

**PAUMA VALLEY COMMUNITY  
SERVICES DISTRICT**

**ANNUAL FINANCIAL REPORT**

**FOR THE YEARS ENDED  
JUNE 30, 2012 AND 2011**



**33129 Cole Grade Road, Pauma Valley, California 92061**

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### **INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying balance sheet of Pauma Valley Community Services District as of June 30, 2012, and the related statements of revenues, expenses and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from Pauma Valley Community Services District's 2011 financial statements and, in our report dated July 26, 2011 we expressed an unqualified opinion on those financial statements.

We conducted our audits 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2012, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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 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 opinion or provide any assurance.

*Osteo & Konrad, LLP*

August 3, 2012

# PAUMA VALLEY COMMUNITY SERVICES DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS For the Years Ended June 30, 2012 and 2011

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, 2012. This MD&A presents financial highlights, an overview of the accompanying financial statements, an analysis of financial 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 assets decreased by \$18,501 or .6%.
- The District's operating loss was \$99,691. As compared to an operating loss of \$179,358 in 2010-2011. ***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) Balance Sheets; 2) Statements of Revenues, Expenses, and Changes in Net Assets; 3) Statements of Cash Flows; and 4) Notes to the Financial Statements.

The financial statements accompanying this MD&A present the financial position, results of operations, and changes in cash flow during the fiscal year ending June 30, 2012. 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 (investments in resources) and liabilities (obligations to creditors), with the difference between the two reported as net assets. Over time, increases or decreases in net assets 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 in excess of liabilities (net assets) were \$3,117,172 and \$3,135,673 as of June 30, 2012 and 2011, respectively.

**PAUMA VALLEY COMMUNITY SERVICES DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Years Ended June 30, 2012 and 2011**

***REQUIRED FINANCIAL STATEMENTS***

***Statements of Revenues, Expenses, and Changes in Net Assets***

The Statements of Revenues, Expenses, and Changes in Net Assets present information showing how the District's net assets 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 Assets. 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 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, 2012 net assets decreased \$18,501, which is added to the beginning net assets of \$3,135,673, to arrive at ending total net assets of \$3,117,172.

***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 \$55,849, which is added to beginning cash and cash equivalents of \$435,875, to arrive at ending cash and cash equivalents of \$491,724. 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**

**For the Years Ended June 30, 2012 and 2011**

***FINANCIAL ANALYSIS AND CONDENSED FINANCIAL INFORMATION***

*Analysis of Net Assets*

**Condensed Balance Sheets**

<b>ASSETS</b>	<b>2012</b>	<b>2011</b>	<b>Dollar Change</b>	<b>Percent Change</b>
Current and Other Assets	\$ 601,059	\$ 550,558	\$ 50,501	9.2%
Capital Assets	2,991,494	3,099,289	(107,795)	-3.5%
<b>Total Assets</b>	<b>\$3,592,553</b>	<b>\$3,649,847</b>	<b>\$ (57,294)</b>	<b>-1.6%</b>
<b>LIABILITIES</b>				
Long-term Debt Outstanding	\$ 388,536	\$ 434,716	\$ (46,180)	-10.6%
Other Liabilities	86,845	79,458	7,387	9.3%
<b>Total Liabilities</b>	<b>475,381</b>	<b>514,174</b>	<b>\$ (38,793)</b>	<b>-7.5%</b>
<b>NET ASSETS</b>				
Invested in Capital Assets				
Net of Related Debt	2,602,958	2,664,573	\$ (61,615)	-2.3%
Unrestricted	514,214	471,100	43,114	9.2%
<b>Total Net Assets</b>	<b>3,117,172</b>	<b>3,135,673</b>	<b>(18,501)</b>	<b>-0.6%</b>
<b>Total Liabilities and Net Assets</b>	<b>\$3,592,553</b>	<b>\$3,649,847</b>	<b>\$ (57,294)</b>	<b>-1.6%</b>

The condensed statement above presents a summary of the District's Balance Sheets. The District's Net Assets as of June 30, 2012 totaled \$3,117,172 compared with \$3,135,673 as of June 30, 2011, a decrease of .6%. 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 Assets. In accordance with generally accepted accounting principles, capital assets are recorded at historical cost. Total assets decreased by \$57,294 or 1.6%. As a result of operating and non-operating activities, the District's overall net assets decreased by \$18,501. The decrease is allocated in part to a \$38,793 decrease in liabilities, mostly as a result of the decrease in long-term debt of \$46,180, the increase in other current liabilities of \$7,387, and the offset by the \$57,294 decrease in total assets.

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended June 30, 2012 and 2011

*FINANCIAL ANALYSIS AND CONDENSED FINANCIAL INFORMATION (Continued)*

*Analysis of Revenues and Expenses*

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

<b>REVENUES</b>	<b>2012</b>	<b>2011</b>	<b>Dollar Change</b>	<b>Percent Change</b>
Operating Revenues	\$ 1,221,020	\$ 1,203,896	\$ 17,124	1.4%
Non-operating Revenues	101,187	95,252	5,935	6.2%
<b>Total Revenues</b>	<b>\$ 1,322,207</b>	<b>\$ 1,299,148</b>	<b>\$ 23,059</b>	<b>1.8%</b>
<b>EXPENSES</b>				
Depreciation Expense	130,167	133,594	(3,427)	-2.6%
Operating Expenses	1,190,544	1,249,660	(59,116)	-4.7%
Non-operating Expense	19,997	22,028	(2,031)	-9.2%
<b>Total Expenses</b>	<b>1,340,708</b>	<b>1,405,282</b>	<b>(64,574)</b>	<b>-4.6%</b>
<b>Change in Net Assets</b>	<b>(18,501)</b>	<b>(106,134)</b>	<b>87,633</b>	<b>-83%</b>
<b>Beginning Net Assets</b>	<b>3,135,673</b>	<b>3,241,807</b>	<b>(106,134)</b>	<b>-3.3%</b>
<b>Ending Net Assets</b>	<b>\$ 3,117,172</b>	<b>\$ 3,135,673</b>	<b>(18,501)</b>	<b>-0.6%</b>

While the Balance Sheet shows the change in financial position of net assets, the Statements of Revenues, Expenses and Changes in Net Assets, provides answers to the nature and source of these changes. Overall net assets decreased by \$18,501, 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 \$17,124 in operating revenues (2), operating expenses decreased by \$59,116 as a result of professional/contract services expenses decreasing by \$33,300, salaries and fringe benefits increasing by \$16,790, repairs and maintenance decreasing by \$18,850 and other general operating expenses decreasing by \$23,756, and (4) Non-operating revenues increased by \$5,935 due from a increase in property tax revenue of \$5,957, decrease in interest income of \$555 and a increase in administrative charges of \$533, and non-operating expenses decreased by \$2,031 from a reduction in interest expense paid on long-term debt.



PAUMA VALLEY COMMUNITY SERVICES DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Years Ended June 30, 2012 and 2011

**CAPITAL ASSETS AND LONG-TERM DEBT**

*Capital Assets*

**Condensed Capital Assets Information**

<b>CAPITAL ASSETS</b>	<b>2012</b>	<b>2011</b>	<b>Dollar Change</b>	<b>Percent Change</b>
Land and Easements	\$ 3,187	\$ 3,187	\$ -	0.0%
Buildings and Improvements	172,749	172,749	-	0.0%
Machinery and Equipment	407,781	397,527	10,254	2.6%
Information Systems	12,118	-	12,118	
Treatment Plant	2,864,070	2,864,070	-	0.0%
Infrastructure	607,342	607,342	-	0.0%
Sub-total	4,067,247	4,044,875	22,372	0.6%
Less: Accumulated Depreciation	1,075,753	945,586	(130,167)	-13.8%
<b>Net Capital Assets</b>	<b>\$2,991,494</b>	<b>\$3,099,289</b>	<b>\$ (107,795)</b>	<b>-3.5%</b>

Net capital assets decreased by \$107,795 from the prior year, contributing towards the ending balance of \$2,991,494. This decrease consisted of machinery and equipment and information systems replacements in the amount of \$22,373, less current year's depreciation of \$130,167.

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

- New engine in security vehicle (\$5,332)
- New barrier gate operator (\$4,922)
- Initial development cost in GIS database (\$12,118)

**Long Term Debt**

At June 30, 2012 the District had \$388,536 in outstanding debt, which is made up of an Installment Note Payable to City National Bank. During the year the District issued no new debt and reduced the outstanding principal balance by \$46,180.

**PAUMA VALLEY COMMUNITY SERVICES DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Years Ended June 30, 2012 and 2011**

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***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 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

BALANCE SHEET  
June 30, 2012 with Comparative Totals for 2011

ASSETS	Sanitation	Security	Total 2012	Total 2011
<b>CURRENT ASSETS</b>				
Cash and equivalents	\$ 319	\$ 491,405	\$ 491,724	\$ 435,875
Accounts receivable	9,334	20,506	29,840	40,018
Property taxes receivable	5,588	7,744	13,332	11,256
Prepaid expenses	4,272	35,466	39,738	33,911
Other current assets	26,196	229	26,425	29,498
Total current assets	45,709	555,350	601,059	550,558
<b>NONCURRENT ASSETS</b>				
Capital Assets (Note 3)	2,883,309	108,185	2,991,494	3,099,289
Total noncurrent assets	2,883,309	108,185	2,991,494	3,099,289
<b>TOTAL ASSETS</b>	<b>\$ 2,929,018</b>	<b>\$ 663,535</b>	<b>\$ 3,592,553</b>	<b>\$ 3,649,847</b>
<b>LIABILITIES AND NET ASSETS</b>				
<b>CURRENT LIABILITIES</b>				
Current maturities of long-term debt (Note 4)	\$ 48,304	\$ -	\$ 48,304	\$ 46,180
Accounts payable	11,721	21,547	33,268	31,943
Accrued expenses	31,070	22,507	53,577	47,515
Total current liabilities	91,095	44,054	135,149	125,638
<b>NONCURRENT LIABILITIES</b>				
Long-term debt, net of current portion (Note 4)	340,232	-	340,232	388,536
Total liabilities	431,327	44,054	475,381	514,174
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	2,494,773	108,185	2,602,958	2,664,573
Unrestricted net assets	2,918	511,296	514,214	471,100
Total net assets	2,497,691	619,481	3,117,172	3,135,673
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 2,929,018</b>	<b>\$ 663,535</b>	<b>\$ 3,592,553</b>	<b>\$ 3,649,847</b>

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

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
Year Ended June 30, 2012 with Comparative totals for the year Ended 2011

	Sanitation	Security	Total 2012	Total 2011
<b>OPERATING REVENUES</b>				
Service fees and charges	\$ 387,373	\$ 833,647	\$ 1,221,020	\$ 1,203,896
<b>OPERATING EXPENSES</b>				
Services:				
Salaries and wages	143,050	258,758	401,808	385,018
Employee benefits	34,720	86,326	121,046	120,346
Contract services	30,000	258,900	288,900	277,966
Insurance	20,877	34,238	55,115	58,162
Repairs and maintenance	30,845	5,269	36,114	54,964
Other operational expenses	46,183	65,230	111,413	163,877
General and administrative:				
Salaries and wages	23,221	56,853	80,074	69,749
Employee benefits	5,963	14,600	20,563	19,158
Professional services	13,407	10,312	23,719	46,707
Other general and administrative	12,440	39,352	51,792	53,713
Depreciation	97,463	32,704	130,167	133,594
Total operating expenses	458,169	862,542	1,320,711	1,383,254
<b>Operating (loss)</b>	(70,796)	(28,895)	<b>(99,691)</b>	(179,358)
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
Interest income	402	983	1,385	1,940
Property taxes	45,529	45,528	91,057	85,100
Interest expense	(19,997)	-	(19,997)	(22,028)
Other	2,536	6,209	8,745	8,212
Total non-operating revenues	28,470	52,720	81,190	73,224
<b>Change in net assets</b>	(42,326)	23,825	<b>(18,501)</b>	(106,134)
Net assets at beginning of the year	2,540,017	595,656	3,135,673	3,241,807
<b>NET ASSETS END OF YEAR</b>	\$ 2,497,691	\$ 619,481	<b>\$ 3,117,172</b>	\$ 3,135,673

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

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

STATEMENT OF CASH FLOWS

Year Ended June 30, 2012 with Comparative totals for the year Ended 2011

	Sanitation	Security	Total 2012	Total 2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash received from users	\$ 393,794	\$ 837,404	\$ 1,231,198	\$ 1,205,246
Cash paid to employees for services	(197,741)	(419,688)	(617,429)	(584,148)
Cash paid to suppliers for goods and services	(166,596)	(401,886)	(568,482)	(661,084)
Net cash provided (used) by operating activities	29,457	15,830	45,287	(39,986)
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>				
Other non-operating income	48,105	49,621	97,726	93,312
Net cash provided from non-capital financing activities	48,105	49,621	97,726	93,312
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Acquisition and construction of capital assets	(12,118)	(10,254)	(22,372)	(94,147)
Principal payments on long-term debt	(46,180)	-	(46,180)	(44,149)
Interest paid	(19,997)	-	(19,997)	(22,028)
Net cash used by capital and related financing activities	(78,295)	(10,254)	(88,549)	(160,324)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Interest received on cash deposits	402	983	1,385	1,940
Net cash provided from financing activities	402	983	1,385	1,940
<b>Net increase (decrease) in cash</b>	(331)	56,180	55,849	(105,058)
Cash at beginning of year	650	435,225	435,875	540,933
<b>CASH AT END OF YEAR</b>	\$ 319	\$ 491,405	\$ 491,724	\$ 435,875

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

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

STATEMENT OF CASH FLOWS

Year Ended June 30, 2012 with Comparative totals for the year Ended 2011

	Sanitation	Security	Total 2012	Total 2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Operating income (loss)	\$ (70,796)	\$ (28,895)	\$ (99,691)	\$ (179,358)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities				
Depreciation	97,463	32,704	130,167	133,594
Deferred revenue earned	-	-	-	-
Change in assets and liabilities				
(Increase) decrease in:				
Accounts receivable	6,421	3,757	10,178	1,350
Prepaid expenses	677	(6,504)	(5,827)	(2,072)
Due from other governmental agency	(13,613)	16,686	3,073	(3,623)
Increase (decrease) in:				
Accounts payable	92	1,233	1,325	2,703
Accrued expenses	9,213	(3,151)	6,062	7,420
Net cash provided (used) by operating activities	\$ 29,457	\$ 15,830	\$ 45,287	\$ (39,986)

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.

The criteria used in determining the scope of the financial reporting entity is based on the provisions of Governmental Accounting Statements No. 14, *The Financial Reporting Entity*, and No. 39, *Determining Whether Certain Organizations Are Component Units* (an amendment of No. 14). 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 no component units.

***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, 2011, from which the summarized information was derived.

***Basis of Accounting and Measurement Focus***

The accounting methods and procedures adopted by the District conform to U.S. generally accepted accounting principles as applied to governmental enterprise funds. Accordingly, the financial statements are presented in accordance with Governmental Accounting Standards Board (GASB) Statement No.34 "*Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*" as it specifically relates to enterprise funds.

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 assets is displayed as three components; (1) Invested in capital assets, net of related debt, 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, which reflects the remaining net assets balance. Upon board resolution, unrestricted net assets may be designated for debt payment, working capital, contingency reserve, and capital repair and replacement costs. As of June 30, 2011 the District's had not reserved any unrestricted net assets.

Under the provisions of Governmental Accounting Standards Board (GASB) Pronouncement 20, enterprise funds, such as the District has elected to follow all GASB pronouncements, and those Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, except for where they conflict with GASB pronouncements.

***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.



**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. 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 and \$10,000 for years 2012 and 2011.

***Prepaid Expenses***

Certain payments to vendors reflect costs or deposits applicable to future accounting periods and are recorded as prepaid items in the financial statements.

***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
Leasehold improvements	10 years
Drains	100 years
Channels	10 to 50 years

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

*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 (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.

**Note 2. Cash and Investments**

Cash and cash equivalents as of June 30, 2012 and 2011 are classified in the accompanying financial statements as follows:

	<u>2012</u>	<u>2011</u>
Cash on hand	\$ -	\$ -
Deposits with financial institutions	127,812	73,431
Deposits with L.A.I.F.	363,912	362,444
	<hr/>	
Total cash and cash equivalents	\$ 491,724	\$ 435,875

**Note 2. Cash and Investments (continued)*****Investments Authorized by the California Government Code and the District's Investment Policy***

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>
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.

***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).

**Note 2. Cash and Investments (continued)**

***Disclosures Relating to Credit Risk***

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

Investment Type	Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Year End		
				AAA	Aa	Not Rated
California Local Agency Fund	\$363,912	N/A	-	\$ -	\$ -	\$363,912

***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.

**Note 2. Cash and Investments (continued)**

***Custodial Credit Risk (continued)***

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, 2012, 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 the California Government Code 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, 2012 and 2011, the District's deposit with LAIF was \$363,912 and \$362,444, respectively.

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2012 and 2011

**Note 3. Capital Assets**

Major classes of capital assets are as follows for the year ended June 30, 2012:

	<b>Balance June 30, 2011</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	<b>Balance June 30, 2012</b>
Non-depreciable assets:					
Land	\$ 3,087	-	-	-	\$ 3,087
Easements & Rights of Way	100	-	-	-	100
<b>Total non-depreciable assets</b>	<b>3,187</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,187</b>
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	-	-	-	47,159
Leasehold Improvements	15,846	-	-	-	15,846
Drains	277,551	-	-	-	277,551
Channels	116,722	-	-	-	116,722
Information Systems	-	12,118			12,118
Security	348,049	10,254	-	-	358,303
<b>Total depreciable assets</b>	<b>4,041,688</b>	<b>22,372</b>	<b>-</b>	<b>-</b>	<b>4,064,060</b>
Less: accumulated depreciation	(945,586)	(130,167)	-	-	(1,075,753)
<b>Total depreciable assets, net</b>	<b>3,096,102</b>	<b>(107,795)</b>	<b>-</b>	<b>-</b>	<b>2,988,307</b>
<b>Total capital assets, net</b>	<b>\$ 3,099,289</b>	<b>\$ (107,795)</b>	<b>-</b>	<b>-</b>	<b>\$ 2,991,494</b>

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2012 and 2011

**Note 3. Capital Assets (continued)**

Major classes of capital assets are as follows for the year ended June 30, 2011:

	Balance June 30, 2010	Additions	Disposals	Transfers	Balance June 30, 2011
Non-depreciable assets:					
Land	\$ 3,087	-	-	-	\$ 3,087
Easements & Rights of Way	100	-	-	-	100
<b>Total non-depreciable assets</b>	<b>3,187</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,187</b>
Depreciable assets:					
Fences	3,340	-	-	-	3,340
Buildings	149,105	4,460	-	-	153,565
Machinery	2,321	-	-	-	2,321
Sewer Lines & Lateral Lines	173,169	-	-	-	173,169
Oak Tree Lift Station	27,227	12,669	-	-	39,896
New Treatment Plant	2,864,070	-	-	-	2,864,070
Equipment	25,284	21,875	-	-	47,159
Leasehold Improvements	15,846	-	-	-	15,846
Drains	246,908	30,643	-	-	277,551
Channels	116,722	-	-	-	116,722
Security	323,549	24,500	-	-	348,049
<b>Total depreciable assets</b>	<b>3,947,541</b>	<b>94,147</b>	<b>-</b>	<b>-</b>	<b>4,041,688</b>
Less: accumulated depreciation	(811,992)	(133,594)	-	-	(945,586)
<b>Total depreciable assets, net</b>	<b>3,135,549</b>	<b>(39,447)</b>	<b>-</b>	<b>-</b>	<b>3,096,102</b>
<b>Total capital assets, net</b>	<b>\$ 3,138,736</b>	<b>\$ (39,447)</b>	<b>-</b>	<b>-</b>	<b>\$ 3,099,289</b>

Total depreciation expense for utility plant for the years ended June 30, 2012 and 2011 was \$130,167 and \$133,594, respectively.

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2012 and 2011

**Note 4. Long-term Debt**

	<u>2012</u>	<u>2011</u>
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 4.6% and is due in the year 2019 with fixed annual principal and interest payments of \$66,177 beginning June 19, 2008. Net revenues from sanitation operations are pledge for principal and interest payment.	\$ 388,536	\$ 434,716
Total long term-debt	434,716	434,716
Less current maturities of long-term debt	<u>(48,304)</u>	<u>(46,180)</u>
	<u>\$ 340,232</u>	<u>\$ 388,536</u>

Future principal and interest maturities are as follows:

Year	Principal	Interest	Total
2012-13	\$ 48,304	\$ 17,873	\$ 66,177
2013-14	50,526	15,651	66,177
2014-15	52,850	13,327	66,177
2015-16	55,281	10,896	66,177
2016-17	57,824	8,353	66,177
Thereafter	123,751	8,603	132,354
<b>Totals</b>	<b>\$ 388,536</b>	<b>\$ 74,703</b>	<b>\$ 463,239</b>



**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 provides 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 city ordinance. Copies of CalPERS' annual financial report may be obtained from their Executive Office, 400 P Street, Sacramento, CA 95814.

***Funding Policy***

Participants are required to contribute 8% of their annual covered salary. The District is required to contribute at an actuarially determined rate; the rate for fiscal year 2011/2012 was 17.087%, and the current rate is 18.026% of annual covered payroll. The contribution requirements of plan members and the District are established and may be amended by CalPERS.

***Annual Pension Cost***

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

Valuation Date	June 30, 2010
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	17 Years as of the Valuation Date
Asset Valuation Method	15 Year Smoothed Market
Actuarial Assumptions	
Investment Rate of Return	7.75% (net of administrative expenses)
Projected Salary Increases	3.55% to 14.45% depending on Age, Service, and type of employment
Inflation	3.00%
Payroll Growth	3.25%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of 0.25%

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2012 and 2011

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

**Annual Pension Cost (continued)**

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 level percentage of pay over a closed 20-year period. Gains and losses are tracked and amortized over a rolling 30 year period. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30 year amortization period.

**Retirement Plan Four - Year Trend Information**

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
06/30/09	\$ 53,392	100%	\$ -
06/30/10	\$ 48,338	100%	\$ -
06/30/11	\$ 52,489	100%	\$ -
06/30/12	\$ 61,585	100%	\$ -

**Required Supplementary Information  
Schedule of Funding Progress for Multiple-Employer Retirement Plan**

Valuation Date	Entry Age Actuarial Accrued Liability	Actuarial Asset Value	Unfunded Liability	Funded Status	Annual Covered Payroll	Deficit Assets % Payroll
06/30/06	\$ 620,492,183	\$ 501,707,110	\$ (118,785,073)	80.9%	\$ 126,049,770	-94.2%
06/30/07	\$ 699,633,524	\$ 576,069,687	\$ (123,563,837)	82.3%	\$ 139,334,562	-88.7%
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%

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**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 August 3, 2012, the date the financial statements were available to be issued. Management has determined that there are no material events or transactions that would require disclosures in the District's financial statements.