

**PAUMA VALLEY
COMMUNITY SERVICES DISTRICT
ANNUAL FINANCIAL REPORT
For the Fiscal Years Ended
June 30, 2019 and 2018**



PAUMA VALLEY COMMUNITY SERVICES DISTRICT
For the Fiscal Years Ended June 30, 2019 and 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 balance sheets as of June 30, 2019 and 2018, and the related statements of revenues, expenses and changes in net position, and cash flows for the years 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, 2019 and 2018, and the results of its operations and cash flows thereof for the fiscal years 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 8 and schedules of proportionate share of the net pension liability and contributions to the pension plan on pages 31 and 32 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 December 15, 2019, 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
December 15, 2019

PAUMA VALLEY COMMUNITY SERVICES DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Years Ended June 30, 2019 and 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 years ended June 30, 2019 and 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

- In fiscal year 2019, the District's net position increased by \$121,538 or 4.5% from the prior years net position of \$2,660,917 to \$2,782,455 as a result of the year's operations.
- In fiscal year 2019, operating revenues increased \$39,315 or 2.8% from \$1,404,491 to \$1,443,806, from the prior year, primarily due to a 5% increase in patrol service fees.
- In fiscal year 2019, operating expenses decreased (\$42,142) or (2.8%) from \$1,484,130 to \$1,441,988, from the prior year, primarily due to a (\$96,464) decrease in pension related costs related to the GASB No. 68 actuarial calculation, which was offset by a \$47,448 increase in salaries and wages expense.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serve 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) Balance Sheet; (2) Statement of Revenues, Expenses, and Changes in Net Position; (3) Statement 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 years ending June 30, 2019 and 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

Balance Sheet

The Balance Sheet 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 net positions of \$2,782,455 and \$2,660,917 as of June 30, 2019 and 2018, respectively.

PAUMA VALLEY COMMUNITY SERVICES DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Years Ended June 30, 2019 and 2018

REQUIRED FINANCIAL STATEMENTS (continued)

Statement of Revenues, Expenses, and Changes in Net Position

The Statement 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 sewer, 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 years ended June 30, 2019 and 2018, net position increased by \$121,538 and decreased (\$13,521), respectively.

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, non-capital financing, capital and related financing, or investing. The total of these categories represents an increase in cash and cash equivalents of \$99,009 and \$216,225 for the fiscal years ending June 30, 2019 and 2018, respectively. Cash equivalents managed directly by the District consist of investments in the California Local Agency Investment Fund (LAIF).

PAUMA VALLEY COMMUNITY SERVICES DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Years Ended June 30, 2019 and 2018

FINANCIAL ANALYSIS AND CONDENSED FINANCIAL INFORMATION

Analysis of Net Position

Table A-1: Condensed Balance Sheets

	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>Change</u>
Assets:			
Current assets	\$ 1,064,928	\$ 925,207	\$ 139,721
Capital assets, net	2,828,040	2,906,530	(78,490)
Total assets	<u>3,892,968</u>	<u>3,831,737</u>	<u>61,231</u>
Deferred outflows of resources	<u>371,778</u>	<u>404,409</u>	<u>(32,631)</u>
Total assets and deferred outflows of resources	<u>\$ 4,264,746</u>	<u>\$ 4,236,146</u>	<u>\$ 28,600</u>
Liabilities:			
Current liabilities	\$ 63,978	\$ 115,195	\$ (51,217)
Non-current liabilities	1,344,201	1,359,120	(14,919)
Total liabilities	<u>1,408,179</u>	<u>1,474,315</u>	<u>(66,136)</u>
Deferred inflows of resources	<u>74,112</u>	<u>100,914</u>	<u>(26,802)</u>
Net position:			
Net investment in capital assets	2,828,040	2,845,624	(17,584)
Unrestricted (Deficit)	(45,585)	(184,707)	139,122
Total net position	<u>2,782,455</u>	<u>2,660,917</u>	<u>121,538</u>
Total liabilities, deferred outflows of resources and net position	<u>\$ 4,264,746</u>	<u>\$ 4,236,146</u>	<u>\$ 28,600</u>

The condensed statement on the prior page presents a summary of the District's Balance Sheet. The District's net position as of June 30, 2019 totaled \$2,782,455 compared with \$2,660,917 as of June 30, 2018, an increase of \$121,538 or 4.5%. 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 \$61,231 or 1.6%. As a result of operating and non-operating activities, the District's overall net position increased by \$121,538. The increase is primarily due in part to an increase in operating revenues of \$39,315, a decrease in operating expenses of \$42,142, and a increase in non-operating revenues, net of \$53,602.

PAUMA VALLEY COMMUNITY SERVICES DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Years Ended June 30, 2019 and 2018

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

	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>Change</u>
Operating revenues	\$ 1,443,806	\$ 1,404,491	\$ 39,315
Operating expenses	<u>(1,441,988)</u>	<u>(1,484,130)</u>	<u>42,142</u>
Operating income (loss)	1,818	(79,639)	81,457
Non-operating revenues(expenses), net	<u>119,720</u>	<u>66,118</u>	<u>53,602</u>
Change in net position	121,538	(13,521)	135,059
Net position:			
Beginning of year	<u>2,660,917</u>	<u>2,674,438</u>	<u>(13,521)</u>
End of year	<u>\$ 2,782,455</u>	<u>\$ 2,660,917</u>	<u>\$ 121,538</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, as well as decreases in operating expenses.

Table A-3: Comparative Statement of Revenues

	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>Increase (Decrease)</u>
Operating revenues:			
Sewer service fees	\$ 441,443	\$ 441,443	\$ -
Patrol service fees	575,581	546,243	29,338
Gate service fees	375,984	373,128	2,856
Other fees and charges	<u>50,798</u>	<u>43,677</u>	<u>7,121</u>
Total operating revenues	<u>1,443,806</u>	<u>1,404,491</u>	<u>39,315</u>
Non-operating:			
Property taxes	104,033	99,247	4,786
Investment earnings	<u>17,543</u>	<u>6,826</u>	<u>10,717</u>
Total non-operating	<u>121,576</u>	<u>106,073</u>	<u>15,503</u>
Total revenues	<u>\$ 1,565,382</u>	<u>\$ 1,510,564</u>	<u>\$ 54,818</u>

In fiscal year 2019, operating revenues increased \$39,315 or 2.8% from \$1,404,491 to \$1,443,806, from the prior year, primarily due to a 5% increase in patrol service fees.

PAUMA VALLEY COMMUNITY SERVICES DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Years Ended June 30, 2019 and 2018

FINANCIAL ANALYSIS AND CONDENSED FINANCIAL INFORMATION (continued)

Analysis of Revenues and Expenses (continued)

Table A-4: Comparative Statement of Expenses

	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>Increase (Decrease)</u>
Operating expenses:			
Sewer system	332,693	342,700	(10,007)
Patrol services	471,981	435,793	36,188
Gate services	276,913	283,747	(6,834)
General and administrative	360,401	421,890	(61,489)
Total operating expenses	<u>1,441,988</u>	<u>1,484,130</u>	<u>(42,142)</u>
Non-operating expenses:			
Interest expense	1,856	3,314	(1,458)
Loss from disposition of assets	-	36,641	(36,641)
Total non-operating	<u>1,856</u>	<u>39,955</u>	<u>(36,641)</u>
Total expenses	<u>\$ 1,443,844</u>	<u>\$ 1,524,085</u>	<u>\$ (78,783)</u>

In fiscal year 2019, operating expenses decreased (\$42,142) or (2.8%) from \$1,484,130 to \$1,441,988, from the prior year, primarily due to a (\$96,464) decrease in pension related costs related to the GASB No. 68 actuarial calculation, which was offset by a \$47,448 increase in salaries and wages expense.

CAPITAL ASSETS

Capital assets, net decreased by (\$78,490) from the prior year, contributing towards the ending balance of \$2,828,040. This overall net decrease consisted of capital additions in the amount of \$59,422, less current year depreciation of (\$137,912).

	<u>Balance June 30, 2019</u>	<u>Balance June 30, 2018</u>
Capital assets:		
Non-depreciable assets	\$ 94,868	\$ 94,868
Depreciable assets	4,285,368	4,305,814
Accumulated depreciation	<u>(1,552,196)</u>	<u>(1,494,152)</u>
Total capital assets, net	<u>\$ 2,828,040</u>	<u>\$ 2,906,530</u>

PAUMA VALLEY COMMUNITY SERVICES DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Years Ended June 30, 2019 and 2018

LONG-TERM DEBT

At June 30, 2019, the District had \$0 in long-term debt, which was made up of an installment note payable to City National Bank that was paid-off in the fiscal year. The District issued no new debt and reduced the outstanding principal balance on the note by \$60,906, and incurred and paid interest expense of \$1,856 on the note during the year.

	Balance	Balance
Long-term debt:	June 30, 2019	June 30, 2018
Note payable	<u>\$ -</u>	<u>\$ 60,906</u>

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

Balance Sheets

June 30, 2019 and 2018

<u>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u>	<u>2019</u>	<u>2018</u>
Current assets:		
Cash and cash equivalents (Note 2)	\$ 933,124	\$ 834,115
Accrued interest receivable	3,749	276
Accounts receivable, net (Note 3)	82,371	52,578
Property taxes receivable	1,071	3,517
Prepaid expenses	44,613	34,721
Total current assets	1,064,928	925,207
Non-current assets:		
Capital assets – not being depreciated (Note 4)	94,868	94,868
Capital assets – being depreciated, net (Note 4)	2,733,172	2,811,662
Total non-current assets	2,828,040	2,906,530
Total assets	3,892,968	3,831,737
Deferred outflows of resources:		
Deferred amounts related to net pension liability (Note 7)	371,778	404,409
Total deferred outflows of resources	371,778	404,409
Total assets and deferred outflows of resources	\$ 4,264,746	\$ 4,236,146
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</u>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 33,913	\$ 26,654
Customer unearned revenue for services	17,374	14,934
Long-term liabilities – due within one year:		
Compensated absences (Note 5)	12,691	12,701
Note payable (Note 6)	-	60,906
Total current liabilities	63,978	115,195
Non-current liabilities:		
Long-term liabilities – due in more than one year:		
Compensated absences (Note 5)	12,691	12,702
Net pension liability (Note 7)	1,331,510	1,346,418
Total non-current liabilities	1,344,201	1,359,120
Total liabilities	1,408,179	1,474,315
Deferred inflows of resources:		
Deferred amounts related to net pension liability (Note 7)	74,112	100,914
Total deferred inflows of resources	74,112	100,914
Net position:		
Net investment in capital assets (Note 8)	2,828,040	2,845,624
Unrestricted (Deficit) (Note 9)	(45,585)	(184,707)
Total net position	2,782,455	2,660,917
Total liabilities, deferred inflows of resources and net position	\$ 4,264,746	\$ 4,236,146

PAUMA VALLEY COMMUNITY SERVICES DISTRICT
Statements of Revenues, Expenses and Changes in Net Position
For the Fiscal Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating revenues:		
Sewer service fees	\$ 441,443	\$ 441,443
Patrol service fees	575,581	546,243
Gate service fees	375,984	373,128
Other fees and charges	50,798	43,677
Total operating revenues	<u>1,443,806</u>	<u>1,404,491</u>
Operating expenses:		
Sewer system	332,693	342,700
Patrol services	471,981	435,793
Gate services	276,913	283,747
General and administrative	360,401	421,890
Total operating expenses	<u>1,441,988</u>	<u>1,484,130</u>
Operating income (loss)	<u>1,818</u>	<u>(79,639)</u>
Non-operating revenues(expenses):		
Property taxes	104,033	99,247
Investment earnings	17,543	6,826
Interest expense	(1,856)	(3,314)
Loss from disposition of assets	-	(36,641)
Total non-operating revenue(expense), net	<u>119,720</u>	<u>66,118</u>
Change in net position	121,538	(13,521)
Net position:		
Beginning of year	<u>2,660,917</u>	<u>2,674,438</u>
End of year	<u>\$ 2,782,455</u>	<u>\$ 2,660,917</u>

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

Statements of Cash Flows

For the Fiscal Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Cash receipts from customers and others	\$ 1,416,453	\$ 1,450,212
Cash paid to employees for salaries and wages	(870,789)	(866,942)
Cash paid to vendors and suppliers for materials and services	(445,020)	(394,237)
Net cash provided by operating activities	<u>100,644</u>	<u>189,033</u>
Cash flows from non-capital financing activities:		
Proceeds from property taxes	106,479	96,410
Net cash provided by non-capital financing activities	<u>106,479</u>	<u>96,410</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(59,422)	(13,009)
Principal paid on long-term debt	(60,906)	(59,445)
Interest paid on long-term debt	(1,856)	(3,314)
Net cash (used in) capital and related financing activities	<u>(122,184)</u>	<u>(75,768)</u>
Cash flows from investing activities:		
Investment earnings	14,070	6,550
Net cash provided by investing activities	<u>14,070</u>	<u>6,550</u>
Net increase in cash and cash equivalents	99,009	216,225
Cash and cash equivalents:		
Beginning of year	834,115	617,890
End of year	<u>\$ 933,124</u>	<u>\$ 834,115</u>

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

Statements of Cash Flows, continued

For the Fiscal Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income(loss)	\$ 1,818	\$ (79,639)
Adjustments to reconcile operating income(loss) to net cash provided by operating activities:		
Depreciation	137,912	143,354
Change in assets - (increase)decrease:		
Accounts receivable, net	(29,793)	41,801
Prepaid expenses	(9,892)	(9,194)
Change in deferred outflows of resources - (increase)decrease		
Deferred amounts related to net pension liability	32,631	(72,248)
Change in liabilities - increase(decrease):		
Accounts payable and accrued expenses	7,259	(8,742)
Customer unearned revenue for services	2,440	3,920
Compensated absences	(21)	(12,941)
Net pension liability	(14,908)	177,393
Change in deferred inflows of resources - increase(decrease)		
Deferred amounts related to net pension liability	(26,802)	5,329
Total adjustments	<u>98,826</u>	<u>268,672</u>
Net cash provided by operating activities	<u>\$ 100,644</u>	<u>\$ 189,033</u>

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2019 and 2018

NOTE 1 – DESCRIPTION OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

A. Description of Organization

The Pauma Valley Community Services District (District) was organized in 1961 under the Community Services District Law (Division 2 of Title 6) to provide sanitary sewer 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 sanitary sewer and security 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.

The criteria used in determining the scope of the financial reporting entity is based on the provisions of Governmental Accounting Standards Board Statement No. 61, *The Financial Reporting Entity* (GASB Statement No. 61). The District is the primary governmental unit based on the foundation of a separately elected governing board that is elected by the citizens in a general popular election. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The District is financially accountable if it appoints a voting majority of the organization's governing body and: 1) It is able to impose its will on that organization, or 2) There is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.

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

C. Basis of Presentation, Basis of Accounting

The Financial Statements (i.e., the balance sheet, the statement of revenues, expenses and change in net position, and statement of cash flows) report information on all of the activities of the primary government. The District accounts for its operations (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

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 when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as all eligibility requirements have been met. Interest associated with the current fiscal period is considered to be susceptible to accrual and so has been recognized as revenue of the current fiscal period.

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2019 and 2018

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

C. Basis of Presentation, Basis of Accounting (continued)

In accordance with GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, the Statement of Net Position reports separate sections for Deferred Outflows of Resources, and Deferred Inflows of Resources, when applicable.

Deferred Outflows of Resources represent outflows of resources (consumption of net position) that apply to future periods and that, therefore, will not be recognized as an expense until that time.

Deferred Inflows of Resources represent inflows of resources (acquisition of net position) that apply to future periods and that, therefore, are not recognized as a revenue until that time.

Operating revenues are those revenues that are generated from the primary operations of the District. The District reports a measure of operations by presenting the change in net position from operations as *operating income* in the statement of revenues, expenses, and changes in net position. Operating activities are defined by the District as all activities other than financing and investing activities (interest expense and investment income), grants and subsidies, and other infrequently occurring transactions of a non-operating nature. Operating expenses are those expenses that are essential to the primary operations of the District. All other expenses are reported as non-operating expenses.

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.

In accordance with fair value measurements, the District categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement. Financial assets and liabilities recorded on the balance sheet are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Inputs that reflect unadjusted quoted prices in active markets for identical investments, such as stocks, corporate and government bonds. The District has the ability to access the holding and quoted prices as of the measurement date.

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2019 and 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)

2. Investments (continued)

Level 2 – Inputs, other than quoted prices, that are observable for the asset or liability either directly or indirectly, including inputs from markets that are not considered to be active.

Level 3 – Inputs that are unobservable. Unobservable inputs reflect the District’s own assumptions about the factors market participants would use in pricing an investment, and is based on the best information available in the circumstances.

3. Allowance for Doubtful Accounts

The District’s accounts receivable consists 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.

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. Compensated Absences

The liability for compensated absences reported on the balance sheet 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.

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2019 and 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)

7. Pensions

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

<u>CalPERS</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Valuation date	June 30, 2017	June 30, 2016
Measurement date	June 30, 2018	June 30, 2017
Measurement period	July 1, 2017 to June 30, 2018	July 1, 2016 to June 30, 2017

Gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time. The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense. The amortization period differs depending on the source of the gain or loss. The difference between projected and actual earnings is amortized straight-line over 5 years. All other amounts are amortized straight-line over the average expected remaining service lives of all members that are provided with benefits (active, inactive, and retired) as of the beginning of the measurement period.

8. Net Position

Net position is classified into two components: net investment in capital assets 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.
- **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".

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2019 and 2018

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

E. 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.

F. 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.

G. Reclassifications

Certain amounts presented in the prior year financial statements have been reclassified in order to be consistent with the current year's presentation.

NOTE 2 – CASH AND DEPOSITS

Cash and cash equivalents as of June 30 consisted of the following:

<u>Description</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Petty cash	\$ 190	\$ 268
Deposits held with financial institutions	351,082	265,873
Local Agency Investment Fund (LAIF)	581,852	567,974
Total cash and cash equivalents	<u>\$ 933,124</u>	<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.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury obligations	5-years	None	None
District issued bonds	5-years	None	None
Government sponsored agency securities	5-years	None	None
Certificates-of-deposit	5-years	35%	None
Money-market funds	N/A	None	None
California Local Agency Investment Fund (LAIF)	N/A	None	None

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2019 and 2018

NOTE 2 – CASH AND DEPOSITS (continued)

Demand Deposits with Financial Institutions

At June 30, 2019 and 2018, the carrying amount of the District's demand deposits were \$351,082 and \$265,873, respectively, and the financial institution's balance were \$355,450 and \$216,588, respectively. The net difference represents outstanding checks, deposits-in-transit and/or other reconciling items between the financial institution's balance and the District's balance for each year.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. Cash balances held in banks are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC) and are collateralized by the respective financial institutions. In addition, 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 (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits.

Local Agency Investment Fund (LAIF)

The California State Treasurer, through the Pooled Money Investment Account (PMIA), invests taxpayers' money to manage the State's cash flow and strengthen the financial security of local governmental entities. PMIA policy sets as primary investment objectives safety, liquidity and yield. Through the PMIA, the Investment Division manages the Local Agency Investment Fund (LAIF). The LAIF allows cities, counties and special districts to place money in a major portfolio and, at no additional costs to taxpayers, use the expertise of Investment Division staff. Participating agencies can withdraw their funds from the LAIF at any time as LAIF is highly liquid and carries a dollar-in dollar-out amortized cost methodology.

The District is a voluntary participant in LAIF. The fair value of the District's investment in this pool is reported at an amount 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 the of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF. LAIF is not categorized under the fair value hierarchy established by GAAP as it is held at an amortized cost basis and it is Not Rated under the current credit risk ratings format. For financial reporting purposes, the District considers LAIF a cash equivalent due to its highly liquid nature and dollar-in dollar-out amortized cost methodology. As of June 30, 2019, and 2018, the District held \$581,852 and \$567,974 in LAIF, respectively.

NOTE 3 – ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

Accounts receivable as of June 30 consisted of the following:

Description	June 30, 2019	June 30, 2018
Accounts receivable – customers	\$ 53,215	\$ 33,810
Due from Rancho Pauma Mutual Water Company	29,156	23,768
Allowance for doubtful accounts	-	(5,000)
Total accounts receivable, net	\$ 82,371	\$ 52,578

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2019 and 2018

NOTE 4 – CAPITAL ASSETS AND DEPRECIATION

Changes in capital assets for fiscal year 2019 were as follows:

Description	Balance July 1, 2018	Additions	Deletions/ Transfers	Balance June 30, 2019
Non-depreciable assets:				
Land	\$ 94,768	\$ -	\$ -	\$ 94,768
Easements	100	-	-	100
Construction-in-process	-	-	-	-
Total non-depreciable assets	94,868	-	-	94,868
Depreciable assets:				
Sewer system	3,545,709	28,021	(29,795)	3,543,935
Buildings and improvements	307,125	9,975	(21,377)	295,723
Patrol and gate	452,980	21,426	(28,696)	445,710
Total depreciable assets	4,305,814	59,422	(79,868)	4,285,368
Accumulated depreciation:				
Sewer system	(1,169,281)	(86,633)	29,795	(1,226,119)
Buildings and improvements	(129,166)	(16,960)	21,377	(124,749)
Patrol and gate	(195,705)	(34,319)	28,696	(201,328)
Total accumulated depreciation	(1,494,152)	(137,912)	79,868	(1,552,196)
Total depreciable assets, net	2,811,662	(78,490)	-	2,733,172
Total capital assets, net	\$ 2,906,530	\$ (78,490)	\$ -	\$ 2,828,040

Changes in capital assets for fiscal year 2018 were as follows:

Description	Balance July 1, 2017	Additions	Deletions/ Transfers	Balance June 30, 2018
Non-depreciable assets:				
Land	\$ 94,768	\$ -	\$ -	\$ 94,768
Easements	100	-	-	100
Construction-in-process	68,877	-	(68,877)	-
Total non-depreciable assets	163,745	-	(68,877)	94,868
Depreciable assets:				
Sewer system	3,564,936	4,940	(24,167)	3,545,709
Buildings and improvements	238,248	68,877	-	307,125
Patrol and gate	580,759	8,069	(135,848)	452,980
Total depreciable assets	4,383,943	81,886	(160,015)	4,305,814
Accumulated depreciation:				
Sewer system	(1,103,540)	(89,908)	24,167	(1,169,281)
Buildings and improvements	(119,734)	(9,432)	-	(129,166)
Patrol and gate	(250,898)	(44,014)	99,207	(195,705)
Total accumulated depreciation	(1,474,172)	(143,354)	123,374	(1,494,152)
Total depreciable assets, net	2,909,771	(61,468)	(36,641)	2,811,662
Total capital assets, net	\$ 3,073,516	\$ (61,468)	\$ (105,518)	\$ 2,906,530

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2019 and 2018

NOTE 4 – CAPITAL ASSETS AND DEPRECIATION (continued)

Depreciation expense as of June 30 was allocated to the following services:

<u>Services Allocation</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Sewer system	\$ 86,633	\$ 89,908
Patrol	22,680	24,879
Gate	11,639	19,135
Administration	16,960	9,432
Total depreciation expense	\$ 137,912	\$ 143,354

NOTE 5 – COMPENSATED ABSENCES

Changes to compensated absences for fiscal year 2019, were as follows:

<u>Balance July 1, 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2019</u>	<u>Due Within One Year</u>	<u>Due in More Than One Year</u>
\$ 25,403	\$ 47,744	\$ (47,765)	\$ 25,382	\$ 12,691	\$ 12,691

Changes to compensated absences for fiscal year 2018, were as follows:

<u>Balance July 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2018</u>	<u>Due Within One Year</u>	<u>Due in More Than One Year</u>
\$ 25,403	\$ 29,691	\$ (29,691)	\$ 25,403	\$ 12,701	\$ 12,702

NOTE 6 – NOTE PAYABLE

Changes to note payable for the fiscal year 2019, was as follows:

<u>Balance July 1, 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2019</u>	<u>Due Within One Year</u>	<u>Due in More Than One Year</u>
\$ 60,906	\$ -	\$ (60,906)	\$ -	\$ -	\$ -

Changes to note payable for the fiscal year 2018, was as follows:

<u>Balance July 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2018</u>	<u>Due Within One Year</u>	<u>Due in More Than One Year</u>
\$ 120,351	\$ -	\$ (59,445)	\$ 60,906	\$ 60,906	\$ -

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 payable had an interest rate of 2.85% with fixed annual principal and interest payments of \$62,760 beginning on June 19, 2008. Net revenues from sanitation operations were pledged for principal and interest payments. The note payable was paid-off in fiscal; year 2019.

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2019 and 2018

NOTE 7 – PENSION PLAN

Summary

The following balances on the balance sheet will be addressed in this footnote as follows:

<u>Description</u>	<u>2019</u>	<u>2018</u>
Pension related deferred outflows	\$ 371,778	\$ 404,409
Net pension liability	1,331,510	1,346,418
Pension related deferred inflows	74,112	100,914

The net pension liability balances have a Measurement Date of June 30, 2018 and June 30, 2017, respectively, which are rolled-forward for the District’s fiscal years ended June 30, 2019 and 2018.

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".

The Plan

The District has engaged with CalPERS to administer the following pension plans for its employees (members):

	<u>Miscellaneous Plans</u>	
	<u>Classic Tier 1</u>	<u>PEPRA Tier 2</u>
Hire date	Prior to <u>January 1, 2013</u>	On or after <u>January 1, 2013</u>
Benefit formula	3.0% @ 60	2.0% @ 62
Benefit vesting schedule	5-years of service	5-years of service
Benefits payments	monthly for life	monthly for life
Retirement age	50 - 67 & up	52 - 67 & up
Monthly benefits, as a % of eligible compensation	2.0% to 3.0%	1.0% to 2.5%
Required member contribution rates	8.000%	6.250%
Required employer contribution rates – FY 2018	12.698%	6.533%
Required employer contribution rates – FY 2017	11.718%	6.237%

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2019 and 2018

NOTE 7 – PENSION PLAN (continued)

A. General Information about the Pension Plan

Plan Description, Benefits Provided and Employees Covered

The Plan is a cost-sharing multiple-employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS). The District contributes to the miscellaneous risk pool within the Plan. A full description of the pension plan benefit provisions, assumptions for funding purposes but not accounting purposes, and membership information is listed in the June 30, 2017 Annual Actuarial Valuation Report. This report is a publicly available valuation report that can be obtained at CalPERS website under Forms and Publications.

The California Public Employees' Pension Reform Act (PEPRA), which took effect in January 2013, changes the way CalPERS retirement benefits are applied, and places compensation limits on members. As a result of these changes since PEPRA's adoption in January 2013, the District now has two unique CalPERS plans to which it makes contributions within the miscellaneous risk pool: the "classic" plan, which includes covered employees who have established membership in a CalPERS plan prior to January 2013, as well as the "PEPRA/new" plan, which includes covered employees who have established membership in a CalPERS plan after January 2013. Each plan or membership contains unique benefits levels, which are enumerated in the June 30, 2018 and 2017 Annual Actuarial Valuation Reports.

At June 30, 2019, the following members were covered by the benefit terms:

Plan Members	Miscellaneous Plans		Total
	Classic Tier 1	PEPRA Tier 2	
Active members	4	12	16
Transferred and terminated members	14	8	22
Retired members and beneficiaries	12	-	12
Total plan members	30	20	50

At June 30, 2018, the following members were covered by the benefit terms:

Plan Members	Miscellaneous Plans		Total
	Classic Tier 1	PEPRA Tier 2	
Active members	6	12	18
Transferred and terminated members	13	5	18
Retired members and beneficiaries	11	-	11
Total plan members	30	17	47

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2019 and 2018

NOTE 7 – 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.

Contributions for the year ended June 30, 2019, (Measurement Date June 30, 2018) were as follows:

Contribution Type	Miscellaneous Plans		Total
	Classic Tier 1	PEPRA Tier 2	
Contributions – employer	\$ 106,327	\$ 39,748	\$ 146,075
Contributions – members	14,110	35,631	49,741
Total contributions	\$ 120,437	\$ 75,379	\$ 195,816

Contributions for the year ended June 30, 2018, (Measurement Date June 30, 2017) were as follows:

Contribution Type	Miscellaneous Plans		Total
	Classic Tier 1	PEPRA Tier 2	
Contributions – employer	\$ 77,564	\$ 32,145	\$ 109,709
Contributions – members	18,484	30,712	49,196
Total contributions	\$ 96,048	\$ 62,857	\$ 158,905

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.

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2019 and 2018

NOTE 7 – PENSION PLAN (continued)

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

Proportionate Share of Net Pension Liability and Pension Expense

The following table shows the plan’s proportionate share of the risk pool collective net pension liability over the measurement period:

Changes in the net pension liability for the year ended June 30, 2019, were as follows:

<u>Plan Type and Balance Descriptions</u>	<u>Plan Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Change in Plan Net Pension Liability</u>
CalPERS – Miscellaneous Plan:			
Balance as of June 30, 2017 (Measurement Date)	\$ 5,195,768	\$ 3,849,350	\$ 1,346,418
Balance as of June 30, 2018 (Measurement Date)	\$ 4,685,606	\$ 3,354,096	\$ 1,331,510
Change in Plan Net Pension Liability	\$ (510,162)	\$ (495,254)	\$ (14,908)

Changes in the net pension liability for the year ended June 30, 2018, were as follows:

<u>Plan Type and Balance Descriptions</u>	<u>Plan Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Change in Plan Net Pension Liability</u>
CalPERS – Miscellaneous Plan:			
Balance as of June 30, 2016 (Measurement Date)	\$ 4,713,694	\$ 3,544,668	\$ 1,169,026
Balance as of June 30, 2017 (Measurement Date)	\$ 5,195,768	\$ 3,849,350	\$ 1,346,418
Change in Plan Net Pension Liability	\$ 482,074	\$ 304,682	\$ 177,392

For the year ended June 30, 2019 and 2018 pension expense was \$183,147 and \$259,644, respectively.

The following is the approach established by the plan actuary to allocate the net pension liability and pension expense to the individual employers within the risk pool.

- (1) In determining a cost-sharing plan’s proportionate share, total amounts of liabilities and assets are first calculated for the risk pool as a whole on the valuation dates (June 30, 2017 and 2016). The risk pool’s fiduciary net position (“FNP”) subtracted from its total pension liability (TPL) determines the net pension liability (NPL) at the valuation date.
- (2) Using standard actuarial roll forward methods, the risk pool TPL is then computed at the measurement date (June 30, 2018 and 2017). Risk pool FNP at the measurement date is then subtracted from this number to compute the NPL for the risk pool at the measurement date. For purposes of FNP in this step and any later reference thereto, the risk pool’s FNP at the measurement date denotes the aggregate risk pool’s FNP at June 30, 2018 and 2017 less the sum of all additional side fund (or unfunded liability) contributions made by all employers during the measurement period (FY 2017-2018 and FY 2016-2017).
- (3) The individual plan’s TPL, FNP and NPL are also calculated at the valuation date.

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2019 and 2018

NOTE 7 – PENSION PLAN (continued)

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

Proportionate Share of Net Pension Liability and Pension Expense (continued)

- (4) Two ratios are created by dividing the plan’s individual TPL and FNP as of the valuation date from (3) by the amounts in step (1), the risk pool’s total TPL and FNP, respectively.
- (5) The plan’s TPL as of the Measurement Date is equal to the risk pool TPL generated in (2) multiplied by the TPL ratio generated in (4). The plan’s FNP as of the Measurement Date is equal to the FNP generated in (2) multiplied by the FNP ratio generated in (4) plus any additional side fund (or unfunded liability) contributions made by the employer on behalf of the plan during the measurement period.
- (6) The plan’s NPL at the Measurement Date is the difference between the TPL and FNP calculated in (5).

As of June 30, 2019 and 2018, the District reported a net pension liability for its proportionate share of the net pension liability of the Plan of \$1,331,510 and \$1,346,418, respectively.

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, 2018 and 2017, 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, 2017 and 2016 rolled forward to June 30, 2018 and 2017 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 June 30, 2019, measurement date was as follows:

	Percentage Share of Risk Pool		Change Increase/ (Decrease)
	Fiscal Year Ending June 30, 2019	Fiscal Year Ending June 30, 2018	
Measurement Date	June 30, 2018	June 30, 2017	
Percentage of Risk Pool Net Pension Liability	0.035331%	0.034155%	0.001176%
Percentage of Plan (PERF C) Net Pension Liability	0.013818%	0.013577%	0.000241%

The District’s proportionate share of the net pension liability for the June 30, 2018, measurement date was as follows:

	Percentage Share of Risk Pool		Change Increase/ (Decrease)
	Fiscal Year Ending June 30, 2018	Fiscal Year Ending June 30, 2017	
Measurement Date	June 30, 2017	June 30, 2016	
Percentage of Risk Pool Net Pension Liability	0.034155%	0.033652%	0.000503%
Percentage of Plan (PERF C) Net Pension Liability	0.013577%	0.013510%	0.000067%

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2019 and 2018

NOTE 7 – PENSION PLAN (continued)

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

The total amount of \$146,075 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, 2019. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Account Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions made after the measurement date	\$ 146,075	\$ -
Difference between actual and proportionate share of employer contributions	1,792	(12,297)
Adjustment due to differences in proportions	14,445	(7,228)
Differences between expected and actual experience	51,088	(17,385)
Differences between projected and actual earnings on pension plan investments	6,583	-
Changes in assumptions	151,795	(37,202)
Total Deferred Outflows/(Inflows) of Resources	\$ 371,778	\$ (74,112)

The total amount of \$109,709 reported as deferred outflows of resources related to contributions subsequent to the measurement date was recognized as a reduction of the net pension liability in the year ended June 30, 2018. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Account Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions made after the measurement date	\$ 109,709	\$ -
Difference between actual and proportionate share of employer contributions	-	(55,678)
Adjustment due to differences in proportions	27,112	(3,670)
Differences between expected and actual experience	1,747	(25,034)
Differences between projected and actual earnings on pension plan investments	49,033	-
Changes in assumptions	216,808	(16,532)
Total Deferred Outflows/(Inflows) of Resources	\$ 404,409	\$ (100,914)

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2019 and 2018

NOTE 7 – PENSION PLAN (continued)

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

Other remaining amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions for the year ended June 30, 2019, will be amortized to pension expense in future periods as follows:

<u>Amortization Period</u> <u>Fiscal Year Ended June 30</u>	<u>Deferred</u> <u>Outflows/(Inflows)</u> <u>of Resources</u>
2020	\$ 130,610
2021	74,225
2022	(41,268)
2023	(11,976)
Total	<u><u>\$ 151,591</u></u>

Other remaining amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions for the year ended June 30, 2018, will be amortized to pension expense in future periods as follows:

<u>Amortization Period</u> <u>Fiscal Year Ended June 30</u>	<u>Deferred</u> <u>Outflows/(Inflows)</u> <u>of Resources</u>
2019	\$ 32,622
2020	118,632
2021	71,646
2022	(29,114)
Total	<u><u>\$ 193,786</u></u>

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

For the measurement period ending June 30, 2018 and 2017 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2017 and 2016, total pension liability. The June 30, 2019 and 2018, total pension liability was based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal in accordance with the requirement of GASB Statement No. 68
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table	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

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2019 and 2018

NOTE 7 – PENSION PLAN (continued)

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

Discount Rate

The discount rate used to measure the total pension liability for PERF B was 7.15%. A projection of expected benefit payments and contributions was performed to determine if the assets would run out. The test revealed the assets would not run out. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for PERF B. The results of the crossover testing for the Plan are presented in a detailed report that can be obtained on CalPERS' website.

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

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

<u>Investment Type</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1 - 10¹</u>	<u>Real Return Years 11+²</u>
Global Equity	47.0%	4.90%	5.38%
Global Fixed Income	19.0%	0.80%	2.27%
Inflation Sensitive	6.0%	0.60%	1.39%
Private Equity	12.0%	6.60%	6.63%
Real Estate	11.0%	2.80%	5.21%
Infrastructure and Forestland	3.0%	3.90%	5.36%
Liquidity	2.0%	-0.40%	0.90%
	<u>100.0%</u>		

¹ An expected inflation rate-of-return of 2.5% is used for years 1-10.

² An expected inflation rate-of-return of 3.0% is used for years 11+.

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2019 and 2018

NOTE 7 – PENSION PLAN (continued)

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

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 7.15%, 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 (6.15%) or 1 percentage-point higher (8.15%) than the current rate:

Changes in the discount rate for the year ended June 30, 2019, was as follows:

<u>Plan Type</u>	<u>Plan's Net Pension Liability/(Asset)</u>		
	<u>Discount Rate - 1% 6.15%</u>	<u>Current Discount Rate 7.15%</u>	<u>Discount Rate + 1% 8.15%</u>
CalPERS – Miscellaneous Plan	<u>1,965,338</u>	<u>\$ 1,331,510</u>	<u>\$ 808,296</u>

Changes in the discount rate for the year ended June 30, 2018, was as follows:

<u>Plan Type</u>	<u>Plan's Net Pension Liability/(Asset)</u>		
	<u>Discount Rate - 1% 6.15%</u>	<u>Current Discount Rate 7.15%</u>	<u>Discount Rate + 1% 8.15%</u>
CalPERS – Miscellaneous Plan	<u>2,061,079</u>	<u>\$ 1,346,418</u>	<u>\$ 754,522</u>

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial report and can be obtained from CalPERS' website under Forms and Publications.

C. Payable to the Pension Plans

At June 30, 2019 and 2018, the District reported no payables for outstanding contributions to the CalPERS pension plan required for the year ended June 30, 2019 and 2018.

NOTE 8 – NET INVESTMENT IN CAPITAL ASSETS

Net investment in capital assets consisted of the following as of June 30:

<u>Description</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Net investment in capital assets:		
Capital assets – not being depreciated	\$ 94,868	\$ 94,868
Capital assets, net – being depreciated	2,733,172	2,811,662
Note payable	-	(60,906)
Total net investment in capital assets	<u>\$ 2,828,040</u>	<u>\$ 2,845,624</u>

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2019 and 2018

NOTE 9 – UNRESTRICTED (DEFICIT)

As of June 30, 2019 and 2018, the District has an unrestricted net position deficit of (\$45,585) and (\$184,707). Due to the nature of the deficit from the implementation of GASB Statement No. 68 in the past fiscal years, the District will continue to make its actuarial determined contributions to CalPERS and annually review its outstanding net pension obligations funding requirements for future periods to reduce its deficit position.

NOTE 10 – DEFERRED COMPENSATION SAVINGS PLAN

For the benefit of its employees, the District participates in a 457 Deferred Compensation Program. The purpose of this Program is to provide deferred compensation for public employees that elect to participate in the Program. Generally, eligible employees may defer receipt of a portion of their salary until termination, retirement, death or unforeseeable emergency. Until the funds are paid or otherwise made available to the employee, the employee is not obligated to report the deferred salary for income tax purposes.

Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of the participants. Accordingly, the District is in compliance with this legislation. Therefore, these assets are not the legal property of the District, and are not subject to claims of the District's general creditors.

The District has implemented GASB Statement No. 32, Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans. Since the District has little administrative involvement and does not perform the investing function for this plan, the assets and related liabilities are not shown on the statement of net position.

NOTE 11 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District has purchased commercial insurance products to guard against the various risks of loss noted above.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the District's insurance coverage during the years ending June 30, 2019, 2018, and 2017. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of June 30, 2019, 2018, and 2017.

NOTE 12 – COMMITMENTS AND CONTINGENCIES

Litigation

In the ordinary course of operations, the District is subject to claims and litigation from outside parties. After consultation with legal counsel, the District believes the ultimate outcome of such matters, if any, will not materially affect its financial condition.

Required Supplementary Information

PAUMA VALLEY COMMUNITY SERVICES DISTRICT
Schedule of Proportionate Share of the Net Pension Liability
For the Fiscal Years Ended June 30, 2019 and 2018

Last Ten Fiscal Years

California Public Employees' Retirement System (CalPERS) Miscellaneous Plan

Measurement Date:	June 30, 2018¹	June 30, 2017¹	June 30, 2016¹	June 30, 2015¹	June 30, 2014¹
District's Proportion of the Net Pension Liability	<u>0.035331%</u>	<u>0.034155%</u>	<u>0.033652%</u>	<u>0.323330%</u>	<u>0.013064%</u>
District's Proportionate Share of the Net Pension Liability	<u>\$ 1,331,510</u>	<u>\$ 1,346,418</u>	<u>\$ 1,169,025</u>	<u>\$ 909,327</u>	<u>\$ 812,404</u>
District's Covered-Employee Payroll	<u>\$ 695,116</u>	<u>\$ 789,228</u>	<u>\$ 689,424</u>	<u>\$ 663,904</u>	<u>\$ 453,952</u>
District's Proportionate Share of the Net Pension Liability as a Percentage of Covered-Employee Payroll	<u>191.55%</u>	<u>170.60%</u>	<u>169.57%</u>	<u>136.97%</u>	<u>178.96%</u>
Plan's Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	<u>71.58%</u>	<u>75.39%</u>	<u>75.87%</u>	<u>79.89%</u>	<u>81.15%</u>

¹ Historical information is required only for measurement periods for which GASB No. 68 is applicable.

PAUMA VALLEY COMMUNITY SERVICES DISTRICT
Schedule of Contributions
For the Fiscal Year Ended June 30, 2019 and 2018

Last Ten Fiscal Years

California Public Employees' Retirement System (CalPERS) Miscellaneous Plan

Fiscal Year:	2018-19¹	2017-18¹	2016-17¹	2015-16¹	2014-15¹	2013-14¹
Actuarially Determined Contribution ²	\$ 146,075	\$ 109,709	\$ 128,402	\$ 110,177	\$ 86,506	\$ 73,327
Contribution in Relation to the Actuarially Determined Contribution ²	<u>(146,075)</u>	<u>(109,709)</u>	<u>(128,402)</u>	<u>(110,177)</u>	<u>(86,506)</u>	<u>(73,327)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>					
District's Covered-Employee Payroll ³	<u>\$ 754,054</u>	<u>\$ 695,116</u>	<u>\$ 789,228</u>	<u>\$ 689,424</u>	<u>\$ 663,904</u>	<u>\$ 453,952</u>
Contributions as a Percentage of Covered-Employee Payroll	<u>19.37%</u>	<u>15.78%</u>	<u>16.27%</u>	<u>15.98%</u>	<u>13.03%</u>	<u>16.15%</u>

¹ Historical information is required only for measurement periods for which GASB No. 68 is applicable.

² Employers are assumed to make contributions equal to the actuarially determined contributions (which is the actuarially determined contribution). However, some employers may choose to make additional contributions towards their side-fund or their unfunded liability. Employer contributions for such plan exceed the actuarial determined contributions. CalPERS has determined that employer obligations referred to as *side-funds* are not considered separately financed specific liabilities.

³ Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer. However, GASB No. 68 defines covered-employee payroll as the total payroll of employees that are provided pensions through the pension plan. Accordingly, if pensionable earnings are different than total earnings for covered-employees, the employer should display in the disclosure footnotes the payroll based on total earnings for the covered group and recalculate the required payroll-related ratios.

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

Notes to the Required Supplementary Information

For the Fiscal Years Ended June 30, 2019 and 2020

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, 2019, 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 December 15, 2019.

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
December 15, 2019