PAUMA VALLEY COMMUNITY SERVICES DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE YEARS ENDED JUNE 30, 2014 and 2013

Pauma Valley
Community Services District

33129 Cole Grade Road, Pauma Valley, California 92061

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Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Pauma Valley Community Services District, which comprise the statement of net position as of June 30, 2014, 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 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 of material misstatements, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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, 2014, and the results of its operations and its cash flows for the 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 on pages 3 through 8 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 inquires, 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 opinion or provide any assurance.

Prior Year Summarized Comparative Information

The prior year summarized comparative information has been derived from Pauma Valley Community Services District's 2013 financial statements and, in our report dated July 22, 2013 we expressed an unqualified opinion on those financial statements.

Ortega & Konrad, LLP

July 25, 2014

Management's Discussion and Analysis (MD&A) offers readers of the Pauma Valley Community Services District's financial statements a narrative overview of the District's financial activities for the fiscal year ended June 30, 2014. This MD&A presents financial highlights, an overview of the accompanying financial statements, an analysis of net position and results of operations, a current-to-prior year analysis, a discussion on restrictions, commitments and limitations, and a discussion of significant activity involving capital assets and long-term debt. Please read in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- District's net position increased by $130,329 or 4.1%.
- The District's operating income was $37,007. As compared to an operating loss of ($53,908) in 2012-2013.

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, 2014. 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 $3,272,022 and $3,141,693 as of June 30, 2014 and 2013, respectively.

REQUIRED FINANCIAL STATEMENTS

Statements of Revenues, Expenses, and Changes in Net Assets

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, 2014 net position increased $130,329, which is added to the beginning net position of $3,141,693, to arrive at an ending net position of $3,272,022.

Statements of Cash Flows

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

District cash flow for the year has 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 $6,613, which is added to beginning cash and cash equivalents of $606,788, to arrive at ending cash and cash equivalents of $613,401. Cash equivalents managed directly by the District consist of investments in the California Local Agency Investment Fund (LAIF).

FINANCIAL ANALYSIS AND CONDENSED FINANCIAL INFORMATION

Analysis of Net Assets

Condensed Statement of Net Position

ASSETS	2014	2013	Dollar Change	Percent Change
Current and Other Assets	$ 754,179	$ 698,421	$ 55,758	8.0%
Capital Assets	2,910,597	2,878,383	32,214	1.1%
Total Assets	**$ 3,664,776**	**$ 3,576,804**	**$ 87,972**	**2.5%**
LIABILITIES				
Long-term Debt Outstanding	$ 288,657	$ 340,232	$ (51,575)	-15.2%
Other Liabilities	104,097	94,879	9,218	9.7%
Total Liabilities	**392,754**	**435,111**	**$ (42,357)**	**-9.7%**
NET POSITION				
Net Investment in Capital Assets	2,621,940	2,538,151	$ 83,789	3.3%
Unrestricted	650,082	603,542	46,540	7.7%
Total Net Position	**3,272,022**	**3,141,693**	**130,329**	**4.1%**

The condensed statement above presents a summary of the District's Statement of Net Position. The District's Net Position as of June 30, 2014 totaled $3,272,022 compared with $3,141,693 as of June 30, 2013, an increase of 4.1%. Net assets are accumulated from revenues, expenses, and contributed capital combined with the beginning balance of net assets 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 $87,972 or 2.5%. As a result of operating and non-operating activities, the District's overall net position increased by $130,329. The increase is allocated in part to a $42,357 decrease in liabilities, mostly as a result of the decrease in long-term debt of $51,565, the increase in other current liabilities of $9,208, and the offset by the $87,972 increase in total assets.

FINANCIAL ANALYSIS AND CONDENSED FINANCIAL INFORMATION (Continued)

Analysis of Revenues and Expenses

Condensed Statements of Revenues, Expenses, and Changes in Net Position

REVENUES	2014	2013	Dollar Change	Percent Change
Operating Revenues	$1,276,802	$1,246,644	$ 30,158	2.4%
Non-operating Revenues	104,507	96,302	8,205	8.5%
Total Revenues	**$1,381,309**	**$1,342,946**	**$ 38,363**	**2.9%**
EXPENSES				
Depreciation Expense	109,241	121,939	(12,698)	-10.4%
Operating Expenses	1,130,554	1,178,613	(48,059)	-4.1%
Non-operating Expense	11,185	17,873	(6,688)	-37.4%
Total Expenses	**1,250,980**	**1,318,425**	**(67,445)**	**-5.1%**
Change in Net Position	**130,329**	**24,521**	**105,808**	**431%**
Beginning Net Position	**3,141,693**	**3,117,172**	**24,521**	**0.8%**
Ending Net Position	**$3,272,022**	**$3,141,693**	**130,329**	**4.1%**

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. Overall, the net position increased by $130,329, as compared to the previous year. The main factors in the change in net assets are as follows: (1) Security and sewer rate increases during the year resulting in a combined increase of $30,158 in operating revenues (2), operating expenses decreased by ($48,059) as a result professional/contract services expenses increasing by $9,576, repairs and maintenance expenses increasing by $19,218, salaries and fringe benefits decreasing by ($69,460) and other general operating expenses decreasing by ($7,393), and (4) Non-operating revenues increased by $8,205 due from a increase in property tax revenue of $2,869, decrease in interest income of ($632), increase in delinquent charges collected of $1,044 and a increase in administrative charges of $4,924, and non-operating expenses decreased by ($6,688) from a decrease in interest expense paid on long-term debt.

CAPITAL ASSETS

Capital Assets

Condensed Capital Assets Information

CAPITAL ASSETS	2014	2013	Dollar Change	Percent Change
Land and Easements	$ 94,867	$ 3,187	$ 91,680	2876.7%
Buildings and Improvements	184,685	172,749	11,936	6.9%
Machinery and Equipment	391,998	408,874	(16,876)	-4.1%
Information Systems	19,853	19,853	-	
Treatment Plant	2,865,803	2,864,070	1,733	0.1%
Infrastructure	607,342	607,342	-	0.0%
Sub-total	4,164,548	4,076,075	88,473	2.2%
Less: Accumulated Depreciation	1,253,951	1,197,692	(56,259)	-4.7%
Net Capital Assets	**$ 2,910,597**	**$ 2,878,383**	**$ 32,214**	**1.1%**

Net capital assets increased by $32,214 from the prior year, contributing towards the ending balance of $2,910,597. This increase consisted of land, machinery and equipment additions in the amount of $141,455, less current year depreciation of $109,241. There was $52,983 in capital assets disposed of during the year that were fully depreciated with no book value.

The additions to capital assets during the year were as follows:

- Land purchase from PVCC ($91,680)
- New compressor for treatment plant ($1,733)
- New A/C for main office ($3,512)
- New PVC white fence ($2,500)
- Re-asphalt parking lot ($5,924)
- Kevlar vest/communications equipment ($6,533)
- Pauma Heights/airpark/helipad/front/rear gates ($21,386)
- Dell computers for security offices ($2,876)
- Security video/camera systems ($3,516)
- Rehab communications building ($1,795)

LONG-TERM DEBT

Long Term Debt

At June 30, 2014 the District had $288,657 in outstanding debt, which is made up of an Installment Note Payable to City National Bank. In fiscal year 2014/15 the installment payment due is principal $54,533, plus interest of $8,227 for a total debt service payment of $62,760. The District issued no new debt and reduced the outstanding principal balance by $51,575, and incurred and paid interest expense of $11,185 on the note during the year.

CONDITIONS AFFEDTING CURRENT FINANICAL POSITION

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

STATEMENT OF NET POSITION
June 30, 2014 with Comparative Totals for 2013

ASSETS	Sanitation	Security	Total 2014	Total 2013
Current Assets				
Cash and equivalents	$ (40,946)	$ 654,347	**$ 613,401**	$ 606,788
Accounts receivable	11,658	28,541	**40,199**	28,385
Property taxes receivable	2,035	2,035	**4,070**	4,441
Prepaid expenses	4,359	25,127	**29,486**	36,246
Other current assets	61,004	6,019	**67,023**	22,561
Total current assets	38,110	716,069	**754,179**	698,421
Noncurrent Assets				
Capital Assets	2,805,882	104,715	**2,910,597**	2,878,383
Total noncurrent assets	2,805,882	104,715	**2,910,597**	2,878,383
Total assets	$ 2,843,992	$ 820,784	**$ 3,664,776**	$ 3,576,804
LIABILITIES				
Current Liabilities				
Current maturities of long-term debt	$ 54,533	$ -	**$ 54,533**	$ 51,575
Accounts payable	14,942	40,592	**55,534**	36,782
Accrued expenses	33,728	14,835	**48,563**	58,097
Total current liabilities	103,203	55,427	**158,630**	146,454
Noncurrent Liabilities				
Long-term debt, net of current portion	234,124	-	**234,124**	288,657
Total liabilities	337,327	55,427	**392,754**	435,111
NET POSITION				
Net investment in capital assets	2,517,225	104,715	**2,621,940**	2,538,151
Unrestricted	(10,560)	660,642	**650,082**	603,542
Total net position	2,506,665	765,357	**3,272,022**	3,141,693

The Notes to Financial Statements are an integral part of these statements.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Year Ended June 30, 2014 with Comparative totals for the year Ended 2013

	Sanitation	Security	Total 2014	Total 2013
OPERATING REVENUES				
Service fees and charges	$ 421,765	$ 855,037	**$ 1,276,802**	$ 1,246,644
OPERATING EXPENSES				
Services:				
Salaries and wages	77,894	246,142	**324,036**	371,330
Employee benefits	19,582	60,464	**80,046**	122,104
Contract services	39,000	254,249	**293,249**	288,931
Insurance	16,500	38,220	**54,720**	56,292
Repairs and maintenance	77,412	4,815	**82,227**	56,321
Other operational expenses	44,510	67,032	**111,542**	117,669
General and administrative:				
Salaries and wages	25,812	63,195	**89,007**	74,751
Employee benefits	7,897	19,333	**27,230**	21,596
Professional services	6,773	8,740	**15,513**	10,255
Other general and administrative	13,934	39,050	**52,984**	59,364
Depreciation	93,277	15,964	**109,241**	121,939
Total operating expenses	422,591	817,204	**1,239,795**	1,300,552
Operating (loss) income	(826)	37,833	**37,007**	(53,908)
NON-OPERATING REVENUES (EXPENSES)				
Interest income	337	826	**1,163**	1,794
Property taxes	44,272	44,273	**88,545**	85,677
Interest expense	(11,185)	-	**(11,185)**	(17,873)
Other	4,292	10,507	**14,799**	8,831
Total non-operating revenues	37,716	55,606	**93,322**	78,429
Change in net position	36,890	93,439	**130,329**	24,521
Net position at beginning of the year	2,469,775	671,918	**3,141,693**	3,117,172
NET POSITION END OF YEAR	$ 2,506,665	$ 765,357	**$ 3,272,022**	$ 3,141,693

The Notes to Financial Statements are an integral part of these statements.

STATEMENT OF CASH FLOWS

Year Ended June 30, 2014 with Comparative totals for the year Ended 2013

	Sanitation	Security	Total 2014	Total 2013
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from users	$ 419,117	$ 845,871	**$ 1,264,988**	$ 1,248,099
Cash paid to employees for services	(131,185)	(398,668)	**(529,853)**	(585,261)
Cash paid to suppliers for goods and services	(227,355)	(401,830)	**(629,185)**	(577,962)
Net cash provided by operating activities	60,577	45,373	**105,950**	84,876
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Other non-operating income	48,749	54,966	**103,715**	103,399
Net cash provided from non-capital financing activities	48,749	54,966	**103,715**	103,399
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition and construction of capital assets	(105,351)	(36,104)	**(141,455)**	(8,828)
Principal payments on long-term debt	(51,575)	-	**(51,575)**	(48,304)
Interest paid	(11,185)	-	**(11,185)**	(17,873)
Net cash used by capital and related financing activities	(168,111)	(36,104)	**(204,215)**	(75,005)
CASH FLOWS FROM FINANCING ACTIVITIES				
Interest received on cash deposits	337	826	**1,163**	1,794
Net cash provided from financing activities	337	826	**1,163**	1,794
Net increase (decrease) in cash	(58,448)	65,061	**6,613**	115,064
Cash at beginning of year	17,502	589,286	**606,788**	491,724
CASH AT END OF YEAR	$ (40,946)	$ 654,347	**$ 613,401**	$ 606,788

The Notes to Financial Statements are an integral part of these statements.

STATEMENT OF CASH FLOWS
Year Ended June 30, 2014 with Comparative totals for the year Ended 2013

	Sanitation	Security	Total 2014	Total 2013
CASH FLOWS FROM OPERATING ACTIVITIES				
Operating income (loss)	$ (826)	$ 37,833	**$ 37,007**	$ (53,908)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation	93,277	15,964	**109,241**	121,939
Change in assets and liabilities				
(Increase) decrease in:				
Accounts receivable	(2,648)	(9,166)	**(11,814)**	1,455
Prepaid expenses	2,959	3,801	**6,760**	3,492
Due from other governmental agency	(38,639)	(5,823)	**(44,462)**	3,864
Increase (decrease) in:				
Accounts payable	6,454	12,298	**18,752**	3,514
Accrued expenses	-	(9,534)	**(9,534)**	4,520
Net cash provided by operating activities	$ 60,577	$ 45,373	**$ 105,950**	$ 84,876

The Notes to Financial Statements are an integral part of these statements.

Note 1. Description of Organization and Significant Accounting Policies

Nature 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.

Reporting Entity

The District has defined its reporting entity in accordance with the Governmental Accounting Standards Board's Codification of Governmental Accounting and Financial Reporting Standards. These standards provide guidance for determining which governmental activities; organizations and functions should be included in the reporting entity and how information about them should be presented. The basic criterion for inclusion of a governmental unit in a governmental reporting entity are: (1) financial interdependency,(2) selection of governing authority, (3) designation of management, (4) ability to significantly influence operations, and (5) accountability for fiscal matters.

The scope of this report extends exclusively to the financial information of Pauma Valley Community Services District. The Governing Board of the District has no oversight responsibility over any other governmental unit or agency. As such, the Board's governing authority, designation of management, ability to significantly influence operation, and accountability for fiscal matters extend only to the affairs of the District.

Basis of Presentation

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended June 30, 2013, from which the summarized information was derived.

Basis of Accounting and Measurement Focus

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 private business enterprise, where the intent of the District is that the costs (including depreciation) of providing sanitation and security services to its customers on a continuing basis be financed or recovered primarily through user charges. Revenues and expenses are recognized on the accrual basis, as such, revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred.

Note 1. Description of Organization and Significant Accounting Policies (continued)

Basis of Accounting and Measurement Focus (continued)

The District distinguishes operating revenue and expense from non-operating items. Operating revenues and expenses generally result from providing services in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges to customers for sewage and security services. Operating expenses for the District include the cost of services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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.

Net position is displayed as three components; (1) Net investment in capital assets, which reflects the cost of capital assets less accumulated depreciation and less the outstanding principal of related debt not associated with unspent debt proceeds; (2) Restricted, which reflects the carrying value of assets less related liabilities that are restricted by outside covenants or by law (District has no restrictions); and (3) Unrestricted. Upon board resolution, unrestricted net position may be designated for debt payment, working capital, contingency reserve, and capital repair and replacement costs.

Cash and Cash Equivalents

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

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.

Note 1. Description of Organization and Significant Accounting Policies (continued)

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 years 2014 and 2013.

Capital Assets

The cost of purchased and constructed additions to utility plant and major replacements of property, including those financed through special assessments, are capitalized. Cost includes materials, direct labor, transportation, and such indirect items as engineering, supervision, and interest incurred during the construction period. Repairs, maintenance, and minor replacements of property are charged to expense. Contributed assets are capitalized at cost, which approximates fair market value. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings and fences	5 to 40 years
Machinery and equipment	5 to 30 years
Sewer and lateral lines	10 to 50 years
Oak Tree lift station	5 to 15 years
Treatment plant	40 years
Drains	100 years
Channels	10 to 50 years

Estimates

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

Note 1. Description of Organization and Significant Accounting Policies (continued)

Property Taxes

Property tax in California is levied in accordance with Article XIIIA 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 (the "County") 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.

Pending Governmental Accounting Standards Board (GASB) Statement

The Governmental Accounting Standards board has issued GASB's Statement No. 68, "Accounting and Financial Reporting for Pensions – an amendment of GASB No. 27". This statement is required to be adopted by the District for the year ending June 30, 2015. The District has not determined the effect of GASB's Statement No. 68 on the financial statements.

Note 2. Cash and Investments

Cash and investments as of June 30, 2014 and 2013 are classified in the accompanying financial statements as follows:

	2014	2013
Cash on hand	$ 100	$ 100
Deposits with financial institutions	156,999	151,510
Deposits with L.A.I.F.	456,302	455,178
Totals	**$ 613,401**	**$ 606,788**

Note 2. Cash and Investments *(continued)*

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

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

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by maintaining excess cash reserves in the California Local Agency Investment Fund (L.A.I.F.) that mature on a daily basis as to provide the cash flow and liquidity needed for debt service requirements. At June 30, 2014, the District had $456,302 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.

				Ratings as of Year-end		
Investment Type	Amount	Minimum Legal Rating	Exempt From Disclsoure	AAA	Aa	Not Rated
California Local Agency Fund	$456,302	N/A	-	$ -	$ -	$456,302

Note 2. Cash and Investments *(continued)*

Concentration of Credit Risk

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

Custodial Credit Risk

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

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

As of June 30, 2014, 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, 2014 and 2013, the District's deposit with LAIF was $456,302 and $455,178, respectively.

Note 3. Capital Assets

Major classes of capital assets are as follows for the year ended June 30, 2014:

	Balance June 30, 2013	Additions	Disposals	Transfers	Balance June 30, 2014
Non-depreciable assets:					
Land	$ 3,087	91,680	-	-	$ 94,767
Easements & Rights of Way	100	-	-	-	100
Total non-depreciable assets	3,187	91,680	-	-	94,867
Depreciable assets:					
Fences	3,340	-	-	-	3,340
Buildings	153,565	-	-	27,782	181,347
Machinery	2,321	-	-	-	2,321
Sewer Lines & Lateral Lines	173,169	-	-	-	173,169
Oak Tree Lift Station	39,896	-	-	-	39,896
New Treatment Plant	2,864,070	1,733	-	-	2,865,803
Equipment	48,252	-	(609)	-	47,643
Leasehold Improvements	15,846	11,936	-	(27,782)	-
Drains	277,551	-	-	-	277,551
Channels	116,722	-	-	-	116,722
Information Systems	19,853	-	-	-	19,853
Security	358,303	36,106	(52,374)	-	342,035
Total depreciable assets	4,072,888	49,775	(52,983)	-	4,069,680
Less: accumulated depreciation	(1,197,692)	(109,241)	52,983	-	(1,253,950)
Total depreciable assets, net	2,875,196	(59,466)	-	-	2,815,730
Total capital assets, net	$ 2,878,383	$ 32,214	-	-	$ 2,910,597

Note 3. Capital Assets (continued)

Major classes of capital assets are as follows for the year ended June 30, 2013:

	Balance June 30, 2012	Additions	Disposals	Transfers	Balance June 30, 2013
Non-depreciable assets:					
Land	$ 3,087	-	-	-	$ 3,087
Easements & Rights of Way	100	-	-	-	100
Total non-depreciable assets	3,187	-	-	-	3,187
Depreciable assets:					
Fences	3,340	-	-	-	3,340
Buildings	153,565	-	-	-	153,565
Machinery	2,321	-	-	-	2,321
Sewer Lines & Lateral Lines	173,169	-	-	-	173,169
Oak Tree Lift Station	39,896	-	-	-	39,896
New Treatment Plant	2,864,070	-	-	-	2,864,070
Equipment	47,159	1,093	-	-	48,252
Leasehold Improvements	15,846	-	-	-	15,846
Drains	277,551	-	-	-	277,551
Channels	116,722	-	-	-	116,722
Information Systems	12,118	7,735	-	-	19,853
Security	358,303	-	-	-	358,303
Total depreciable assets	4,064,060	8,828	-	-	4,072,888
Less: accumulated depreciation	(1,075,753)	(121,939)	-	-	(1,197,692)
Total depreciable assets, net	2,988,307	(113,111)	-	-	2,875,196
Total capital assets, net	$ 2,991,494	$ (113,111)	-	-	$ 2,878,383

Total depreciation expense for utility plant for the years ended June 30, 2014 and 2013 was $109,300 and $121,939, respectively.

Note 4. Long-term Debt

	2014	2013
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 pledge for principal and interest payment.	$ 288,657	$ 340,232
Total long term-debt	288,657	340,232
Less current maturities of long-term debt	(54,533)	(51,575)
	$ 234,124	$ 288,657

Future principal and interest maturities are as follows:

Year	Principal	Interest	Total
2014-15	54,533	8,227	62,760
2015-16	56,087	6,673	62,760
2016-17	57,686	5,074	62,760
2017-18	59,330	3,430	62,760
Thereafter	61,021	1,739	62,760
Totals	**$ 288,657**	**$ 25,143**	**$ 313,800**

Note 5. Defined Benefit Pension Plan - CalPERS

Plan Description

The District contributes to the California Public Employees Retirement Systems (CalPERS), an agent multiple-employer public employee defined benefit pension plan. CalPERS provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and District policy. PERS issues a publicly available financial report that includes financial statements and required supplementary information for the cost sharing plans that are administered by CalPERS. Copies of CalPERS' annual financial report may be obtained from their Executive Office, 400 Q Street, Sacramento, CA 95811.

All full-time employees are eligible to participate in CalPERS with benefits vesting after five years of service. District employees who retire at age 55 with five years of credited service are entitled to an annual retirement benefit, payable monthly for life, in increasing percentage increments up to the maximum amount of their specific plan during their highest consecutive twelve month period, for each year of credited service.

Funding Policy

For the Classic plan, participants are required to contribute 8.0% of their annual covered salary. For the PEPR plan, participants are required to contribute 6.25% of their annual covered salary. The District is required to contribute the remaining amount necessary to fund the benefits of its members, using the actuarial basis recommended by the CalPERS actuaries and actuarial consultants and adopted by the Board Administration. The required employer contribution rate for fiscal year ended June 30, 2014 was 18.025% for plan participants as determined by the annual CalPERS valuation, and the current FY2014/15 rate is 19.299% of annual covered payroll. The contribution requirements of plan members and the District are established and may be amended by CalPERS.

Annual Pension Cost

Under GASB 27, an employer reports an annual pension cost (APC) equal to the annual required contribution (ARC) plus an adjustment for the cumulative difference between the APC and the employer's actual plan contributions for the year. The cumulative difference is called the net pension obligation (NPO). The ARC for the period July 1, 2013 to June 30, 2014 has been determined by an actuarial valuation of the plan as of June 30, 2012. The contribution rate for the indicated period is 18.025% for the CalPERS retirement program.

Note 5. Defined Benefit Pension Plan - CalPERS (*continued*)

Annual Pension Cost (continued)

In order to calculate the dollar value of the ARC for inclusion in the financial statements prepared as of June 30, 2014, the contribution rate, as modified by any amendments for the year, is multiplied by the payroll of the covered employees that were paid from the period July 1, 2013 to June 30, 2014.

The following is a summary of the actuarial assumptions and methods:

Valuation Date	June 30, 2012
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	18 Years as of the Valuation Date
Asset Valuation Method	15 Year Smoothed Market
Actuarial Assumptions	
Investment Rate of Return	7.50% (net of administrative expenses)
Projected Salary Increases	3.30% to 14.20% depending on Age, Service, and type of employment
Inflation	2.75%
Payroll Growth	3.00%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%

Initial unfunded liabilities are amortized over a closed period that depends on the plan’s date of entry into CalPERS. Subsequent plan amendments are amortized as a level percentage of pay over a closed twenty year period. Gains and losses that occur in the operation of the plan are amortized over a thirty year rolling period, which results in an amortization of about 6% of unamortized gains and losses each year. If the plan’s accrued liability exceeds the actuarial value of the plan assets, then the amortization payment of the total unfunded liability may not be lower than the payment calculated over a thirty year amortization period.

For employees in the Classic category, the total employee required contribution paid to CalPERS for 2014 and 2013 was $31,471 and $39,146, respectively (8.0% of covered payroll). The employer required contribution (18.025%) paid to CalPERS for 2014 was $73,327 less the amount charged to Rancho Pauma Mutual Water Company of $26,134 for a net employer contribution expense of $47,193. The employer required contribution (18.026%) paid to CalPERS for 2013 was $91,310 less the amount charged to Rancho Pauma Mutual Water Company of $29,582 for a net employer contribution expense of $61,728.

Note 5. Defined Benefit Pension Plan - CalPERS (*continued*)

Annual Pension Cost (continued)

For employees in the PEPRA category, this new classification was initiated in 2013 and applies to all employees hired after January 1, 2013. The total employee required contribution paid to CalPERS for 2014 and 2013 was $4,173 and $230, respectively (6.25%) of covered payroll. The employer required contribution (6.25%) paid to CalPERS for 2014 was $4,223 less the amount charged to Rancho Pauma Mutual Water Company of $1,505 for a net employer contribution expense of $2,718. The employer required contribution (6.25%) paid to CalPERS for 2013 was $248 less the amount charged to Rancho Pauma Mutual Water Company of $80 for a net employer contribution expense of $167.

The total employer required contribution for both groups paid to CalPERS for 2014 and 2013 was $49,911 and $61,898, respectively. The contributions were made in accordance with actuarially determined requirements computed through an actuarial valuation performed prior to the beginning of each fiscal year by the CalPERS Actuarial Division.

Trend Information

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. The District's specific four-year trend information follows:

Four-year trend information for CalPERS

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
06/30/11	$ 52,489	100%	$ -
06/30/12	$ 61,585	100%	$ -
06/30/13	$ 61,896	100%	$ -
06/30/14	$ 49,911	100%	$ -

Required Supplementary Information

The schedule of funding history and funding progress for CalPERS, presented as required supplementary information to the notes to the basic financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability. The following schedule shows a five-year history of the funded ratio and funded status of the District's agent multiple-employer public defined benefit pension plan. The information reflects the most recent actuarial valuation and the four preceding valuations available from CalPERS.

Note 5. Defined Benefit Pension Plan - CalPERS (*continued*)

Required Supplementary Information (continued)

Schedule of Funded Ratio for Multiple-Employer Retirement Plan

Valuation Date	Accrued Liabilities	Market Value of Assets	Funded Ratio
06/30/08	$ 776,166,719	$ 649,680,112	83.7%
06/30/09	$ 883,394,429	$ 507,263,008	57.4%
06/30/10	$ 945,221,095	$ 597,968,146	63.3%
06/30/11	$ 1,023,127,104	$ 746,342,491	72.9%
06/30/12	$ 1,081,962,506	$ 769,302,502	71.1%

Schedule of Funding Progress for Multiple-Employer Retirement Plan

Actuarial Valuation Date	(A) Entry Age Actuarial Accrued Liability (AAL)	(B) Actuarial Value of Assets	(C) Unfunded AAL (UAAL) (A) - (B)	(D) Funded Ratio (B) / (A)	(E) Covered Payroll	(F) UAAL as a % of Covered Payroll (C) / (D)
06/30/08	$ 776,166,719	$ 641,167,624	$ 134,999,095	82.6%	$ 155,115,302	87.0%
06/30/09	$ 883,394,429	$ 694,384,975	$ 189,009,454	78.6%	$ 161,972,631	116.7%
06/30/10	$ 945,221,095	$ 754,858,961	$ 190,362,134	79.9%	$ 159,156,834	119.6%
06/30/11	$ 1,023,127,404	$ 825,991,347	$ 197,136,057	80.7%	$ 160,900,495	122.5%
06/30/12	$ 1,081,962,506	$ 903,410,915	$ 178,551,591	83.5%	$ 153,161,984	116.6%

Note 6. Commitments and Contingencies

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

Note 7. Subsequent Event

In accordance with the provisions surrounding Subsequent Events, the District's management has evaluated events and transactions for potential recognition or disclosure through July 25, 2014, the date the financial statements were available to be issued.

On April 30, 2014, the District authorized the purchase of two security vehicles for $51,490 and took delivery and title on July 24, 2014.