

**PAUMA VALLEY
COMMUNITY SERVICES DISTRICT
AUDIT REPORT
For the Fiscal Year Ended
June 30, 2015**



PAUMA VALLEY COMMUNITY SERVICES DISTRICT

For the Fiscal Year Ended June 30, 2015

Table of Contents

FINANCIAL SECTION

Page

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 23
Schedule of Contributions 24
Notes to the Required Supplementary Information 25

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
Government Auditing Standards..... 26

FINDINGS AND RECOMMENDATIONS

Schedule of Audit Findings and Recommendations..... 28
Summary Schedule of Prior Audit Findings..... 29

Financial Section

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Pauma Valley Community Services District, which comprise the statement of net position as of June 30, 2015, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pauma Valley Community Services District, as of June 30, 2015, and the results of its operations and cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1.G. to the basic financial statements, the District has changed its method for accounting and reporting for pensions during fiscal year 2014-15 due to the adoption of Governmental Accounting Standards Board Statement No. 68, "Accounting and Financial Reporting for Pensions-An Amendment of GASB Statement No. 27" and No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date-An Amendment of GASB Statement No. 68". The adoption of these standards required retrospective application resulting in a \$974,298 reduction of previously reported net position at July 1, 2014. Our opinion is not modified with respect to this matter.

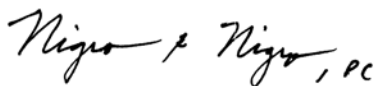
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 3 through 6 and schedules of proportionate share of the net pension liability and contributions on pages 23 and 24 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a separate report dated September 21, 2015 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Murrieta, California
September 21, 2015

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Fiscal Year Ended June 30, 2015

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, 2015. 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 \$87,151 or 3.8%.
- The District had an operating loss of \$24,892, as compared to an operating gain of \$37,007 in 2013-2014.

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, 2015. 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 \$2,384,875 as of June 30, 2015.

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, 2015 net position increased by \$87,151.

PAUMA VALLEY COMMUNITY SERVICES DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2015

REQUIRED FINANCIAL STATEMENTS (continued)

Statements of Cash Flows

The Statements 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 \$74,809, which is added to beginning cash and cash equivalents of \$613,401, to arrive at ending cash and cash equivalents of \$688,210. 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

| | 2014-2015 | 2013-14 (Restated) | Increase (Decrease) | % Change |
|---------------------------------------|---------------------|-------------------------------|--------------------------------|---------------------|
| Assets | | | | |
| Current and Other Assets | \$ 816,931 | \$ 754,179 | \$ 62,752 | 8.3% |
| Capital Assets, Net of Depreciation | 2,915,013 | 2,910,597 | 4,416 | 0.2% |
| Total Assets | 3,731,944 | 3,664,776 | 67,168 | 1.8% |
| Deferred Outflows of Resources | 53,039 | 94,596 | (41,557) | -43.9% |
| Liabilities | | | | |
| Current Liabilities | 169,383 | 158,630 | 10,753 | 6.8% |
| Long-Term Debt | 990,441 | 1,303,018 | (312,577) | -24.0% |
| Total Liabilities | 1,159,824 | 1,461,648 | (301,824) | -20.6% |
| Deferred Inflows of Resources | 240,284 | - | 240,284 | N/A |
| Net Position | | | | |
| Net Investment in Capital Assets | 2,680,889 | 2,621,940 | 58,949 | 2.2% |
| Unrestricted | (296,014) | (324,216) | 28,202 | -8.7% |
| Total Net Position | \$ 2,384,875 | \$ 2,297,724 | \$ 87,151 | 3.8% |

The condensed statement above presents a summary of the District's Statement of Net Position. The District's Net Position as of June 30, 2015 totaled \$2,384,875 compared with \$2,297,724 as of June 30, 2014, an increase of 3.8%. 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 increased by \$67,168 or 1.8%. As a result of operating and non-operating activities, the District's overall net position increased by \$87,151. The increase is allocated in part to a \$301,824 decrease in liabilities, mostly as a result of the decrease in long-term debt of \$311,023, related to payments on the note payable and the reduction of the CalPERS net pension liability.

PAUMA VALLEY COMMUNITY SERVICES DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2015

FINANCIAL ANALYSIS AND CONDENSED FINANCIAL INFORMATION (continued)

Analysis of Revenues and Expenses

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

| | 2014-2015 | 2013-14 (Restated) | Increase (Decrease) | % Change |
|------------------------|----------------------------|-------------------------------|--------------------------------|---------------------|
| Revenues | | | | |
| Operating Revenues | \$ 1,299,568 | \$ 1,276,802 | \$ 22,766 | 2% |
| Non-operating Revenues | 112,045 | 104,507 | 7,538 | 7% |
| Total Revenues | <u>1,411,612</u> | <u>1,381,309</u> | <u>30,303</u> | <u>2%</u> |
| Expenses | | | | |
| Depreciation Expense | 118,476 | 109,241 | 9,235 | 8% |
| Operating Expenses | 1,205,986 | 1,130,554 | 75,432 | 7% |
| Non-operating Expenses | - | 11,185 | (11,185) | - |
| Total Expenses | <u>1,324,462</u> | <u>1,250,980</u> | <u>73,482</u> | <u>5.9%</u> |
| Change in Net Position | 87,150 | 130,329 | (43,179) | 33% |
| Beginning Net Position | <u>2,297,724</u> | <u>2,167,395</u> | <u>130,329</u> | |
| Ending Net Position | <u><u>\$ 2,384,874</u></u> | <u><u>\$ 2,297,724</u></u> | <u><u>\$ 87,150</u></u> | |

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.

CAPITAL ASSETS

Net capital assets increased by \$4,416 from the prior year, contributing towards the ending balance of \$2,915,013. This increase consisted of machinery and equipment additions in the amount of \$122,892, less current year depreciation of \$118,476. There were no capital assets disposed of during the year.

LONG-TERM DEBT

At June 30, 2015, the District had \$1,046,528 in long-term debt, which is made up of an installment note payable to City National Bank of \$234,124, and the net pension liability of \$812,404. In fiscal year 2015-16 the installment payment due is principal \$56,087, plus interest of \$6,673 for a total debt service payment of \$62,760. The District issued no new debt and reduced the outstanding principal balance by \$54,533, and incurred and paid interest expense of \$8,227 on the note during the year.

PAUMA VALLEY COMMUNITY SERVICES DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2015

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, 2015

| | Enterprise Fund |
|--|----------------------------|
| ASSETS | |
| Cash and cash equivalents | \$ 688,210 |
| Accounts receivable | 94,239 |
| Property taxes receivable | 4,070 |
| Prepaid expenses | 30,412 |
| Nondepreciable capital assets | 94,868 |
| Depreciable capital assets | 4,192,572 |
| Less, accumulated depreciation | <u>(1,372,427)</u> |
| Total assets | <u>3,731,944</u> |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Amounts contributed to the pension plan subsequent to the measurement date | 52,995 |
| Adjustments due to differences in proportions | <u>44</u> |
| Total deferred outflows of resources | <u>53,039</u> |
| LIABILITIES | |
| Accounts payable | 46,111 |
| Other accrued expenses | 54,731 |
| Prepaid customer fees | 12,454 |
| Long-term debt: | |
| Portion due or payable within one year | 56,087 |
| Portion due or payable after one year | <u>990,441</u> |
| Total liabilities | <u>1,159,824</u> |
| DEFERRED INFLOWS OF RESOURCES | |
| Net differences between projected and actual earnings on pension plan investments | <u>240,284</u> |
| NET POSITION | |
| Net investment in capital assets | 2,680,889 |
| Unrestricted | <u>(296,014)</u> |
| Total net position | <u>\$ 2,384,875</u> |

PAUMA VALLEY COMMUNITY SERVICES DISTRICT
Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2015

| | Enterprise Fund |
|---|----------------------------|
| OPERATING REVENUES | |
| Service fees and charges | \$ 1,299,568 |
| OPERATING EXPENSES | |
| Salaries and wages | 398,151 |
| Employee benefits | 182,629 |
| Contract services | 298,513 |
| Professional services | 26,314 |
| Insurance | 60,115 |
| Repairs and maintenance | 90,520 |
| Security expenses | 23,764 |
| Utilities | 32,195 |
| Other general and administrative expenses | 93,784 |
| Depreciation | 118,476 |
| Total operating expenses | <u>1,324,461</u> |
| Operating income (loss) | <u>(24,893)</u> |
| NONOPERATING REVENUES (EXPENSES) | |
| Interest income | 864 |
| Property taxes | 88,862 |
| Other miscellaneous income | 22,318 |
| Total nonoperating revenues (expenses) | <u>112,044</u> |
| Change in Net Position | <u>87,151</u> |
| Net position, beginning of the year, as originally stated | 3,272,022 |
| Adjustment for restatement | <u>(974,298)</u> |
| Net position, beginning of the year, as restated | <u>2,297,724</u> |
| Net position, end of the year | <u>\$ 2,384,875</u> |

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

Statements of Cash Flows

For the Fiscal Year Ended June 30, 2015

| | Enterprise Fund |
|---|----------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Cash received from users | \$ 1,325,006 |
| Cash paid to or on behalf of employees for services | (533,099) |
| Cash paid to suppliers for goods and services | <u>(635,554)</u> |
| Net cash provided (used) by operating activities | <u>156,353</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | |
| Other nonoperating income | <u>103,245</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | |
| Acquisition and construction of capital assets | (122,892) |
| Principal payments on long-term debt | (54,533) |
| Interest paid on long-term debt | <u>(8,227)</u> |
| Net cash provided (used) by capital and related financing activities | <u>(185,652)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Interest income | <u>864</u> |
| Net increase (decrease) in cash | 74,809 |
| Cash balances, beginning of the year | <u>613,401</u> |
| Cash balances, end of the year | <u><u>\$ 688,210</u></u> |
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities: | |
| Operating income (loss) | \$ (24,893) |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | |
| Depreciation expense | 118,476 |
| (Increase) decrease in assets: | |
| Accounts receivable | (54,037) |
| Prepaid expenses | (12,454) |
| Other current assets | 67,023 |
| (Increase) decrease in deferred outflows: | |
| Total deferred outflows of resources | 53,039 |
| Increase (decrease) in liabilities: | |
| Accounts payable | (9,423) |
| Other accrued expenses | 6,168 |
| Prepaid customer fees | <u>12,454</u> |
| Net cash provided (used) by operating activities | <u><u>\$ 156,353</u></u> |

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2015

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.

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, 2015

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 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. 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:

| Description | Estimated Lives |
|-------------------------|-----------------|
| 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 |

5. 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 two items that qualify for reporting in this category, which are more fully described in Note 5.

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.

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2015

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. 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.

7. 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.

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.

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2015

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

F. Property Taxes (continued)

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 2014-15 fiscal year, the following GASB Pronouncements became effective:

1. Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27 (Issued 06/12)*

The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria.

This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

Cost-Sharing Employers

In financial statements prepared using the economic resources measurement focus and accrual basis of accounting, a cost-sharing employer that does not have a special funding situation is required to recognize a liability for its proportionate share of the net pension liability (of all employers for benefits provided through the pension plan)—the collective net pension liability. An employer's proportion is required to be determined on a basis that is consistent with the manner in which contributions to the pension plan are determined, and consideration should be given to separate rates, if any, related to separate portions of the collective net pension liability. The use of the employer's projected long-term contribution effort as compared to the total projected long-term contribution effort of all employers as the basis for determining an employer's proportion is encouraged.

A cost-sharing employer is required to recognize pension expense and report deferred outflows of resources and deferred inflows of resources related to pensions for its proportionate shares of collective pension expense and collective deferred outflows of resources and deferred inflows of resources related to pensions.

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2015

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

G. New GASB Pronouncements (continued)

2. Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68 (Issued 11/13)

The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

Statement 68 requires a state or local government employer (or nonemployer contributing entity in a special funding situation) to recognize a net position liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year. If a state or local government employer or nonemployer contributing entity makes a contribution to a defined benefit pension plan between the measurement date of the reported net pension liability and the end of the government's reporting period, Statement 68 requires that the government recognize its contribution as a deferred outflow of resources. In addition, Statement 68 requires recognition of deferred outflows of resources and deferred inflows of resources for changes in the net pension liability of a state or local government employer or nonemployer contributing entity that arise from other types of events. At transition to Statement 68, if it is not practical for an employer or nonemployer contributing entity to determine the amounts of *all* deferred outflows of resources and deferred inflows of resources related to pensions, paragraph 137 of Statement 68 required that beginning balances for deferred outflows of resources and deferred inflows of resources not be reported.

Consequently, if it is not practical to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, contributions made after the measurement date of the beginning net pension liability could not have been reported as deferred outflows of resources at transition. This could have resulted in a significant understatement of an employer or nonemployer contributing entity's beginning net position and expense in the initial period of implementation.

This Statement amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts.

The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68.

3. Cumulative Effect of Change in Accounting Principle

Accounting changes adopted to conform to the provisions of these statements should be applied retroactively. The result of the implementation of these standards was to decrease the net position at July 1, 2014 by \$974,298, which is the amount of net pension liability, net of the deferred outflows of resources related to pensions at July 1, 2014.

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2015

NOTE 2 – CASH AND DEPOSITS

Cash and deposits at June 30, 2015, are reported at fair value and consisted of the following:

| | |
|--|-------------------|
| Cash on hand | \$ 93 |
| Deposits with financial institutions | 230,992 |
| Deposits with Local Agency Investment Fund | 457,125 |
| Total Cash and Investments | <u>\$ 688,210</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, 2015, the District had \$457,125 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 | \$ 457,125 | N/A | - | \$ - | \$ - | \$ 457,125 |

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2015

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 imitations 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, 2015, 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, 2015, the District's deposit with LAIF was \$457,125.

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

Years Ended June 30, 2015

NOTE 3 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2015, was as follows:

| | Balance, July 1, 2014 | Additions | Retirements | Transfers | Balance, June 30, 2015 |
|---|--------------------------|------------------|-------------|-------------|---------------------------|
| Nondepreciable assets: | | | | | |
| Land | \$ 94,767 | \$ - | \$ - | \$ 1 | \$ 94,768 |
| Easements & rights of way | 100 | - | - | - | 100 |
| Total nondepreciable assets: | <u>94,867</u> | <u>-</u> | <u>-</u> | <u>1</u> | <u>94,868</u> |
| Depreciable assets: | | | | | |
| Fences | 3,340 | - | - | - | 3,340 |
| Buildings | 153,566 | 30,000 | - | 27,781 | 211,347 |
| Machinery | 2,321 | - | - | - | 2,321 |
| Sewer lines & lateral lines | 173,169 | - | - | - | 173,169 |
| Oak Tree lift station | 39,896 | 4,985 | - | - | 44,881 |
| Treatment plant | 2,865,803 | - | - | - | 2,865,803 |
| Equipment | 47,643 | - | - | - | 47,643 |
| Leasehold improvements | 27,781 | - | - | (27,781) | - |
| Drains | 277,551 | - | - | - | 277,551 |
| Channels | 116,722 | - | - | - | 116,722 |
| Information systems | 19,853 | - | - | - | 19,853 |
| Security | 342,035 | 87,907 | - | - | 429,942 |
| Total depreciable assets | <u>4,069,680</u> | <u>122,892</u> | <u>-</u> | <u>-</u> | <u>4,192,572</u> |
| Less: accumulated depreciation | <u>(1,253,950)</u> | <u>(118,476)</u> | <u>-</u> | <u>(1)</u> | <u>(1,372,427)</u> |
| Total depreciable assets, net | <u>2,815,730</u> | <u>4,416</u> | <u>-</u> | <u>(1)</u> | <u>2,820,145</u> |
| Total capital assets, net of depreciation | <u>\$ 2,910,597</u> | <u>\$ 4,416</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 2,915,013</u> |

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2015

NOTE 4 - LONG-TERM DEBT

Changes in long-term debt for the fiscal year ended June 30, 2015 were as follows:

| | Balance, July 1, 2014* | Additions | Deductions | Balance, June 30, 2015 | Amounts Due in One Year |
|--------------------------|---------------------------|-------------|-------------------|---------------------------|----------------------------|
| Installment Note Payable | \$ 288,657 | \$ - | \$ 54,533 | \$ 234,124 | \$ 56,087 |
| Net Pension Liability | 1,068,894 | - | 256,490 | 812,404 | - |
| | <u>\$ 1,357,551</u> | <u>\$ -</u> | <u>\$ 311,023</u> | <u>\$ 1,046,528</u> | <u>\$ 56,087</u> |

* Beginning balance amount has been restated to reflect the retroactive implementation of GASB Statement No.68 for the net pension liability.

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 |
|-------------|-------------------|------------------|-------------------|
| 2015-16 | \$ 56,087 | \$ 6,673 | \$ 62,760 |
| 2016-17 | 57,686 | 5,074 | 62,760 |
| 2017-18 | 59,330 | 3,430 | 62,760 |
| 2018-19 | 61,021 | 1,739 | 62,760 |
| | <u>\$ 234,124</u> | <u>\$ 16,916</u> | <u>\$ 251,040</u> |

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). 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, 2013 Annual Actuarial Valuation Report. Details of the benefits provided can be obtained in Appendix B of the June 30, 2013 actuarial valuation report. This report is a publically available valuation report that can be obtained at CalPERS website under Forms and Publications.

PAUMA VALLEY COMMUNITY SERVICES DISTRICT
Notes to Financial Statements
June 30, 2015

NOTE 5 – PENSION PLAN (continued)

A. General Information about the Pension Plan (continued)

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, 2014 (the measurement date), the active employee contribution rate is 7.761 percent of annual pay, and the average employer's contribution rate is 18.025 percent of annual payroll. 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, 2015, the contributions recognized as part of pension expense for the Plan were \$52,995.

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

As of June 30, 2015, the District reported a net pension liability for its proportionate share of the net pension liability of the Plan of \$812,404.

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, 2014, 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, 2013 rolled forward to June 30, 2014 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, 2013 and 2014 was as follows:

| | CalPERS |
|------------------------------|---------|
| Proportion - June 30, 2013* | 0.0329% |
| Proportion - June 30, 2014 | 0.0329% |
| Change - Increase (Decrease) | 0.0% |

* The District's proportionate share percentage was not separately determined for June 30, 2013, so the June 30, 2014, percentage was used to calculate the beginning amounts.

PAUMA VALLEY COMMUNITY SERVICES DISTRICT
Notes to Financial Statements
June 30, 2015

NOTE 5 - PENSION PLAN (continued)

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

For the year ended June 30, 2015, the District recognized pension expense of \$78,346. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|-----------------------------------|----------------------------------|
| Pension contributions subsequent to measurement date | \$ 52,995 | \$ - |
| Differences between actual and expected experience | - | - |
| Changes in assumptions | - | - |
| Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions | - | - |
| Adjustments due to differences in proportions | 44 | - |
| Net differences between projected and actual earnings on plan investments | - | (240,284) |
| | <u>\$ 53,039</u> | <u>\$ (240,284)</u> |

The total amount of \$52,995 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, 2016. 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 |
|------------------------|-------------|
| 2016 | \$ (60,055) |
| 2017 | \$ (60,059) |
| 2018 | \$ (60,071) |
| 2019 | \$ - |
| 2020 | \$ - |
| Thereafter | \$ - |

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2015

NOTE 5 – PENSION PLAN (continued)

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

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

For the measurement period ending June 30, 2014 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2013, total pension liability. Both the June 30, 2013 total pension liability and the June 30, 2014, total pension liability were based on the following actuarial methods and assumptions:

| | |
|-----------------------------------|---|
| Valuation Date | June 30, 2013 |
| Actuarial Cost Method | Entry Age Normal |
| Actuarial Assumptions: | |
| Discount rate | 7.50% |
| 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 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

All other actuarial assumptions used in the June 30, 2013, valuation were based on the results of an actuarial experience study for the fiscal years 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS website under Forms and Publications.

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS website under the GASB 68 section.

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2015

NOTE 5 – PENSION PLAN (continued)

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

Discount Rate (continued)

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability. This difference was deemed immaterial to the Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan.

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 7.50 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 (6.50 percent) or 1 percentage-point higher (8.50 percent) than the current rate:

| | Discount Rate - 1% (6.50%) | Current Discount Rate (7.50%) | Discount Rate + 1% (8.50%) |
|---|-------------------------------|----------------------------------|-------------------------------|
| Plan's Net Pension Liability (Asset) | \$ 1,384,256 | \$ 812,404 | \$ 337,822 |

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, 2015, the District reported a payable of \$5,182 for the outstanding amount of contributions to the CalPERS pension plan required for the fiscal year ended June 30, 2015.

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 – 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 September 21, 2015, 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, 2015

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

| | <u>2014</u> |
|---|-------------|
| District's proportion of the net pension liability (asset) | 0.01306% |
| District's proportionate share of the net pension liability (asset) | \$ 812,404 |
| District's covered-employee payroll | \$ 453,952 |
| District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | 178.96% |
| Plan fiduciary net position as a percentage of the total pension liability | 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 Contributions
For the Fiscal Year Ended June 30, 2015

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

| | <u>2014</u> |
|---|-----------------|
| Actuarially determined contribution | \$ 73,327 |
| Contributions in relation to the actuarially determined contribution | <u>(73,327)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> |
| District's covered-employee payroll | \$ 453,952 |
| Contributions as a percentage of covered-employee payroll | 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, 2015*

NOTES TO SCHEDULE

Change in Benefit Terms

The figures in the schedule do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2013, as they have minimal cost impact. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a Golden Handshakes).

Change in Assumptions

None

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, 2015, 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 September 21, 2015.

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.

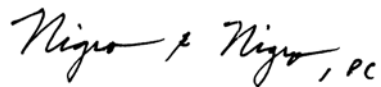
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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
September 21, 2015

Findings and Recommendations

PAUMA VALLEY COMMUNITY SERVICES DISTRICT
Schedule of Audit Findings and Recommendations
For the Fiscal Year Ended June 30, 2015

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 2014-15.

PAUMA VALLEY COMMUNITY SERVICES DISTRICT
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2015

There were no findings or recommendations in 2013-14.