

ANNUAL FINANCIAL REPORT

**PAUMA VALLEY COMMUNITY
SERVICES DISTRICT**

**FOR THE YEARS ENDED
JUNE 30, 2011 AND 2010**



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 balance sheets of Pauma Valley Community Services District as of June 30, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years 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 audits.

We conducted our audits 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 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 audits provide 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, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

Ortega & Konrad, LLP

July 26, 2011

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS For the Years Ended June 30, 2011 and 2010

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, 2011. 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 \$106,134 or 3.3%.
- The District's operating loss was \$179,358. As compared to operating income of \$45,216 in 2009-2010.
- Previously deferred developer fees in the amount \$120,000 were recognized as revenue in the 2009-2010 fiscal year. Without these developer fees, 2009-2010 would have reported an operating loss of \$74,784.
- The District charged \$19,118 in special assessments to certain residences related to the construction of a new rail system at the Oak Tree Lift Station. \$12,670 of the cost related to this construction has been capitalized and is included in the balance sheets.

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, 2011. 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 \$3,135,673 and \$3,241,807 as of June 30, 2011 and 2010, respectively.

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Years Ended June 30, 2011 and 2010**

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, 2011 net assets decreased \$106,134, which is added to the beginning net assets of \$3,241,807, to arrive at ending total net assets of \$3,135,673.

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 a decrease in cash and cash equivalents of \$105,058, which is added to beginning cash and cash equivalents of \$540,933, to arrive at ending cash and cash equivalents of \$435,875. 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, 2011 and 2010

FINANCIAL ANALYSIS AND CONDENSED FINANCIAL INFORMATION

Analysis of Net Assets

Condensed Balance Sheets

ASSETS	2011	2010	Dollar Change	Percent Change
Current and Other Assets	\$ 550,558	\$ 651,271	\$ (100,713)	-15.5%
Capital Assets	3,099,289	3,138,736	(39,447)	-1.3%
Total Assets	\$3,649,847	\$3,790,007	\$ (140,160)	-3.7%
LIABILITIES				
Long-term Debt Outstanding	\$ 434,716	\$ 478,865	\$ (44,149)	-9.2%
Other Liabilities	79,458	69,335	10,123	14.6%
Total Liabilities	514,174	548,200	\$ (34,026)	-6.2%
NET ASSETS				
Invested in Capital Assets				
Net of Related Debt	2,664,573	2,659,871	\$ 4,702	0.2%
Unrestricted	471,100	581,936	(110,836)	-19.0%
Total Net Assets	3,135,673	3,241,807	(106,134)	-3.3%
Total Liabilities and Net Assets	\$3,649,847	\$3,790,007	\$ (140,160)	-3.7%

The condensed statement above presents a summary of the District's Balance Sheets. The District's Net Assets as of June 30, 2011 totaled \$3,135,673 compared with \$3,241,807 as of June 30, 2010, a decrease of 3.3%. 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 \$140,160 or 3.7%. As a result of operating and non-operating activities, the District's overall net assets decreased by \$106,134. The decrease is allocated in part to a \$34,026 decrease in liabilities, mostly as a result of the decrease in long-term debt of \$44,149, the increase in other current liabilities of \$10,123, and the offset by the \$140,160 decrease in total assets.

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended June 30, 2011 and 2010

FINANCIAL ANALYSIS AND CONDENSED FINANCIAL INFORMATION (Continued)

Analysis of Revenues and Expenses

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

REVENUES	2011	2010	Dollar Change	Percent Change
Operating Revenues	\$ 1,203,896	\$ 1,270,717	\$ (66,821)	-5.3%
Non-operating Revenues	95,252	113,862	(18,610)	-16.3%
Total Revenues	\$ 1,299,148	\$ 1,384,579	\$ (85,431)	-6.2%
EXPENSES				
Depreciation Expense	133,594	123,737	9,857	8.0%
Operating Expenses	1,249,660	1,101,764	147,896	13.4%
Non-operating Expense	22,028	23,969	(1,941)	-8.1%
Total Expenses	1,405,282	1,249,470	155,812	12.5%
Change in Net Assets	(106,134)	135,109	(241,243)	-179%
Beginning Net Assets	3,241,807	3,106,698	135,109	4.3%
Ending Net Assets	\$ 3,135,673	\$ 3,241,807	(106,134)	-3.3%

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 \$106,134, as compared to the previous year. The main factors in the change in net assets are as follows: (1) Oak Tree Lift Station service fees of \$19,119, and a sewer rate increase during the year resulting in a combined increase of \$66,821 in operating revenues (2), operating expenses increased by \$147,896 as a result of professional/contract services expenses increasing by \$50,481, salaries and fringe benefits increasing by \$34,621, repairs and maintenance increasing by \$16,233 and other general operating expenses increasing by \$46,561, and (4) Non-operating revenues decreased by \$18,610 due from a decrease in property tax revenue of \$8,372, decrease in bad debt recovery of \$5,000 and a decrease in administrative charges of \$5,238, and non-operating expenses decreased by \$1,941 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, 2011 and 2010

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

Condensed Capital Assets Information

CAPITAL ASSETS	2011	2010	Dollar Change	Percent Change
Land and Easements	\$ 3,187	\$ 3,187	\$ -	0.0%
Buildings and Improvements	172,749	168,289	4,460	2.7%
Machinery and Equipment	397,527	351,153	46,374	13.2%
Treatment Plant	2,864,070	2,864,070	-	0.0%
Infrastructure	607,342	564,029	43,313	7.7%
Sub-total	4,044,875	3,950,728	94,147	2.4%
Less: Accumulated Depreciation	945,586	811,992	(133,594)	-16.5%
Net Capital Assets	\$3,099,289	\$3,138,736	\$ (39,447)	-1.3%

Net capital assets decreased by \$39,447 from the prior year, contributing towards the ending balance of \$3,099,289. This decrease consisted of building improvements, infrastructure, and machinery and equipment replacements in the amount of \$94,147, less current year's depreciation of \$133,594.

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

- Oak Tree Lift Station - new rail system (\$12,670)
- New lift station pump (\$18,982)
- Tukwut Court drain replacement/lining (\$30,643)
- Two new security dogs (\$24,500)
- Computer system (\$950)
- Voicemail system (\$1,942)
- New bathroom, sink, ceiling at plant building (\$4,460)

Long Term Debt

At June 30, 2011 the District had \$434,716 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 \$44,149.

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Years Ended June 30, 2011 and 2010**

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 SHEETS
June 30, 2011 and 2010

ASSETS	Sanitation	Security	Total 2011	Total 2010
CURRENT ASSETS				
Cash and equivalents	\$ 650	\$ 435,225	\$ 435,875	\$ 540,933
Accounts receivable	15,755	24,263	40,018	41,368
Property taxes receivable	5,628	5,628	11,256	15,705
Prepaid expenses	4,949	28,962	33,911	31,839
Other current assets	12,583	16,915	29,498	21,426
Total current assets	39,565	510,993	550,558	651,271
NONCURRENT ASSETS				
Capital Assets (Note 3)	2,968,654	130,635	3,099,289	3,138,736
Total noncurrent assets	2,968,654	130,635	3,099,289	3,138,736
TOTAL ASSETS	\$ 3,008,219	\$ 641,628	\$ 3,649,847	\$ 3,790,007
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Current maturities of long-term debt (Note 4)	\$ 46,180	\$ -	\$ 46,180	\$ 44,149
Accounts payable	11,629	20,314	31,943	29,240
Accrued expenses	21,857	25,658	47,515	40,095
Total current liabilities	79,666	45,972	125,638	113,484
NONCURRENT LIABILITIES				
Long-term debt, net of current portion (Note 4)	388,536	-	388,536	434,716
Total liabilities	468,202	45,972	514,174	548,200
NET ASSETS				
Invested in capital assets, net of related debt	2,533,938	130,635	2,664,573	2,659,871
Unrestricted net assets	6,079	465,021	471,100	581,936
Total net assets	2,540,017	595,656	3,135,673	3,241,807
TOTAL LIABILITIES AND NET ASSETS	\$ 3,008,219	\$ 641,628	\$ 3,649,847	\$ 3,790,007

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

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 Years Ended June 30, 2011 and 2010

	Sanitation	Security	Total 2011	Total 2010
OPERATING REVENUES				
Service fees and charges	\$ 387,771	\$ 816,125	\$ 1,203,896	\$ 1,270,717
OPERATING EXPENSES				
Services:				
Salaries and wages	125,117	259,901	385,018	\$ 340,687
Employee benefits	33,334	87,012	120,346	102,029
Contract services	30,000	247,966	277,966	264,274
Insurance	23,805	34,357	58,162	71,702
Repairs and maintenance	47,076	7,888	54,964	38,731
Other operational expenses	97,822	66,055	163,877	110,793
General and administrative:				
Salaries and wages	14,647	55,102	69,749	91,378
Employee benefits	4,023	15,135	19,158	25,556
Professional services	27,554	19,153	46,707	9,918
Other general and administrative	9,390	44,323	53,713	46,696
Depreciation	94,870	38,724	133,594	123,737
Total operating expenses	507,638	875,616	1,383,254	1,225,501
Operating income (loss)	(119,867)	(59,491)	(179,358)	45,216
NON-OPERATING REVENUES (EXPENSES)				
Interest income	543	1,397	1,940	2,899
Property taxes	42,550	42,550	85,100	93,472
Interest expense	(22,028)	-	(22,028)	(23,969)
Other	2,299	5,913	8,212	17,491
Total non-operating revenues	23,364	49,860	73,224	89,893
Change in net assets	(96,503)	(9,631)	(106,134)	135,109
Net assets at beginning of the year	2,636,520	605,287	3,241,807	3,106,698
NET ASSETS END OF YEAR	\$ 2,540,017	\$ 595,656	\$ 3,135,673	\$ 3,241,807

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

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

STATEMENTS OF CASH FLOWS
Years Ended June 30, 2011 and 2010

	Sanitation	Security	Total 2011	Total 2010
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from users	\$ 399,792	\$ 805,454	\$ 1,205,246	\$ 1,140,375
Cash paid to employees for services	(170,513)	(413,635)	(584,148)	(586,961)
Cash paid to suppliers for goods and services	(239,314)	(421,770)	(661,084)	(504,961)
Net cash provided (used) by operating activities	(10,035)	(29,951)	(39,986)	48,453
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Other non-operating income	44,849	48,463	93,312	102,559
Net cash provided from non-capital financing activities	44,849	48,463	93,312	102,559
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition and construction of capital assets	(69,647)	(24,500)	(94,147)	(18,016)
Principal payments on long-term debt	(44,149)	-	(44,149)	(42,207)
Interest paid	(22,028)	-	(22,028)	(23,969)
Net cash used by capital and related financing activities	(135,824)	(24,500)	(160,324)	(84,192)
CASH FLOWS FROM FINANCING ACTIVITIES				
Interest received on cash deposits	543	1,397	1,940	3,983
Net cash provided from financing activities	543	1,397	1,940	3,983
Net increase (decrease) in cash	(100,467)	(4,591)	(105,058)	70,803
Cash at beginning of year	101,117	439,816	540,933	470,130
CASH AT END OF YEAR	\$ 650	\$ 435,225	\$ 435,875	\$ 540,933

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

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

STATEMENTS OF CASH FLOWS
Years Ended June 30, 2011 and 2010

	Sanitation	Security	Total 2011	Total 2010
CASH FLOWS FROM OPERATING ACTIVITIES				
Operating income (loss)	\$ (119,867)	\$ (59,491)	\$ (179,358)	\$ 45,216
Adjustments to reconcile operating loss to net cash provided (used) by operating activities				
Depreciation	94,870	38,724	133,594	123,737
Deferred revenue earned	-	-	-	(120,000)
Change in assets and liabilities				
(Increase) decrease in:				
Accounts receivable	12,021	(10,671)	1,350	(10,342)
Prepaid expenses	(2,436)	364	(2,072)	1,469
Due from other governmental agency	(1,231)	(2,392)	(3,623)	35,684
Increase (decrease) in:				
Accounts payable	3,195	(492)	2,703	(28,352)
Accrued expenses	3,413	4,007	7,420	1,041
Net cash provided (used) by operating activities	\$ (10,035)	\$ (29,951)	\$ (39,986)	\$ 48,453

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

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2011 and 2010

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 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.

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2011 and 2010

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.

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2011 and 2010

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 \$10,000 for years 2011 and 2010.

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

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2011 and 2010

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, 2011 and 2010 are classified in the accompanying financial statements as follows:

	<u>2011</u>	<u>2010</u>
Cash on hand	\$ -	\$ 116
Deposits with financial institutions	73,431	116,450
Deposits with L.A.I.F.	362,444	424,367
<u>Total cash and cash equivalents</u>	<u>\$ 435,875</u>	<u>\$ 540,933</u>

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2011 and 2010

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).

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2011 and 2010

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	\$362,444	N/A	-	\$ -	\$ -	\$362,444

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.

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2011 and 2010

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, 2011, 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, 2011 and 2010, the District's deposit with LAIF was \$362,444 and \$424,367, respectively.

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2011 and 2010

Note 3. Capital Assets

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
Total non-depreciable assets	3,187	-	-	-	3,187
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
Total depreciable assets	3,947,541	94,147	-	-	4,041,688
Less: accumulated depreciation	(811,992)	(133,594)	-	-	(945,586)
Total depreciable assets, net	3,135,549	(39,447)	-	-	3,096,102
Total capital assets, net	3,138,736	(39,447)	-	-	3,099,289

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2011 and 2010

Note 3. Capital Assets (continued)

Major classes of capital assets are as follows for the year ended June 30, 2010:

	Balance June 30, 2009	Additions	Disposals	Transfers	Balance June 30, 2010
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	149,105	-	-	-	149,105
Machinery	2,321	-	-	-	2,321
Sewer Lines & Lateral Lines	173,169	-	-	-	173,169
Oak Tree Lift Station	27,227	-	-	-	27,227
New Treatment Plant	2,864,070	-	-	-	2,864,070
Equipment	25,284	-	-	-	25,284
Leasehold Improvements	15,846	-	-	-	15,846
Drains	246,908	-	-	-	246,908
Channels	116,722	-	-	-	116,722
Security	305,533	18,016	-	-	323,549
Total depreciable assets	3,929,525	18,016	-	-	3,947,541
Less: accumulated depreciation	(688,255)	(123,737)	-	-	(811,992)
Total depreciable assets, net	3,241,270	(105,721)	-	-	3,135,549
Total capital assets, net	3,244,457	(105,721)	-	-	3,138,736

Total depreciation expense for utility plant for the years ended June 30, 2011 and 2010 was \$133,594 and \$123,737, respectively.

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2011 and 2010

Note 4. Long-term Debt

	<u>2011</u>	<u>2010</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.	<u>434,716</u>	<u>478,865</u>
Total long term-debt	434,716	478,865
Less current maturities of long-term debt	<u>(46,180)</u>	<u>(44,149)</u>
	<u>\$388,536</u>	<u>\$434,716</u>

Future principal and interest maturities are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011-2012	\$ 46,180	\$ 19,997	\$ 66,177
2012-2013	48,304	17,873	66,177
2013-2014	50,526	15,651	66,177
2014-2015	52,850	13,327	66,177
2015-2016	55,281	10,896	66,177
Thereafter	<u>181,575</u>	<u>16,955</u>	<u>198,530</u>
	<u>\$ 434,716</u>	<u>\$ 94,699</u>	<u>\$ 529,415</u>

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2011 and 2010

Note 5. Defined Benefit Pension Plan - CalPERS

Plan Description

The District contributes to the California Public Employees Retirement Systems (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS 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 PERS' 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 2010/2011 was 15.143%, and the current rate is 17.087% of annual covered payroll. The contribution requirements of plan members and the District are established and may be amended by PERS.

Annual Pension Cost

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

Valuation Date	June 30, 2009
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	7.75% (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, 2011 and 2010

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
6/30/08	\$50,158	100%	\$ 0
6/30/09	\$53,392	100%	\$ 0
6/30/10	\$48,338	100%	\$ 0
6/30/11	\$52,489	100%	\$ 0

Required Supplementary Information

Schedule of Funding Progress for Multiple-Employer Retirement Plan

Valuation Date	Entry Age Actuarial Accrued Liability	Actuarial Asset Value	Unfunded Liability (Excess Assets)	Funded Status	Annual Covered Payroll	Excess Assets % Payroll
6/30/05	\$499,323,280	\$405,480,805	\$ (93,842,475)	81.2%	\$108,618,321	(86.4) %
6/30/06	\$620,492,183	\$501,707,110	\$(118,785,073)	80.9%	\$126,049,770	(94.2) %
6/30/07	\$699,633,524	\$576,069,687	\$(123,593,837)	82.3%	\$139,334,562	(88.7) %
6/30/08	\$776,166,719	\$641,167,624	\$(134,999,095)	82.6%	\$155,115,302	(81.5) %
6/30/09	\$883,394,429	\$694,384,975	\$(189,009,454)	78.6%	\$161,972,631	(116.7) %

PAUMA VALLEY COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2011 and 2010

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 26, 2011, 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.