

**PAUMA VALLEY
COMMUNITY SERVICES DISTRICT
AUDIT REPORT
For the Fiscal Year Ended
June 30, 2018**



PAUMA VALLEY COMMUNITY SERVICES DISTRICT

For the Fiscal Year Ended June 30, 2018

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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, 2018, 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, 2018, 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.

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 22 and 23 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 26, 2018, 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 26, 2018

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Fiscal Year Ended June 30, 2018

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, 2018. 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

The District's net position decreased by \$13,522 or 0.51%. The decrease in net position principally was due to an increase in net pension liabilities of \$177,393. This liability increase follows the GASB accounting rules requiring the recognition of the underfunded nature of the CALPERS pension plan which benefits previous and current employees. This liability progressively becomes payable in future years in accordance with schedules to be established by CALPERS and will have to be recovered in fees charged by the District in excess of current operating costs (see Note 6 to the financial statements).

The District had an operating loss of \$103,005, as compared to an operating loss of \$6,935 in 2016-17. The operating loss resulted principally from a combination of a reduction in non-operating income of \$26,485 due to a loss on disposal of \$36,640 of unused fixed assets and an increase in operating expenses of \$116,781. This increase in operating expense was due to a notable increase in employee benefits, and repairs and maintenance (\$137,353 and 25,429 respectively), offset by a reduction in professional services.

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, 2018. 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 \$2,660,917 as of June 30, 2018.

PAUMA VALLEY COMMUNITY SERVICES DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2018

REQUIRED FINANCIAL STATEMENTS (continued)

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, 2018, net position decreased by \$13,521.

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 \$216,225, which is added to beginning cash and cash equivalents of \$617,890, to arrive at ending cash and cash equivalents of \$834,115. Cash equivalents managed directly by the District consist of investments in the California Local Agency Investment Fund (LAIF), as well as cash held in financial institutions.

FINANCIAL ANALYSIS AND CONDENSED FINANCIAL INFORMATION

Analysis of Net Position

Table A-1: Condensed Statement of Net Position

	<u>2017-2018</u>	<u>2016-2017</u>	<u>Increase (Decrease)</u>	<u>% Change</u>
Assets				
Current and Other Assets	\$ 925,207	\$ 741,906	\$ 183,301	24.71%
Capital Assets, Net of Depreciation	<u>2,906,530</u>	<u>3,073,515</u>	<u>(166,985)</u>	<u>-5.43%</u>
Total Assets	<u>3,831,737</u>	<u>3,815,421</u>	<u>16,316</u>	<u>0.43%</u>
Deferred Outflows of Resources	<u>404,409</u>	<u>332,161</u>	<u>72,248</u>	<u>21.75%</u>
Liabilities				
Current Liabilities	41,588	122,110	(80,522)	-65.94%
Long-Term Liabilities	86,309	86,424	(115)	-0.13%
Net Pension Liability	<u>1,346,418</u>	<u>1,169,025</u>	<u>177,393</u>	<u>15.17%</u>
Total Liabilities	<u>1,474,315</u>	<u>1,377,559</u>	<u>96,756</u>	<u>7.02%</u>
Deferred Inflows of Resources	<u>100,914</u>	<u>95,585</u>	<u>5,329</u>	<u>5.58%</u>
Net Position				
Net Investment in Capital Assets	2,845,624	2,953,164	(107,540)	-3.64%
Unrestricted	<u>(184,707)</u>	<u>(278,726)</u>	<u>94,019</u>	<u>33.73%</u>
Total Net Position	<u>\$ 2,660,917</u>	<u>\$ 2,674,438</u>	<u>\$ (13,521)</u>	<u>-0.51%</u>

PAUMA VALLEY COMMUNITY SERVICES DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2018

FINANCIAL ANALYSIS AND CONDENSED FINANCIAL INFORMATION (continued)

Analysis of Net Position (continued)

The condensed statement on the prior page presents a summary of the District's Statement of Net Position. The District's Net Position as of June 30, 2018 totaled \$2,660,917 compared with \$2,674,438 as of June 30, 2017, a decrease of 0.51%. 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 \$16,315 or 0.43%. As a result of operating and non-operating activities, the District's overall net position decreased by \$13,521. The decrease is allocated in part to increasing pension liability.

Analysis of Revenues and Expenses

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

	Statement of Activities			
	<u>2017-2018</u>	<u>2016-2017</u>	<u>Increase (Decrease)</u>	<u>% Change</u>
Revenues				
Operating Revenues	\$ 1,384,441	\$ 1,363,729	\$ 20,712	1.52%
Non-operating Revenues	89,483	115,968	(26,485)	-22.84%
Total Revenues	<u>1,473,924</u>	<u>1,479,697</u>	<u>(5,773)</u>	<u>-0.39%</u>
Expenses				
Depreciation Expense	143,354	132,630	10,724	8.09%
Operating Expenses	<u>1,344,091</u>	<u>1,238,034</u>	<u>106,057</u>	<u>8.57%</u>
Total Expenses	<u>1,487,445</u>	<u>1,370,664</u>	<u>116,781</u>	<u>8.52%</u>
Change in Net Position	(13,521)	109,033	(122,554)	-112.40%
Beginning Net Position	<u>2,674,438</u>	<u>2,565,405</u>	<u>109,033</u>	
Ending Net Position	<u>\$ 2,660,917</u>	<u>\$ 2,674,438</u>	<u>\$ (13,521)</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 benefits cost due to changes in pension expense.

PAUMA VALLEY COMMUNITY SERVICES DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2018

CAPITAL ASSETS

Net capital assets decreased by \$166,985 from the prior year, contributing towards the ending balance of \$2,906,530. This overall net decrease consisted of machinery and equipment, CIP, and security disposals in the amount of \$36,640 less current year depreciation of \$130,545.

LONG-TERM DEBT

At June 30, 2018, the District had \$1,432,727 in long-term liabilities, which is made up of an installment note payable to City National Bank of \$60,906, compensated absences of \$25,403, and the net pension liability of \$1,346,418. In fiscal year 2018-19 the installment payment due is principal \$60,906, plus interest of \$1,854 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 \$59,445, and incurred and paid interest expense of \$3,430 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 General Manager, Pauma Valley Community Services District, 33129 Cole Grade Road, Pauma Valley, California 92061.

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

Statement of Net Position

June 30, 2018

	Enterprise Fund
ASSETS	
Cash and cash equivalents	\$ 834,115
Accounts receivable, net of allowance	52,854
Property taxes receivable	3,517
Prepaid expenses	34,721
Capital assets:	
Nondepreciable assets	94,868
Depreciable assets	4,305,814
Less accumulated depreciation	<u>(1,494,152)</u>
Total assets	<u>3,831,737</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources - pensions	<u>404,409</u>
LIABILITIES	
Accounts payable	21,941
Other accrued expenses	4,713
Prepaid customer fees	14,934
Long-term liabilities:	
Portion due or payable within one year	60,906
Portion due or payable after one year	25,403
Net pension liability	<u>1,346,418</u>
Total liabilities	<u>1,474,315</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources - pensions	<u>100,914</u>
NET POSITION	
Net investment in capital assets	2,845,624
Unrestricted	<u>(184,707)</u>
Total net position	<u><u>\$ 2,660,917</u></u>

PAUMA VALLEY COMMUNITY SERVICES DISTRICT
Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2018

	Enterprise Fund
OPERATING REVENUES	
Service fees and charges	\$ 1,384,441
OPERATING EXPENSES	
Salaries and wages	599,450
Employee benefits	365,025
Contract services	40,538
Professional services	30,885
Insurance	55,332
Repairs and maintenance	109,299
Security expenses	21,226
Utilities	37,280
Other general and administrative expenses	85,056
Depreciation	143,354
Total operating expenses	<u>1,487,445</u>
Operating income (loss)	<u>(103,004)</u>
NONOPERATING REVENUES (EXPENSES)	
Interest income	6,826
Property taxes	99,247
Other gains (losses) from disposition of assets	(36,640)
Other miscellaneous income	20,050
Total nonoperating revenues (expenses)	<u>89,483</u>
Change in net position	(13,521)
Net position, beginning of the year	<u>2,674,438</u>
Net position, end of the year	<u>\$ 2,660,917</u>

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

Statement of Cash Flows

For the Fiscal Year Ended June 30, 2018

	Enterprise Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from users	\$ 1,430,163
Cash paid to or on behalf of employees for services	(866,942)
Cash paid to suppliers for goods and services	(397,552)
	<hr/>
Net cash provided (used) by operating activities	165,669
	<hr/>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Other nonoperating income	119,890
	<hr/>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(13,009)
Principal payments on long-term debt	(59,445)
Interest paid on long-term debt	(3,430)
	<hr/>
Net cash provided (used) by capital and related financing activities	(75,884)
	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	6,550
	<hr/>
Net increase (decrease) in cash	216,225
	<hr/>
Cash balances, beginning of the year	617,890
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Cash balances, end of the year	\$ 834,115
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Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ (103,004)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation expense	143,354
(Increase) decrease in assets:	
Accounts receivable	41,802
Prepaid expenses	(9,194)
(Increase) decrease in deferred outflows:	
Total deferred outflows of resources	(72,248)
Increase (decrease) in liabilities:	
Accounts payable	(8,742)
Other accrued expenses	(12,941)
Prepaid customer fees	3,920
Net pension liability	177,393
Increase (decrease) in deferred inflows:	
Total deferred inflows of resources	5,329
	<hr/>
Net cash provided (used) by operating activities	\$ 165,669
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The notes to financial statements are an integral part of this statement.

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2018

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, 2018

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 6.

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2018

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 6 "Pension Plan".

7. Compensated Absences

The liability for compensated absences reported in the government-wide statements consists of unpaid, accumulated annual and vacation leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

8. 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.

9. 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.

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2018

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

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. 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 2017-18 fiscal year, the following GASB Pronouncement became effective:

1. In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). Specifically, this Statement addresses the following topics:
 - Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation
 - Reporting amounts previously reported as goodwill and "negative" goodwill
 - Classifying real estate held by insurance entities
 - Measuring certain money market investments and participating interest-earning investment contracts at amortized cost
 - Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus
 - Recognizing on-behalf payments for pensions or OPEB in employer financial statements
 - Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB
 - Classifying employer-paid member contributions for OPEB
 - Simplifying certain aspects of the alternative measurement method for OPEB
 - Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

The primary impact of this pronouncement for the District is in relation to fair value measurement and application.

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 2 – CASH AND DEPOSITS

Cash and deposits at June 30, 2018, are reported at fair value and consisted of the following:

	Totals
Cash on hand	\$ 268
Deposits with financial institutions	265,873
Deposits with Local Agency Investment Fund	567,974
Total Cash and Cash Equivalents	<u>\$ 834,115</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 Issuer
Negotiable Certificates of Deposit	5 years	30%	None
Local Agency Investment Fund (LAIF)	N/A	None	\$ 1,500,000

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, 2018, the District had \$567,974 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	\$ 567,974	N/A	-	\$ -	\$ -	\$ 567,974

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2018

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, 2018, 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, 2018, the District's deposit with LAIF was \$567,974.

Fair Value Measurements

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value. The following provides a summary of the hierarchy used to measure fair value:

Level 1 – Quoted prices in active markets for identical assets that the District has the ability to access at the measurement date. Level 1 assets may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

Level 2 – Observable inputs other than Level 1 prices such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, such as interest rates and curves observable at commonly quoted intervals, implied volatilities, and credit spreads. For financial reporting purposes, if an asset has a specified term, a Level 2 input is required to be observable for substantially the full term of the asset.

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 2 – CASH AND DEPOSITS (continued)

Fair Value Measurements (continued)

Level 3 – Unobservable inputs should be developed using the best information available under the circumstances, which might include the District's own data. The District should adjust that date if reasonably available information indicates that other market participants would use different data or certain circumstances specific to the District are not available to other market participants.

Uncategorized – Investments in the Local Agency Investment Fund (LAIF) are not measured using the input levels above because the District's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at \$1.00 net asset value per share.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable are typically comprised of user fees and amounts due from Rancho Pauma Mutual Water Company, an affiliated entity. Accounts receivable at June 30, 2018, consisted of the following:

Service fees receivable	\$	33,810
Interest receivable		276
Due from Rancho Pauma Mutual Water Co.		23,768
Allowance for doubtful accounts		(5,000)
		<u>52,854</u>
TOTAL	\$	<u>52,854</u>

NOTE 4 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2018, was as follows:

	Balance, July 1, 2017	Additions	Retirements	Transfers	Balance, June 30, 2018
Nondepreciable assets:					
Land	\$ 94,768	\$ -	\$ -	\$ -	\$ 94,768
Construction in progress	68,877	-	-	(68,877)	-
Easements & rights of way	100	-	-	-	100
Total nondepreciable assets:	<u>163,745</u>	<u>-</u>	<u>-</u>	<u>(68,877)</u>	<u>94,868</u>
Depreciable assets:					
Fences	3,340	-	-	-	3,340
Buildings	181,347	-	6,500	68,877	243,724
Machinery	2,321	-	-	-	2,321
Sewer lines & lateral lines	173,169	-	-	-	173,169
Oak Tree lift station	55,891	4,940	-	-	60,831
Treatment plant	2,865,803	-	-	-	2,865,803
Equipment	47,643	-	17,667	-	29,976
Drains	285,467	-	-	-	285,467
Channels	139,722	-	-	-	139,722
Information systems	48,481	-	-	-	48,481
Security	580,758	8,069	135,847	-	452,980
Total depreciable assets	<u>4,383,942</u>	<u>13,009</u>	<u>160,014</u>	<u>68,877</u>	<u>4,305,814</u>
Less: accumulated depreciation	<u>(1,474,172)</u>	<u>(143,354)</u>	<u>(123,374)</u>	<u>-</u>	<u>(1,494,152)</u>
Total depreciable assets, net	<u>2,909,770</u>	<u>(130,345)</u>	<u>36,640</u>	<u>68,877</u>	<u>2,811,662</u>
Total capital assets, net of depreciation	<u>\$ 3,073,515</u>	<u>\$ (130,345)</u>	<u>\$ 36,640</u>	<u>\$ -</u>	<u>\$ 2,906,530</u>

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

Years Ended June 30, 2018

NOTE 5 – LONG-TERM DEBT

Changes in long-term debt for the fiscal year ended June 30, 2018, were as follows:

	Balance, July 1, 2017	Additions	Deductions	Balance, June 30, 2018	Amounts Due in One Year
Installment Note Payable	\$ 120,351	\$ -	\$ 59,445	\$ 60,906	\$ 60,906
Compensated Absences	25,403	-	-	25,403	-
Net Pension Liability	1,169,025	177,393	-	1,346,418	-
	<u>\$ 1,314,779</u>	<u>\$ 177,393</u>	<u>\$ 59,445</u>	<u>\$ 1,432,727</u>	<u>\$ 60,906</u>

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
2018-19	<u>\$ 60,906</u>	<u>\$ 1,854</u>	<u>\$ 62,760</u>

NOTE 6 – 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".

Plan Description

Qualified employees are eligible to participate in the Miscellaneous Risk Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2017 annual accounting valuation report, Miscellaneous Risk Accounting Valuation. This report and CalPERS audited financial information are publically available reports that can be found on the CalPERS website under Forms and Publications at: <https://www.calpers.ca.gov/page/forms-publications>.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of service credit, a benefit factor, and the member's final compensation. Members hired on or before December 31, 2012, with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Members hired on or after January 1, 2013, with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service.

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 6 – PENSION PLAN (continued)

Benefits Provided (continued)

The Basic Death Benefit is paid to any member's beneficiary if the member dies while actively employed. An employee's eligible survivor may receive the 1957 Survivor Benefit if the member dies while actively employed, is at least age 50 (or 52 for members hired on or after January 1, 2013), and has at least five years of credited service. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The CalPERS provisions and benefits in effect at June 30, 2018, are summarized as follows:

	Miscellaneous Risk Pool (CalPERS)	
	On or before December 31, 2012	On or after January 1, 2013
Hire Date	2% at 55	2% at 62
Benefit Formula	5 years of service	5 years of service
Benefit Vesting Schedule	Monthly for life	Monthly for life
Benefit Payments	55	62
Retirement Age	1.1%-2.5%	1.0%-2.5%
Monthly Benefits as a Percentage of Eligible Compensation	7.769%	6.250%
Required Employee Contribution Rate	12.698%	6.533%
Required Employer Contribution Rate		

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the total District contributions were \$109,709. This amount is not representative of the pension expense recognized by the District on an accrual basis as noted herein.

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

As of June 30, 2018, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$1,346,418. The net pension liability was measured as of June 30, 2017. 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 for the measurement period June 30, 2017 and June 30, 2016, respectively, was as follows:

	<u>CalPERS</u>
Proportion - June 30, 2017	0.033650%
Proportion - June 30, 2018	<u>0.034160%</u>
Change - Increase (Decrease)	<u><u>0.000510%</u></u>

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 6 – PENSION PLAN (continued)

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

For the year ended June 30, 2018, the District recognized pension expense of \$214,689. At June 30, 2018, 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	\$ 109,709	\$ -
Differences between actual and expected experience	1,747	(25,034)
Changes in assumptions	216,808	(16,532)
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	-	(55,678)
Adjustments due to differences in proportions	27,112	(3,670)
Net differences between projected and actual earnings on plan investments	49,033	-
	<u>\$ 404,409</u>	<u>\$ (100,914)</u>

Deferred outflows of resources represent consumption of net assets by the District that is applicable to a future period. Deferred inflows of resources represent acquisition of net assets by the District applicable to a future period. The amounts are presented individually on the Statement of Net Position and are not netted with the net pension liability due to classification requirements of GASB. These deferrals represent recognition of inflows and outflows as revenues and expenses applicable to a future period.

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year. The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period. The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, changes of assumptions, and differences between expected and actual experience in the measurement of the total pension liability will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is 3.8 years.

The net total of deferred outflows and inflows, \$303,495, less pension contributions subsequent to the measurement date of \$109,709, constitutes other amounts to be amortized as part of pension expense. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Amount
2019	\$ 32,622
2020	118,632
2021	71,646
2022	(29,114)
2023	-
Thereafter	-
Total	<u>\$ 193,786</u>

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 6 – PENSION PLAN (continued)

Actuarial Methods and Assumptions

The total pension liability was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total pension liability to June 30, 2017. The financial reporting actuarial valuation as of June 30, 2016, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Experience Study	July 1, 1997 through June 30, 2011
Actuarial Cost Method	Entry age normal
Discount Rate	7.15%
Consumer Price of Inflation	2.75%
Wage Growth	Varies by entry age and service

Mortality assumptions are based on mortality rates resulting from the most recent CalPERS experience study adopted by the CalPERS Board. For purposes of the post-retirement mortality rates, those revised rates include 20 years of mortality improvements, using Scale BB published by the Society of Actuaries.

In determining the long-term expected rate of return, CalPERS 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 the funds' asset classes, expected compound returns were calculated over the short-term (first ten years) and the long-term (11+ 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 adjusted to account for assumed administration expenses.

The target asset allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global Equity	47%	5.38%
Fixed Income	19%	2.27%
Inflation Assets	6%	1.39%
Private Equity	12%	6.63%
Real Estate	13%	5.21%
Infrastructure and Forestland	3%	5.36%
Liquidity	2%	-0.90%

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 6 – PENSION PLAN (continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.15% and reflects the long-term expected rate of return for the Plan net of investment expenses and without reduction for administrative expenses. To determine whether the municipal bond rate should be used in the calculation of the discount rate for public agency plans (including PERF C), the amortization and smoothing periods adopted by the Board in 2013 were used. For the Plan, the crossover test was performed for a miscellaneous agent plan and a safety agent plan selected as being more at risk of failing the crossover test and resulting in a discount rate that would be different from the long-term expected rate of return on pension investments. Based on the testing of the plans, the tests 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 total pension liability for PERF C. The crossover test results can be found on CalPERS’ website at <https://www.calpers.ca.gov/page/employers/actuarial-services/gasb>.

The following presents the District’s proportionate share of the net pension liability calculated using the current discount rate as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

	Discount Rate - 1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate + 1% (8.15%)
Plan’s Net Pension Liability (Asset)	\$ 2,061,079	\$ 1,346,418	\$ 754,522

NOTE 7 – 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 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 September 26, 2018, 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, 2018

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability (asset)	0.03416%	0.03365%	0.03233%	0.01306%
District's proportionate share of the net pension liability (asset)	\$ 1,346,418	\$ 1,169,025	\$ 909,327	\$ 812,404
District's covered-employee payroll	\$ 599,450	\$ 586,143	\$ 442,783	\$ 453,952
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	224.61%	199.44%	205.37%	178.96%
Plan fiduciary net position as a percentage of the total pension liability	75.39%	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.*

Notes to Schedule

Changes of Assumptions

In 2017, the accounting discount rate estimate was reduced from 7.65% to 7.15%.

PAUMA VALLEY COMMUNITY SERVICES DISTRICT
Schedule of Contributions
For the Fiscal Year Ended June 30, 2018

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 109,709	\$ 128,881	\$ 49,730	\$ 73,327
Contributions in relation to the actuarially determined contribution	<u>(109,709)</u>	<u>(128,881)</u>	<u>(49,730)</u>	<u>(73,327)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 599,450	586,143	442,783	453,952
Contributions as a percentage of covered-employee payroll	18.30%	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, 2018*

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.

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, 2018, 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 26, 2018.

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 26, 2018

Findings and Recommendations

PAUMA VALLEY COMMUNITY SERVICES DISTRICT
Schedule of Audit Findings and Recommendations
For the Fiscal Year Ended June 30, 2018

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 2017-18.

PAUMA VALLEY COMMUNITY SERVICES DISTRICT
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2018

There were no findings or recommendations in 2016-17.