

**PARADISE IRRIGATION DISTRICT**

**ANNUAL AUDIT REPORT**

**June 30, 2013**

**Title & Company, LLP**

PARADISE IRRIGATION DISTRICT  
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JUNE 30, 2013

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**FINANCIAL SECTION**

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TIMOTHY A. TITTLE, CPA ■ HEIDI M. COPPIN, CPA

## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Paradise Irrigation District  
Paradise, California

### Report on the Financial Statements

We have audited the accompanying financial statements of Paradise Irrigation District (the District), as of and for the year ended June 30, 2013, 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.

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *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, 2013, 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 State Controller's Office and State regulations governing special districts.



TIMOTHY A. TITTLE, CPA ■ HEIDI M. COPPIN, CPA

## INDEPENDENT AUDITORS' REPORT

Continued

### 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 funding progress for other postemployment benefits plan 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 Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2014, 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.

*Title + Company, LLP*

Chico, California  
January 25, 2014

**PARADISE IRRIGATION DISTRICT  
MANAGEMENT'S DISCUSSION & ANALYSIS (UNAUDITED)  
JUNE 30, 2013**

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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 years ended June 30, 2013. 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 2013, the District's net position increased by \$424,667 from \$31,359,002 to \$31,783,669.
- The District's operating revenues increased by \$439,791 from \$6,052,061 to \$6,491,852.
- The District's operating expenses increased by 7.82% or \$492,013 in 2013.

**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 Fund 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.

These two statements report the District's *net position* and changes in them. 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 Districts cash reserves, not just the effect of net position.

**PARADISE IRRIGATION DISTRICT  
MANAGEMENT'S DISCUSSION & ANALYSIS (UNAUDITED)  
JUNE 30, 2013**

**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**

	<u>2013</u>	<u>2012</u>	<u>Change</u>
<b>Assets:</b>			
Current Assets	\$ 4,875,305	\$ 7,981,648	\$ (3,106,343)
Noncurrent Assets	1,941,085	558,442	1,382,643
Capital Assets - net of depreciation	38,441,965	37,738,214	703,751
<b>Total Assets</b>	<u>\$ 45,258,355</u>	<u>\$ 46,278,304</u>	<u>\$ (1,019,949)</u>
<b>Liabilities:</b>			
Current Liabilities	2,317,412	1,252,617	1,064,795
Noncurrent Liabilities	11,157,274	13,666,685	(2,509,411)
<b>Total Liabilities</b>	<u>13,474,686</u>	<u>14,919,302</u>	<u>(1,444,616)</u>
<b>Net Position:</b>			
Net Investment in Capital Assets	26,377,969	24,342,515	2,035,454
Restricted for Debt Service	1,109,999	1,109,999	-
Restricted for Capacity Fees	1,586,360	1,610,993	(24,633)
Unrestricted	2,709,341	4,295,495	(1,586,154)
<b>Total Net Position</b>	<u>31,783,669</u>	<u>31,359,002</u>	<u>424,667</u>
<b>Total Liabilities and Net Position</b>	<u>\$ 45,258,355</u>	<u>\$ 46,278,304</u>	<u>\$ (1,019,949)</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 exceeded liabilities by \$31,783,669 as of June 30, 2013.

One of the largest portions of the District's net position (83% as of June 30, 2013) 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 2013, the District showed a positive balance in its unrestricted net position of \$2,709,341.

**Statement of Revenues, Expenses and Changes in Net Position**

	<u>2013</u>	<u>2012</u>	<u>Change</u>
<b>Revenues:</b>			
Operating Revenues	\$ 6,491,852	\$ 6,052,061	\$ 439,791
Nonoperating Revenues	998,736	872,395	126,341
<b>Total Revenues</b>	<u>7,490,588</u>	<u>6,924,456</u>	<u>566,132</u>
<b>Expenses:</b>			
Operating Expenses	4,832,626	4,345,449	487,177
Depreciation and Amortization	1,947,235	1,942,399	4,836
Nonoperating Expenses	492,810	513,026	(20,216)
<b>Total Expenses</b>	<u>7,272,671</u>	<u>6,800,874</u>	<u>471,797</u>
<b>Net Income before Capital Contributions</b>	<u>217,917</u>	<u>123,582</u>	<u>94,335</u>
Capital Contributions:	206,750	38,780	167,970
<b>Change in Net Position</b>	<u>424,667</u>	<u>162,362</u>	<u>262,305</u>
<b>Net Position, Beginning of Year</b>	<u>31,359,002</u>	<u>31,196,640</u>	<u>162,362</u>
<b>Net Position, End of Year</b>	<u>\$ 31,783,669</u>	<u>\$ 31,359,002</u>	<u>\$ 424,667</u>

The statement of revenues, expenses and changes of net position shows how the District's net position changed during the fiscal years. In the case of the District, net position increased by \$424,667 for the fiscal year ended June 30, 2013.

**PARADISE IRRIGATION DISTRICT  
MANAGEMENT'S DISCUSSION & ANALYSIS (UNAUDITED)  
JUNE 30, 2013**

A closer examination of the sources of changes in net position reveals that:

In 2013, the District's total revenues increased by \$566,132 due to a water rate increase of 3% and water consumption increase of 20% due to weather conditions in the current fiscal year. In addition, total expenses increased by \$471,797. This is due to an increase in salaries and structures in the current fiscal year. Salaries increased due to cost of living adjustment of 3%, adding a new treatment plant superintendent, and paying out accrued vacation and sick leave to two long-term employees. Structures increased due to reassignment of District staff from capital pipeline projects to maintenance of the current system.

**Operating Revenues**

	<u>2013</u>	<u>2012</u>	<u>Change</u>
Operating Revenues			
Service Fee	\$ 4,152,804	\$ 4,019,456	\$ 133,348
Quantity Charge	2,060,403	1,697,204	363,199
Fees & Adjustments	89,343	84,328	5,015
Outside Water Sales	121,120	187,073	(65,953)
Recreation Fees	34,981	33,827	1,154
Escrow Fees	12,429	11,280	1,149
Backflow Charges	20,000	18,280	1,720
Meter Charges	772	613	159
<b>Total Operating Revenue</b>	<u>\$ 6,491,852</u>	<u>\$ 6,052,061</u>	<u>\$ 439,791</u>

In 2013, operating revenues increased by \$439,791. This is due to water sales increasing by \$363,199 and service fees increasing by \$133,348.

**Operating Expenses**

	<u>2013</u>	<u>2012</u>	<u>Change</u>
Operating Expenses			
Salaries and Benefits	\$ 3,458,666	\$ 3,147,498	\$ 311,168
Supplies	195,779	199,770	(3,991)
Utilities	280,810	222,791	58,019
Structures	317,293	203,960	113,333
Outside	171,595	149,787	21,808
Professional	224,995	249,849	(24,854)
Other	183,488	171,794	11,694
Depreciation & Amortization	1,947,235	1,942,399	4,836
<b>Total Operating Expenses</b>	<u>\$ 6,779,861</u>	<u>\$ 6,287,848</u>	<u>\$ 492,013</u>

In 2013, operational expenses increased by \$492,013, as explained above.

**Capital Asset Administration**

At the end of fiscal year 2013, the District's investment in capital assets amounted to \$38,441,965 (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 2013; the largest being the corporation yard construction in progress. The corporation yard increased \$1,106,096 in the current fiscal year. The District also rehabilitated a tank for \$413,568.

**PARADISE IRRIGATION DISTRICT  
MANAGEMENT'S DISCUSSION & ANALYSIS (UNAUDITED)  
JUNE 30, 2013**

Changes in capital asset amounts for 2013 were as follows:

	<b>Balance 6/30/2012</b>	<b>Additions</b>	<b>Transfers/ Deletions</b>	<b>Balance 6/30/2013</b>
Capital Assets				
Non-Depreciable Assets	\$ 3,387,719	\$ 1,843,279	\$ (25,394)	\$ 5,205,604
Depreciable Assets	58,318,051	784,795	-	59,102,846
Accumulated Depreciation and Amortization	(23,967,556)	(1,898,929)	-	(25,866,485)
<b>Total Capital Assets, Net</b>	<b>\$ 37,738,214</b>	<b>\$ 729,145</b>	<b>\$ (25,394)</b>	<b>\$ 38,441,965</b>

**Debt Administration**

In 2013 long-term debt decreased by \$1,273,584, due to normally scheduled principal payments on the District's long-term debt.

Changes in long-term debt amounts for 2013 were as follows:

	<b>Balance 6/30/2012</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance 6/30/2013</b>
Davis-Grunsky	\$ 795,568	\$ -	\$ 151,354	\$ 644,214
Davis-Grunsky Deferred interest	67,883	-	13,576	54,307
Department of Water Resources	1,172,870	-	322,060	850,810
Water revenue refunding bonds	-	-	-	-
CIEDB loan payable	1,682,346	-	84,989	1,597,357
City National Bank loan payable	3,059,415	-	126,799	2,932,616
Certificates of Participation 2009	5,555,000	-	85,000	5,470,000
2011 Refinance	1,130,500	-	561,500	569,000
<b>Subtotal</b>	<b>13,463,582</b>	<b>-</b>	<b>1,345,278</b>	<b>12,118,304</b>
Less: Water Revenue deferred bond cost	(142,025)	-	(74,100)	(67,925)
Certificates of Participation Premium	28,862	-	2,406	26,456
<b>Total</b>	<b>\$ 13,350,419</b>	<b>\$ -</b>	<b>\$ 1,273,584</b>	<b>\$ 12,076,835</b>

**Conditions Affecting Current Financial Position**

Management is unaware of any 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 Chief Financial Officer/Treasurer at 6332 Clark Road, Paradise, CA 95967 or by phone (530) 877-4971.

PARADISE IRRIGATION DISTRICT  
STATEMENT OF NET POSITION  
JUNE 30, 2013

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**ASSETS**

**Current Assets**

Cash and cash equivalents	\$	2,235,437
Restricted cash and cash equivalents		910,654
Investments		191,256
Prepaid expenses		100,975
Accounts receivable		930,835
Other receivables		296,550
Inventories		200,340
Note receivable		9,258
<b>Total Current Assets</b>		<b>4,875,305</b>

**Noncurrent Assets**

Debt issuance costs - net of amortization		187,326
Investments		1,440,147
Note receivable		313,612
Capital assets - net of depreciation		38,441,965
<b>Total Noncurrent Assets</b>		<b>40,383,050</b>

**Total Assets**

**\$ 45,258,355**

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

PARADISE IRRIGATION DISTRICT  
STATEMENT OF NET POSITION  
JUNE 30, 2013

<b>LIABILITIES</b>	
<b>Current Liabilities</b>	
Accounts payable	\$ 97,062
Accrued payroll liabilities	344,480
Accrued interest	102,750
Retainers payable	32,798
Funds held for others	355,158
Deposits	75,639
Current portion of long-term debt	1,309,525
<b>Total Current Liabilities</b>	<b>2,317,412</b>
<b>Noncurrent Liabilities</b>	
Long-term debt - net of current portion	10,767,310
Other postemployment benefits obligation	389,964
<b>Total Noncurrent Liabilities</b>	<b>11,157,274</b>
<b>Total Liabilities</b>	<b>\$ 13,474,686</b>
<b>NET POSITION</b>	
Net investment in capital assets	\$ 26,377,969
Restricted for:	
Debt service	1,109,999
Capacity fees	1,586,360
Unrestricted	2,709,341
<b>Total Net Position</b>	<b>\$ 31,783,669</b>

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

**PARADISE IRRIGATION DISTRICT  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES  
IN FUND NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2013**

<b>OPERATING REVENUES</b>	
Water sales and service	\$ 6,302,550
Outside water sales	121,120
Other operating revenues	68,182
<b>TOTAL OPERATING REVENUES</b>	<b>6,491,852</b>
<b>OPERATING EXPENSES</b>	
Salaries and benefits	3,458,666
Supplies	195,779
Office	197,438
Utilities	280,810
Repairs and maintenance	119,855
Gas and oil	76,049
Rents	30,000
Insurance	77,969
Training	27,188
Service charges	38,720
Professional fees	224,995
License and fees	66,438
Other	38,719
Depreciation and amortization	1,947,235
<b>TOTAL OPERATING EXPENSES</b>	<b>6,779,861</b>
<b>OPERATING LOSS</b>	<b>(288,009)</b>
<b>NONOPERATING REVENUE (EXPENSES)</b>	
Loss on investments	(12,982)
Interest income	94,228
Interest expense	(479,828)
Property taxes and assessments	436,141
Connection fees	72,934
Grant revenues	290,715
Other income	104,718
<b>TOTAL NONOPERATING REVENUE (EXPENSES)</b>	<b>505,926</b>
<b>INCOME BEFORE CAPITAL CONTRIBUTIONS</b>	<b>217,917</b>
<b>FACILITY CONTRIBUTIONS</b>	<b>206,750</b>
<b>CHANGE IN NET POSITION</b>	<b>424,667</b>
<b>NET POSITION - JULY 1, 2012</b>	<b>31,359,002</b>
<b>NET POSITION - JUNE 30, 2013</b>	<b>\$ 31,783,669</b>

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

**PARADISE IRRIGATION DISTRICT  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2013**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Received from customers for water sales	\$ 6,250,717
Received from others	68,182
Paid to suppliers of goods and services	(1,379,977)
Paid for employee salaries and benefits	(3,459,641)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>1,479,281</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Payments on funds held for others	57,409
Taxes and assessments received	413,712
Grant revenues received	290,715
Other revenue received	104,718
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	<b>866,554</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Acquisition of capital assets	(2,325,076)
Principal payments on long-term debt	(1,347,684)
Interest paid	(482,870)
Contract retentions paid	(217,496)
Connection fees	72,934
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>(4,300,192)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest received	94,228
Principal received on note receivable	8,617
Investment transactions	571,716
<b>NET CASH USED BY INVESTING ACTIVITIES</b>	<b>674,561</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(1,279,796)</b>
<b>CASH AND CASH EQUIVALENTS - JULY 1, 2012</b>	<b>4,425,887</b>
<b>CASH AND CASH EQUIVALENTS - JUNE 30, 2013</b>	<b>\$ 3,146,091</b>

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

**PARADISE IRRIGATION DISTRICT  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2013**

<b>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Operating loss	\$ (288,009)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	1,898,929
Amortization	48,306
Increase in accounts receivable	(85,202)
Increase in other receivables	(93,207)
Increase in prepaid expenses	(1,765)
Decrease in inventory	4,886
Increase in accounts payable	(9,138)
Decrease in customer deposits	5,456
Decrease in salaries payable	(74,673)
Increase in employment benefit obligations	73,698
<b>CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 1,479,281</b>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET POSITION</b>	
Cash and cash equivalents - unrestricted	\$ 2,235,437
Cash and cash equivalents - restricted	910,654
Cash and cash equivalents	<b>\$ 3,146,091</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>	
Non-cash transactions during the year:	
Donated property	\$ 206,750
Capitalized interest	\$ 70,854

*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, 2013

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**NOTE 1. Significant Accounting Policies**

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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.

**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. As defined by GASBS No. 14, component units are legally separate entities that are included in the District's reporting entity because of the significance of their operating or financial relationships with the District.

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. Although legally separate, the Corporation is reported as part of the District. Separate financial statements for the Corporation are not issued. The Corporation had no activity for the year ended June 30, 2013.

**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.

**PARADISE IRRIGATION DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

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**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.

**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.

**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, 2013. 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.

**PARADISE IRRIGATION DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

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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. Construction period interest incurred and capitalized for the year ended June 30, 2013, amounted to \$70,854.

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	5 - 10 years
Vehicles	5 -10 years
Office Facilities	5 -10 years

**Compensated Absences**

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. The accrued liability is included in the accrued payroll liabilities at June 30, 2013.

**Retainers Payable**

Retainers payable represents amounts retained for a portion of construction costs. These amounts will be sent to the contractors when the projects are completed and approved by the District.

**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 represent 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, 2013**

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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”.

**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 on 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, 2013, that is billed during the month of July 2013. Unbilled revenue in the amount of \$625,229 is included in revenues for the year ended June 30, 2013.

**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.

**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.

**Impact of Recently Issued Accounting Standards**

For the year ended June 30, 2013, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 63. Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, provides financial reporting guidance for deferred outflows and inflows of resources, originally introduced and defined in GASB Concepts Statement No. 4, Elements of Financial Statements, as a consumption of net assets applicable to a future reporting period and an acquisition of net asset applicable to a future reporting period, respectively. Further, Concepts Statement No. 4 also identifies net position as the residual of all other elements presented in a statement of financial position.

PARADISE IRRIGATION DISTRICT  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2013

In March 2012, the GASB issued Statement 65, *Items Previously Reported as Assets and Liabilities*. GASB 65 establishes accounting and financial reporting standards that reclassify as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. This statement is effective for periods beginning after December 15, 2012. Management is currently evaluating the impact of the adoption of this Statement on the District's financial statements.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, with required implementation for the Authority during the 2014-15 fiscal year. The statement establishes standards that will improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The District has not yet determined the effect this statement will have on its financial statements.

**NOTE 2. CASH AND INVESTMENTS**

Cash and investments are reported in the accompanying financial statements as follows:

Cash and cash equivalents	\$ 2,235,437
Restricted cash and cash equivalents	910,654
<b>Total Cash and Cash Equivalents</b>	<b>3,146,091</b>
Investments	1,631,403
<b>Total Cash and Investments</b>	<b>\$ 4,777,494</b>

Cash and investments at June 30, 2013, consist of the following:

Petty cash	\$ 1,000
Demand deposits	2,795,017
Local Agency Investment Fund	350,074
Investments	1,631,403
<b>Total Cash and Investments</b>	<b>\$ 4,777,494</b>

**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 secure 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.

**PARADISE IRRIGATION DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

As of June 30, 2013, all of the District's deposits in excess of the federal depository insurance limits were collateralized as required by law. As of June 30, 2013, the carrying amount of the District's deposits, were \$2,795,017, and the bank balances were \$3,094,593.

**Investments**

As of June 30, 2013, the District had the following investments:

<u>Investment Description</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>	
		<u>Less than 1</u>	<u>1 to 5</u>
Money Market	\$ 12,185	\$ 12,185	\$ -
Certificates of Deposit	629,768	-	629,768
Corporate Bonds	499,164	101,445	397,719
Municipal Bonds	490,286	77,626	412,660
<b>Total Investments</b>	<b>\$ 1,631,403</b>	<b>\$ 191,256</b>	<b>\$ 1,440,147</b>

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.

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.

**PARADISE IRRIGATION DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

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

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Specified Percentage of Portfolio</u>	<u>Minimum Quality Requirements</u>
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	40%	None
Commercial Paper - Select Agencies	270 Days	25%	A-1/P-F-1
Negotiable Certificates of Deposit	5 Years	30%	None
CD Placement Service	5 Years	30%	None
Repurchase Agreements	1 Year	None	None
Reverse Repurchase Agreements	92 Days	20% of Base	None
Medium-Term Notes	5 Years	30%	"A" Rating
Mutual Funds and Money Market Funds	N/A	20%	Multiple
Collateralized Bank Deposits	5 Years	None	None
Mortgage Pass-Through Securities	5 Years	20%	"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, 2013, the District's investments were in compliance with the ratings required by the District's investment policy and the Bond/COP Indenture Agreements.

There is a potential concentration of credit risk if more than 5% of the entity's investments are with any one issuer. Other than U.S. Treasury securities, mutual funds, and external investment pools, the District may be exposed to credit risk in corporate securities of two issuers that held over 5% of the total District investments as of June 30, 2013. The District had corporate notes with Berkshire Hathaway with a total of \$154,881 and Anheuser Busch with a total of \$104,633, as of June 30, 2013.

**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.

PARADISE IRRIGATION DISTRICT  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2013

**NOTE 3. NOTE RECEIVABLE**

Note receivable at June 30, 2013, consisted of the following:

Note receivable from The ARC of Butte Co., Inc. in monthly installments of \$2,498 including interest at 6.50%. The note is due in January 2022 and is secured by real property.	\$ 322,870
Less: Current Portion	(9,258)
<b>Note Receivable, Net of Current Portion</b>	<b>\$ 313,612</b>

**NOTE 4. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2013, is shown below:

	<b>Balance July 1, 2012</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance June 30, 2013</b>
Capital assets, not being depreciated:				
Land	\$ 2,013,637	\$ -	\$ -	\$ 2,013,637
Construction in Progress	1,374,082	1,843,279	25,394	3,191,967
Total capital assets, not being depreciated	3,387,719	1,843,279	25,394	5,205,604
Capital assets, being depreciated:				
Dams & Dam Property	7,499,535	-	-	7,499,535
Recreational Facilities	202,868	-	-	202,868
Pumping Plant	495,980	-	-	495,980
Water Treatment Plant	18,953,131	13,739	-	18,966,870
Transmission and Distribution System	28,031,525	717,348	-	28,748,873
General Plant	413,694	-	-	413,694
Vehicles	1,613,380	12,159	-	1,625,539
Office Facilities	1,107,938	41,549	-	1,149,487
Total capital assets, being depreciated	58,318,051	784,795	-	59,102,846
Less accumulated depreciation for:				
Dams & Dam Property	4,241,108	124,122	-	4,365,230
Recreational Facilities	111,691	13,619	-	125,310
Pumping plant	309,069	13,439	-	322,508
Water Treatment Plant	7,602,135	529,592	-	8,131,727
Transmission and Distribution System	10,027,871	1,000,201	-	11,028,072
General Plant	329,173	29,404	-	358,577
Vehicles	1,144,446	157,503	-	1,301,949
Office Facilities	202,063	31,049	-	233,112
Total accumulated depreciation	23,967,556	1,898,929	-	25,866,485
Total capital assets, being depreciated, net	34,350,495	(1,114,134)	-	33,236,361
<b>Capital assets, net of depreciation</b>	<b>\$ 37,738,214</b>	<b>\$ 729,145</b>	<b>\$ 25,394</b>	<b>\$ 38,441,965</b>

Depreciation expense for the year ended June 30, 2013 totaled \$1,898,929.

PARADISE IRRIGATION DISTRICT  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2013

**NOTE 5. DEBT ISSUANCE COSTS**

The District has debt issuance costs related to three loans. The District uses straight line amortization over the lives of the related long-term debt to record the expense. The Department of Water Resources loan fees will be fully amortized in 2015. The COP debt issuance fees will be fully amortized in 2025. The Water Revenue Refunding Bonds debt issuance costs will be fully amortized in 2014. Detail of the debt issuance fees are as follows:

	<b>Department of Water Resources (DWR)</b>	<b>2009 Certificates of Participation</b>	<b>2011 Water Revenue Refunding Bonds</b>	<b>Totals</b>
Debt Issuance Costs	\$ 250,000	\$ 177,712	\$ 55,004	\$ 482,716
Accumulated amortization through June 30, 2012	(195,629)	(19,863)	(31,593)	(247,085)
Amortization expense, June 30, 2013	(18,124)	(18,334)	(11,847)	(48,305)
<b>Debt Issuance Costs - Net at June 30, 2013</b>	<b>\$ 36,247</b>	<b>\$ 139,515</b>	<b>\$ 11,564</b>	<b>\$ 187,326</b>

PARADISE IRRIGATION DISTRICT  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2013

**NOTE 6. LONG-TERM DEBT**

Long-term debt at June 30, 2013, consisted of the following:

Note payable to Davis-Grunsky, with principal payments due annually in December and semi-annual interest payments at 2.5%. The note is due January 1, 2016.	\$ 644,214
Deferred interest note payable at 0% to Davis-Grunsky, with principal only payments of \$13,577 due each year in January. The note is due in January 2016.	54,307
Note payable to Department of Water Resources at 3.18%, with semi-annual principal and interest payments of \$178,362. The note is due in September 2015.	850,810
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.	1,597,357
Loan payable to City National Bank at 4.65%. Principal and interest payments are due semi-annually in May and November. The note is due in November 2028.	2,932,616
2009 Water Revenue Certificates of Participation at 2.00-4.65%. Annual principal and interest payments of \$95,323 to \$617,094 are due October of each year. All net water system revenues are pledged against the certificates of participation. The certificates mature from October 2010 to October 2024.	5,470,000
2011 Water Revenue Refunding Bonds at 1.3%. Annual principal and interest payments are due January and July of each year. Debt service payments will continue through July 2014.	569,000
Less: Unamortized 2011 Water Revenue Bonds refunding loss	(67,925)
Add: Water Revenue COPs, net original issue premiums	26,456
Subtotal	12,076,835
Less: Current Portion	(1,309,525)
<b>Long-Term Debt , Net of Current Portion</b>	<b>\$ 10,767,310</b>

**PARADISE IRRIGATION DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

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

	<b>Balance July 1, 2012</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance June 30, 2013</b>	<b>Amounts Due Within One Year</b>
Davis Grunsky	\$ 795,568	\$ -	\$ 151,354	\$ 644,214	\$ 155,060
Davis Grunsky - Deferred Interest	67,883	-	13,576	54,307	13,577
Department of Water Resources	1,172,870	-	322,060	850,810	332,302
CIEBD Loan Payable	1,682,346	-	84,989	1,597,357	87,342
City National Bank Loan Payable	3,059,415	-	126,799	2,932,616	132,764
Water Revenue Certificates of Participation	5,555,000	-	85,000	5,470,000	85,000
2011 Water Revenue Refunding Bonds	1,130,500	-	561,500	569,000	569,000
2009 COP Premium	28,862	-	2,406	26,456	2,405
Deferred Loss on 2011 Refinance	(142,025)	-	(74,100)	(67,925)	(67,925)
<b>Total</b>	<b>\$ 13,350,419</b>	<b>\$ -</b>	<b>\$ 1,273,584</b>	<b>\$ 12,076,835</b>	<b>\$ 1,309,525</b>

Annual requirements to amortize long-term debt outstanding as of June 30, 2013, are as follows:

	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2014	\$ 1,309,525	\$ 451,042	\$ 1,760,567
2015	1,146,634	411,105	1,557,739
2016	1,007,250	370,744	1,377,994
2017	860,488	337,475	1,197,963
2018	709,397	307,945	1,017,342
2019-2023	3,983,901	1,082,826	5,066,727
2024-2028	2,928,880	279,080	3,207,960
2029	130,760	3,039	133,799
<b>Totals</b>	<b>\$ 12,076,835</b>	<b>\$ 3,243,256</b>	<b>\$ 15,320,091</b>

**NOTE 7. FUNDS HELD FOR OTHERS**

On June 5, 1991, the District entered into an agreement with the Town of Paradise Fire Department (the 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, 2013, is \$355,158.

**NOTE 8. 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, 2013, was \$278,700.

PARADISE IRRIGATION DISTRICT  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2013

**NOTE 9. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (OPEB)**

**Plan Description**

The District provides postemployment health care benefits to eligible employees through a single-employer defined benefit health care plan administered by the District. The District provides postemployment health care benefits to all certificated 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 partner 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, 2013, 5 retirees met these eligibility requirements and were participants. The District currently has 34 additional active employees who may become eligible to retire and receive benefits in the future.

**Funding Policy**

The Board of Directors establishes contribution requirements of the District and may elect to amend the requirements as needed. The District is funding the post-employment health care costs on a “pay-as-you-go” basis. The annual expense and accrued liability are required by GASB 45 to be presented on the District’s financial statements.

**Annual OPEB Cost and Net OPEB Obligation**

The District’s annual other postemployment benefit (OPEB) expense is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the District’s annual OPEB cost for the year, the amount actually contributed to the plan (including implicit subsidy), the changes in the District’s net OPEB obligation, and the percentage of annual OPEB cost contribution to the plan:

Annual required contribution (ARC)	\$ 140,683
Interest adjustment	15,813
Amortization of unfunded actuarial liabilities	<u>(20,574)</u>
Annual OPEB cost (expense)	135,922
Contributions made, adjusted for implicit subsidy	<u>62,224</u>
Increase in net OPEB obligation	73,698
Net OPEB obligation - Beginning of Year	<u>316,266</u>
Net OPEB obligation - End of Year	<u>\$ 389,964</u>

**PARADISE IRRIGATION DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

The District's annual OPEB costs, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for the year ended June 30, 2013, 2012 and 2011 are as follows:

Fiscal Year Ended	Annual OPEB Cost	Actual Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/11	\$ 137,545	\$ 80,319	58%	\$ 265,705
6/30/12	\$ 136,684	\$ 86,123	63%	\$ 316,266
6/30/13	\$ 135,922	\$ 62,224	46%	\$ 389,964

**Funding Status and Funding Progress**

The funded status of the plan as of July 1, 2010, the date of the most recent actuarial valuation, is as follows:

Actuarial accrued liability (AAL)	\$ 1,962,880
Actuarial value of assets	-
Unfunded AAL (UAAL)	\$ 1,962,880
Funded ratio	0%
Covered payroll	\$ 1,815,625
UAAL as % of covered payroll	108%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

**Actuarial Methods and Assumptions**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefits costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2010, actuarial valuation, the alternative measurement method was used to compute the value of the liability. The actuarial assumptions included (a) 5% discount rate, (b) 5% - 7% annual health care cost trend rate and (c) 5% ultimate trend rate. The District's unfunded actual accrued liability is being amortized over 30 years. The remaining amortization period at June 30, 2013, was 26 years.

**PARADISE IRRIGATION DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

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**NOTE 10. RISK MANAGEMENT**

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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 11. CONTINGENCIES**

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**NPDES Permit**

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; however no fines have been assessed. 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 ten million dollars and will be completed during 2015. 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, 2013**

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**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**

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As of June 30, 2013, the District is committed under numerous contracts related to various construction projects. The total amount of the contracts was \$996,897. As of June 30, 2013, the District has paid \$790,371 on the contracts. The remaining liability of the District for the construction projects at June 30, 2013, was \$290,035.

**NOTE 13. SUBSEQUENT EVENTS**

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**Contract**

On October 10, 2013, the District entered into a contract for improvements to pump station 2 control systems and tank level control. The agreed upon contract price is \$121,253. The contractor shall have until May 30, 2014, after written notice to proceed, whichever is sooner, to satisfactorily complete the project.

**Drought Impact**

California had the lowest precipitation on record in 2013. As a result, the District's water storage is at approximately 73 percent of average. The District's board has formed a drought committee to draft policies and processes for implementing water use reduction within the district. A reduction of water usage will also result in a reduction of the District's revenue. A new rate structure will be considered that would result in a rate increase to partially offset the reduction of revenue. District's management is also exploring options for drought water supply.

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**REQUIRED SUPPLEMENTARY INFORMATION**

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**PARADISE IRRIGATION DISTRICT**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FUNDING PROGRESS FOR OTHER**  
**POSTEMPLOYMENT BENEFITS**  
**JUNE 30, 2013**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b - a) / c]
July 1, 2010	\$ -	\$ 1,962,880	\$ 1,962,880	0%	\$ 1,815,625	108%

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**OTHER INDEPENDENT AUDITORS' REPORT**

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TIMOTHY A. TITTLE, CPA ■ HEIDI M. COPPIN, CPA

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

Board of Trustees  
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 (the District), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 25, 2014.

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

**COMPLIANCE AND OTHER MATTERS**

As part of obtaining reasonable assurance about whether 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*.



TIMOTHY A. TITTLE, CPA ■ HEIDI M. COPPIN, CPA

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

**PURPOSE OF THIS REPORT**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

*Title + Company, LLP*

Chico, California  
January 25, 2014