



Paradise Irrigation District

Paradise, California



**Financial Statements Together with
Independent Auditors' Reports
for the Years Ended
June 30, 2009 and 2008**

PARADISE IRRIGATION DISTRICT
PARADISE, CALIFORNIA

**FINANCIAL STATEMENTS
TOGETHER WITH INDEPENDENT
AUDITORS' REPORTS**

*For the Years Ended
June 30, 2009 and 2008*

PARADISE IRRIGATION DISTRICT
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For The Years Ended June 30, 2009 and 2008

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PARADISE IRRIGATION DISTRICT
Board of Directors
June 30, 2009

<u>NAME</u>		<u>DIVISION</u>
<i>John Heinke</i>	<i>President</i>	<i>#4</i>
<i>Larry Duncan</i>	<i>Vice-President</i>	<i>#3</i>
<i>Rick Hall</i>	<i>Director</i>	<i>#5</i>
<i>Ken Hunt</i>	<i>Director</i>	<i>#1</i>
<i>Bill Kellogg</i>	<i>Director</i>	<i>#2</i>

Manager
George Barber

Treasurer/Finance Officer
Kevin Phillips

Secretary
Georgeanna Borrayo

FINANCIAL SECTION



Davis W. Hammon, Jr., CPA
(1924-1989)

Stephen B. Norman, CPA • PFS
Stephen J. Herr, CPA
Kerry A. Webber, CPA
James L. Duckett, CPA

INDEPENDENT AUDITORS' REPORT

Board of Directors
Paradise Irrigation District
Paradise, California

We have audited the accompanying basic financial statements of Paradise Irrigation District, as of and for the years ended June 30, 2009 and 2008, as listed in the table of contents. These financial statements are the responsibility of Paradise Irrigation District's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

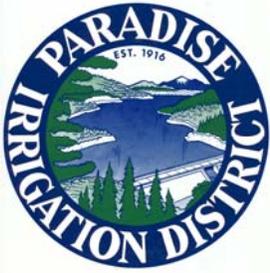
In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Paradise Irrigation District as of June 30, 2009 and 2008, and the change in its financial position and its cash flows for the years then ended in conformity 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2009, on our consideration of Paradise Irrigation District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and is important for assessing the results of our audit.

The Management's Discussion and Analysis on pages 5 through 15 is not a required part of the basic financial statements but is supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Davis Hammon & Co.

November 23, 2009



PARADISE IRRIGATION DISTRICT

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MANAGEMENT'S DISCUSSION AND ANALYSIS

November 23, 2009

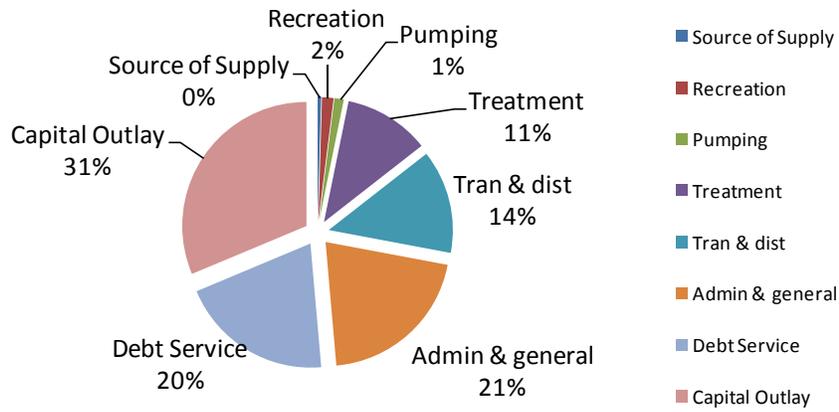
As management of Paradise Irrigation District (The District), we offer readers of the District's financial statements the following comments and analysis of the financial activities of the District for the fiscal year ending June 30, 2009. This presentation is designed to (a) provide an overview of the District's financial activity, (b) assist the reader in focusing on significant financial issues, (c) identify major changes in the District's financial position, and (d) identify material variations from the approved financial budgetary plan.

We encourage readers to consider the information presented here in conjunction with the financial statements, which begin on page 16.

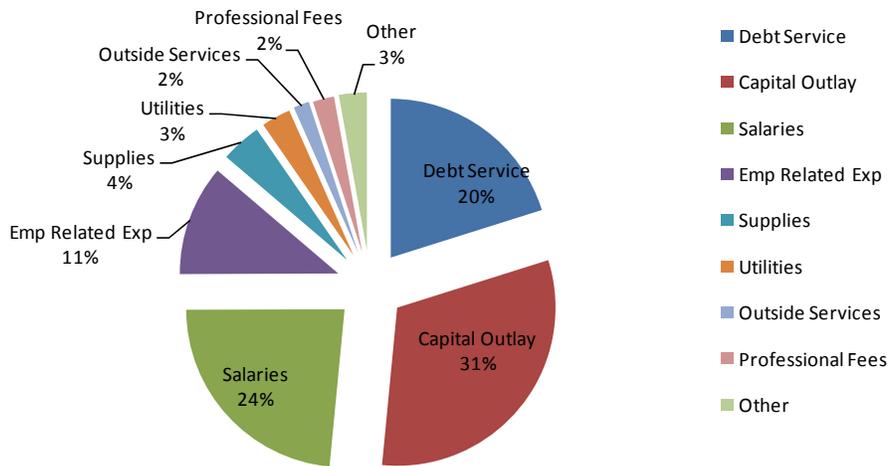
FINANCIAL HIGHLIGHTS

- The District's total net assets increased by \$3,197,667, or 12%. The majority of the increase is attributable to changes in unrestricted net assets, these assets increased to \$4,755,517. The majority of these funds have been designated for specific projects which will be required for replacement or enhancement of capital facilities; therefore, the District will monitor the amounts allocated to ensure that there are sufficient funds to provide adequate working capital. The other increases were in the category described investments in capital asset (asset purchases or capitalized pipeline), net of related debt (reduction in outstanding debt). Restricted obligations (growth related capacity fees collected and actual commitments for scheduled principal payments) increased \$82,792.
- Net operating income was \$735,850; this represented an 8.3% decrease from the prior year. Operating revenue increased \$118,543 (1.9%), which was mostly attributable to \$72,159 more in outside water sales. Operating expenses on the other hand increased \$185,013 due to increase in chemical expenses and increase in non capitalized contract labor in the current year. The main factor contributing to the \$1,319,444 increase in non-operating activity was \$1,796,832 more in grant revenue; and some offsetting decreases in the system capacity, interest expense and interest income categories.
- The District's overall cash position including investments increased by \$1,869,159 during the year, mostly the result of the 2008 private placement loan to finance the SCADA, Bille Road Pipeline project & the Corporation Yard.
- The District's total debt increased by \$2,160,937 due to the 2008 Private Placement Loan of \$3,460,000. The District made scheduled principal payments for all debt obligations in the amount of \$1,299,063 during the year.
- The District managed a budget approximating \$9.7 million. The two major components of the budget are salaries and employee related expenses representing 34% of the total, debt service obligations representing 27% and major capital projects, net of debt proceeds, representing 30%.

**Paradise Irrigation District
Actual Expenses by Department 2008-09**



**Paradise Irrigation District
Actual Expenses by Category 2008-09**



USING THIS ANNUAL REPORT

The annual report consists of the following series of financial information: (1) Independent Auditor's Report, (2) Management's Discussion and Analysis, (3) Statement of Net Assets, (4) Statement of Revenues, Expenses, and Changes in Net Assets, (5) Statement of Cash Flows, and (6) Notes to Financial Statements.

The Financial 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 revenue and expenses are taken into account regardless of when cash is received or disbursed. Thus, revenues and expenses are reported in these statements for some items that will impact cash flows in future fiscal periods (e.g. grant funded projects, uncollected receivables and earned but unused vacation and sick leave).

The Statement of Net Assets presents information on all of the District's assets and liabilities, with the difference between the two reported as **net assets**. When evaluated over a period of time, the changes in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

Whereas the Statement of Revenues, Expenses, and Changes in Net Assets describes the net income or deficit of the District for the fiscal year, the Statement of Cash Flows describes the overall change in the cash and cash equivalents position of the District for the same period of time.

Notes to Financial Statements provide additional information that is essential to a full understanding of the data provided in the audited financial statements.

CONDENSED FINANCIAL INFORMATION

The difference between assets and liabilities is one way to measure the District's financial health. As mentioned earlier, increases or decreases in net assets may be one indicator of whether the District's financial position is improving or deteriorating. Consideration of non-financial factors, such as changes in the District's property tax base, community growth, future water supply criteria, new grant participation, or condition of the District's infrastructure would also impact the overall health of the operations.

As a government agency, the District operates as an enterprise special district and is not in the business to make a profit as a private company would be. In contrast, the District has two major financial goals, which are:

- recovering the cost of providing services to its constituents, and
- securing the financial resources necessary to maintain and improve the capital facilities used in providing those services.

The District's net assets increased from \$26.6 million a year ago to \$29.8 million this year, an increase of \$3.2 million versus last year's net assets increase of \$2.2 million. Table 1 displays a summary breakdown of the District's net assets for the last two fiscal years.

Table 1
Net Assets

	<u>2009</u>	<u>2008</u>
Current and Other Assets	\$ 9,080,118	\$ 6,402,392
Capital Assets	<u>34,384,889</u>	<u>31,340,089</u>
Total Assets	<u>\$43,465,007</u>	<u>\$37,742,481</u>
Current Liabilities	2,356,638	1,857,508
Long-Term Debt Outstanding	<u>11,319,823</u>	<u>9,294,094</u>
Total Liabilities	13,676,461	11,151,602
Net Assets:		
Invested in Capital Assets, Net of Related Debt	21,862,821	21,021,082
Restricted	3,170,208	3,087,416
Unrestricted	<u>4,755,517</u>	<u>2,482,381</u>
Total Net Assets	29,788,546	26,590,879
Total Net Assets and Liabilities	<u>\$43,465,007</u>	<u>\$37,742,481</u>

Total net assets increased by 12%. Most of the District's net assets (73%) are invested in capital assets (i.e. land, treatment plant facilities, transmission and distribution/pipeline infrastructures, machinery, equipment, vehicles, and buildings); less any related debt used to acquire those assets that is still outstanding. The District utilizes these capital assets to provide services to the community; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that resources needed to repay this debt must be provided from other sources, since the capital assets themselves typically are not used to liquidate these liabilities.

Restricted net assets increased by \$82,792 resulting from the collection of capacity fees of \$65,641 and \$17,151 of investment income. These fees will be used for District growth related projects. Capacity fees are collected on each new connection to the District's water distribution system to reflect the cost already paid by existing users to provide capacity in the water system to serve additional users, a method of calculating fees known as the "system buy-in" methodology.

Unrestricted net assets increased by \$2,273,136 or 91.57%. The majority of this increase is the remaining proceeds from the 2008 Private Placement loan (\$2,000,000). The additional increase was used for designated reserve funds and to fund the current day to day operations of the District.

Table 2 provides a summary of the District's changes in net assets for the last two fiscal years.

Table 2
Changes in Net Assets

	<u>2009</u>	<u>2008</u>
Total Operating Revenues	\$6,269,477	\$6,150,934
Total Operating Expenses	<u>(5,533,627)</u>	<u>(5,348,614)</u>
Net Operating Income	735,850	802,320
Total Non-Operating Revenue (Expenses)	<u>1,998,180</u>	<u>678,736</u>
Net Income before Capital Contributions	2,734,030	1,481,056
Capital Contributions	<u>463,637</u>	<u>676,446</u>
Increase (Decrease) in Net Assets	<u>\$3,197,667</u>	<u>\$2,157,502</u>

Operating revenue increased \$118,543 (1.9%), primarily as a result of the increase in outside water sales to Del Oro Water Company. The operating expense increased \$185,013 (3.4%) occurred primarily in the salaries and employee related expenses and professional expense categories. As noted previously, net non-operating activity decreased \$66,470 with increase in chemical cost and outside services. Other non-operating increases were the result of grant revenue being collected in the current year, offset by decreases in capacity fees.

BUDGETARY HIGHLIGHTS

The District's budget was adopted at the Board of Director's meeting on June 25, 2008. The budget was not amended during the year. Table 3 displays the cash differences between the budget and actual results.

The budget projected an overall net cash increase of \$34,838. Actual performance favorably resulted in an increase in total cash for the fiscal year of \$1,822,000. However, being over or under budget is not a simple criterion for measuring the adequacy of the District's performance. In this case, the District has loan proceeds that have not been expended on the District's new corporation yard. These proceeds equal \$2,000,000; therefore the net cash reduction in the current fiscal year is \$177,054. This is due to expenses for grant projects that are waiting for reimbursement from the State of California.

Table 3
Actual Cash Activity Compared to Cash Budget

	2008/2009 <u>Actual</u>	2008/2009 <u>Budget</u>	Favorable (Unfavorable) <u>Variance</u>
Water Sales and Service	\$ 6,009,481	\$ 6,002,681	\$ 6,800
Outside Water Sales-Del Oro Water Company	187,093	131,295	55,798
Other	307,599	424,000	(116,401)
Total Operating Revenues	6,504,173	6,557,976	(53,803)
Salaries	2,222,881	2,205,996	(16,885)
Employee Related Expenses	1,177,661	1,169,593	(8,068)
Supplies	897,147	770,900	(126,247)
Utilities	243,345	220,345	(23,000)
Outside Services	451,615	256,133	(195,482)
Other	186,941	219,786	32,845
Total Operating Expenses	5,179,590	4,842,753	(336,837)
Net Operating Income	1,324,582	1,715,223	(390,641)
System Capacity Charges	65,641	130,495	(64,854)
Grant Revenue	878,999	2,384,588	(1,505,589)
Interest Income	198,586	200,000	(1,414)
Debt Service Expense	(1,820,771)	(1,890,691)	69,920
Debt Proceeds	3,460,000	2,650,000	810,000
Board Approved Reserve Outlays	(2,705,299)	(5,584,777)	2,879,478
Taxes And Assessments	421,208	430,000	(8,792)
Total Non-Operating Revenue (Expenses)	498,364	(1,680,385)	2,178,749
Net Cash Increase (Decrease)	\$ 1,822,946	\$ 34,838	\$ 1,788,108

Explanations of major variances between budget and actual are as follows:

Total Operating Revenues -

- a. Overall, water revenues ended up right on budget.
- b. Outside water sales ended up higher than budget as a result of DOWC's need for 100 acre ft of emergency water. Our agreement with DOWC is for them to divert water into Paradise Lake and in return for the District to treat a like quantity and deliver water to DOWC through the intertie connection, not to exceed 300 acre feet per year. The emergency water was taken from the Districts well.
- c. Other revenues (lake fees, late charges, 1% property taxes in excess of the State mandated shift) experienced slight decrease, and system capacity fees decreased dramatically due to the housing economy.

Total Operating Expenses -

- a. Salaries and employee related expenses stayed in line with budgeted amounts. Salaries were slightly higher than projected due to higher than expected sick leave use that required the District to use more contracted labor. Employee related expenses were right in line with budget.
- b. Supply costs were \$126,247 more than budget as treatment plant chemicals doubled in the current year.

- c. Utility costs stayed in line with budget due to the continued use of the Magalia Bypass by the Treatment Plant and Magalia reservoir water level management resulting in controlled pumping costs.
- d. Outside services were \$195,485 more than budget, due to the use of outside asphalt contractor and reimbursement to the Town of Paradise for the Wagstaff and Skyway Pipeline.
- e. Other expenses associated with property and liability insurance, employee reimbursements, permits and licenses, dues and memberships stayed in line with budgeted amounts.

Total Non-operating Activity -

- a. System capacity charges were less than budget by \$64,854 as a result of the housing market decreased in the current fiscal year.
- b. Grant revenue was below budget due to the State of California's budget crisis. The State did not release any funds associated with grant projects after December 2008.
- c. Board approved reserve capital outlays were \$2,879,478 less than expected as a result of the deferring the following major projects: Corporate Yard (\$1,000,000), Prop 50 alternative pipeline project (\$650,000), Bladder Dam (\$50,000) Future Water Supply (\$100,000) and Water Rights Permits (\$300,000). The remaining \$800,000 came from savings on capital projects coming in below budget on the actual expense.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The District's investment in capital assets as of June 30, 2009 totaled \$34,384,889 (net of accumulated depreciation). This investment in capital assets includes land, dam and dam properties, treatment plant and pumping facilities, distribution and transmission/pipeline infrastructure systems, buildings, vehicles, and machinery and equipment. The total increase in the District's investment in net capital assets for the current year was 8.66%.

Changes in capital assets are shown in Table 4.

Major capital asset events include the following:

- Land and Office – The District purchased a new administration office on Clark Rd.
- Water Treatment – The District installed a new SCADA and upgraded their PLC for \$343,093
- Completion of scheduled pipeline replacement projects (\$2,638,248) improving water loss efficiencies. District personnel were effectively utilized on all projects thereby experiencing significant installation savings versus alternative outsourcing options.
- Acceptance of developer contributed property projects (\$464,000) enhancing District's net assets.
- The District purchased several pieces of equipment to enhance field operations, two new District vehicles, one skid steer and three new backhoes. The skid steer and backhoes were purchased through the California Air Resources grant. The District paid 25% of the cost of these pieces of equipment.

Table 4
Changes in Capital Assets

<u>Category</u>	<u>Balance</u> <u>30-Jun-08</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>30-Jun-09</u>
Land	\$ 1,810,008	\$ 225,000		\$ 2,035,008
Dam & Dam Properties	7,652,416	27,457		7,679,873
Pumping Plant	495,980			495,980
Water Treatment	20,612,697	343,094		20,955,791
Transmission & Distribution	18,933,102	3,101,884		22,034,986
Contributed Property				
Capitalized Pipeline				
Construction In-Progress	317,422	22,160	198,142	141,440
General Plant	331,687	23,451		355,138
Vehicles	1,330,745	486,354	165,298	1,651,801
Office	501,564	481,424		982,988
TOTALS	51,985,621	4,710,824	363,440	56,333,005
Accumulated Depreciation	(20,645,532)	(1,467,882)	165,298	(21,948,116)
Net Capital Assets	\$31,340,089	\$ 3,242,942	\$ 528,738	\$34,384,889

Debt Administration

Table 5 shows the changes in long-term debt for the year.

At year-end, the District had \$13,001,311 in bonds and loans outstanding. The District's total long-term debt increased by \$2,110,837 during the year ending June 30, 2009 due to the 2008 Private Placement Loan. The 2008 Private Placement Loan was for the construction of SCADA, Bille Rd Pipeline, and the Corporation Yard. Currently, the District is in compliance with applicable debt service covenant ratios. Covenant ratios mean that the District will fix, prescribe and collect rates and charges for its services which will be at least sufficient to yield each fiscal year's current net water system revenues equal to a prescribed percentage of the debt service obligation for the fiscal year.

**Table 5
Changes in Long-Term Debt**

<u>Description</u>	<u>Davis Grunsky</u>	<u>DWR</u>	<u>2001 Bond</u>	<u>Kleinert</u>	<u>CIEDB</u>	<u>2008 Private Placement</u>	<u>Total Principal Balance at Year End</u>
Purpose	Paradise Lake Enlargement	Treatment Plant Expansion	Refund/ Refinance Old Debt	B-Reservoir Real Property Expansion	Magalia By-Pass	SCADA Bille Rd Pipeline Corp Yard	
Original Date	1977	1995	2001	2005	2007	2008	
Maturity Date	2017	2022	2014	2009	2027	2028	
Interest Rate or Avg.	2.50%	3.18%	4.20%	7.50%	2.77%	4.65%	
Original Amt Borrowed	\$ 3,965,000	\$ 4,760,000	\$ 9,855,000	\$ 200,000	\$ 2,000,000	\$ 3,460,000	
June 30, 2008 Balance	1,486,458	2,364,016	4,965,000	75,000	2,000,000	-	\$10,890,474
New Debt	-	-	-	-	-	3,460,000	3,460,000
Principal Payments	(137,050)	(283,990)	(735,000)	(50,000)	(76,189)	(53,357)	(1,335,586)
Deferred Interest Payments	(13,577)	-	-	-	-	-	(13,577)
June 30, 2009 Balance	\$ 1,335,831	\$ 2,080,026	\$ 4,230,000	\$ 25,000	\$ 1,923,811	\$ 3,406,643	\$13,001,311

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

- The following factors, as well as long-term financial strategies, were taken into consideration during the preparation of the fiscal year 2009/2010 budget. Four years ago, the District implemented a multiple year water rate increase program with a 12% increase occurring February 1, 2006 and 4% increases to occur January 1st 2007 and 2008. This increase was implemented to assist in the funding of proposed capital improvement programs and maintain pace with inflation.

The District anticipates reviewing the operating as well as the capital projects needs on an annual basis. Next year's review will include, among other topics:

- Renewal of the District's water rights permits
- Alternative available water supply issues to complement District strategy for increasing water availability and water storage capacity.
- Construction of new shop on Clark Road
- Design and construction of Paradise Lake bladder dam for increase water storage.

The local economy has experienced a decline during the fiscal year. The housing market has steadied and the foreclosures have slowed down. The consumer Price Index (CPI-W) decreased from 5.5% to -2% over the prior 12 months.

- Excluding future water supply expansion projects (i.e. Paradise Lake bladder dam, Magalia Reservoir, ridge water supply alternatives), continued significant maintenance and replacement costs are anticipated. The costs associated with these types of projects are substantial and such expenditures are typically funded from

existing or future reserve funds. Following is next year's adopted capital improvement and asset purchase budget summary:

Table 6
Capital Improvement/Asset Purchase Budget Summary

<u>CAPITAL IMPROVEMENTS</u>	
Corporation Yard Construction	2,109,266
Prop 50 - Alternative	350,000
Paradise Lake Bladder Dam	150,000
Future Water Supply	352,567
Water Right Permits	313,389
Skyway 42" Pipeline	30,000
42" Pipeline Supports at Butte Creek	12,000
Clean EQ Tank	5,000
Paradise Lake Playground	40,000
Claude Powers Tank Well	20,000
New Potential Well Investigation	25,000
Land Management Plan	<u>25,000</u>
	3,432,222
<u>ASSET PURCHASES</u>	
Air Compressor	13,000
Air Compressor	13,000
Service Truck (1997)	38,000
Service Truck (1992)	30,000
1/2 Ton Pickup Truck (1988)	23,000
Shoring Box	8,000
Trencher for Skid Steer	6,000
Dump Truck (1981)	74,000
1/2 Ton Pickup Truck (1996)	22,000
1/2 Ton Pickup Truck (1988)	<u>22,000</u>
	<u>249,000</u>
TOTAL	<u><u>\$3,681,222</u></u>

- The District's pipeline replacement strategy is to replace 62 update miles of older pipe from its existing system total of 170 miles. The District crews replaced 1.9 miles this fiscal year and outside contractors replaced 2.46 miles totaling 4.4 miles of pipeline replaced in the current fiscal year. The District is projecting an additional 2.0 miles of pipeline replacement in the next year. The number of surface leaks has reasonably stabilized over the last five years. The amount of unaccounted water (the difference between that which is produced through the treatment plant facility or pumped from system wells versus the amount of water sold/consumed by our customers) has been positively trending downward. The District has a long term objective of 5-10% unaccounted water. Currently 14% of water is unaccounted.
- In 2007, the District was successfully awarded a \$1.126 million grant under Proposition 50. This grant was administered through the California Department of Water Resources and is specifically designated for District water main replacement projects on Skyway and Billie Rd. This grant has afforded the District the opportunity to accelerate its annual pipeline replacement projects. The District completed these projects this year and has submitted all necessary submittals for grant reimbursement. The District is applying to use remaining funds for an alternative pipeline project.

- The District received a California Air Resources Board equipment replacement grant for \$417,950. The grant is for the purchase of low-polluting construction equipment. The grant covered 75% of the construction equipment and 100% of the low pollution retrofit devices. The District was able to purchase three backhoes, a Wheel Loader, and a Float Tractor for a net cost of \$139,317.
- The District entered into a contract with Chevron Energy Solutions Corporation on October 9th, 2009 to replace the majority of the Districts meters and install an automated meter reading system. To finance the project the District issued 5.7 million of Certificates of Participation. This project will be an amendment to the budget during the midyear budget review.
- Although water sales vary year to year due to weather, over the last three years, water sales revenues have averaged an annual increase of 4.6% (\$228,000/yr) while operating expenses (less depreciation and amortization but including capitalized pipeline projects) have increased 2% (\$63,000/year).
- Although inflationary trends in the region compare favorably to state indices, the District continues to experience high energy & fuel /transportation costs, increasing health and workers' compensation insurance rates and general increases to supply costs associated with pipeline replacement projects. Management continues its commitment to maintaining or increasing water fees to adequately cover the cost of providing services while supporting the District's capital improvement strategies. Management favors more frequent smaller increases to keep up with rising costs over deferring capital and maintenance projects resulting in larger increases.
- The District's total cash position has increased in the current year. In the current year, the District received a Private Placement Loan in the amount of \$3.46 million. \$1.4 Million of this loan was to reimburse the District for the Bille Rd pipeline project, SCADA project and the purchase of the Districts new administration building. The remaining proceeds (\$2 million) are earmarked for the construction of the Districts new corporation yard. Excluding the new debt proceeds the districts cash position decreased by \$177,000.
- The District revised its annexation policy in 2004. The District has since received several annexation application requests. These annexation projects are in various processing stages. Although no annexation revenue is budgeted in the next year, there is the potential of annexation income occurring in the future.

All of these factors were considered in preparing the District's budget for the 2009-10 fiscal year. The financial results of that budget are a projected net cash reduction of approximately \$2,000,000. The reduction impacts working capital by \$524,000 and reserve funds by \$1,476,000.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the District's finances. Questions concerning any information provided in this report or request for additional financial information should be directed to the District Office at 5325 Black Olive Drive (P.O. Box 2409), Paradise, CA, 95967-2409 - (530) 877-4971.

PARADISE IRRIGATION DISTRICT
STATEMENT OF NET ASSETS
June 30, 2009 and 2008

Exhibit 1

<u>ASSETS</u>	<u>2009</u>	<u>2008</u>
Current Assets:		
Cash and cash equivalents	\$ 3,309,098	\$ 3,932,423
Restricted cash and cash equivalents with fiscal agent	1,290,685	1,279,858
Investments	2,435,444	
Accounts receivable	301,136	372,138
Grants receivable	1,158,412	120,290
Taxes receivable	29,255	30,099
Interest receivable	1,474	19,390
Prepaid expenses	91,183	90,600
Inventories	234,688	286,727
Total Current Assets	<u>8,851,375</u>	<u>6,131,525</u>
Noncurrent Assets:		
Loan fees - net	228,743	270,867
Capital assets - net	34,384,889	31,340,089
Total Noncurrent Assets	<u>34,613,632</u>	<u>31,610,956</u>
Total Assets	<u>43,465,007</u>	<u>37,742,481</u>
 LIABILITIES		
Current Liabilities:		
Accounts payable	326,373	20,667
Accrued salaries and employee benefits	379,243	365,133
Accrued interest	63,464	48,116
Deposits	40,291	28,848
Funds held for others	116,279	98,964
Notes, contracts, and bonds payable - current portion	1,430,988	1,295,780
Total Current Liabilities	<u>2,356,638</u>	<u>1,857,508</u>
Long-Term Debt:		
Notes, contracts, and bonds payable - long-term portion	11,319,823	9,294,094
Total Long-Term Debt	<u>11,319,823</u>	<u>9,294,094</u>
Total Liabilities	<u>13,676,461</u>	<u>11,151,602</u>
 NET ASSETS		
Invested in capital assets, net of related debt	21,862,821	21,021,082
Restricted for:		
Debt service	1,509,999	1,514,000
Capacity fees	1,660,209	1,573,416
Unrestricted	4,755,517	2,482,381
Total Net Assets	<u>\$ 29,788,546</u>	<u>\$ 26,590,879</u>

PARADISE IRRIGATION DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For The Years Ended June 30, 2009 and 2008

Exhibit 2

	2009	2008
Operating Revenues:		
Water sales and service	\$ 6,016,398	\$ 5,932,873
Outside water sales	187,093	114,937
Other	65,986	103,124
Total Operating Revenues	6,269,477	6,150,934
Operating Expenses:		
Save-A-Can/Buy-A-Fish Fund	8,540	
Source of supply	82,325	38,056
Recreation	140,441	122,597
Water pumping	67,066	100,503
Water treatment	993,162	917,181
Transmission and distribution	1,211,876	1,102,488
Administration and general	1,520,211	1,684,493
Depreciation and amortization	1,510,006	1,383,296
Total Operating Expenses	5,533,627	5,348,614
Operating Income (Loss)	735,850	802,320
Nonoperating Revenues (Expenses):		
System capacity charges	65,641	119,613
Grant revenues - federal	3,562	
Grant revenues - state and local	1,917,122	120,290
Gain (loss) on sale of capital assets		195,830
Gain (loss) on investments	(46,213)	(163)
Interest income	180,669	287,832
Taxes and assessments	429,536	431,831
Miscellaneous		4
Interest expense	(552,137)	(476,501)
Total Nonoperating Revenues (Expenses)	1,998,180	678,736
Income before capital contributions	2,734,030	1,481,056
Facility contributions	463,637	676,446
Change in net assets	3,197,667	2,157,502
Net assets - beginning of year	26,590,879	24,433,377
Net assets - end of year	\$ 29,788,546	\$ 26,590,879

PARADISE IRRIGATION DISTRICT
STATEMENT OF CASH FLOWS
Proprietary Fund Type
For The Years Ended June 30, 2009 and 2008

Exhibit 3

Page 1 of 2

	2009	2008
Cash Flows From Operating Activities:		
Cash received from water sales	\$ 6,285,936	\$ 6,014,245
Cash received from others	65,986	103,124
Cash payments to suppliers	(910,622)	(1,207,841)
Cash payments for employee salaries and benefits	(2,741,727)	(2,760,593)
Net Cash Provided (Used) By Operating Activities	2,699,573	2,148,935
Cash Flows From Noncapital Financing Activities:		
Payments on funds held for others	17,315	(4,081)
Grant revenues received	882,562	
Taxes and assessments received	430,380	427,555
Other revenue received		4
Net Cash Provided (Used) By Noncapital Financing Activities	1,330,257	423,478
Cash Flows From Capital And Related Financing Activities:		
System capacity charges	65,641	119,613
Additions to capital assets	(4,049,045)	(4,554,506)
Proceeds from long-term debt	3,460,000	2,000,000
Principal payments on long-term debt	(1,349,163)	(1,187,154)
Interest expense	(476,129)	(450,519)
Net Cash Provided (Used) By Capital and Related Financing Activities	(2,348,696)	(4,072,566)
Cash Flows From Investing Activities:		
Interest received	188,025	293,758
Investment transactions	(2,481,657)	3,185,490
Proceeds from sale of capital asset		293,446
Net Cash Provided (Used) By Investing Activities	(2,293,632)	3,772,694
Net Increase (Decrease) in Cash and Cash Equivalents	(612,498)	2,272,541
Cash and cash equivalents - beginning of year	5,212,281	2,939,740
Cash and cash equivalents - end of year	\$ 4,599,783	\$ 5,212,281

**PARADISE IRRIGATION DISTRICT
STATEMENT OF CASH FLOWS
Proprietary Fund Type
For The Years Ended June 30, 2009 and 2008**

Exhibit 3

Page 2 of 2

	2009	2008
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) By Operating Activities:		
Operating income (loss)	\$ 735,850	\$ 802,320
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	1,467,882	1,341,172
Amortization	42,124	42,124
Decrease (increase) in receivables	71,002	2,206
Decrease (increase) in inventories	52,039	(37,003)
Decrease (increase) in prepaid expenses	(583)	(9,750)
Increase (decrease) in accounts payable	305,706	(21,244)
Increase (decrease) in accrued salaries and benefits	14,110	64,881
Increase (decrease) in deposits payable	11,443	(35,771)
Net Cash Provided (Used) By Operating Activities	\$ 2,699,573	\$ 2,148,935
Supplemental Disclosure of Cash Flow Information:		
Non-cash transactions during the year:		
Contributed water system facilities	\$ 463,637	\$ 676,446
Interest paid	\$ 476,129	\$ 450,519

NOTES TO THE FINANCIAL STATEMENTS

**PARADISE IRRIGATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Paradise Irrigation District (District) was established as an independent enterprise special district in 1916 to provide water to residents of the Paradise community. The District is a "full service" water purveyor. It stores, treats, transports, and distributes residential, business, and agricultural water and administers all operations of its facilities and services. As of June 30, 2009 and 2008, water was available to 10,091 and 10,083 active metered accounts, respectively.

The District is a public water utility district and, therefore, falls under the guidelines of a special district governmental entity. The District was formed under Irrigation District Law, Division II, of the California Water Code. The primary source of operating revenues for the District is water sales.

The District has an agreement with the Town of Paradise (Town) for fire hydrant maintenance. The District collects such maintenance fees from all metered customers as advised by the Town and is required to use these funds to participate in the installation and maintenance of fire hydrants and water main replacements authorized by and for the Town.

A. Definition of the Reporting Entity

The District's financial statements include the accounts of all District operations. The criteria for including organizations as component units within the District's reporting entity, as set forth in Governmental Accounting Standards Board (GASB) Statement 39, include:

- The organization is legally separate (can sue and be sued in their own name).
- The District holds the corporate powers of the organization.
- The District appoints a majority of the organization's governing board.
- The District is able to impose its will on the organization.
- The organization has the potential to impose a financial benefit/burden on the District.
- There is fiscal dependency by the organization on the District.

Based on the aforementioned criteria, the District has no component units.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The District's basic financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* in conformity with accounting principles generally accepted in the United States of America. Revenues are recognized when earned and expenses are recorded when the liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year they are levied to the extent that they result in current receivables. Property taxes attach an enforceable lien on property as of January 1. Taxes are levied on July 1, and are payable in two installments on December 10 and April 10. The County of Butte bills and collects property taxes and remits them to the District in installments during the year. Grants and similar items are recognized as revenue as soon as all eligibility requirements, imposed by the provider, have been met.

The activities of the District are accounted for within a single proprietary (enterprise) fund. Enterprise funds are used to account for activities similar to those found in private business enterprises, where the determination of net income is necessary or useful for sound financial management and services are provided to outside parties.

**PARADISE IRRIGATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

The District distinguishes *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Principal operating revenues of the District are charges to customers for water sales and services. Operating expenses for the District include salaries and benefits, supplies and other services, insurance premiums, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is generally the District's policy to use restricted resources first, and then unrestricted resources as needed.

The District's financial statements are presented in conformance with the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Pursuant to GASB Statement No. 20, all Financial Accounting Standards Board (FASB) statements and authoritative pronouncements issued before November 30, 1989, are applied unless they conflict with GASB pronouncements. The District has elected not to apply FASB statements issued subsequent to November 30, 1989.

C. Assets, Liabilities, and Net Assets or Equity

1) Cash and Investments

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

The District has adopted a formal investment policy as required by Section 53600 et seq., 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. See Note 3(A) for additional information on the District's cash and investments.

Investments for the District are reported at fair value. The Local Agency Investment Fund (LAIF) is a special fund of the California State Treasury through which local governments may pool investments. The District may invest up to \$40,000,000 in the fund. Investments in LAIF are highly liquid as deposits can be converted to cash within 24 hours without loss of interest. Funds deposited in LAIF are invested in accordance with California Government Code Sections 16430 and 16480. Oversight of LAIF is provided by the Pooled Money Investment Board whose members are the California State Treasurer, California Director of Finance, and the California State Controller. For the purpose of these financial statements, the fair value of amounts in LAIF is equivalent to dollars held.

2) Accounts Receivable

Accounts receivable consists of amounts due on water services. Delinquent receivables are submitted annually to the Butte County Tax Assessor to be encumbered on secured property tax bills. As a result of this process, no doubtful account allowances were deemed necessary at June 30, 2009 and 2008.

**PARADISE IRRIGATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities, and Net Assets or Equity (Continued)

3) Inventories and Prepaid Items

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.

Certain payments for insurance and to other vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the District's financial statements.

4) Restricted Assets

The restricted cash and investments with fiscal agent are required reserves relating to a special purpose, such as construction of improvements and financing of debt obligations. These cash and investments are for the benefit of a distinct group and, as such, are legally or contractually restricted.

5) Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the District's financial statements. Capital assets are defined by the District as assets with an initial individual cost of \$2,500 and an estimated useful life of three or more years.

Capital assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Contributed capital assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of an asset, or materially extend asset lives, are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Dams and Property	25 – 75	years
Recreational 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	4 – 45	years

**PARADISE IRRIGATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities, and Net Assets or Equity (Continued)

6) Compensated Absences

District employees, depending on classification, are granted up to one day per month sick leave after six months of employment.

Effective January 1, 2005, upon termination of employment from the District, employees will be compensated for unused sick leave at the following rates for up to 90 days of their sick leave balance:

5 to 10 years of service	25%
11 to 20 years of service	40%
21 to 25 years of service	50%
26 to 30 years of service	60%
Over 30 years of service	75%

Vacation leave is accumulative, with District employees accruing 12 vacation days for employment years 1 through 10, 17 days for employment years 11 through 14, 22 days for employment years 15 through 19, and 27 days for 20 years or more. The District also provides five days of service anniversary paid vacation leave on the fifth anniversary following the date of employment and on each fifth anniversary thereafter.

The District has accrued a liability for vacation and sick leave, which has been earned, but not taken, by District employees. This liability has been recorded in Accrued Salaries and Employee Benefits and amounted to \$343,880 and \$306,611 at June 30, 2009 and 2008, respectively.

7) Post-employment Benefits

Until December 31, 2009, an employee with 30 or more years of service may retire up to six years prior to their Normal Retirement Date (NRD), which is age 65. From the date of such early retirement, the District will continue to provide medical insurance benefits only, for the eligible retiring employee the same as medical insurance benefits provided to "Regular Employees", as may be provided under the District's insurance plan, through the month in which their NRD is reached. Employees that have reached age 55 with 20 years of service shall be eligible for medical insurance benefits as provided to employees for the employee and their partner upon retirement 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.

For the year ended June 30, 2009, there were five (5) retirees participating in the benefit program. For the year ended June 30, 2008, there were five (5) retirees participating in the benefit program. The total costs incurred by the District for the years June 30, 2009 and 2008, were \$70,410 and \$66,208, respectively. The District currently uses the pay-as-you-go method of accounting for the costs of these benefits. For fiscal years subsequent to June 30, 2009, these post-employment benefits will be subject to the reporting requirements of GASB Statement No. 45, which will impact how the costs and liability for these benefits will be reported.

**PARADISE IRRIGATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities, and Net Assets or Equity (Continued)

8) Deferred Bond Costs

Deferred bond costs are amortized (straight-line method) over the life of the debt and are reported as a reduction of the bond payable balance.

9) Bond Premium

The bond premium, relating to the 2001 Refunding Bonds, is amortized (straight-line method) over the life of the bonds and is reported as an addition to the bond payable balance.

10) Contributed Capital

Contributed capital transactions are recorded as contributions in the enterprise fund and are the result of water system property and facilities contributed to the District.

11) Net Assets

The net asset amount is the difference between assets and liabilities. Net assets invested in capital assets are capital assets, less accumulated depreciation and outstanding debt or obligations related to the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are legal limitations imposed on their use by the District or external restrictions by other governments, creditors, or grantors.

12) Management Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

The State of California Water Code requires the District to adopt an annual budget. The District's fiscal year is the 12-month period beginning July 1. The District's Board of Directors may amend the budget during the fiscal year. Certain District personnel are authorized to transfer funds from one major expenditure category to another within the same department and fund. The Board of Directors must approve any budget revisions that materially alter the total expenditures of any fund.

**PARADISE IRRIGATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

NOTE 3 DETAILED FUND NOTES

A. Cash and Investments

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

	<u>Balance June 30, 2009</u>	<u>Balance June 30, 2008</u>
Statement of net assets:		
Cash and cash equivalents:		
Cash and cash equivalents	\$ 3,309,098	\$ 3,932,423
Restricted cash and cash equivalents with fiscal agent	<u>1,290,685</u>	<u>1,279,858</u>
Total cash and cash equivalents	<u>4,599,783</u>	<u>5,212,281</u>
Investments:		
Investments	<u>2,435,444</u>	<u> </u>
Total investments	<u>2,435,444</u>	<u> -</u>
Total cash and investments	<u><u>\$ 7,035,227</u></u>	<u><u>\$ 5,212,281</u></u>

Cash and investments are classified as follows:

	<u>Balance June 30, 2009</u>	<u>Balance June 30, 2008</u>
Cash on hand	\$ 1,000	\$ 1,000
Deposits with financial institutions	1,301,008	1,111,243
Money market funds	2,955,083	1,608,991
Local Agency Investment Fund	342,692	2,491,047
Investments	<u>2,435,444</u>	<u> </u>
Total cash and investments	<u><u>\$ 7,035,227</u></u>	<u><u>\$ 5,212,281</u></u>

Investments Authorized by the District's Investment Policy:

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

**PARADISE IRRIGATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

NOTE 3 DETAILED FUND NOTES (continued)

A. Cash and Investments (continued)

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Specified Percentage of Portfolio</u>	<u>Minimum Quality Requirements</u>
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	None
Local Agency Investment Fund (LAIF)	N/A	None	None

Investments Authorized by Debt Agreements:

Investments held by the bond fiscal agent (trustee) are governed by the provisions of the 2001 Bond Indenture Agreement, rather than the general provisions of the District's investment policy or California Government Code. The indenture agreement does not specifically identify maximum maturity and maximum investment provisions. The bond indenture agreement does identify the following permitted investments:

<u>Authorized Investment Types</u>	
Cash (Insured by FDIC or otherwise collateralized with U.S. Treasury Obligations)	Commercial Paper
U.S. Treasury Obligations	Money Market Mutual Funds
U.S. Agency Securities	Municipal Obligations
Banker's Acceptances	Investment Agreements

Disclosures Relating to Interest Rate Risk:

Interest rate risk is the risk in market rate changes that could adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for District operations.

**PARADISE IRRIGATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

NOTE 3 DETAILED FUND NOTES (continued)

A. Cash and Investments (continued)

As of June 30, 2009, the District had the following investments:

Investment Description	Fair Value	Maturity Date
Federal National Mortgage Association:		
Medium Term Notes	\$ 100,469	December 30, 2011
Medium Term Notes	103,000	March 5, 2014
Medium Term Notes	102,125	February 16, 2017
Subtotal	<u>305,594</u>	
Federal Home Loan Bank:		
Cons Bonds	101,375	October 22, 2012
Cons Bonds	102,844	August 20, 2013
Cons Bonds	103,219	January 28, 2015
Cons Bonds	100,313	March 4, 2016
Cons Bonds	100,156	June 16, 2016
Cons Bonds	100,813	February 15, 2018
Cons Bonds	98,219	April 1, 2019
Cons Bonds	99,250	June 12, 2020
Cons Bonds	103,188	June 19, 2023
Subtotal	<u>909,377</u>	
Freddie Mac:		
Bonds	101,597	April 1, 2013
Subtotal	<u>101,597</u>	
Federal National Mortgage Association- Debts:		
Bonds	101,519	May 1, 2013
Bonds	104,531	May 4, 2022
Bonds	102,813	May 17, 2022
Subtotal	<u>308,863</u>	
Federal Home Loan Mortgage Corporation:		
Medium Term Notes	99,811	June 9, 2014
Medium Term Notes	106,045	February 7, 2022
Subtotal	<u>205,856</u>	
Federal Farm Credit Bank:		
Bonds	101,063	June 3, 2015
Bonds	101,406	June 4, 2018
Bonds	103,844	October 9, 2018
Bonds	96,344	January 14, 2019
Bonds	101,250	March 5, 2020
Bonds	100,250	April 15, 2020
Subtotal	<u>604,157</u>	
Total Investments	<u>\$ 2,435,444</u>	

As of June 30, 2008, the District held no assets classified as investments.

**PARADISE IRRIGATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

NOTE 3 DETAILED FUND NOTES (continued)

A. Cash and Investments (continued)

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations:

The District's investment portfolio (including investments held by the bond fiscal agent/trustee) contained the following investments that are highly sensitive to interest rate fluctuations:

<u>Highly Sensitive Investments</u>	<u>Fair Value at 6/30/09</u>	<u>Fair Value at 6/30/08</u>
Mortgage backed securities and federal agency securities. These investments are subject to early prepayment in a period of declining interest rates. The potential reduction in expected total interest income cash flows makes the fair value of these securities highly sensitive to changes in interest rates.	<u>\$ 2,435,444</u>	<u>\$ -</u>

Disclosures Relating to Credit Risk:

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of an investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. As of June 30, 2009 and 2008, the District's investments were in compliance with the ratings required by the District's investment policy and the 2001 Bond Indenture Agreement.

Concentrations of Credit Risk:

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. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of the total District investments are as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>Fair Value at 6/30/09</u>	<u>Fair Value at 6/30/08</u>
FNMA	Mortgage-backed securities	\$614,457	\$0
FHLB	Mortgage-backed securities	909,377	0
FHLM	Mortgage-backed securities	205,856	0
Farm Credit Bank	Federal agency securities	604,157	0

**PARADISE IRRIGATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

NOTE 3 DETAILED FUND NOTES (continued)

A. Cash and Investments (continued)

Custodial Credit Risk:

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counter-party (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution 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.

As of June 30, 2009 and 2008, the deposits with financial institutions in excess of the federal depository insurance limits were collateralized as required by law. As of June 30, 2009, the carrying amount of the District's deposits was \$1,301,008, and the bank balances were \$1,402,662. As of June 30, 2008, the carrying amount of the District's deposits was \$1,111,243, and the bank balances were \$1,257,335. The differences between the carrying amounts and bank totals are due to normal deposits in transit and outstanding checks.

At June 30, 2009, the costs and fair values of the District's investments totaled \$2,468,428 and \$2,435,444, respectively. At June 30, 2008, the District held no assets classified as investments.

Investment in State Investment Pool:

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is classified as a cash equivalent in the accompanying financial statements.

**PARADISE IRRIGATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

NOTE 3 DETAILED FUND NOTES (continued)

B. Capital Assets

Capital asset activity for the year ended June 30, 2009, was as follows:

	Balance June 30, 2008	Additions/ Reclassifications	Retirements	Balance June 30, 2009
Nondepreciable Capital Assets:				
Land	\$ 1,810,008	\$ 225,000		\$ 2,035,008
Construction in progress	317,422	22,160	\$ 198,142	141,440
Total Nondepreciable Capital Assets	<u>2,127,430</u>	<u>247,160</u>	<u>198,142</u>	<u>2,176,448</u>
Capital Assets being depreciated:				
Dams and dam property	7,478,037	21,498		7,499,535
Recreational facilities	174,379	5,959		180,338
Pumping plant	495,980			495,980
Water treatment plant	20,612,697	343,094		20,955,791
Transmission and distribution system	18,933,102	3,101,884		22,034,986
General plant	331,687	23,451		355,138
Vehicles	1,330,745	486,354	165,298	1,651,801
Office facilities	501,564	481,424		982,988
Total Capital Assets being depreciated	<u>49,858,191</u>	<u>4,463,664</u>	<u>165,298</u>	<u>54,156,557</u>
Subtotal	51,985,621	4,710,824	363,440	56,333,005
Less: Accumulated depreciation	<u>(20,645,532)</u>	<u>(1,467,882)</u>	<u>165,298</u>	<u>(21,948,116)</u>
Net Capital Assets	<u>\$ 31,340,089</u>	<u>\$ 3,242,942</u>	<u>\$ 198,142</u>	<u>\$ 34,384,889</u>

Capital asset activity for the year ended June 30, 2008, was as follows:

	Balance June 30, 2007	Additions/ Reclassifications	Retirements	Balance June 30, 2008
Nondepreciable Capital Assets:				
Land	\$ 1,155,282	\$ 747,152	\$ 92,426	\$ 1,810,008
Construction in progress	402,283	295,417	380,278	317,422
Total Nondepreciable Capital Assets	<u>1,557,565</u>	<u>1,042,569</u>	<u>472,704</u>	<u>2,127,430</u>
Capital Assets being depreciated:				
Dams and dam property	7,478,037			7,478,037
Recreational facilities	159,005	15,374		174,379
Pumping plant	495,980			495,980
Water treatment plant	17,699,855	2,912,842		20,612,697
Transmission and distribution system	17,622,848	1,310,954	700	18,933,102
General plant	279,218	92,639	40,170	331,687
Vehicles	1,131,647	199,098		1,330,745
Office facilities	463,810	37,754		501,564
Total Capital Assets being depreciated	<u>45,330,400</u>	<u>4,568,661</u>	<u>40,870</u>	<u>49,858,191</u>
Subtotal	46,887,965	5,611,230	513,574	51,985,621
Less: Accumulated depreciation	<u>(19,340,040)</u>	<u>(1,341,172)</u>	<u>35,680</u>	<u>(20,645,532)</u>
Net Capital Assets	<u>\$ 27,547,925</u>	<u>\$ 4,270,058</u>	<u>\$ 477,894</u>	<u>\$ 31,340,089</u>

**PARADISE IRRIGATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

NOTE 3 DETAILED FUND NOTES (continued)

C. Loan Fees

Loan fees are amortized over the lives of the long-term debt as follows:

	Department of Water Resources (DWR)	2001 Bond Refunding	Totals
Loan Fees	\$ 250,000	\$ 312,000	\$ 562,000
Accumulated amortization through June 30, 2007	(105,009)	(144,000)	(249,009)
Amortization expense June 30, 2008	<u>(18,124)</u>	<u>(24,000)</u>	<u>(42,124)</u>
Loan Fees - Net at June 30, 2008	126,867	144,000	270,867
Amortization expense June 30, 2009	<u>(18,124)</u>	<u>(24,000)</u>	<u>(42,124)</u>
Loan Fees - Net at June 30, 2009	<u>\$ 108,743</u>	<u>\$ 120,000</u>	<u>\$ 228,743</u>

The Department of Water Resources loan fees will be fully amortized in 2015. The 2001 Bond Refunding loan fees will be fully amortized in 2014.

D. Long-term Debt

District long-term debt consisted of the following:

	<u>June 30, 2009</u>	<u>June 30, 2008</u>
2.50% Davis-Grunsky note payable. Principal payments payable annually in December, with interest paid semi-annually. The note is due January 1, 2017.	\$ 1,227,218	\$ 1,364,268
3.1775% Department of Water Resources note payable. The note calls for semi-annual principal and interest payments of \$178,340. The note is due October 1, 2015.	2,080,026	2,364,016
0% Davis-Grunsky deferred interest note payable. Principal only payments of \$13,577, payable annually in January of each year. The note is due in January, 2017.	108,613	122,190
3.5-4.6% 2001 Water Revenue Refunding Bonds. Annual principal and interest payments of \$911,464 to \$1,129,560, due in July of each year. All net water system revenues are pledged against the bonds. The bonds mature from December 2005 to July 2014.	4,230,000	4,965,000
Note payable to Donald and Audrey Kleinert. Semi-annual principal and interest payments in May and November of each year with interest at 7.5%. This note is due November 15, 2009.	25,000	75,000
2.77% loan payable to the California Infrastructure and Economic Development Bank. Principal payments payable annually in August, with interest payable semi-annually. Final payment on this loan will be due August 1, 2027.	1,923,811	2,000,000
4.65% loan payable to City National Bank. Proceeds of the loan used to finance certain capital improvement projects, including the SCADA/PLC Upgrade, the Bille Road Pipeline Project, and the District's new administration office and corporate yard project. Principal and interest payments are payable semi-annually in May and November. Loan payments will continue until November 6, 2028.	3,406,643	
Subtotal	<u>13,001,311</u>	<u>10,890,474</u>

**PARADISE IRRIGATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

NOTE 3 DETAILED FUND NOTES (continued)

D. Long-Term Debt (continued)

Less: Water Revenue Refunding Bonds, net deferred bond costs	(303,300)	(363,960)
Add: Water Revenue Refunding Bonds, net original issue premiums	52,800	63,360
Less: Current portion	(1,430,988)	(1,295,780)
Long-Term Debt	<u>\$ 11,319,823</u>	<u>\$ 9,294,094</u>

The following is a summary of changes in long-term debt (excluding changes in deferred bond costs and original issue premiums) during the year ended June 30, 2009:

	Balance June 30, 2008	Additions	Reductions	Balance June 30, 2009	Due within one year
Davis-Grunsky	\$ 1,364,268		\$ (137,050)	\$ 1,227,218	\$ 140,896
Department of Water Resources	2,364,016		(283,990)	2,080,026	292,750
Davis-Grunsky deferred interest	122,190		(13,577)	108,613	13,577
Water revenue refunding bonds	4,965,000		(735,000)	4,230,000	770,000
Kleinert note payable	75,000		(50,000)	25,000	25,000
CIEDB loan payable	2,000,000		(76,189)	1,923,811	78,300
City National Bank loan payable		\$ 3,460,000	(53,357)	3,406,643	110,465
Total	<u>\$ 10,890,474</u>	<u>\$ 3,460,000</u>	<u>\$ (1,349,163)</u>	<u>\$ 13,001,311</u>	<u>\$ 1,430,988</u>

Annual requirements to amortize long-term debt outstanding as of June 30, 2009, are set forth below:

	Principal	Interest	Total
2010	\$ 1,430,988	\$ 508,148	\$ 1,939,136
2011	1,461,329	448,414	1,909,743
2012	1,522,249	387,174	1,909,423
2013	1,583,797	323,215	1,907,012
2014	1,646,393	260,940	1,907,333
2015-2019	2,284,641	791,829	3,076,470
2020-2024	1,504,703	483,732	1,988,435
2025-2029	1,567,211	156,554	1,723,765
Totals	<u>\$ 13,001,311</u>	<u>\$ 3,360,006</u>	<u>\$ 16,361,317</u>

E. 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 amounts owed to the Town at June 30, 2009 and 2008, were \$116,279 and \$98,964, respectively.

**PARADISE IRRIGATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

NOTE 3 DETAILED FUND NOTES (continued)

F. Net Assets

Note 1(C)(11) provides a detailed description of the three net asset components: Net investment in capital assets, Restricted and Unrestricted. Designated net assets are part of unrestricted net assets since the constraints on these resources are internal, which the Board of Directors can remove or modify. The following provides a summary of the Unrestricted component of net assets:

	2009	2008
Designated for:		
Replacements	\$ 839,797	\$ 698,469
Save-A-Can/Buy-A-Fish	11,206	5,851
Unfunded Employee Vacation Pay	224,166	264,000
Town of Paradise	12,000	12,000
Capital Projects	2,411,894	964,443
Maintenance and Operations	1,256,454	537,618
Total	\$ 4,755,517	\$ 2,482,381

NOTE 4 DEFERRED COMPENSATION AND MONEY PURCHASE RETIREMENT PLANS

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code (IRC) Section 457 and a money purchase retirement plan established in accordance with IRC Section 401(a). Further, the District's manager has a separate IRC Section 401(a) plan. These plans are administered by the ICMA Retirement Corporation.

Current contribution rates to the plans, calculated on base pay only, are as follows:

	IRC Section 457 Plan	IRC Section 401(a) Plans
District Contribution	9%	
Employee Deferral - An Election	Up to 3%	
District Matching Contribution		Up to 3% of Employee's Elected Deferral
District Manager Contribution		3.5%

The District's retirement contribution expenses for the years ended June 30, 2009 and 2008, were \$241,903 and \$240,748, respectively.

NOTE 5 RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of ACWA-JPIA, a public entity risk pool, currently operating as a common risk management member agency. The District pays retrospectively rated annual premiums to ACWA-JPIA for its insurance coverages.

**PARADISE IRRIGATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

NOTE 5 RISK MANAGEMENT (continued)

Each ACWA-JPIA member agency shares surpluses and deficits proportionally to their participation. The District has met all obligations since its participation inception. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred, but not reported.

NOTE 6 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 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.

Upon re-evaluation, the District believes that there have been no exceptions to its permit compliance, as the water exceedences 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 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 exceedences.

NOTE 7 CONTINGENCIES

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 8 SUBSEQUENT EVENT

The District has been considering and analyzing alternative automated meter reading (AMR) technologies for some time. On August 19, 2009, the Board of Directors adopted Resolution No. 2009-04 entering into an energy service contract with Chevron Energy Solutions Company for the implementation of an AMR system using the Datamatic Mosaic Mesh Network System. As part of this action, the District Manager was directed to negotiate the final contract with Chevron Energy Solutions Company.

The estimated cost of this project is \$5 million. The District is in the final stages of arranging project financing of \$5.755 million.

OTHER INDEPENDENT AUDITORS' REPORTS



Davis W. Hammon, Jr., CPA
(1924-1989)

Stephen B. Norman, CPA • PFS
Stephen J. Herr, CPA
Kerry A. Webber, CPA
James L. Duckett, 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 Directors
Paradise Irrigation District
Paradise, California

We have audited the financial statements of Paradise Irrigation District, as of and for the year ended June 30, 2009, and have issued our report thereon dated November 23, 2009. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Paradise Irrigation District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Paradise Irrigation District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Paradise Irrigation District's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Paradise Irrigation District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Paradise Irrigation District's financial statements that is more than inconsequential will not be prevented or detected by Paradise Irrigation District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Paradise Irrigation District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Paradise Irrigation District's financial statements are free of 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*.



This report is intended solely for the information and use of the Board of Directors, management, others within the organization, and federal awarding agencies and pass-through entities, and the Office of the Controller of the State of California and is not intended to be, and should not be, used by anyone other than these specified parties.

Davis Hammon & Co.

November 23, 2009