



**PARADISE IRRIGATION DISTRICT
PARADISE, CALIFORNIA**

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

**For the years ended
June 30, 2010 and 2009**

PARADISE IRRIGATION DISTRICT
PARADISE, CALIFORNIA

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

*For the Years Ended
June 30, 2010 and 2009*

PARADISE IRRIGATION DISTRICT
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INTRODUCTORY SECTION



PARADISE IRRIGATION DISTRICT

5325 Black Olive Drive • P.O. Box 2409 • Paradise, California 95967 • 530.877.4971 • Fax 530.876.0483

November 17, 2010

Board of Directors
Paradise Irrigation District

Introduction

It is our pleasure to submit the annual financial statements for the Paradise Irrigation District (District) for the fiscal year ended June 30, 2010, following guidelines set forth by the Governmental Accounting Standards Board. District staff prepared this financial report with the assistance of the independent auditor. The District is ultimately responsible for both the accuracy of the data and the completeness and the fairness of presentation, including all disclosures in this financial report. We believe that the data presented is accurate in all material respects. This report is designed in a manner that we believe necessary to enhance your understanding of the District's financial position and activities.

The annual financial statement is organized into sections: Introductory and Financial. The Introductory section provides general information about the District's organization and activities, and provides information useful in assessing the District's financial condition. The Financial section includes the Independent Auditors' Report, Management's Discussion and Analysis of the District's basic financial statements, and the District's audited basic financial statements with accompanying notes.

Generally Accepted Accounting Principles (GAAP) requires that management provide a narrative introduction, overview and analysis to accompany the financial statements in the form of the Management's Discussion and Analysis (MD&A) section. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The District's MD&A can be found immediately after the Independent Auditors' Report.

District Structure and Leadership

The Paradise Irrigation District is a special district of the State of California that provides domestic and agricultural water services to the Town of Paradise. The District's Board of Directors is composed of five members who are elected in specified election divisions. The Directors serve terms of four years with an election held every two years for alternating divisions. The District also provides recreational activities at Paradise Lake. The water district and the lake activities are accounted for as an enterprise fund.

The District was originally formed in 1916 under the laws of the Irrigation Code for the purpose of providing agricultural water to approximately 1,000 ridge residents. Today, Paradise Irrigation District delivers water to approximately 10,500 municipal and residential/commercial customers. The primary source of water supply is surface water from rainfall stored in two reservoirs with a total capacity of 12,293 acre feet. The water system includes 169 miles of transmission and distribution pipelines and a 22.8 MGD state of the art treatment plant, constructed in 1994.

For the past ninety-four years, Paradise Irrigation District has been a strong proponent of watershed protection and lake management. The efforts to protect the Paradise Lake watershed and lake management practices developed by the District provide an excellent quality of water to the customers.

Economic Condition and Outlook

The Town of Paradise has been affected by the national economic condition. Forecloses continue to rise in the past year, along with personal bankruptcy cases. Unemployment has had the most dramatic increase in the past year.

With the current economic situation the District is faced with the challenge of keeping our water rates affordable to our customers and collecting enough revenue to continue our normal course of operation. The normal course in increasing revenue for a water District is either achieved by an increase in population or customers, or a rate increase. The District has tried to make minimal rate increases over a multiyear period to make sure the District's customers did not face a large one year rate increase in these tough times.

Major Initiatives

This year the District undertook major automated meter replacement project. The District contracted with Chevron Energy Solutions to replace approximately 75% of the Districts meters and install automated reading system on 100% of the Districts meters. The project is anticipated to save the District between 4% and 8% of its lost water, and 1 – 2 full time employees. The District also moved into a new office that is the first step in consolidating the office and corporation yard. The corporation yard is anticipated to be completed in the next 18 months.

Internal Control Structure

District management is responsible for the establishment and maintenance of the internal control structure that ensures the assets of the District are protected from loss, theft or misuse. The internal control structure also ensures adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The District's internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits requires estimates and judgments by management.

Budgetary Control

The District's Board of Directors annually adopts an operating and capital budget prior to the new fiscal year. The budget authorizes and provides the basis for reporting and control of financial operations and accountability for the District's enterprise operations and capital projects. The budget and reporting treatment applied to the District is consistent with the accrual basis of accounting and the financial statement basis.

Investment Policy

The Board of Directors annually adopts an investment policy that conforms to state law, District ordinance and resolutions, prudent money management, and the "prudent person" standards. The objective of the Investment Policy is safety, liquidity and yield. District funds are invested in the State Treasurer's Local Agency Investment Fund, Municipal Bonds, U.S. Treasury Bills and institutional savings and checking accounts.

Water Rates and District Revenues

District policy direction ensures that all revenues from user charges and surcharges generated from District customers must support all District operations including capital project funding. Accordingly, water rates are reviewed periodically. Water rates are user charges imposed on customers for services and are the primary component of the District's revenue. Water rates are composed of a commodity (consumption) charge and a fixed (service) charge.

Audit and Financial Reporting

State Law and Bond covenants require the District to obtain an annual audit of its financial statements by an independent certified public accountant. The accounting firm of Davis Hammon & Company has conducted the audit of the District's financial statements. Their unqualified Independent Auditor's Report appears in the Financial Section.

Risk Management

The District has purchased insurance for the purpose of protecting itself against general and auto liabilities in performing the District's services. The District is also a member of ACWA Joint Powers Authority for its workers' compensation coverage.

Other References

More information is contained in the Management's Discussion and Analysis and the Notes to the Basic Financial Statement found in the Financial Section of the report.

Respectfully submitted,

Signatures on File

George Barber
District Manager

Kevin Phillips
Treasurer

PARADISE IRRIGATION DISTRICT
Board of Directors
June 30, 2010

<u>NAME</u>		<u>DIVISION</u>
<i>Larry Duncan</i>	<i>President</i>	<i>#3</i>
<i>Ken Hunt</i>	<i>Vice-President</i>	<i>#1</i>
<i>Sep Carola</i>	<i>Director</i>	<i>#4</i>
<i>Rick Hall</i>	<i>Director</i>	<i>#5</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, 2010 and 2009, 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, 2010 and 2009, 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 17, 2010, 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 and the Required Supplementary Information on pages 8 through 12 and page 37 are not a required part of the basic financial statements but are supplementary 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 17, 2010



PARADISE IRRIGATION DISTRICT

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PARADISE IRRIGATION DISTRICT MANAGEMENT DISCUSSION AND ANALYSIS June 30, 2010 and June 30, 2009

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, 2010 and June 30, 2009. We encourage readers to consider the information presented here in conjunction with the transmittal letter in the Introductory Section and with the basic financial statements and related notes, which follow this section.

Financial Highlights

- In 2010, the District's net assets increased 1.36% or \$405,617 from \$29,788,546 to \$30,194,163. In 2009, the District's net assets increased 12.03% or \$3,197,667 from \$26,590,879 to \$29,788,546.
- The District's operating revenues decreased 2.85% or \$178,500 due to decrease in water consumption revenue in fiscal year 2010. The District's operating revenues increased 1.93% or \$118,542 due to increases water service fee revenue in fiscal year 2009.
- The District's operating expenses increased 7.23% or \$399,979 in 2010 primarily due to the District recorded the estimated cost for other post employment benefits obligation. The District's operating expenses increased 3.46% or \$185,013 in 2009 primarily due to overall increases in departmental and operational expenses in the fiscal year.

Required Financial Statements

This annual report consists of a series of financial statements. The Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets 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 Assets 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 Assets. 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 Assets and the Statement of Revenues, Expenses and Changes in Net Assets 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 assets* and changes in them. You can think of the District's net assets – 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 assets 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 standards.

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 Assets

Condensed Statement of Net Assets			
Assets:	2010	2009	Change
Current Assets	\$ 5,434,284	\$ 6,415,931	\$ (981,647)
Noncurrent Assets	5,877,532	2,664,187	3,213,345
Capital assets - net	38,315,433	34,384,889	3,930,544
Liabilities: Total Assets	\$ 49,627,249	\$ 43,465,007	\$ 6,162,242
Current Liabilities	3,641,551	2,356,638	1,284,913
Noncurrent Liabilities	15,791,535	11,319,823	4,471,712
Net assets: Total Liabilities	19,433,086	13,676,461	5,756,625
Net investment in capital assets	21,547,481	21,862,821	(315,340)
Restricted for debt service	2,084,999	1,509,999	575,000
Restricted for capacity fees	1,721,194	1,660,209	60,985
Unrestricted	4,840,489	4,755,517	84,972
Total Net Assets	30,194,163	29,788,546	405,617
Total Liabilities and net assets	\$ 49,627,249	\$ 43,465,007	\$ 6,162,242

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$30,194,163 and \$29,788,546 as of June 30, 2010 and 2009, respectively.

One of the largest portions of the District's net assets (71% and 73% as of June 30, 2010 and 2009, respectively) 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 years 2010 and 2009, the District showed a positive balance in its unrestricted net assets of \$4,840,489 and \$4,755,517, respectively.

Statement of Revenues, Expenses and Changes in Net Assets

	<u>2010</u>	<u>2009</u>	<u>Change</u>
Revenues:			
Operating revenues	\$ 6,090,977	\$ 6,269,477	\$ (178,500)
Non-operating revenues	732,785	2,550,317	(1,817,532)
Total revenues	<u>6,823,762</u>	<u>8,819,794</u>	<u>(1,996,032)</u>
Expenses:			
Operating expenses	4,337,630	4,023,621	314,009
Depreciation and amortization	1,595,976	1,510,006	85,970
Non-operating expenses	484,539	552,137	(67,598)
Total expenses	<u>6,418,145</u>	<u>6,085,764</u>	<u>332,381</u>
Net income before capital contributions	<u>405,617</u>	<u>2,734,030</u>	<u>(2,328,413)</u>
Capital contributions	-	463,637	(463,637)
Change in net assets	<u>405,617</u>	<u>3,197,667</u>	<u>(2,792,050)</u>
Net assets, beginning of year	<u>29,788,546</u>	<u>26,590,879</u>	<u>3,197,667</u>
Net assets, end of year	<u>\$ 30,194,163</u>	<u>\$ 29,788,546</u>	<u>\$ 405,617</u>

The statement of revenues, expenses and changes of net assets shows how the District's net assets changed during the fiscal years. In the case of the District, net assets increased by \$405,617 and \$3,197,667 for the fiscal years ended June 30, 2010 and 2009, respectively.

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

In 2010, the District's total revenues decreased by \$1,996,032 due to decrease in grant revenues in the current fiscal year. In addition, total expenses increased by \$332,381, primarily due to the recording of the estimated cost of other post employment benefit obligation.

In 2009, the District's total revenues increased by \$1,513,628 primarily due to an increase in grant revenue for the fiscal year 2008-09. In addition, total expenses decreased by \$40,548, primarily due to overall decreases in departmental and operational expenses in the fiscal year.

Operating Revenues

	<u>2010</u>	<u>2009</u>	<u>Change</u>	<u>2008</u>	<u>Change</u>
Operational Revenue					
Service Fee	\$ 4,012,075	\$ 4,017,681	\$ (5,606)	\$ 3,943,915	\$ 73,766
Quantity Charge	1,665,231	1,907,400	(242,170)	1,889,174	18,226
Fees & Adjustments	90,768	91,317	(549)	99,783	(8,466)
Outside water sales	198,141	187,093	11,049	114,937	72,155
Other Revenue	61,585	11,807	49,778	33,064	(21,257)
Rental Income	22,483	6,900	15,583	2,768	4,133
Recreation Fees	24,897	13,280	11,617	16,667	(3,387)
Escrow Fees	10,890	9,240	1,650	10,163	(923)
Backflow Charges	18,840	18,120	720	18,320	(200)
Annexation	-	-	-	20,361	(20,361)
Meter Charges	2,070	2,470	(400)	1,786	684
Gain/Loss of Sale of Property	(16,002)	4,170	(20,172)	-	4,170
Total	<u>\$ 6,090,977</u>	<u>\$ 6,269,477</u>	<u>\$ (178,500)</u>	<u>\$ 6,150,938</u>	<u>\$ 118,539</u>

In 2010, water sales decreased \$247,776 while other operating revenue increased \$64,612. In 2009, water sales increased by \$91,991, and outside water sales increased \$72,155, while other operating revenue decreased \$45,608.

Operating Expenses

	<u>2010</u>	<u>2009</u>	<u>Change</u>	<u>2008</u>	<u>Change</u>
Operational Expense					
Salaries and Benefits	\$ 2,966,456	\$ 2,833,443	\$ 133,012	\$ 2,832,857	\$ 587
Supplies	266,750	277,379	(10,629)	174,690	102,690
Utilities	230,531	222,835	7,695	264,653	(41,817)
Structures	138,168	175,536	(37,367)	118,066	57,470
Outside	169,006	185,988	(16,982)	135,152	50,836
Professional	80,756	79,065	1,691	200,158	(121,093)
Other	485,963	249,374	236,589	243,808	5,566
Depreciation & Amortization	1,595,976	1,510,006	85,970	1,383,296	126,710
Total	<u>\$ 5,933,606</u>	<u>\$ 5,533,627</u>	<u>\$ 399,979</u>	<u>\$ 5,352,679</u>	<u>\$ 180,948</u>

In 2010, other expenses increased by \$236,589, primarily due to recording other post employment benefit obligation. Salaries and Benefits increased due to normal union negotiated salary increases. In 2009, supplies expenses increased by \$102,690, primarily due to an increase in maintenance of pipelines.

Capital Asset Administration

At the end of fiscal years 2010 and 2009, the District's investment in capital assets amounted to \$38,315,433 and \$34,384,889, respectively, (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 years 2010 and 2009.

Changes in capital asset amounts for 2010 were as follows:

	<u>Balance</u> <u>6/30/2009</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance</u> <u>6/30/2010</u>
Capital assets:				
Non-depreciable assets	\$ 2,176,448	\$ 4,753,689	\$ -	\$ 6,930,137
Depreciable assets (less pipeline)	39,162,036	301,668	309,532	39,154,172
District installed pipeline	14,994,521	421,141	-	15,415,662
Accumulated depreciation and amortization	(21,948,116)	(1,545,954)	(309,532)	(23,184,538)
Total capital assets, net	<u>\$ 34,384,889</u>	<u>\$ 3,930,544</u>	<u>\$ -</u>	<u>\$ 38,315,433</u>

Changes in capital asset amounts for 2009 were as follows:

	<u>Balance</u> <u>6/30/2008</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance</u> <u>6/30/2009</u>
Capital assets:				
Non-depreciable assets	\$ 2,127,430	\$ 247,160	\$ 198,142	\$ 2,176,448
Depreciable assets (less pipeline)	37,501,917	1,825,417	165,298	39,162,036
District installed pipeline	12,356,274	2,638,247	-	14,994,521
Accumulated depreciation and amortization	(20,645,532)	(1,137,286)	(165,298)	(21,948,116)
Total capital assets, net	<u>\$ 31,340,089</u>	<u>\$ 3,573,537</u>	<u>\$ 198,142</u>	<u>\$ 34,384,889</u>

Debt Administration

In 2010 and 2009, long-term debt increased by \$4,289,800 and \$2,110,837 respectively, due to the issuance of \$5.72 million Certificate of Participation bonds for the meter replacement project in 2010 and securing private financing from City National Bank for 3.41 million for the construction of SCADA, Bille Road pipeline replacement, and the District's new corporation and administration building in 2009.

Changes in long-term debt amounts for 2010 were as follows:

	<u>Balance</u> <u>6/30/2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>6/30/2010</u>
Davis-Grunsky	\$ 1,227,217		\$ 139,926	\$ 1,087,292
Department of Water Resources	2,080,026		292,932	1,787,094
Davis-Grunsky Deferred interest	108,613		13,577	95,037
Water revenue refunding bonds	4,230,000		770,000	3,460,000
Kleinert Loan	25,000		25,000	-
CIEDB loan payable	1,923,811		78,300	1,845,511
City National Bank loan payable	3,406,643		110,466	3,296,177
Water revenue certificates of participation	-	5,720,000		5,720,000
	<u>\$ 13,001,311</u>	<u>\$ 5,720,000</u>	<u>\$ 1,430,200</u>	<u>\$ 17,291,111</u>

Changes in long-term debt amounts for 2009 were as follows:

	<u>Balance</u> <u>6/30/2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>6/30/2009</u>
Davis-Grunsky	\$ 1,364,268		\$ 137,050	\$ 1,227,218
Department of Water Resources	2,364,016		283,990	2,080,026
Davis-Grunsky Deferred interest	122,190		13,577	108,613
Water revenue refunding bonds	4,965,000		735,000	4,230,000
Kleinert Loan	75,000		50,000	25,000
CIEDB loan payable	2,000,000		76,189	1,923,811
City National Bank loan payable	-	3,460,000	53,357	3,406,643
	<u>\$ 10,890,474</u>	<u>\$ 3,460,000</u>	<u>\$ 1,349,163</u>	<u>\$ 13,001,311</u>

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 ASSETS
June 30, 2010 and 2009

Exhibit 1

<u>ASSETS</u>	<u>2010</u>	<u>2009</u>
Current Assets:		
Cash and cash equivalents	\$ 2,303,251	\$ 3,309,098
Restricted cash and cash equivalents with fiscal agent	2,353,115	1,290,685
Accounts receivable	310,492	301,136
Grants receivable	132,271	1,158,412
Taxes receivable	46,913	29,255
Interest receivable	585	1,474
Prepaid expenses	89,954	91,183
Inventories	197,703	234,688
Total Current Assets	5,434,284	6,415,931
Noncurrent Assets:		
Investments	3,925,525	2,435,444
Restricted investments with fiscal agent	1,595,574	
Debt issuance fees - net	356,433	228,743
Capital assets - net	38,315,433	34,384,889
Total Noncurrent Assets	44,192,965	37,049,076
Total Assets	49,627,249	43,465,007
 <u>LIABILITIES</u>		
Current Liabilities:		
Accounts payable	965,257	326,373
Accrued salaries and employee benefits	354,691	379,243
Accrued interest	117,568	63,464
Deposits	66,942	40,291
Funds held for others	172,264	116,279
Contract retentions payable	423,500	
Notes, contracts, bonds and COPs - current portion	1,541,329	1,430,988
Total Current Liabilities	3,641,551	2,356,638
Long-Term Debt:		
Other post employment benefits obligation	208,479	
Notes, contracts, bonds and COPs - long-term portion	15,583,056	11,319,823
Total Long-Term Debt	15,791,535	11,319,823
Total Liabilities	19,433,086	13,676,461
 <u>NET ASSETS</u>		
Invested in capital assets, net of related debt	21,547,481	21,862,821
Restricted for:		
Debt service	2,084,999	1,509,999
Capacity fees	1,721,194	1,660,209
Unrestricted	4,840,489	4,755,517
Total Net Assets	\$ 30,194,163	\$ 29,788,546

PARADISE IRRIGATION DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For The Years Ended June 30, 2010 and 2009

Exhibit 2

	2010	2009
Operating Revenues:		
Water sales and service	\$ 5,768,073	\$ 6,016,398
Outside water sales	198,141	187,093
Other	124,763	65,986
Total Operating Revenues	6,090,977	6,269,477
Operating Expenses:		
Save-A-Can/Buy-A-Fish Fund	7,364	8,540
Source of supply	55,878	82,325
Recreation	143,574	140,441
Water pumping	76,843	67,066
Water treatment	1,000,588	993,162
Transmission and distribution	1,248,094	1,211,876
Administration and general	1,805,289	1,520,211
Depreciation and amortization	1,595,976	1,510,006
Total Operating Expenses	5,933,606	5,533,627
Operating Income (Loss)	157,371	735,850
Nonoperating Revenues (Expenses):		
System capacity charges	18,962	65,641
Grant revenues - federal		3,562
Grant revenues - state and local	12,760	1,917,122
Gain (loss) on investments	90,369	(46,213)
Interest income	157,501	180,669
Taxes and assessments	453,086	429,536
Miscellaneous	107	
Interest expense	(484,539)	(552,137)
Total Nonoperating Revenues (Expenses)	248,246	1,998,180
Income before capital contributions	405,617	2,734,030
Facility contributions		463,637
Change in Net Assets	405,617	3,197,667
Net Assets - Beginning of Year	29,788,546	26,590,879
Net Assets - End of Year	\$ 30,194,163	\$ 29,788,546

**PARADISE IRRIGATION DISTRICT
STATEMENT OF CASH FLOWS
Proprietary Fund Type
For The Years Ended June 30, 2010 and 2009**

Exhibit 3

Page 1 of 2

	2010	2009
Cash Flows From Operating Activities:		
Cash received from water sales	\$ 5,983,509	\$ 6,285,936
Cash received from others	124,763	65,986
Cash payments to suppliers	(369,810)	(910,622)
Cash payments for employee salaries and benefits	(2,891,774)	(2,741,727)
Net Cash Provided (Used) By Operating Activities	2,846,688	2,699,573
Cash Flows From Noncapital Financing Activities:		
Payments on funds held for others	55,985	17,315
Grant revenues received	1,038,901	882,562
Taxes and assessments received	435,428	430,380
Other revenue received	107	
Net Cash Provided (Used) By Noncapital Financing Activities	1,530,421	1,330,257
Cash Flows From Capital And Related Financing Activities:		
System capacity charges	18,962	65,641
Additions to capital assets	(5,476,498)	(4,049,045)
Net proceeds and premiums from issuance of long-term debt	5,578,365	3,460,000
Principal payments on long-term debt	(1,430,198)	(1,349,163)
Other post employment benefits obligation	208,479	
Interest expense	(369,775)	(476,129)
Net Cash Provided (Used) By Capital and Related Financing Activities	(1,470,665)	(2,348,696)
Cash Flows From Investing Activities:		
Interest received	145,425	188,025
Investment transactions	(2,995,286)	(2,481,657)
Net Cash Provided (Used) By Investing Activities	(2,849,861)	(2,293,632)
Net Increase (Decrease) in Cash and Cash Equivalents	56,583	(612,498)
Cash and Cash Equivalents - Beginning of Year	4,599,783	5,212,281
Cash and Cash Equivalents - End of Year	\$ 4,656,366	\$ 4,599,783

**PARADISE IRRIGATION DISTRICT
STATEMENT OF CASH FLOWS
Proprietary Fund Type
For The Years Ended June 30, 2010 and 2009**

Exhibit 3

Page 2 of 2

	2010	2009
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) By Operating Activities:		
Operating income (loss)	\$ 157,371	\$ 735,850
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	1,545,954	1,467,882
Amortization	50,022	42,124
Decrease (increase) in receivables	(9,356)	71,002
Decrease (increase) in inventories	36,985	52,039
Decrease (increase) in prepaid expenses	1,229	(583)
Increase (decrease) in accounts payable	638,884	305,706
Increase (decrease) in accrued salaries and benefits	(24,552)	14,110
Increase (decrease) in deposits payable	26,651	11,443
Increase (decrease) in contract retentions payable	423,500	
Net Cash Provided (Used) By Operating Activities	\$ 2,846,688	\$ 2,699,573
Supplemental Disclosure of Cash Flow Information:		
Non-cash transactions during the year:		
Contributed water system facilities	\$ -	\$ 463,637
Interest paid	\$ 601,718	\$ 476,129

NOTES TO THE FINANCIAL STATEMENTS

**PARADISE IRRIGATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

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, 2010 and 2009, water was available to 10,093 and 10,091 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. Reporting Entity

These financial statements contain the financial data of Paradise Irrigation District and its component unit. The component unit discussed below is included in the District’s reporting entity because of the significance of its operational and financial relationship with the Paradise Irrigation District.

Paradise Irrigation District Public Facilities Financing Corporation

On January 13, 1993, the District approved the formation of the Paradise Irrigation District Public Facilities Financing Corporation (the Corporation). This corporation is a nonprofit public benefit corporation and is organized under the Nonprofit Public Benefit Corporation Law (commencing at Section 5110 of the California Corporations Code). The purpose of the Corporation is to provide assistance to the District in the financing of, or acquiring, constructing, rehabilitating, or financing public facilities, land, and equipment for the use, benefit, and enjoyment of the public.

Although the District and the Corporation are legally separate entities, the District exercises oversight responsibility over the Corporation. The following criteria were used in determining that the District exercises oversight:

- 1) The five (5) members of the District Board of Directors also act as the governing body of the Corporation.
- 2) The Corporation is managed by the employees of the District.

**PARADISE IRRIGATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

During the year ended June 30, 2010, the Corporation and the District entered into an Installment Sale Agreement, dated November 1, 2009, where the Corporation issued \$5,720,000 in revenue certificates of participation for the purchase of certain property and improvements on behalf of the District. Project funding includes \$4,979,874 earmarked for a District-wide automated meter reading system to be installed by Chevron Energy Solutions Company. The District is responsible for servicing the debt service payments which are payable solely from and secured by a pledge of net revenues from the District's water system. The certificates evidence the direct, undivided, proportionate interest of the owners thereof in installment payments to be paid by the District pursuant to the installment payment agreement. The Corporation's rights to receive installment payments and to exercise remedies upon an event of default under the installment purchase agreement have been assigned to the trustee for the benefit of the certificate owners. See Note 3(D) for additional information.

For the year ended June 30, 2009, the Corporation had no financial activity.

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.

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.

**PARADISE IRRIGATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The District's financial statements are presented in conformance with the provisions of Governmental Accounting Standards Board (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, 2010 and 2009.

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.

**PARADISE IRRIGATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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.

Interest is capitalized on assets acquired with debt. The amount of interest to be capitalized is offset by interest earned on invested debt proceeds over the construction period. Construction period interest incurred and capitalized for the years ended June 30, 2010 and 2009, amounted to \$185,204 and \$0, respectively.

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

6) Compensated Absences

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

**PARADISE IRRIGATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

6) Compensated Absences (Continued)

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 \$315,401 and \$343,880 at June 30, 2010 and 2009, respectively.

7) Other Post-employment Benefits – Governmental Accounting Standards Board Statement No.45

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.

Beginning with the fiscal year ended June 30, 2010, the District implemented GASB Statement No. 45 for the accrual of the liability for other post-employment benefits (OPEB) offered to employees. See Note 5 for required OPEB disclosures.

8) Deferred Bond and Certificate of Participation Issuance Costs

Deferred bond and certificate of participation (COP) issuance costs are amortized (straight-line method) over the life of the debt and are reported as a reduction of the bond and COP payable balances.

**PARADISE IRRIGATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

9) Bond and Certificate of Participation Premiums

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.

The certificate of participation premium, relating to the 2009 Water Revenue Certificate of Participation, is amortized (straight-line method) over the life of the COPs and is reported as an addition to the COP 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, 2010 AND 2009**

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, 2010</u>	<u>Balance June 30, 2009</u>
Statement of net assets:		
Cash and cash equivalents:		
Cash and cash equivalents	\$ 2,303,251	\$ 3,309,098
Restricted cash and cash equivalents with fiscal agent	<u>2,353,115</u>	<u>1,290,685</u>
Total cash and cash equivalents	<u>4,656,366</u>	<u>4,599,783</u>
Investments:		
Investments	3,925,525	2,435,444
Restricted investments with fiscal agent	<u>1,595,574</u>	<u> </u>
Total investments	<u>5,521,099</u>	<u>2,435,444</u>
Total cash and investments	<u><u>\$ 10,177,465</u></u>	<u><u>\$ 7,035,227</u></u>

Cash and investments are classified as follows:

	<u>Balance June 30, 2010</u>	<u>Balance June 30, 2009</u>
Cash on hand	\$ 1,000	\$ 1,000
Deposits with financial institutions	336,367	1,301,008
Money market funds	3,973,241	2,955,083
Local Agency Investment Fund	345,758	342,692
Investments	<u>5,521,099</u>	<u>2,435,444</u>
Total cash and investments	<u><u>\$ 10,177,465</u></u>	<u><u>\$ 7,035,227</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
Reverse Repurchase Agreements	92 Days	20% of Base	None
Medium-Term Notes	5 Years	30%	"A" Rating

**PARADISE IRRIGATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

NOTE 3 DETAILED FUND NOTES

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>
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/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.

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.

As of June 30, 2010, 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>1-5</u>	<u>More Than 5</u>
Federal National Mortgage Association	\$ 315,271		\$ 107,989	\$ 207,282
Federal Home Loan Bank	1,215,637		299,354	916,283
Federal Home Loan Mortgage Corporation	495,637		286,135	209,502
Federal Farm Credit Bank	634,407		101,000	533,407
Federal Treasury Obligation	49,079	\$ 49,079		
Mutual Funds	1,014,349	1,014,349		
Municipal Bonds	536,359			536,359
Certificates of Deposit	1,260,360		1,260,360	
Total Investments	<u>\$ 5,521,099</u>	<u>\$ 1,063,428</u>	<u>\$ 2,054,838</u>	<u>\$ 2,402,833</u>

As of June 30, 2009, 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>1-5</u>	<u>More Than 5</u>
Federal National Mortgage Association	\$ 305,594		\$ 203,469	\$ 102,125
Federal Home Loan Bank	909,377		204,219	705,158
Freddie Mac	101,597		101,597	
Federal National Mortgage Association	308,863		101,519	207,344
Federal Home Loan Mortgage Corporation	205,856		99,811	106,045
Federal Farm Credit Bank	604,157			604,157
Total Investments	<u>\$ 2,435,444</u>	<u>\$ -</u>	<u>\$ 710,615</u>	<u>\$ 1,724,829</u>

**PARADISE IRRIGATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

NOTE 3 DETAILED FUND NOTES (continued)

A. Cash and Investments (continued)

It should be noted that during the fiscal year ended June 30, 2010 and 2009, the District held investments whose term exceeded the 5-year maximum maturity date as outlined in the District's investment policy.

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations:

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

Highly Sensitive Investments	Fair Value at 6/30/10	Fair Value at 6/30/09
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>\$ 2,710,031</u>	<u>\$ 2,435,444</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, 2010 and 2009, the District's investments were in compliance with the ratings required by the District's investment policy and the Bond /COP Indenture Agreements.

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:

Issuer	Investment Type	Fair Value at 6/30/10	Fair Value at 6/30/09
FNMA	Mortgage-backed securities	\$ 315,271	\$ 614,457
FHLB	Mortgage-backed securities	1,215,637	909,377
FHLM	Mortgage-backed securities	495,637	205,856
Farm Credit Bank	Federal agency securities	634,407	604,157

**PARADISE IRRIGATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

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, 2010 and 2009, the deposits with financial institutions in excess of the federal depository insurance limits were collateralized as required by law. As of June 30, 2010, the carrying amount of the District's deposits was \$336,367, and the bank balances were \$434,496. 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. The differences between the carrying amounts and bank totals are due to normal deposits in transit and outstanding checks.

At June 30, 2010, the costs and fair values of the District's investments totaled \$5,424,620 and \$5,521,099, respectively. At June 30, 2009, the costs and fair values of the District's investments totaled \$2,468,428 and \$2,435,444, respectively.

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, 2010 AND 2009**

NOTE 3 DETAILED FUND NOTES (continued)

B. Capital Assets

Capital asset activity for the year ended June 30, 2010, was as follows:

	Balance June 30, 2009	Additions/ Reclassifications	Retirements	Balance June 30, 2010
Nondepreciable Capital Assets:				
Land	\$ 2,035,008			\$ 2,035,008
Construction in progress	141,440	\$ 4,753,689		4,895,129
Total Nondepreciable Capital Assets	2,176,448	4,753,689	\$ -	6,930,137
Capital Assets being depreciated:				
Dams and dam property	7,499,535			7,499,535
Recreational facilities	180,338	27,000		207,338
Pumping plant	495,980			495,980
Water treatment plant	20,955,791	8,128		20,963,919
Transmission and distribution system	22,034,986	421,141		22,456,127
General plant	355,138	39,234	8,044	386,328
Vehicles	1,651,801	227,306	301,488	1,577,619
Office facilities	982,988			982,988
Total Capital Assets being depreciated	54,156,557	722,809	309,532	54,569,834
Subtotal	56,333,005	5,476,498	309,532	61,499,971
Less: Accumulated depreciation	(21,948,116)	(1,545,954)	309,532	(23,184,538)
Net Capital Assets	\$ 34,384,889	\$ 3,930,544	\$ -	\$ 38,315,433

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	2,127,430	247,160	198,142	2,176,448
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	49,858,191	4,463,664	165,298	54,156,557
Subtotal	51,985,621	4,710,824	363,440	56,333,005
Less: Accumulated depreciation	(20,645,532)	(1,467,882)	165,298	(21,948,116)
Net Capital Assets	\$ 31,340,089	\$ 3,242,942	\$ 198,142	\$ 34,384,889

**PARADISE IRRIGATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

NOTE 3 DETAILED FUND NOTES (continued)

C. Debt Issuance Fees

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

	Department of Water Resources (DWR)	2001 Bond Refunding	2009 Certificates of Participation	Totals
Debt Issuance Fees	\$ 250,000	\$ 312,000	\$ -	\$ 562,000
Accumulated amortization through June 30, 2008	(123,133)	(168,000)		(291,133)
Amortization expense June 30, 2009	(18,124)	(24,000)		(42,124)
Debt Issuance Fees - Net at June 30, 2009	108,743	120,000	-	228,743
2009 COP Issuance Fees			177,712	177,712
Amortization expense June 30, 2010	(18,124)	(24,000)	(7,898)	(50,022)
Debt Issuance Fees - Net at June 30, 2010	<u>\$ 90,619</u>	<u>\$ 96,000</u>	<u>\$ 169,814</u>	<u>\$ 356,433</u>

The Department of Water Resources loan fees will be fully amortized in 2015. The 2001 Bond Refunding debt issuance fees will be fully amortized in 2014. The COP debt issuance fees will be fully amortized in 2025.

D. Long-term Debt

District long-term debt consisted of the following:

	<u>June 30, 2010</u>	<u>June 30, 2009</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.	\$ 1,087,292	\$ 1,227,218
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.	1,787,094	2,080,026
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.	95,037	108,613
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.	3,460,000	4,230,000
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
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.	1,845,511	1,923,811
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.	3,296,177	3,406,643
Subtotal	<u>11,571,111</u>	<u>13,001,311</u>

**PARADISE IRRIGATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

NOTE 3 DETAILED FUND NOTES (continued)

D. Long-Term Debt (continued)

	June 30, 2010	June 30, 2009
2.0-4.50% 2009 Water Revenue Certificates of Participation. Annual principal and interest payments of \$95,323 to \$617,894, due October 1st of each year. All net water system revenues are pledged against the certificates of participation. The certificates of participation mature from October 2010 to October 2024	5,720,000	
Subtotal	17,331,470	13,041,305
Less: Water Revenue Refunding Bonds, net deferred bond costs	(242,640)	(303,300)
Add: Water Revenue Refunding Bonds, net original issue premiums	42,240	52,800
Add: Water Revenue COPs, net original issue premiums	33,674	
Less: Current portion	(1,541,329)	(1,430,988)
Long-Term Debt	\$ 15,623,415	\$ 11,359,817

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, 2010:

	Balance June 30, 2009	Additions	Reductions	Balance June 30, 2010	Due within one year
Davis-Grunsky	\$ 1,227,218		\$ (139,926)	\$ 1,087,292	\$ 144,326
Department of Water Resources	2,080,026		(292,932)	1,787,094	302,297
Davis-Grunsky deferred interest	108,613		(13,576)	95,037	13,577
Water revenue refunding bonds	4,230,000		(770,000)	3,460,000	805,000
Kleinert note payable	25,000		(25,000)	-	
CIEDB loan payable	1,923,811		(78,300)	1,845,511	80,468
City National Bank loan payable	3,406,643		(110,466)	3,296,177	115,661
Water revenue certificates of participation		\$ 5,720,000		5,720,000	80,000
Total	\$ 13,001,311	\$ 5,720,000	\$ (1,430,200)	\$ 17,291,111	\$ 1,541,329

Annual requirements to amortize long-term debt outstanding as of June 30, 2010, are set forth below:

	Principal	Interest	Total
2011	\$ 1,541,329	\$ 681,058	\$ 2,222,387
2012	1,607,249	618,167	2,225,416
2013	1,668,797	552,509	2,221,306
2014	1,731,392	488,109	2,219,501
2015	1,144,268	413,058	1,557,326
2016-2020	4,063,993	1,547,782	5,611,775
2021-2025	4,304,967	738,719	5,043,686
2026-2029	1,229,116	97,089	1,326,205
Totals	\$ 17,291,111	\$ 5,136,491	\$ 22,427,602

**PARADISE IRRIGATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

NOTE 3 DETAILED FUND NOTES (continued)

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, 2010 and 2009, were \$172,264 and \$116,279, respectively.

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:

	2010	2009
Designated for:		
Replacements	\$ 804,208	\$ 839,797
Save-A-Can/Buy-A-Fish	12,168	11,206
Unfunded Employee Vacation Pay	231,779	224,166
Town of Paradise	12,000	12,000
Capital Projects	3,780,334	2,411,894
Maintenance and Operations		1,256,454
	\$ 4,840,489	\$ 4,755,517
Total		

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, 2010 and 2009, were \$244,934 and \$241,903, respectively.

**PARADISE IRRIGATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

NOTE 5 OTHER POST EMPLOYMENT BENEFITS (OPEB)

This note includes information required by GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The District has elected to implement GASB Statement No. 45, effective with the fiscal year ended June 30, 2010.

Plan Description. The District administers a single-employer defined benefit healthcare plan. The plan provides health insurance coverage for active and retired employee members. As outlined in Note 1 (C)(7), the District pays premium costs for eligible retirees. For the fiscal year ended June 30, 2010, the District had four (4) retired employees participating in the program. The District currently has 43 active employees who may become eligible to retire and receive benefits in the future.

Funding Policy. The contribution requirements of the District are established and may be amended by the Board of Directors. While GASB Statement No. 45 requires that the liability for all post-employment benefits be measured, it does not require that the District “pre-fund” the accrued liability. The District is currently funding the post-employment health care cost on a “pay-as-you-go” basis. The provisions of GASB Statement No. 45 determine the amount that must be presented as an annual expense and accrued liability on the District’s financial statements.

Annual OPEB and Net OPEB Obligation. The District’s annual OPEB cost (expense) is calculated based on the *annual required contribution of the employer* (ARC). The District has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess). The following table identifies the components of the District’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District’s net OPEB obligation to the retiree health plan:

Annual required contribution:	
Service cost at year-end	\$ 123,008
30 year amortization of unfunded accrued liability	<u>127,688</u>
Total annual required contribution	250,696
Employer contributions during the fiscal year	<u>(42,217)</u>
Net OPEB obligation at June 30, 2010	<u><u>\$ 208,479</u></u>

As previously mentioned, the District elected to implement the provisions of GASB Statement No. 45 for the fiscal year ended June 30, 2010. The District has elected to implement GASB Statement No. 45 prospectively. Therefore, prior year comparative data is not available. In future years, the required three-year trend information will be presented. The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year ended June 30, 2010, is presented as follows:

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Actual Employer Contribution</u>	<u>Percentage Contributed</u>	<u>Net Ending OPEB</u>
6/30/10	\$ 250,696	\$ 42,217	17%	\$ 208,479

**PARADISE IRRIGATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

NOTE 5 OTHER POST EMPLOYMENT BENEFITS (OPEB) (continued)

Funding Status and Progress. The June 30, 2010, funded status of the plan based on an actuarial study using age-adjusted premiums was as follows:

Actuarial accrued liability (AAL)	\$	1,962,880
Actuarial value of plan assets		-
Unfunded actuarial accrued liability (UAAL)	\$	1,962,880
Funded ratio (actuarial value of plan assets/AAL)		0%
Covered payroll (active plan members)	\$	2,261,442
UAAL as a percentage of covered payroll		87%

Actuarial valuations for an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Actuarially determined amounts are subject to continuous revision as actual results are compared to past expectations and new estimates about the future are formulated. Although the valuation results are based on the values which the District's actuarial consultant believes are reasonable assumptions, the valuation results reflect a long-term perspective and, as such, are merely an estimate of what future costs might actually be. Deviations in any of several factors, such as future interest rates and medical cost inflation could result in actual costs being less or greater than estimated.

The schedule of funding progress presented as required supplementary information following the notes to the financial statements, will present multi-year trend information that shows whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. Because the fiscal year ended June 30, 2010, was the year of implementation of GASB Statement No. 45 and the District elected to apply the statement prospectively, only one year is presented in the schedule at this time. In future years, required trend data will be presented.

Actuarial Methods and Assumptions. Projections for benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the type of benefits provided at the time of each valuation. The 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.

Under the alternative measurement method used to compute the value of the liability for the District's post-employment health care benefits, it was necessary to make certain assumptions. The significant assumptions used for the District's valuation were as follows:

**PARADISE IRRIGATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

NOTE 5 OTHER POST EMPLOYMENT BENEFITS (OPEB) (continued)

Valuation Date		July 1, 2009
Discount Rate		5%
Ultimate Trend Rate		5%
Healthcare trend rates:	2009	7%
	2010	6%
	2011	5%
	2012	5%
	2013	5%
	2014	5%
	2015	5%
	2016	5%
	2017	5%
	2018	5%
Dental		4%
Vision (tied to dental)		4%
Other (tied to dental)		4%
Age-adjustment factor		4%
Cap inflator (full inflation)		-1%
Percent of retirees with spouses		60%

NOTE 6 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.

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 7 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.

**PARADISE IRRIGATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

NOTE 7 WATER RIGHTS (continued)

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 8 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 9 CONSTRUCTION COMMITMENTS

During the fiscal year ended June 30, 2010, the District entered into a service contract with Chevron Energy Solutions Company for the installation of an automated meter reading system. Funding for the project was provided by the 2009 Water System Certificates of Participation Financing. The contract amount totaled \$4,979,874. As of June 30, 2010, \$4,235,000 of the contract total had been expended. The project expenses incurred through June 30, 2010, are reported as construction in progress and included in the Capital Assets total reported on the accompanying financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

**PARADISE IRRIGATION DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION
 Schedule of Funding Progress
 Other Post-Employment Benefits (OPEB)**

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]
June 30, 2010	\$ -	\$ 1,962,880	\$ 1,962,880	0%	\$ 2,261,442	87%

Note: The District began implementation of GASB Statement No. 45 for the fiscal year ended June 30, 2010.

OTHER INDEPENDENT AUDITORS' REPORTS



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

Stephen B. Norman, CPA • PFS
Stephen J. Herr, CPA
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**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, 2010, and have issued our report thereon dated November 17, 2010. 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 *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 Paradise Irrigation District's financial statements will not be prevented, or detected and corrected on a timely basis.

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 deficiencies, 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 17, 2010