

**PARADISE IRRIGATION DISTRICT
PARADISE, CALIFORNIA
ANNUAL FINANCIAL REPORT AND
SUPPLEMENTARY INFORMATION
WITH
INDEPENDENT AUDITOR'S REPORTS
THEREON
JUNE 30, 2021**

PARADISE IRRIGATION DISTRICT

Annual Financial Report
Year Ended June 30, 2021

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Paradise Irrigation District
Paradise, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Paradise Irrigation District (District), as of and for the year ended June 30, 2021, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the California State Controller's *Minimum Audit Requirements for California Special Districts*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District, as of June 30, 2021, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the California State Controller's Office and state regulations governing special districts.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedule of changes in net other post-employment benefits liability listed in the table of contents 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 the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Board of Directors
Paradise Irrigation District
Paradise, California

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 23, 2022, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Fechter & Company
Certified Public Accountants

A handwritten signature in cursive script that reads "Fechter & Company, CPAs". The signature is written in dark ink and is positioned below the printed name of the firm.

Sacramento, California
February 23, 2022

PARADISE IRRIGATION DISTRICT

Management's Discussion and Analysis (Unaudited) For the Year Ended June 30, 2021

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Paradise Irrigation District (District) provides an introduction to the financial statements of the District for the fiscal year ended June 30, 2021. We encourage readers to consider the information presented here in conjunction with the basic financial statements and related notes, which follow this section.

Financial Highlights

- In 2021, the District's net position increased 48.89% or \$10,519,213 from \$21,514,669 to \$32,033,882.
- The District's operating revenues decreased 4.46% or \$162,535 from \$3,642,703 to \$3,480,168.
- The District's operating expenses decreased 12.03% or \$1,139,709 from \$9,472,895 to \$8,333,186.

Required Financial Statements

This annual report consists of a series of financial statements. The Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, and Statement of Cash Flows provide information about the activities and performance of the District using accounting methods similar to those used by private sector companies.

The Statement of Net Position includes all of the District's investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for computing a rate of return, evaluating the capital structure of the District, and assessing the liquidity and financial flexibility of the District. All of the current year's revenue and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Position. This statement measures the success of the District's operations over the past year and can be used to determine if the District has successfully recovered all of its costs through its rates and other charges. This statement can also be used to evaluate profitability and credit worthiness. The final required financial statement is the Statement of Cash Flows, which provides information about the District's cash receipts and cash payments during the reporting period. The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, noncapital financing, and capital and related financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Analysis of the District

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the District in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

PARADISE IRRIGATION DISTRICT

Management's Discussion and Analysis (Unaudited) For the Year Ended June 30, 2021

These two statements report the District's *net position* and changes in the net position. You can think of the District's net position – the difference between assets and liabilities – as one way to measure the District's financial health or *financial position*. Over time, *increases or decreases* in the District's net position are one indicator of whether its *financial health* is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, zoning, and new or changed government legislation, such as changes in Federal and State water quality. The District's annual budget is based on a cash basis. This allows the Board to make annual decisions based on the District's cash reserves, and not just their effect on Net Position.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Statement of Net Position

| | 2021 | 2020 | Change |
|--------------------------------------|----------------------|----------------------|----------------------|
| Assets: | | | |
| Current assets | \$ 15,023,382 | \$ 8,530,764 | \$ 6,492,618 |
| Capital assets - net of depreciation | 26,430,199 | 22,240,195 | 4,190,004 |
| Total Assets | <u>41,453,581</u> | <u>30,770,959</u> | <u>10,682,622</u> |
| Deferred Outflows of Resources: | <u>627,763</u> | <u>685,350</u> | <u>(57,587)</u> |
| Liabilities: | | | |
| Current liabilities | 4,485,742 | 3,344,166 | 1,141,576 |
| Non-current liabilities | 5,398,010 | 6,421,986 | (1,023,976) |
| Total Liabilities | <u>9,883,752</u> | <u>9,766,152</u> | <u>117,600</u> |
| Deferred Inflows of Resources: | <u>163,710</u> | <u>175,488</u> | <u>(11,778)</u> |
| Net Position: | | | |
| Net investment in capital assets | 21,835,065 | 16,832,150 | 5,002,915 |
| Unrestricted | 10,198,817 | 4,682,519 | 5,516,298 |
| Total Net Position | <u>\$ 32,033,882</u> | <u>\$ 21,514,669</u> | <u>\$ 10,519,213</u> |

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$32,033,882 as of June 30, 2021.

One of the largest portions of the District's net position (68.16% as of June 30, 2021) reflects the District's investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to customers within the District's service area; consequently, these assets are *not* available for future spending.

At the end of fiscal year 2021, the District showed a positive balance in its unrestricted net position of \$10,198,817.

PARADISE IRRIGATION DISTRICT

Management's Discussion and Analysis (Unaudited) For the Year Ended June 30, 2021

Statement of Revenues, Expenses, and Changes in Net Position

| | 2021 | 2020 | Change |
|---|-----------------------------|-----------------------------|-----------------------------|
| Revenues: | | | |
| Operating revenues | \$ 3,480,168 | \$ 3,642,703 | \$ (162,535) |
| Non-operating revenues | 797,001 | 552,782 | 244,219 |
| Total Revenues | <u>4,277,169</u> | <u>4,195,485</u> | <u>81,684</u> |
| Expenses: | | | |
| Operating expenses excluding depreciation | 7,278,396 | 8,602,636 | (1,324,240) |
| Depreciation | 1,054,790 | 870,259 | 184,531 |
| Non-operating expenses | 119,548 | 137,848 | (18,300) |
| Total Expenses | <u>8,452,734</u> | <u>9,610,743</u> | <u>(1,158,009)</u> |
| Net Loss Before Extraordinary Items | (4,175,565) | (5,415,258) | 1,239,693 |
| Extraordinary items | <u>15,208,726</u> | <u>12,372,053</u> | <u>2,836,673</u> |
| Change in Net Position | 11,033,161 | 6,956,795 | 4,076,366 |
| Net Position, Beginning of Year, restated | <u>21,000,721</u> | <u>14,557,874</u> | <u>6,442,847</u> |
| Net Position, End of Year | <u><u>\$ 32,033,882</u></u> | <u><u>\$ 21,514,669</u></u> | <u><u>\$ 10,519,213</u></u> |

The statement of revenues, expenses, and changes in net position shows how the District's net position changed during the fiscal year. Net position increased by \$10,519,213 for the fiscal year ended June 30, 2021.

A closer examination of the sources of changes in net position reveals that in 2021, the District's total revenues increased by \$81,684 and total expenses decreased by \$1,158,009.

Operating Revenues

| | 2021 | 2020 | Change |
|--------------------------|----------------------------|----------------------------|----------------------------|
| Operating Revenues | | | |
| Service fee | \$ 3,014,546 | \$ 2,492,597 | \$ 521,949 |
| Quantity charge | (44) | (918) | 874 |
| Fees & adjustments | 17,856 | 12,164 | 5,692 |
| Outside water sales | 126,556 | 105,350 | 21,206 |
| Recreation fees | 79,073 | 103,494 | (24,421) |
| Backflow charges | - | 560 | (560) |
| Meter charges | 242,181 | 929,456 | (687,275) |
| Total Operating Revenues | <u><u>\$ 3,480,168</u></u> | <u><u>\$ 3,642,703</u></u> | <u><u>\$ (162,535)</u></u> |

PARADISE IRRIGATION DISTRICT

Management's Discussion and Analysis (Unaudited) For the Year Ended June 30, 2021

In 2021, operating revenues decreased by \$162,535 or 4.46%. In 2021, operating revenues decreased by \$162,535 or 4.46%. While service fee revenue increased by \$522k, this increase was offset primarily by \$687k decrease in meter charge revenues related to billings for interim water devices installed by the District. The interim water device is a backflow unit that is required to be installed on burned properties before water service is returned to that property. This service was approved by the Board of Directors on May 3, 2019, in response to the November 2018 Camp Fire. This service was offered for the entirety of the current fiscal year. In the final quarter of the fiscal year, the board authorized credits to be applied to customers' accounts for prior purchase of backflow devices. The amount of the credits issued will be reimbursed by FEMA through the Meter Replacement Project.

Operating Expenses

| | 2021 | 2020 | Change |
|--------------------------|---------------------|---------------------|-----------------------|
| Operating Expenses | | | |
| Salaries and benefits | \$ 3,594,432 | \$ 3,603,273 | \$ (8,841) |
| Professional fees | 1,731,724 | 2,555,729 | (824,005) |
| Depreciation | 1,054,790 | 870,259 | 184,531 |
| Other | 1,952,240 | 2,443,634 | (491,394) |
| Total Operating Expenses | <u>\$ 8,333,186</u> | <u>\$ 9,472,895</u> | <u>\$ (1,139,709)</u> |

In 2021, operating expenses decreased by \$1,139,709, or 12.03%. This was primarily due to a decrease in Other Operating Expenses because of a reduced number of emergency response requests. Professional fees decreased due to the reduced need of recovery related engineering and project management services and a decrease in costs associated with sampling the distribution system for contamination resulting from the 2018 Camp Fire.

Capital Asset Administration

At the end of fiscal years 2021, the District's investment in capital assets amounted to \$26,430,199 (net of accumulated depreciation). This investment in capital assets includes land, land rights, transmission and distribution systems, wells, tanks, reservoirs, pumps, buildings and structures, equipment, vehicles and construction-in-process, etc. There were numerous capital asset additions in fiscal year 2021.

Changes in capital asset amounts for 2021 were as follows:

| | Balance 7/1/2020 | Additions | Transfers/ Deletions | Balance 6/30/2021 |
|---|----------------------|---------------------|-------------------------|----------------------|
| Capital Assets: | | | | |
| Non-depreciable assets | \$ 5,769,456 | \$ 372,073 | \$ - | \$ 6,141,529 |
| Depreciable assets - cost | 37,758,308 | 4,872,721 | - | 42,631,029 |
| Accumulated depreciation and amortization | (21,287,569) | (1,054,790) | - | (22,342,359) |
| Total Capital Assets, Net | <u>\$ 22,240,195</u> | <u>\$ 4,190,004</u> | <u>\$ -</u> | <u>\$ 26,430,199</u> |

For additional information on capital assets, refer to Note 3.

PARADISE IRRIGATION DISTRICT

Management's Discussion and Analysis (Unaudited) For the Year Ended June 30, 2021

Debt Administration

Changes in long-term debt amounts for 2021 were as follows:

| | Balance 7/1/2020 | Additions | Retirements | Balance 6/30/2021 |
|-------------------------------------|---------------------|-------------|---------------------|----------------------|
| Long-term Debt: | | | | |
| 2016 Private Placement Loan Payable | \$ 1,961,000 | \$ - | \$ (296,000) | \$ 1,665,000 |
| CIEBD Loan Payable | 1,035,645 | - | - | 1,035,645 |
| 2017 Private Placement Loan Payable | 2,520,700 | - | (541,200) | 1,979,500 |
| Total | <u>\$ 5,517,345</u> | <u>\$ -</u> | <u>\$ (837,200)</u> | <u>\$ 4,680,145</u> |

For additional information on long-term debt, refer to Note 4.

Conditions Affecting Current Financial Position

The District is still building following the devastation of the Camp Fire. Refer to Note 13 – Extraordinary Items and Note 15 – Evaluation of Subsequent Events in the notes to the financial statements for further details. 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.

Requests for Information

This financial report is designed to provide the District's funding sources, customers, stakeholders, and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the District's Finance and Accounting Manager/Treasurer at 6332 Clark Road, Paradise, CA 95967 or by phone (530) 877-4971.

**PARADISE IRRIGATION DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2021**

| | <u>2021</u> |
|--|-----------------------------|
| ASSETS | |
| Current Assets: | |
| Cash and cash equivalents | \$ 13,318,498 |
| Accounts receivable | 533,811 |
| Insurance proceeds receivable | 375,680 |
| Other receivables | 359,393 |
| Prepaid expenses | 167,358 |
| Inventories | 268,642 |
| Total current assets | <u>15,023,382</u> |
| Non-Current Assets: | |
| Capital assets - net of accumulated depreciation | <u>26,430,199</u> |
| Total non-current assets | <u>26,430,199</u> |
| TOTAL ASSETS | <u>41,453,581</u> |
| DEFERRED OUTFLOW OF RESOURCES | |
| Gain from debt refunding | 85,011 |
| Deferred other post employment benefits | <u>542,752</u> |
| TOTAL DEFERRED OUTFLOW OF RESOURCES | <u>627,763</u> |
| LIABILITIES | |
| Current Liabilities: | |
| Accounts payable | 1,068,663 |
| Accrued payroll liabilities | 111,644 |
| Unearned revenue | 884,487 |
| Accrued interest | 18,315 |
| Funds held for others | 541,680 |
| Deposits | 417,136 |
| Compensated absences liability | 428,617 |
| Current portion of long-term debt | 1,015,200 |
| Total current liabilities | <u>4,485,742</u> |
| Non-Current Liabilities: | |
| Long-term debt - net of current portion | 3,664,945 |
| Other post employment benefits | <u>1,733,065</u> |
| Total non-current liabilities | <u>5,398,010</u> |
| TOTAL LIABILITIES | <u>9,883,752</u> |
| DEFERRED INFLOW OF RESOURCES | |
| Deferred other post employment benefits | <u>163,710</u> |
| NET POSITION | |
| Net investment in capital assets | 21,835,065 |
| Unrestricted | <u>10,198,817</u> |
| TOTAL NET POSITION | <u><u>\$ 32,033,882</u></u> |

The accompanying notes are an integral part of these financial statements.

PARADISE IRRIGATION DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2021

| | 2021 |
|--|-----------------------------|
| OPERATING REVENUES: | |
| Water sales and service | \$ 3,032,358 |
| Outside water sales | 126,556 |
| Other operating revenues | 321,254 |
| Total operating revenues | <u>3,480,168</u> |
| OPERATING EXPENSES: | |
| Salaries and benefits | 3,594,432 |
| Supplies | 594,581 |
| Office | 163,151 |
| Utilities | 239,659 |
| Repairs and maintenance | 221,505 |
| Gas and oil | 63,725 |
| Insurance | 139,287 |
| Training | 33,590 |
| Service charges | 48,387 |
| Professional fees | 1,731,724 |
| License and fees | 146,579 |
| Other | 301,776 |
| Depreciation | 1,054,790 |
| Total operating expenses | <u>8,333,186</u> |
| Operating loss | <u>(4,853,018)</u> |
| Non-operating revenues and (expenses): | |
| Loss on investments | (319) |
| Interest income | 66,674 |
| Interest expense | (119,548) |
| Property taxes and assessments | 317,000 |
| Connection fees | 171,285 |
| Other income | 242,361 |
| Total non-operating revenues | <u>677,453</u> |
| Net loss before extraordinary items | <u>(4,175,565)</u> |
| Extraordinary items: | |
| State backfill funding | 7,374,330 |
| Insurance reimbursements | 5,443,911 |
| Cal OES grants | 2,390,485 |
| Total extraordinary items | <u>15,208,726</u> |
| Change in net position | <u>11,033,161</u> |
| Beginning net position | 21,514,669 |
| Prior period adjustment | (513,948) |
| Beginning net position, restated | <u>21,000,721</u> |
| Ending net position | <u><u>\$ 32,033,882</u></u> |

The accompanying notes are an integral part of these financial statements.

**PARADISE IRRIGATION DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2021**

| | <u>2021</u> |
|--|-----------------------------|
| Cash flows from operating activities: | |
| Cash received from customers for water sales | \$ 3,551,598 |
| Cash received from others | 301,779 |
| Cash paid to suppliers | (3,709,062) |
| Cash paid to employees | (3,523,544) |
| Net cash used by operating activities | <u>(3,379,229)</u> |
| Cash flows from non-capital financing activities: | |
| Payment on funds held for others | (13,540) |
| Taxes and assessments received | 317,000 |
| State backfill funding | 7,374,330 |
| Other revenue received | 242,361 |
| Net cash provided by non-capital financing activities | <u>7,920,151</u> |
| Cash flows from capital and related financing activities: | |
| Purchase of capital assets | (5,244,794) |
| Insurance reimbursements | 5,068,231 |
| Government grants | 2,390,485 |
| Principal payments on long-term debt | (837,200) |
| Interest paid | (98,974) |
| Connection fees | 171,285 |
| Net cash provided by capital and related financing activities | <u>1,449,033</u> |
| Cash flows from investing activities: | |
| Sale of investment | 100,165 |
| Interest received | 66,674 |
| Net cash provided by investing activities | <u>166,839</u> |
| Net increase in cash and cash equivalents | 6,156,794 |
| Cash and cash equivalents, beginning of year | <u>7,161,704</u> |
| Cash and cash equivalents, end of year | <u><u>\$ 13,318,498</u></u> |

The accompanying notes are an integral part of these financial statements.

PARADISE IRRIGATION DISTRICT
STATEMENT OF CASH FLOWS (Continued)
FOR THE YEAR ENDED JUNE 30, 2021

| | <u>2021</u> |
|---|------------------------------|
| Reconciliation of operating loss to net cash | |
| used by operating activities: | |
| Operating loss | \$ (4,853,018) |
| Adjustments to reconcile operating loss to net | |
| cash used by operating activities: | |
| Depreciation | 1,054,790 |
| Changes in assets and liabilities: | |
| Accounts receivable | (63,031) |
| Other receivables | (19,475) |
| Prepaid expenses | 28,898 |
| Inventories | (7,020) |
| Unearned revenue | 370,539 |
| Accounts payable | (46,976) |
| Customer deposits | 85,176 |
| Salaries payable | 812 |
| Compensated absences liability | (38,668) |
| Post-employment benefit obligations | <u>108,744</u> |
| Net cash used by operating activities | <u><u>\$ (3,379,229)</u></u> |

The accompanying notes are an integral part of these financial statements.

PARADISE IRRIGATION DISTRICT

Notes to the Financial Statements For the Year Ended June 30, 2021

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Paradise Irrigation District (District) conform to generally accepted accounting principles as they apply to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting financial reporting principles. The District's significant accounting policies are described below.

Financial Reporting Entity

The District was established as an independent enterprise special district in March 1916 under the California Water Code. The District is a public water utility district and therefore, falls under the guidelines of a special district governmental entity. The District is governed by a five member Board of Directors that are elected by the voting citizens of the town of Paradise, California.

The District stores, treats, transports, and distributes water to the residents of the Paradise, California community. The primary source of revenues for the District is water service and sales.

The District entered into an agreement with the Town of Paradise (Town) in 1991 for fire hydrant maintenance. The District collects fees from metered customers as defined by the Town. The District is required to use these funds for installation and maintenance of hydrants in the Town. The District reports the amount as funds held for others on the financial statements.

These financial statements present the financial data of Paradise Irrigation District and its component unit, Paradise Irrigation District Public Facilities Financing Corporation. Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt, or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable, but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete.

Paradise Irrigation District Public Facilities Financing Corporation (the Corporation) was incorporated in January 1993. The Corporation is a nonpublic benefit corporation whose primary purpose is to provide assistance to the District by financing acquisition, construction, and installation of public facilities for use of the District. Separate financial statements for the Corporation are not issued. The Corporation had no activity for the year ended June 30, 2021.

PARADISE IRRIGATION DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2021

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basic Financial Statements

These financial statements are presented in accordance with GASB Statement No. 34 *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* (GASB No. 34). The District is engaged only in business-type activities and is required to present the financial statements required for enterprise funds which are part of proprietary funds.

Basis of Presentation

Proprietary funds account for activities of the District similar to those found in the private sector, where cost recovery and the determination of net income are useful or necessary for sound fiscal management. The focus of proprietary fund measurement is upon the determination of operating income, changes in net position, financial position and cash flows. Currently enterprise funds are the only type of proprietary fund that the District uses.

Measurement Focus and Basis of Accounting

The statement of net position and statement of revenues, expenses, and changes in fund net position are reported using the flow of economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been made. Such revenue is subject to review by the funding agency, which may result in disallowance in subsequent periods.

All of the District's activities are accounted for in a single proprietary or business-type fund. Proprietary funds distinguish operating revenues and expenses from non-operating items and capital contributions. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as either non-operating revenues and expenses or capital contributions.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the District's cash and cash equivalents include restricted and unrestricted cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

PARADISE IRRIGATION DISTRICT

Notes to the Financial Statements For the Year Ended June 30, 2021

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Restricted Assets

The restricted cash and cash equivalents are certain resources set aside for repayment of debt obligations and are classified as restricted assets on the Statement of Net Position, because they are maintained in separate bank accounts and their use is limited by applicable debt covenants. There were no restricted assets as of June 30, 2021.

Receivables

Accounts receivable consists of amounts due on water services from customers. Delinquent receivables are submitted annually to the Butte County Tax Assessor to be encumbered on secured property tax bills. As a result of the process, no doubtful account allowance was deemed necessary on June 30, 2021. Other receivables consist primarily of grants receivable for expenses incurred on pipeline projects.

Inventory

Inventories consist primarily of materials and supplies used in the maintenance and improvement of the District's water distribution system. Inventories are valued at cost using an average price method. Inventories are expensed when the resources are used.

Prepaid Expenses

Certain payments for insurance and to other vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the statement of net position and expensed as the items are used.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the financial statements. Capital assets are defined by the District as assets with an initial individual cost of \$10,000 and a useful life of three years or more. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at estimated fair market value on the date donated.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest is capitalized on assets acquired with debt. The amount of interest to be capitalized is offset by the interest earned on invested debt proceeds over the construction period.

PARADISE IRRIGATION DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2021

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Capital Assets - continued

Depreciation on all capital assets is computed using a straight-line basis over the estimated useful lives of the various classes of depreciable capital assets as follows:

| | |
|--------------------------------------|---------------|
| Dams and Property | 25 – 75 years |
| Recreation Facilities | 7 – 10 years |
| Pumping Plant | 25 years |
| Water Treatment Plant | 7 – 40 years |
| Transmission and Distribution System | 25 – 35 years |
| General Plant and Office Facilities | 5 – 10 years |
| Vehicles | 5 – 10 years |

Compensated Absences Liability

Vacation and sick leave is accumulated for District employees at varying amounts per year depending on length of employment. Upon termination of employment the District will pay out vacation at 100% of accumulated amounts and sick leave at varying amounts from 25% to 75%, depending on the length of employment. The District has accrued a liability for accrued vacation and sick leave that has been earned but not taken by District employees.

Long-Term Debt

Obligations with terms over one year are reported as long-term obligations. Long-term debt consists primarily of Certificates of Participation and other notes related to capital asset additions.

Certificates of Participation premiums and discounts are deferred and amortized over the life of the issuance. Gains or losses on prior refundings are amortized over the remaining life of the debt.

Net Position

Net position in the proprietary fund financial statements are classified as net investment in capital assets, restricted, and unrestricted. Restricted net position represents constraints on resources that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through State statute.

PARADISE IRRIGATION DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2021

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Net Position - continued

Net position classified as net investment in capital assets consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Unrestricted net position consists of net position that does not meet the definition of “restricted” or “net investment in capital assets”. When both restricted and unrestricted net assets are available for use, it is the District’s policy to use restricted resources first, then unrestricted resources as they are needed.

Operating Revenues and Expenses

Operating revenues and expenses generally result from providing services in connection with the District’s principal ongoing operations, which is water sales and services. Operating expense for the District includes the cost of services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Property Tax Revenue

Butte County is responsible for assessing, collecting, and apportioning property taxes. Property taxes are recognized as revenues in the year they are levied to the extent that they result in current receivables. Property taxes attach as an enforceable lien on property as of January 1. Property taxes are levied on July 1 and are payable in two installments, December 10 and April 10. Property taxes are remitted to the District in installments during the year.

Unbilled Service Revenues

Operating revenues for the District include sales of water. These revenues are billed to customers monthly. Unbilled revenue is recorded based on usage as of June 30, 2021, that is billed during the month of July 2021. Unbilled revenue in the amount of \$565,959 is included in revenues for the year ended June 30, 2021.

Facility Contributions

Facility contributions are comprised of water system property and facilities that have been donated to the District. Amounts are recorded in the year they are received.

PARADISE IRRIGATION DISTRICT

Notes to the Financial Statements For the Year Ended June 30, 2021

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 2: CASH AND INVESTMENTS

Cash and investments at June 30, 2021, consist of the following:

| | |
|------------------------------|----------------------|
| Petty cash | \$ 468 |
| Demand deposits | 185,820 |
| Local Agency Investment Fund | <u>13,132,210</u> |
| Total Cash and Investments | <u>\$ 13,318,498</u> |

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The California Government Code and the District's investment policy do not contain legal or policy requirements limiting exposure to custodial risk for deposits or investments. The California Government Code requires that a bank secures deposits made by state and local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2021, all of the District's deposits in excess of the federal depository insurance limits were collateralized as required by law. As of June 30, 2021, the carrying amount of the District's deposits, were \$185,820, and the bank balances were \$409,377.

Investments

Investments are reported at fair value. The Local Agency Investment Fund (LAIF) is a special fund for the California State Treasury through which local governments may voluntarily pool investments. For the purpose of these financial statements, the fair value of amounts in LAIF is equivalent to dollars held.

The District has adopted a formal investment policy as required by Section 53600 of the California Government Code. The District's Treasurer has responsibility for selecting depositories and investing idle funds in accordance with the adopted investment policy.

PARADISE IRRIGATION DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2021

NOTE 2: CASH AND INVESTMENTS – CONTINUED

Investments - continued

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code 53601 through 53659 and contractual agreements. Investments held by the bond/COP fiscal agents (trustees) are governed by the provisions of the various debt indenture agreements rather than the general provisions of the District's investment policy or the California Government Code.

The table below identifies the investment types that are authorized by the District's investment policy:

| | Maximum Maturity | Maximum Specified Percentage of Portfolio | Minimum Quality Requirements |
|-------------------------------------|---------------------|--|------------------------------------|
| Local Agency Bonds | 5 Years | None | None |
| U.S. Treasury Obligations | 5 Years | None | None |
| State Obligations - CA and Others | 5 Years | None | None |
| CA Local Agency Obligations | 5 Years | None | None |
| U.S. Agency Obligations | 5 Years | None | None |
| Bankers' Acceptances | 180 Days | 0.4 | None |
| Commercial Paper - Select Agencies | 270 Days | 0.25 | A-1/P-F-1 |
| Negotiable Certificates of Deposit | 5 Years | 0.3 | None |
| CD Placement Service | 5 Years | 0.3 | None |
| Repurchase Agreements | 1 Year | None | None |
| Reverse Repurchase Agreements | 92 Days | 20% of Base | None |
| Medium-Term Notes | 5 Years | 0.3 | "A" Rating |
| Mutual Funds and Money Market | N/A | 0.2 | Multiple |
| Funds Collateralized Bank Deposits | 5 Years | None | None |
| Mortgage Pass-Through Securities | 5 Years | 0.2 | "AA" Rating |
| Bank/Time Deposits | 5 Years | None | None |
| County Pooled Investment Funds | N/A | None | None |
| Joints Powers Authority Pool | N/A | None | Multiple |
| Local Agency Investment Fund (LAIF) | N/A | None | None |

Credit Risk

California Government Code Section 53601 limits investments in commercial paper to "prime" quality of the highest ranking or of the highest letter and numerical rating as provided by Nationally Recognized Statistical Rating Organizations (NRSROs), and limits investments in medium-term notes to a rating of A or better. The District has no investment policy that would further limit its investment choices. The District's investment in the local agency investment pool is unrated. As of June 30, 2021, the District's investments were in compliance with the ratings required by the District's investment policy and the Bond/COP Indenture Agreements.

PARADISE IRRIGATION DISTRICT

Notes to the Financial Statements For the Year Ended June 30, 2021

NOTE 2: CASH AND INVESTMENTS – CONTINUED

Interest Rate Risk

California Government Code Section 53601 limits the District's investments to maturities of five years. The District manages its exposure to interest rate risk by purchasing a combination of shorter and longer-term investments. The District also manages cash flows by purchasing investments so that the portfolio is maturing evenly over time to provide adequate cash flow and liquidity needed for District operations.

NOTE 3: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2021, is shown below:

| | Balance 7/1/2020 | Additions | Deletions | Balance 6/30/2021 |
|--|---------------------|--------------|-----------|----------------------|
| Capital assets, not being depreciated: | | | | |
| Land | \$ 2,071,692 | \$ - | \$ - | \$ 2,071,692 |
| Construction in progress | 3,697,764 | 372,073 | - | 4,069,837 |
| Total capital assets, not being depreciated | 5,769,456 | 372,073 | - | 6,141,529 |
| Capital assets, being depreciated: | | | | |
| Dams & dam property | 7,499,150 | - | - | 7,499,150 |
| Recreation facilities | 202,868 | - | - | 202,868 |
| Pumping plant | 509,260 | - | - | 509,260 |
| Water treatment plant | 19,312,259 | 52,207 | - | 19,364,466 |
| Transmission and distribution system | 4,548,538 | 4,415,998 | - | 8,964,536 |
| General plant | 3,259,058 | 389,853 | - | 3,648,911 |
| Vehicles | 1,209,321 | - | - | 1,209,321 |
| Office facilities | 1,217,854 | 14,663 | - | 1,232,517 |
| Total capital assets, being depreciated | 37,758,308 | 4,872,721 | - | 42,631,029 |
| Less accumulated depreciation for: | | | | |
| Dams & dam property | 5,162,450 | 86,505 | - | 5,248,955 |
| Recreational facilities | 185,434 | 5,890 | - | 191,324 |
| Pumping plant | 416,126 | 8,570 | - | 424,696 |
| Water treatment plant | 11,542,191 | 488,459 | - | 12,030,650 |
| Transmission and distribution system | 1,416,718 | 260,145 | - | 1,676,863 |
| General plant | 880,325 | 150,011 | - | 1,030,336 |
| Vehicles | 1,157,590 | 30,151 | - | 1,187,741 |
| Office facilities | 526,735 | 25,059 | - | 551,794 |
| Total accumulated depreciation | 21,287,569 | 1,054,790 | - | 22,342,359 |
| Total capital assets, being depreciated, net | 16,470,739 | 3,817,931 | - | 20,288,670 |
| Capital assets, net of depreciation | \$ 22,240,195 | \$ 4,190,004 | \$ - | \$ 26,430,199 |

Depreciation expense for the year ended June 30, 2021 totaled \$1,054,790.

PARADISE IRRIGATION DISTRICT

Notes to the Financial Statements For the Year Ended June 30, 2021

NOTE 4: LONG-TERM DEBT

Long-term debt at June 30, 2021, consisted of the following:

| | |
|--|----------------------------|
| 2016 Private Placement Loan Payable to Capital One Public Funding, LLC with principal and interest payments at 2.42% due semi-annually in November and May. The loan is due in November 2028. | \$ 1,665,000 |
| Loan payable to the California Infrastructure and Economic Development Bank, with principal payments due annually in September and interest payable semi-annually at 2.77%. The note is due in September 2027. | 1,035,645 |
| 2017 Private Placement Loan Payable to Branch Banking and Trust Company with principal and interest payments at 2.28% due semi-annually in October and April. The loan is due in October 2024. | <u>1,979,500</u> |
| Subtotal | 4,680,145 |
| Less: Current Portion | <u>(1,015,200)</u> |
| Long-Term Debt, Net of Current Portion | <u><u>\$ 3,664,945</u></u> |

A schedule of changes in long-term debt is shown below:

| | Balance July 1, 2020 | Additions | Retirements | Balance June 30, 2021 | Due Within One Year |
|--|-------------------------|-------------|---------------------|--------------------------|------------------------|
| 2016 Private Placement Loan Payable | \$ 1,961,000 | \$ - | \$ (296,000) | \$ 1,665,000 | \$ 205,000 |
| CIEBD Loan Payable | 1,035,645 | - | - | 1,035,645 | - |
| 2017 Private Placement Loan Payable | 2,520,700 | - | (541,200) | 1,979,500 | 810,200 |
| Total | <u>\$ 5,517,345</u> | <u>\$ -</u> | <u>\$ (837,200)</u> | <u>\$ 4,680,145</u> | <u>\$1,015,200</u> |

PARADISE IRRIGATION DISTRICT

Notes to the Financial Statements For the Year Ended June 30, 2021

NOTE 4: LONG-TERM DEBT- CONTINUED

Annual requirements to amortize long-term debt outstanding as of June 30, 2021, are as follows:

| <u>Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------------------------|---------------------|-------------------|---------------------|
| 2022 | \$ 1,015,200 | \$ 81,045 | \$ 1,096,245 |
| 2023 | 771,300 | 57,534 | 828,834 |
| 2024 | 789,000 | 39,546 | 828,546 |
| 2025 | 345,044 | 28,926 | 373,970 |
| 2026 | 317,955 | 27,529 | 345,484 |
| 2027-2031 | 1,158,753 | 53,317 | 1,212,070 |
| 2032-2035 | 282,893 | 8,120 | 291,013 |
| Total | <u>\$ 4,680,145</u> | <u>\$ 296,016</u> | <u>\$ 4,976,161</u> |

NOTE 5: FUNDS HELD FOR OTHERS

On June 5, 1991, the District entered into an agreement with the Town of Paradise Fire Department (Town) to collect a surcharge to maintain hydrants. This agreement was amended in 1999 to include pre-approved relocation and/or replacement of water mains. The agreement was most recently amended on July 1, 2004, to address changes in administrative fees charged by the District. Funds collected and not expended or returned to the Town are reflected as a liability. The amount owed to the Town at June 30, 2021, was \$541,680.

NOTE 6: DEFERRED COMPENSATION AND MONEY PURCHASE RETIREMENT PLANS

The District participates in a 457 Deferred Compensation Plan and 401(a) Money Purchase Retirement Plan, both of which are administered by the ICMA Retirement Corporation for the benefit of its employees. The District's manager has a separate 401(a) plan administered by the ICMA Retirement Corporation. The purpose of these programs is to provide deferred compensation for employees that elect to participate in the plans. Generally, eligible employees may defer receipt of a portion of their salary until termination, retirement, death, or unforeseen emergency. The District will contribute 9% of the employees' base pay to the 457 Plan and will match up to 3% of the employees' elected deferral into the 401(a) Plan. Employees may elect to defer up to 3% of their base pay to the 457 Plan. The District's retirement contribution expense for the year ended June 30, 2021, was \$240,746.

PARADISE IRRIGATION DISTRICT

Notes to the Financial Statements For the Year Ended June 30, 2021

NOTE 7: POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (OPEB)

Plan Description

The District provides post-employment health care benefits to eligible employees through a single employer defined benefit health care plan administered by the District. The District provides post-employment health care benefits to all employees who retire from the District on or after attaining the age of 55 with at least 20 years of service in the District. The District provides medical benefits to retirees and their qualified dependents until normal full Medicare benefits become available for the employee. The District will contribute a percentage of the cost based on their age plus their years of service as follows: 75 = 50%; 80 = 75%; and 85+ = 100%. The difference in District contribution and like coverage shall be borne by the retiree.

On June 30, 2021, 6 retirees met these eligibility requirements and were participants. The District currently has 29 additional active employees who may become eligible to retire and receive benefits in the future.

Funding Policy

While GASB Statement 75 requires that the liability for all post-employment benefits be measured, it does not require that an agency “pre-fund” the accrued liability. The District will pay for the post-employment healthcare cost on a “pay-as-you-go” basis. The provisions of GASB Statement 75 determine the amount that must be presented as an annual expense and accrued liability on the District’s financial statements. The contributions made on behalf of the plan members for the year ended June 30, 2021 were \$100,494.

The District’s net OPEB liability was measured as of June 30, 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2021.

Net OPEB Liability

Actuarial assumptions. The total OPEB liability was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

| | |
|----------------------------|--------------|
| Assumed retirement age | 62 |
| Discount rate * | 2.20 percent |
| Salary increases | 2.75 percent |
| Healthcare cost trend rate | 4.00 percent |

* The discount rate is based on an index of 20-year General Obligation municipal bonds rated AA or higher.

PARADISE IRRIGATION DISTRICT

Notes to the Financial Statements For the Year Ended June 30, 2021

NOTE 7: POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (OPEB) - CONTINUED

Changes in the Net OPEB Liability

The table below shows the changes in the total OPEB liability, the Plan Fiduciary Net Position, and the net OPEB liability during the measurement period ending on June 30, 2021 for the District.

| | Total OPEB Liability (a) | Plan Fiduciary Net Position (b) | Net OPEB Liability (Asset) (c) = (a) - (b) |
|--|--------------------------------|--|--|
| Balance at June 30, 2020 | \$ 1,645,841 | \$ - | \$ 1,645,841 |
| Changes recognized for the measurement period: | | | |
| Service cost | 145,138 | - | 145,138 |
| Interest | 36,700 | - | 36,700 |
| Change in assumptions | 5,880 | - | 5,880 |
| Employer contributions | - | 100,494 | (100,494) |
| Benefit payments | (100,494) | (100,494) | - |
| Net Changes | 87,224 | - | 87,224 |
| Balance at June 30, 2021 | \$ 1,733,065 | \$ - | \$ 1,733,065 |

Sensitivity of the District's Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.50 percent) or 1-percentage-point higher (4.50 percent) than the current discount rate:

| | 1% Decrease 2.50% | Discount Rate 3.50% | 1% Increase 4.50% |
|---|----------------------|------------------------|----------------------|
| District's proportionate share of the net OPEB liability | \$ 1,870,726 | \$ 1,733,065 | \$ 1,604,198 |

PARADISE IRRIGATION DISTRICT

Notes to the Financial Statements For the Year Ended June 30, 2021

NOTE 7: POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (OPEB) - CONTINUED

Sensitivity of the District's Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage-point lower (3 percent) or 1 percentage-point higher (5 percent) than the current healthcare cost trend rates:

| | Healthcare Cost Trend - 1% | Healthcare Cost Trend Assumed | Healthcare Cost Trend + 1% |
|---|-------------------------------|----------------------------------|-------------------------------|
| District's proportionate share of the net OPEB liability | \$ 1,518,078 | \$ 1,733,065 | \$ 1,994,994 |

NOTE 8: RISK MANAGEMENT

The District is exposed to various risks including loss or damage to property, general liability, and injuries to employees. The District participates in a public entity risk pool as a member of the Association of California Water Agencies Joint Powers Insurance Authority (ACWA/JPIA). Each ACWA/JPIA member agency shares surpluses and deficits proportionally to their participation. The District pays retrospectively rated annual premiums to ACWA/JPIA for its insurance coverage and has met all obligations since participation began. Requests for additional financial information should be addressed to ACWA/JPIA, P.O. Box 619082, Roseville, CA 95661-9082.

NOTE 9: UNEARNED REVENUE

As of June 30, 2021, the District had a balance of \$884,487 in unearned revenue that consisted of the following:

| | |
|--|-------------------|
| Community Power Resiliency Grant | \$ 269,200 |
| North Valley Community Disaster Grant | 24,542 |
| Customer refunds for backflow devices purchased in FY 20-21 | 76,797 |
| Customer refunds for backflow devices purchased in prior years | <u>513,948</u> |
| Total Unearned Revenue | <u>\$ 884,487</u> |

NOTE 10: PRIOR PERIOD ADJUSTMENT

During the year, a prior period adjustment of \$513,948 was recorded to reflect an overstatement of meter charges in prior years for revenue earned on backflow devices that will be reimbursed by FEMA and will be credited to customers for future water services. The offset to this adjustment is unearned revenue. See Note 9 above.

PARADISE IRRIGATION DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2021

NOTE 11: CONTINGENCIES

National Pollutant Discharge Elimination System (NPDES) Permit Program

The United States Environmental Protection Agency operates the National Pollutant Discharge Elimination System (NPDES) permit program. The NPDES has notified the District that certain aluminum levels in the water system are higher than allowed under the permit. Fines have been assessed but the District was able to offset the fines with proof of money spent on correcting the problem. The District is in the design phase of system modifications to correct the problem. The District has estimated that the cost of the project will be approximately \$17,500,000 and will be completed over the next few years. The District is in the process of exploring financing opportunities for the project.

Water Rights

The District contracted for a review of its water use under its Appropriative Water Rights Permits in preparation for the filing of its Petitions for Extension of Time with the State Water Board in December 2007. The resulting consultant report presented to the District Board on July 18, 2007, revealed certain permit compliance exceptions. These exceptions are potentially subject to civil liability by the State Water Board. The State Water Board enforcement division has historically not prosecuted permit exceptions unless harm has been shown to another user of water, typically brought to the Board's attention in related proceedings. However, even where enforcement action is taken, liability imposed is mitigated by factual circumstances, including the extent of harm caused, the nature and persistence of the violation, the length of time over which the violation occurs, and the corrective action taken. No user of water has come forward claiming harm and the District has taken corrective action regarding the permit compliance exceptions.

Upon re-evaluation, the District believes that there have been no exceptions to its permit compliance, as the water exceedances can be accounted for through the use of recycled water within the District's water system. The District's Petitions for Extension of Time, within which is to perfect its water rights permits, are still pending before the California State Water Board. The risk of enforcement action still exists, but liability exposure should be minimal due to the District's accounting for the permit exceedances.

At this time, the District is still in the process of completing its environmental work on the water rights permit extensions. Once completed, the environmental analysis will be published for public review and comment, including review by the State Water Board. An actual decision on the granting of the District's petition for extension of its water rights permits will likely take several more years due to the backlog of pending petitions with the State Water Board.

PARADISE IRRIGATION DISTRICT

Notes to the Financial Statements For the Year Ended June 30, 2021

NOTE 11: CONTINGENCIES - CONTINUED

Grants

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

NOTE 12: COMMITMENTS

As of June 30, 2021, the District is committed under numerous construction contracts. The total amount of the contracts was \$32,763,392. As of June 30, 2021, the District has paid \$10,056,080 on the contracts. The remaining liability of the District for the construction projects at June 30, 2021, was \$22,707,312.

NOTE 13: EXTRAORDINARY ITEMS

On November 8, 2018, the Camp Fire, the most destructive wildfire in California State history, swept through the Town of Paradise and destroyed roughly 90 percent of the Town's residences and businesses. This resulted in significant damages to the District's capital assets and material effects to the District's future revenue and finances. Based on an initial assessment of damages to the main pipelines and service lines, the District has estimated the replacement cost of the transmission and distribution system damages to be approximately \$76,900,000, which includes estimated costs of \$29,500,000 to replace the damages to the main pipelines and estimated costs of \$47,400,000 to replace the damages to the service lines.

The District received insurance proceeds of \$5,443,911 for the year ending June 30, 2021, related to the District's business interruption claim and claims for damages relating to the Camp Fire. The District also received state backfill funding of \$7,374,330 from the California Department of Finance to assist in recovery efforts. In addition, the District received federal grants from the California Office of Emergency Services in the amount of \$2,390,485 related to reimbursements for costs incurred during emergency response efforts following the 2018 Camp Fire.

NOTE 14: COVID-19 CONSIDERATIONS

In January 2020, the virus SARS-CoV-2 was transmitted to the United States from overseas sources. This virus, responsible for the Coronavirus disease COVID-19, has proven to be extremely virulent. Although the financial impact on the District thus far has been minimal, the long-term economic impact in the State of California and the County of Butte, as yet has not been determined. Therefore, any potential impact on the District is not yet known.

PARADISE IRRIGATION DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2021

NOTE 15: EVALUATION OF SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 23, 2022, the date which the financial statements were available to be issued. Based upon this evaluation, except for the following, it was determined that no other subsequent events occurred that require recognition or additional disclosure in the financial statements.

The District is actively working with Federal, State, and local partners, as well as insurance, to secure funding for long-term recovery projects. Through December 2021 following the close of the fiscal year ending June 30, 2021, the District received \$5,228,242 in recovery related expense reimbursements from the Federal Emergency Management Agency and California Governor's Office of Emergency Services. The District is also working with insurance and the State of California to secure short term backfills of lost revenue. Additionally, the District has filed a claim against the Pacific Gas and Electric Company for property damages and long-term lost revenues. The outcome of the pending claim is currently unknown.

The District is actively working to repair the damage incurred as a result of the November 2018 Camp Fire with both internal crews and outside contractors as part of a long-term recovery plan. During the fiscal year ending June 30, 2020 the District entered into a contract for public assistance related to the recovery process with a not to exceed amount of \$758,663. The not to exceed amount was increased by \$527,680 during the fiscal year ending June 30, 2022.

REQUIRED SUPPLEMENTARY INFORMATION

**PARADISE IRRIGATION DISTRICT
REQUIRED SUPPLEMENTAL INFORMATION (UNAUDITED)
SCHEDULE OF CHANGES IN NET OPEB LIABILITY
FOR THE YEAR ENDED JUNE 30, 2021**

Last 10 Fiscal years*

| | 2021 | 2020 | 2019 | 2018 |
|---|---------------------|---------------------|---------------------|---------------------|
| Net OPEB liability | | | | |
| Service cost | \$ 145,138 | \$ 113,016 | \$ 104,029 | \$ 101,245 |
| Interest | 36,700 | 43,032 | 39,610 | 39,837 |
| Change in assumptions | 5,880 | 593,909 | 22,404 | - |
| Experience (Gains)/Losses | - | (187,266) | - | - |
| Benefit payments | (100,494) | (127,473) | (70,227) | (50,765) |
| Net change in Net OPEB liability | 87,224 | 435,218 | 95,816 | 90,317 |
| Net OPEB liability - beginning, restated | 1,645,841 | 1,210,623 | 1,114,807 | 1,024,490 |
| Net OPEB liability - ending | <u>\$ 1,733,065</u> | <u>\$ 1,645,841</u> | <u>\$ 1,210,623</u> | <u>\$ 1,114,807</u> |
| Covered payroll | \$ 2,354,609 | \$ 2,470,125 | \$ 2,632,738 | \$ 2,470,326 |
| Net OPEB liability (asset) as a percentage of covered payroll | 73.60% | 66.63% | 45.98% | 45.13% |
| Plan fiduciary net position as a percentage of the total OPEB liability | 0.00% | 0.00% | 0.00% | 0.00% |

* Fiscal year ended June 30, 2018 was the first year of implementation.
Additional years will be presented as they become available.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors
Paradise Irrigation District
Paradise, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Paradise Irrigation District (District) as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 23, 2022.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we considered to be material weaknesses. However, material weaknesses may exist that we have not identified.

Board of Directors
Paradise Irrigation District
Paradise, California

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Fechter & Company,
Certified Public Accountants

A handwritten signature in cursive script that reads "Fechter & Company, CPAs".

Sacramento, California
February 23, 2022

OTHER INFORMATION

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

Board of Directors
Paradise Irrigation District
Paradise, California

Report on Compliance for Each Major Federal Program

We have audited Paradise Irrigation District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Paradise Irrigation District's major federal programs for the year ended June 30, 2021. Paradise Irrigation District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Paradise Irrigation District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Paradise Irrigation District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Paradise Irrigation District's compliance.

Board of Directors
Paradise Irrigation District
Paradise, California

Opinion on Each Major Federal Program

In our opinion, Paradise Irrigation District's complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

Report on Internal Control over Compliance

Management of the Paradise Irrigation District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Paradise Irrigation District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Paradise Irrigation District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified no material weaknesses.

Board of Directors
Paradise Irrigation District
Paradise, California

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Fechter & Company,
Certified Public Accountants

A handwritten signature in cursive script that reads "Fechter & Company, CPAs". The signature is written in dark ink and is positioned above the printed name and address of the firm.

Sacramento, California
February 23, 2022

PARADISE IRRIGATION DISTRICT

Schedule of Expenditures of Federal Awards
For the Year Ended
June 30, 2021

| <u>Federal Grantor/Pass-through Grantor/Program Title</u> | <u>Pass-through Entity Identifying Number</u> | <u>CFDA Number</u> | <u>Expenditures</u> |
|---|---|------------------------|----------------------------|
| <u>The Department of Homeland Security</u> | | | |
| Passed through Governor's Office of Emergency Services: | | | |
| Public Assistance Grant | FEMA-4407-DR-CA/Cal OES ID: 083-97036 | 97.036 | <u>\$ 6,347,703</u> |
| Total Department of Homeland Security | | | |
| Total Expenditures | | | <u><u>\$ 6,347,703</u></u> |

See accompanying notes to the Schedule of Expenditures of Federal Awards

PARADISE IRRIGATION DISTRICT

Notes to the Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2021

NOTE 1: BASIS OF PRESENTATION

The Paradise Irrigation District (the District) is an independent division of local government, authorized by California Health and Safety Code Sections 13800-13970. All significant operations of the District are included in the scope of the Uniform Guidance audit (the "Single Audit"). The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District's, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the District.

The Federal Emergency Management Agency has been designated as the District's cognizant agency for the Single Audit.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

For purposes of this report, certain accounting procedures were followed which help illustrate the authorizations and expenditures of the individual programs. The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting. All authorizations represent the total allotments or grant awards received. All expenses and capital outlays are reported as expenditures. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Any Federal funds expended in excess of Federal funds received are recorded as a receivable from the grantor agency and any Federal funds received in excess of Federal funds expended are recorded as a payable to the grantor agency.

NOTE 3: INDIRECT COST RATE

The District has elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

PARADISE IRRIGATION DISTRICT

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2021**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

| | |
|---|------------|
| Type of auditor’s report issued: | Unmodified |
| Internal control over financial reporting: | |
| Material weakness(es) identified? | No |
| Significant deficiencies identified not considered to be material weaknesses? | No |
| Noncompliance material to financial statements noted? | No |

Federal Awards

| | |
|---|------------|
| Type of auditor’s report issued on compliance for Major programs | Unmodified |
| Any audit findings disclosed that are required to be reported in accordance with Uniform Grant Guidance, at 1 CFR Part 200.515 (d)(1)(vi) | No |
| Identification of Major Program: | |
| Public Assistance Grant CFDA No. 97.036 | |
| Dollar threshold used to distinguish between Type A and Type B Programs: | \$750,000 |
| Auditee qualified as low-risk auditee? | Yes |

Section II- FINANCIAL STATEMENT FINDING

None reported

Section III- FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None reported

Section IV- PRIOR YEAR FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None reported