the District (e.g. interest income, interest expense, property taxes, gain or loss on sale of assets). For the fiscal year ended June 30, 2017, net position increased by \$109,033.

PAUMA VALLEY COMMUNITY SERVICES DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2017

REQUIRED FINANCIAL STATEMENTS (continued)

Statement of Cash Flows

The Statement of Cash Flows presents information regarding the District's use of cash during the year. It reports cash receipts, cash payments, and net changes in cash resulting from operations, financing and investing activities. The Statement of Cash Flows provides answers to such questions as: Where did cash come from? What was cash used for? What was the change in the cash balance during the reporting period?

District cash flows for the year have been categorized into one of the following activities: operating, noncapital financing, capital and related financing, or investing. The total of these categories represents an increase in cash and cash equivalents of \$2,438, which is subtracted from beginning cash and cash equivalents of \$615,452, to arrive at ending cash and cash equivalents of \$617,890. Cash equivalents managed directly by the District consist of investments in the California Local Agency Investment Fund (LAIF).

FINANCIAL ANALYSIS AND CONDENSED FINANCIAL INFORMATION

Analysis of Net Position

Table A-1: Condensed Statement of Net Position

	<u>2016-2017</u>	<u>2015-2016*</u>	<u>Increase (Decrease)</u>	<u>% Change</u>
Assets				
Current and Other Assets	\$ 741,906	\$ 702,008	\$ 39,898	5.68%
Capital Assets, Net of Depreciation	<u>3,073,515</u>	<u>3,116,074</u>	<u>(42,559)</u>	<u>-1.37%</u>
Total Assets	<u>3,815,421</u>	<u>3,818,082</u>	<u>(2,661)</u>	<u>-0.07%</u>
Deferred Outflows of Resources	<u>332,161</u>	<u>404,125</u>	<u>(71,964)</u>	<u>-17.81%</u>
Liabilities				
Current Liabilities	122,110	147,110	(25,000)	-16.99%
Long-Term Liabilities	86,424	146,807	(60,383)	-41.13%
Net Pension Liability	<u>1,169,025</u>	<u>909,327</u>	<u>259,698</u>	<u>28.56%</u>
Total Liabilities	<u>1,377,559</u>	<u>1,203,244</u>	<u>174,315</u>	<u>14.49%</u>
Deferred Inflows of Resources	<u>95,585</u>	<u>453,558</u>	<u>(357,973)</u>	<u>-78.93%</u>
Net Position				
Net Investment in Capital Assets	2,953,164	2,938,037	15,127	0.51%
Unrestricted	<u>(278,726)</u>	<u>(372,632)</u>	<u>93,906</u>	<u>25.20%</u>
Total Net Position	<u>\$ 2,674,438</u>	<u>\$ 2,565,405</u>	<u>\$ 109,033</u>	<u>4.25%</u>

* As restated

PAUMA VALLEY COMMUNITY SERVICES DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2017

FINANCIAL ANALYSIS AND CONDENSED FINANCIAL INFORMATION (continued)

Analysis of Net Position (continued)

The condensed statement above presents a summary of the District's Statement of Net Position. The District's Net Position as of June 30, 2017 totaled \$2,674,438 compared with \$2,565,405 as of June 30, 2016, an increase of 4.25%. Net position is accumulated from revenues, expenses, and contributed capital combined with the beginning balance of net position as presented in the Statement of Revenues, Expenses, and Changes in Net Position.

In accordance with generally accepted accounting principles, capital assets are recorded at historical cost. Total assets decreased by \$2,661 or .07%. As a result of operating and non-operating activities, the District's overall net position increased by \$109,033. The increase is allocated in part to increase in fees for services and reduction of contract services expense.

Analysis of Revenues and Expenses

Table A-2: Condensed Statements of Revenues, Expenses, and Changes in Net Position

	<u>2016-2017</u>	<u>2015-2016*</u>	<u>Increase (Decrease)</u>	<u>% Change</u>
Revenues				
Operating Revenues	\$ 1,363,729	\$ 1,309,822	\$ 53,907	4.12%
Non-operating Revenues	115,968	115,648	320	0.28%
Total Revenues	<u>1,479,697</u>	<u>1,425,470</u>	<u>54,227</u>	<u>3.80%</u>
Expenses				
Depreciation Expense	132,630	48,389	84,241	174.09%
Operating Expenses	<u>1,238,034</u>	<u>1,196,551</u>	<u>41,483</u>	<u>3.47%</u>
Total Expenses	<u>1,370,664</u>	<u>1,244,940</u>	<u>125,724</u>	<u>10.10%</u>
Change in Net Position	109,033	180,530	(71,497)	-39.60%
Beginning Net Position	<u>2,565,405</u>	<u>2,384,875</u>	<u>180,530</u>	
Ending Net Position	<u>\$ 2,674,438</u>	<u>\$ 2,565,405</u>	<u>\$ 109,033</u>	

* As restated

While the Statement of Net Position shows the change in financial position, the Statements of Revenues, Expenses and Changes in Net Position, provides answers to the nature and source of these changes. The main factors in the change in net position is increased revenue from service fees and charges, as well as decreases in operating expenses.

PAUMA VALLEY COMMUNITY SERVICES DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2017

CAPITAL ASSETS

Net capital assets decreased by \$42,559 from the prior year, contributing towards the ending balance of \$3,073,515. This overall net decrease consisted of machinery and equipment, CIP, and security additions in the amount of \$90,071, less current year depreciation of \$132,630, and less disposals of \$79,273.

LONG-TERM DEBT

At June 30, 2017, the District had \$1,314,779 in long-term liabilities, which is made up of an installment note payable to City National Bank of \$120,351, compensated absences of \$25,403, and the net pension liability of \$1,169,025. In fiscal year 2017-18 the installment payment due is principal \$59,330, plus interest of \$3,430 for a total debt service payment of \$62,760. The District issued no new debt and reduced the outstanding principal balance on the note by \$57,686, and incurred and paid interest expense of \$5,074 on the note during the year.

CONDITIONS AFFECTING CURRENT FINANCIAL POSITION

Management is unaware of any other conditions, which could have a significant impact on the District's current financial position, net position or operating results in terms of past, present and future.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our Board of Directors, citizens, customers, ratepayers, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the funds it receives and the stewardship of the facilities it owns and operates. If you have questions about this report or need additional information, please contact the District's Administrator, Pauma Valley Community Services District, 33129 Cole Grade Road, Pauma Valley, California 92061.

PAUMA VALLEY COMMUNITY SERVICES DISTRICT
Statement of Net Position
June 30, 2017

	Enterprise Fund
ASSETS	
Cash and cash equivalents	\$ 617,890
Accounts receivable	94,380
Property taxes receivable	4,109
Prepaid expenses	25,527
Capital assets:	
Nondepreciable assets	163,745
Depreciable assets	4,383,942
Less accumulated depreciation	<u>(1,474,172)</u>
Total assets	<u>3,815,421</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources - pensions	<u>332,161</u>
LIABILITIES	
Accounts payable	34,112
Other accrued expenses	17,654
Prepaid customer fees	11,014
Long-term liabilities:	
Portion due or payable within one year	59,330
Portion due or payable after one year	86,424
Net pension liability	<u>1,169,025</u>
Total liabilities	<u>1,377,559</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources - pensions	<u>95,585</u>
NET POSITION	
Net investment in capital assets	2,953,164
Unrestricted	<u>(278,726)</u>
Total net position	<u>\$ 2,674,438</u>

PAUMA VALLEY COMMUNITY SERVICES DISTRICT
Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2017

	<u>Enterprise Fund</u>
OPERATING REVENUES	
Service fees and charges	\$ 1,363,729
OPERATING EXPENSES	
Salaries and wages	586,143
Employee benefits	227,672
Contract services	35,018
Professional services	90,850
Insurance	54,447
Repairs and maintenance	83,870
Security expenses	21,730
Utilities	37,937
Other general and administrative expenses	100,367
Depreciation	132,630
Total operating expenses	<u>1,370,664</u>
Operating income (loss)	<u>(6,935)</u>
NONOPERATING REVENUES (EXPENSES)	
Interest income	2,139
Property taxes	97,339
Other miscellaneous income	16,490
Total nonoperating revenues (expenses)	<u>115,968</u>
Change in net position	109,033
Net position, beginning of the year	<u>2,481,577</u>
Adjustment for restatement (Note 7)	83,828
Net position, beginning of the year, as restated	<u>2,565,405</u>
Net position, end of the year	<u>\$ 2,674,438</u>

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

Statements of Cash Flows

For the Fiscal Year Ended June 30, 2017

	<u>Enterprise Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from users	\$ 1,319,000
Cash paid to or on behalf of employees for services	(837,733)
Cash paid to suppliers for goods and services	<u>(440,705)</u>
Net cash provided (used) by operating activities	<u>40,562</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Other nonoperating income	<u>112,568</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(90,071)
Principal payments on long-term debt	(57,686)
Interest paid on long-term debt	<u>(5,074)</u>
Net cash provided (used) by capital and related financing activities	<u>(152,831)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	<u>2,139</u>
Net increase (decrease) in cash	2,438
Cash balances, beginning of the year	<u>615,452</u>
Cash balances, end of the year	<u>\$ 617,890</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ (6,935)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation expense	132,630
(Increase) decrease in assets:	
Accounts receivable	(39,423)
Prepaid expenses	3,224
(Increase) decrease in deferred outflows:	
Total deferred outflows of resources	71,964
Increase (decrease) in liabilities:	
Accounts payable	(19,710)
Other accrued expenses	2,393
Prepaid customer fees	(5,306)
Net pension liability	259,698
Increase (decrease) in deferred inflows:	
Total deferred inflows of resources	<u>(357,973)</u>
Net cash provided (used) by operating activities	<u>\$ 40,562</u>

The notes to financial statements are an integral part of this statement.

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 1 – DESCRIPTION OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

A. Description of Organization

The Pauma Valley Community Services District (the District) was organized in 1961 under the Community Services District Law (Division 2 of Title 6) to provide sanitary and security services to its constituency. The District is governed by a Board of Directors consisting of five directors elected by the District's constituency. The principal source of revenues to the District is fees for water and other sanitation services.

B. Reporting Entity

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, and agencies that are not legally separate from the District. For Pauma Valley Community Services District, this includes general operations, security, and wastewater treatment of the District.

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District, in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete.

The District has identified no organizations that are required to be reported as component units.

C. Basis of Presentation, Basis of Accounting

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property assessed charges, such as the District's Standby Charge, is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The District distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an entity's ongoing operations. The principle operating revenues of the District are charges to customers for water sales. Operating expenses include cost of sales, water operations and maintenance expenses, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expense.

The District recognizes revenues from sewage and security services as they are earned. Taxes and assessments are recognized as revenues based upon amounts reported to the District by the County of San Diego.

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 1 – DESCRIPTION OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position

1. Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid investments with a maturity of three months or less, when purchased, to be cash equivalents. Cash deposits are reported at the carrying amount, which reasonably estimates fair value.

2. Investments

Investments are reported at fair value except for short-term investments, which are reported at cost, which approximates fair value. Cash deposits are reported at carrying amount, which reasonably estimates fair value. Investments in governmental investment pools are reported at fair value based on the fair value per share of the pool’s underlying portfolio.

3. Allowance for Doubtful Accounts

The District’s accounts receivable consist of balances due from its customers, substantially all whom are residents in Pauma Valley Country Club Estates. The District has the right of lien and foreclosure on customer’s properties, and accordingly the risk of non-collection is low. However, when these remedies appear inadequate, the District provides for estimated losses based upon prior experience and management’s assessment of the collectability of existing specific accounts. Accounts receivable is presented net of allowance for doubtful accounts of \$5,000 for the year.

4. Prepaids

Certain payments of vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

5. Capital Assets

Capital assets are stated at cost or at their estimated fair value at date of donation. It is the District’s policy to capitalize assets costing over \$5,000. The provision for depreciation is computed using the straight-line method over the estimated service lives of the capital assets. Estimated service lives for the District’s classes of assets are as follows:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Fences	5-40 years
Machinery and Equipment	5-30 years
Sewer and lateral lines	10-50 years
Oak Tree Lift Station	5-15 years
Treatment Plan	40 years
Drains	100 years
Channels	10-50 years

6. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has one item that qualifies for reporting in this category, which is more fully described in Note 5.

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 1 - DESCRIPTION OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position (continued)

6. Deferred Outflows/Inflows of Resources (continued)

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. The District has one item that qualifies for reporting in this category, which is more fully described in Note 5.

7. Pensions

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

8. Net Position

Net position is classified into three components: net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

- **Net investment in capital assets** - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- **Restricted** - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net position** - This component of net position consists of net position that does not meet the definition of "net investment in capital assets" or "restricted".

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

E. Use of Estimates

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

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 1 – DESCRIPTION OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Property Taxes

Property tax in California is levied in accordance with Article XIII A of the State Constitution at one percent of county-wide assessed valuations. This one percent is allocated pursuant to state law to the appropriate units of local government. Tax levies are limited to 1% of full market value which results in a tax rate of \$1.00 per \$100 assessed valuation, under the provisions of Proposition 13. The County of San Diego bills and collects property taxes on behalf of the District. The County's tax fiscal year is July 1, to June 30. Property taxes attach as a lien on property on January 1. Taxes are levied on July 1 and are payable in two equal installments on November 1 and February 1, and become delinquent after December 10, and April 10.

G. New GASB Pronouncements

During the 2016-17 fiscal year, the following GASB Pronouncement became effective:

1. Statement No. 82, Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73 (Issued 03/16)

The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 2 - CASH AND DEPOSITS

Cash and deposits at June 30, 2017, are reported at fair value and consisted of the following:

Cash on hand	\$	83
Deposits with financial institutions		156,637
Deposits with Local Agency Investment Fund		<u>461,170</u>
Total Cash and Investments	\$	<u><u>617,890</u></u>

The table below identifies the investment types that are authorized by the California Government Code and the District's investment policy. The table also identifies certain provisions of the District's investment policy that address interest rate risk and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements rather than the general provisions of the California Government Code or the District's investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Insurer
Negotiable Certificates of Deposit	5 years	30%	None
Local Agency Investment Fund (LAIF)	N/A	None	\$ 500,000

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by maintaining excess cash reserves in the California Local Agency Investment Fund (L.A.I.F.) that mature on a daily basis as to provide the cash flow and liquidity needed for debt service requirements. At June 30, 2017, the District had \$461,170 on deposit with the California Local Agency Investment Fund.

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuation

The District's did not hold any investments that are highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided above).

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below, is the minimum rating required by (where applicable) the California Government Code, the District's investment policy, or debt agreements and the actual rating as of the year end for each investment type.

Investment Type	Amount	Minimum Legal Rating	Exempt From Disclosure	Ratings as Year-end		
				AAA	Aa	Not Rated
California Local Agency Fund	\$ 461,170	N/A	-	\$ -	\$ -	\$ 461,170

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 2 – CASH AND DEPOSITS (continued)

Concentration of Credit Risk

The investment policy of the District limits the amount that can be invested in an external investment pool (LAIF). A maximum limit has been set at \$500,000 that can be invested in LAIF at any point in time. All other authorized investments contain limitations stipulated by the California Government Code. The District held no investments in any one issuer (other than the external investment pool) that represent 5% or more of the total District's investments.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2017, all of the District's deposits with financial institutions were being held in collateralized accounts.

Investment in State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code 16429 under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized costs basis.

As of June 30, 2017, the District's deposit with LAIF was \$461,170.

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

Years Ended June 30, 2017

NOTE 3 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2017, was as follows:

	Balance, July 1, 2016	Restatements*	Adjusted Balance, July 1, 2016	Additions	Retirements	Balance, June 30, 2017
Nondepreciable assets:						
Land	\$ 94,768	\$ -	\$ 94,768	\$ -	\$ -	\$ 94,768
Construction in progress	-	-	-	68,877	-	68,877
Easements & rights of way	100	-	100	-	-	100
Total nondepreciable assets:	94,868	-	94,868	68,877	-	163,745
Depreciable assets:						
Fences	3,340	-	-	-	-	3,340
Buildings	181,347	-	-	-	-	181,347
Machinery	2,321	-	-	-	-	2,321
Sewer lines & lateral lines	173,169	-	-	-	-	173,169
Oak Tree lift station	55,891	-	-	-	-	55,891
Treatment plant	2,865,803	-	-	-	-	2,865,803
Equipment	47,643	-	-	-	-	47,643
Drains	283,301	-	-	2,166	-	285,467
Channels	139,722	-	-	-	-	139,722
Information systems	48,481	-	-	-	-	48,481
Security	641,003	-	-	19,028	79,273	580,758
Total depreciable assets	4,442,021	-	-	21,194	79,273	4,383,942
Less: accumulated depreciation	(1,504,643)	83,828	(1,420,815)	(132,630)	(79,273)	(1,474,172)
Total depreciable assets, net	2,937,378	83,828	3,021,206	(111,436)	-	2,909,770
Total capital assets, net of depreciation	\$ 3,032,246	\$ 83,828	\$ 3,116,074	\$ (42,559)	\$ -	\$ 3,073,515

* Beginning balance of accumulated depreciation has been restated to correct for an error in recording the prior year ending balance.

NOTE 4 – LONG-TERM DEBT

Changes in long-term debt for the fiscal year ended June 30, 2017, were as follows:

	Balance, July 1, 2016	Additions	Deductions	Balance, June 30, 2017	Amounts Due in One Year
Installment Note Payable	\$ 178,037	\$ -	\$ 57,686	\$ 120,351	\$ 59,330
Compensated Absences	26,456	-	1,053	25,403	-
Net Pension Liability	909,327	259,698	-	1,169,025	-
	\$ 1,113,820	\$ 259,698	\$ 58,739	\$ 1,314,779	\$ 59,330

Note Payable

The District obtained an installment note payable to Municipal Finance Corporation and subsequently assigned to City National Bank to partially finance the cost of design, acquisition and construction of the new treatment plant. The Note bears an interest rate of 2.85% and is due in the year 2019, with fixed annual principal and interest payments of \$62,760 beginning June 19, 2008. Net revenues from sanitation operations are pledged for principal and interest payments.

Future principal and interest maturities are as follows:

Fiscal Year	Principal	Interest	Total
2017-18	\$ 59,330	\$ 3,430	\$ 62,760
2018-19	61,021	1,739	62,760
	\$ 120,351	\$ 5,169	\$ 125,520

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 5 – PENSION PLAN

Qualified employees are covered under a multiple-employer defined benefit pension plan maintained by agencies of the State of California known as the California Public Employees’ Retirement System (CalPERS), or “The Plan”.

A. General Information about the Pension Plan

Plan Description, Benefits Provided and Employees Covered

The Plan is a cost-sharing multiple-employer defined benefit pension plan administered by the California Public Employees’ Retirement System (CalPERS). The District contributes to the miscellaneous risk pool within the Plan. A full description of the pension plan benefit provisions, assumptions for funding purposes but not accounting purposes, and membership information is listed in the June 30, 2015 Annual Actuarial Valuation Report. Details of the benefits provided can be obtained in Appendix B of the June 30, 2015 actuarial valuation report. This report is a publicly available valuation report that can be obtained at CalPERS website under Forms and Publications.

The California Public Employees’ Pension Reform Act (PEPRA), which took effect in January 2013, changes the way CalPERS retirement benefits are applied, and places compensation limits on members. As a result of these changes since PEPRA’s adoption in January 2013, the District now has two unique CalPERS plans to which it makes contributions within the miscellaneous risk pool: the “classic” plan, which includes covered employees who have established membership in a CalPERS plan prior to January 2013, as well as the “PEPRA/new” plan, which includes covered employees who have established membership in a CalPERS plan after January 2013. Each plan or membership contains unique benefits levels, which are enumerated in the June 30, 2015 Annual Actuarial Valuation Reports.

Contribution Description

Section 20814(c) of the California Public Employees’ Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through the CalPERS annual actuarial valuation process. For public agency cost-sharing plans covered by either the Miscellaneous or Safety risk pools, the Plan’s actuarially determined rate is based on the estimated amount necessary to pay the Plan’s allocated share of the risk pool’s costs of benefits earned by employees during the year, and any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the measurement period ended June 30, 2016 (the measurement date), the applicable employee and employer contribution rates for the District are as follows, per membership level:

	<i>Membership Level</i>	
	<i>"Classic"</i>	<i>"PEPRA/new"</i>
Active employee rate	7.762%	6.250%
Required employer rate	11.718%	6.237%

Employer contributions rates may change if plan contracts are amended. It is the responsibility of the employer to make necessary accounting adjustments to reflect the impact due to any Employer Paid Member Contributions or situations where members are paying a portion of the employer contribution.

For the fiscal year ended June 30, 2017, the contributions recognized as part of pension expense for the Plan were \$187,392.

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 5 – PENSION PLAN (continued)

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2017, the District reported a net pension liability for its proportionate share of the net pension liability of the Plan of \$1,169,025.

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2016, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for the Plan as of June 30, 2015 and 2016 was as follows:

	<u>CalPERS</u>
Proportion - June 30, 2015	0.032331%
Proportion - June 30, 2016	<u>0.032740%</u>
Change - Increase (Decrease)	<u>0.000409%</u>

For the year ended June 30, 2017, the District recognized pension expense of \$128,881. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 105,759	\$ -
Differences between actual and expected experience	3,968	(909)
Changes in assumptions	-	(37,541)
Adjustments due to differences in proportions	-	62,169
Net differences between projected and actual earnings on plan investments	<u>222,434</u>	<u>(119,304)</u>
	<u>\$ 332,161</u>	<u>\$ (95,585)</u>

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 5 – PENSION PLAN (continued)

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (continued)

The total amount of \$105,759 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30,	Amount
2018	\$ 100,615
2019	91,476
2020	117,078
2021	-
Thereafter	-

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

For the measurement period ending June 30, 2016 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2015, total pension liability. Both the June 30, 2015 total pension liability and the June 30, 2016, total pension liability were based on the following actuarial methods and assumptions:

Valuation Date	June 30, 2015
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount rate	7.65%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.5% Net of Pension Plan Investment and Administrative Expenses; includes inflation
Mortality Rate Table ¹	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

¹ The mortality table used was developed based on CalPERS specific data. The table includes 50 years of mortality improvements using Society of Actuaries Scale AA. For more details on this table, please refer to the 2010 experience study report.

All other actuarial assumptions used in the June 30, 2015, valuation were based on the results of an actuarial experience study for the fiscal years 1997 to 2007, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS website under Forms and Publications.

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 5 – PENSION PLAN (continued)

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (continued)

Discount Rate

The discount rate used to measure the total pension liability for PERF B was 7.65 percent. A projection of expected benefit payments and contributions was performed to determine if the assets would run out. The test revealed the assets would not run out. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for PERF B. The results of the crossover testing for the Plan are presented in a detailed report that can be obtained on CalPERS' website.

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

In determining the long-term expected rate of return, staff took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all of the funds' asset classes, expected compound (geometric) returns were calculated over the short term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent. The long-term expected real rates of return by asset class can be found in CalPERS' Comprehensive Annual Financial Report for the fiscal year ended June 30, 2016.

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

The following presents the net pension liability/(asset) of the Plan as of the measurement date, calculated using the discount rate of 7.65 percent, as well as what the net pension liability/(asset) would be if it were calculated using a discount rate that is 1 percentage-point lower (6.65 percent) or 1 percentage-point higher (8.65 percent) than the current rate:

	Discount Rate - 1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate + 1% (8.65%)
Plan's Net Pension Liability (Asset)	\$ 1,821,311	\$ 1,169,025	\$ 629,944

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial report.

C. Payable to the Pension Plans

At June 30, 2017, the District reported no payables for outstanding contributions to the CalPERS pension plan required for the fiscal year ended June 30, 2017.

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 6 – COMMITMENTS AND CONTINGENCIES

The District is involved in routine litigation incidental to its business and may be subject to claims and litigation from outside parties. After consultation with legal counsel, Management believes the ultimate outcome of such matters, if any, will not materially affect its financial condition.

NOTE 7 – ADJUSTMENT FOR RESTATEMENT

Beginning net position has been restated by \$83,828 to correct for an error in prior period accumulated depreciation.

NOTE 8 – SUBSEQUENT EVENTS

In accordance with the provisions surrounding Subsequent Events, the District's management has evaluated events and transactions for potential recognition or disclosure through August 18, 2017, the date the financial statements were available to be issued.

Required Supplementary Information

PAUMA VALLEY COMMUNITY SERVICES DISTRICT
Schedule of Proportionate Share of the Net Pension Liability
For the Fiscal Year Ended June 30, 2017

California Public Employees' Retirement System (CalPERS)
 Last Ten Fiscal Years*

	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability (asset)	0.03274%	0.03233%	0.01306%
District's proportionate share of the net pension liability (asset)	\$ 1,169,025	\$ 909,327	\$ 812,404
District's covered-employee payroll	\$ 586,143	\$ 442,783	\$ 453,952
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	199.44%	205.37%	178.96%
Plan fiduciary net position as a percentage of the total pension liability	75.87%	79.89%	81.15%

** This schedule is required to show information for ten years; however, until a full ten year trend is compiled, information is presented for those years for which information is available.*

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

Schedule of Pension Contributions

For the Fiscal Year Ended June 30, 2017

California Public Employees' Retirement System (CalPERS)

Last Ten Fiscal Years*

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 128,881	\$ 49,730	\$ 73,327
Contributions in relation to the actuarially determined contribution	<u>(128,881)</u>	<u>(49,730)</u>	<u>(73,327)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	586,143	442,783	453,952
Contributions as a percentage of covered-employee payroll	21.99%	11.23%	16.15%

* *This schedule is required to show information for ten years; however, until a full ten year trend is compiled, information is presented for those years for which information is available.*

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

*Notes to the Required Supplementary Information
For the Fiscal Year Ended June 30, 2017*

NOTE 1 – PURPOSE OF SCHEDULES

Schedule of Proportionate Share of the Net Pension Liability

This schedule is required by GASB Statement No. 68 and is required for all employers in a cost-sharing pension plan. The schedule reports the following information:

- The proportion (percentage) of the collective net pension liability (similar to the note disclosure)
- The proportionate share (amount) of the collective net pension liability
- The employer's covered-employee payroll
- The proportionate share (amount) of the collective net pension liability as a percentage of the employer's covered-employee payroll
- The pension plan's fiduciary net position as a percentage of the total pension liability

Schedule of Pension Contributions

This schedule is required by GASB Statement No. 68 and is required for all employers in a cost-sharing pension plan. The schedule reports the following information:

- If an employer's contributions to the plan are actuarially determined or based on statutory or contractual requirements: the employer's actuarially determined contribution to the pension plan (or, if applicable, its statutorily or contractually required contribution), the employer's actual contributions, the difference between the actual and actuarially determined contributions (or statutorily or contractually required), and a ratio of the actual contributions divided by covered-employee payroll.

NOTE 2 – SUMMARY OF CHANGES OF BENEFITS OR ASSUMPTIONS

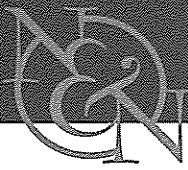
Benefit Changes

There were no changes to benefit terms that applied to all members of the Miscellaneous Risk.

Changes of Assumptions

There were no changes of assumptions.

Other Independent Auditors' Report



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Pauma Valley Community Services District
Pauma Valley, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Pauma Valley Community Services District as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Pauma Valley Community Services District's basic financial statements, and have issued our report thereon dated August 18, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



Murrieta, California
August 18, 2017

Findings and Recommendations

PAUMA VALLEY COMMUNITY SERVICES DISTRICT
Schedule of Audit Findings and Recommendations
For the Fiscal Year Ended June 30, 2017

SECTION I - FINANCIAL STATEMENT FINDINGS

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*.

There were no audit findings in 2016-17.

PAUMA VALLEY COMMUNITY SERVICES DISTRICT
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2017

There were no findings or recommendations in 2015-16.