

PARADISE IRRIGATION DISTRICT

Paradise, California

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION WITH
INDEPENDENT AUDITORS' REPORTS**

Year Ended June 30, 2017

Tittle & Company, LLP

PARADISE IRRIGATION DISTRICT

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FINANCIAL SECTION



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INDEPENDENT AUDITORS' REPORT

Board of Directors
Paradise Irrigation District
Paradise, California

Report on the Financial Statements

We have audited the accompanying financial statements of Paradise Irrigation District (the District), as of and for the year ended June 30, 2017, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

INDEPENDENT AUDITORS' REPORT

Continued

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District, as of June 30, 2017, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the California State Controller's Office and state regulations governing special districts.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedule of funding progress for other postemployment benefits plan listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Tittle & Company, LLP

Chico, California
February 8, 2018

PARADISE IRRIGATION DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Year Ended 30, 2017

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Paradise Irrigation District (District) provides an introduction to the financial statements of the District for the fiscal year ended June 30, 2017. We encourage readers to consider the information presented here in conjunction with the basic financial statements and related notes, which follow this section.

Financial Highlights

- In 2017, the District's net assets increased 1.35% or \$403,003 from \$29,950,352 to \$30,353,355.
- The District's operating revenues increased 17.72% or \$1,091,819 from \$6,162,762 to \$7,254,581.
- The District's operating expenses increased 3.96% or \$276,930 from \$6,996,669 to \$7,273,599.

Required Financial Statements

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

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

Financial Analysis of the District

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

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

**PARADISE IRRIGATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**

Year Ended 30, 2017

Notes to the Basic Financial Statements

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

Statement of Net Position

	2017	2016	Change
Assets:			
Current Assets	\$ 3,710,048	\$ 3,085,659	\$ 624,389
Noncurrent Assets	339,719	359,710	(19,991)
Capital Assets - Net of Depreciation	36,217,790	37,207,532	(989,742)
Total Assets	\$ 40,267,557	\$ 40,652,901	\$ (385,344)
Liabilities:			
Current Liabilities	\$ 2,091,151	\$ 2,270,263	\$ (179,112)
Noncurrent Liabilities	7,823,051	8,432,286	(609,235)
Total Liabilities	9,914,202	10,702,549	(788,347)
Net Position:			
Net Investment in Capital Assets	28,406,037	28,627,163	(221,126)
Restricted for Debt Service	570,000	753,000	(183,000)
Restricted for Capacity Fees	220,071	163,183	56,888
Unrestricted	1,157,247	407,006	750,241
Total Net Position	30,353,355	29,950,352	403,003
Total Liabilities and Net Position	\$ 40,267,557	\$ 40,652,901	\$ (385,344)

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$30,353,355 as of June 30, 2017.

One of the largest portions of the District's net position (93.58% as of June 30, 2017) reflects the District's investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to customers within the District's service area; consequently, these assets are *not* available for future spending.

At the end of fiscal year 2017, the District showed a positive balance in its unrestricted net position of \$1,157,247.

PARADISE IRRIGATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Year Ended 30, 2017

Statement of Revenues, Expenses and Changes in Net Position

	2017	2016	Change
Revenues:			
Operating Revenues	\$ 7,254,581	\$ 6,162,762	\$ 1,091,819
Nonoperating Revenues	629,732	633,895	(4,163)
Total Revenues	7,884,313	6,796,657	1,087,656
Expenses:			
Operating Expenses	5,421,557	5,101,057	320,500
Depreciation and Amortization	1,852,042	1,895,612	(43,570)
Nonoperating Expenses	374,628	361,691	12,937
Total Expenses	7,648,227	7,358,360	289,867
Net Income before Capital Contributions	236,086	(561,703)	797,789
Capital Contributions:	166,917	19,700	147,217
Change in Net Position	403,003	(542,003)	945,006
Net Position, Beginning of Year	29,950,352	30,492,355	(542,003)
Net Position, End of Year	\$ 30,353,355	\$ 29,950,352	\$ 403,003

The statement of revenues, expenses and changes in net position shows how the District's net position changed during the fiscal year. Net position increased by \$403,003 for the fiscal year ended June 30, 2017.

A closer examination of the sources of changes in net position reveals that in 2017, the District's total revenues increased by \$1,087,656 and total expenses increased by \$289,867.

Operating Revenues

	2017	2016	Change
Operating Revenues			
Service Fee	\$ 4,399,417	\$ 4,390,379	\$ 9,038
Quantity Charge	2,629,210	1,543,286	1,085,924
Fees & Adjustments	40,202	42,600	(2,398)
Outside Water Sales	128,186	125,647	2,539
Recreation Fees	38,814	44,224	(5,410)
Backflow Charges	10,940	10,080	860
Meter Charges	7,812	6,546	1,266
Total Operating Revenues	\$ 7,254,581	\$ 6,162,762	\$ 1,091,819

In 2017, operating revenues increased by \$1,091,819. This is due to an increase in quantity charge revenue. Revenue increased due to the District's new rates implemented on April 8, 2016 and January 1, 2017, that charged customers more for water services.

PARADISE IRRIGATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Year Ended 30, 2017

Operating Expenses

	2017	2016	Change
Operating Expenses			
Salaries and Benefits	\$ 3,693,199	\$ 3,680,526	\$ 12,673
Supplies	471,419	253,203	218,216
Utilities	214,896	208,164	6,732
Structures	277,955	298,424	(20,469)
Outside	228,298	222,406	5,892
Professional	269,191	283,091	(13,900)
Other	266,599	155,243	111,356
Total Operating Expenses	\$ 5,421,557	\$ 5,101,057	\$ 320,500

In 2017, operational expenses increased by \$320,500, primarily due to Automated Meter Reading system needing an increased amount of battery and reading device replacements. There was also an increase in water leaks that required an increase in supplies compared to prior year. Nonoperating expenses increased by \$13,758 due to an increase in trustee charges and cost of issuance for 2009 US Bank Loan in the current fiscal year.

Capital Asset Administration

At the end of fiscal years 2017, the District's investment in capital assets amounted to \$36,217,790 (net of accumulated depreciation). This investment in capital assets includes land, land rights, transmission and distribution systems, wells, tanks, reservoirs, pumps, buildings and structures, equipment, vehicles and construction-in-process, etc. There were numerous capital asset additions in fiscal year 2017.

Changes in capital asset amounts for 2017 were as follows:

	Balance 6/30/2016	Additions	Transfers/ Deletions	Balance 6/30/2017
Capital Assets				
Non-Depreciable Assets	\$ 3,964,223	\$ 375,937	\$ -	\$ 4,340,160
Depreciable Assets	64,963,227	486,363	-	65,449,590
Accumulated Depreciation and Amortization	(31,719,918)	(1,852,042)	-	(33,571,960)
Total Capital Assets, Net	\$ 37,207,532	\$ (989,742)	\$ -	\$ 36,217,790

PARADISE IRRIGATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Year Ended 30, 2017

Debt Administration

In 2017, City National Bank loan was refinanced with the Private Placement loan.

Changes in long-term debt amounts for 2017 were as follows:

	Balance 6/30/2016	Additions	Reductions	Balance 6/30/2017
Davis-Grunsky	\$ 167,067	\$ -	\$ 167,067	\$ -
Davis-Grunsky Deferred interest	13,304	-	13,304	-
Private Placement Loan	-	2,640,000	202,000	2,438,000
CIEDB loan payable	1,328,005	-	94,803	1,233,202
City National Bank loan payable	2,515,297	-	2,515,297	-
Certificates of Participation 2009	4,570,000	-	430,000	4,140,000
Subtotal	8,593,673	2,640,000	3,422,471	7,811,202
Certificates of Participation Premium	19,240	-	2,405	16,835
Total	\$ 8,612,913	\$ 2,640,000	\$ 3,424,876	\$ 7,828,037

Conditions Affecting Current Financial Position

Management is unaware of any conditions, which could have significant impact on the District's current financial position, net assets or operating results in terms of past, present and future.

Requests for Information

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

PARADISE IRRIGATION DISTRICT
STATEMENT OF NET POSITION
June 30, 2017

ASSETS	
Current Assets	
Cash and cash equivalents	\$ 1,438,452
Restricted cash and cash equivalents	827,265
Prepaid expenses	97,875
Accounts receivable	1,092,336
Other receivables	24,466
Inventories	217,655
Note receivable	11,999
Total Current Assets	3,710,048
Noncurrent Assets	
Investments	69,769
Note receivable - net of current portion	269,950
Capital assets - net of depreciation	36,217,790
Total Noncurrent Assets	36,557,509
TOTAL ASSETS	\$ 40,267,557

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

PARADISE IRRIGATION DISTRICT
STATEMENT OF NET POSITION
June 30, 2017

LIABILITIES	
Current Liabilities	
Accounts payable	\$ 155,868
Accrued payroll liabilities	435,732
Accrued interest	67,950
Funds held for others	495,068
Deposits	199,698
Current portion of long-term debt	736,835
Total Current Liabilities	2,091,151
Noncurrent Liabilities	
Long-term debt - net of current portion	7,091,203
Other postemployment benefits obligation	731,848
Total Noncurrent Liabilities	7,823,051
TOTAL LIABILITIES	\$ 9,914,202
NET POSITION	
Net investment in capital assets	\$ 28,406,037
Restricted for:	
Debt service	570,000
Capacity fees	220,071
Unrestricted	1,157,247
TOTAL NET POSITION	\$ 30,353,355

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

PARADISE IRRIGATION DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION
Year Ended June 30, 2017

OPERATING REVENUES	
Water sales and service	\$ 7,066,619
Outside water sales	128,186
Other operating revenues	59,776
TOTAL OPERATING REVENUES	7,254,581
OPERATING EXPENSES	
Salaries and benefits	3,693,199
Supplies	471,419
Office	199,981
Utilities	214,896
Repairs and maintenance	77,974
Gas and oil	45,498
Insurance	97,506
Training	78,903
Service charges	51,344
Professional fees	269,191
License and fees	51,889
Other	169,757
Depreciation	1,852,042
TOTAL OPERATING EXPENSES	7,273,599
OPERATING LOSS	(19,018)
NONOPERATING REVENUE (EXPENSES)	
Gain on investments	186
Interest income	27,058
Interest expense	(332,804)
Property taxes and assessments	468,867
Connection fees	56,888
Other expenses	(41,824)
Other income	76,733
TOTAL NONOPERATING REVENUE (EXPENSES)	255,104
GAIN BEFORE CAPITAL CONTRIBUTIONS	236,086
FACILITY CONTRIBUTIONS	166,917
CHANGE IN NET POSITION	403,003
NET POSITION - JULY 1, 2016	29,950,352
NET POSITION - JUNE 30, 2017	\$ 30,353,355

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

PARADISE IRRIGATION DISTRICT
STATEMENT OF CASH FLOWS
Year Ended June 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from customers for water sales	\$ 7,118,620
Received from others	59,776
Paid to suppliers of goods and services	(1,769,029)
Paid for employee salaries and benefits	(3,664,806)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,744,561
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Payments on funds held for others	(11,374)
Taxes and assessments received	470,916
Other revenue received	76,733
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	536,275
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of capital assets	(695,383)
Principal payments on long-term debt	(784,875)
Interest paid	(346,573)
Connection fees	56,888
Other expenses paid	(41,824)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(1,811,767)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	27,058
Principal received on note receivable	9,422
Investment transactions	264,593
NET CASH PROVIDED BY INVESTING ACTIVITIES	301,073
NET INCREASE IN CASH AND CASH EQUIVALENTS	770,142
CASH AND CASH EQUIVALENTS - JULY 1, 2016	1,495,575
CASH AND CASH EQUIVALENTS - JUNE 30, 2017	\$ 2,265,717

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

PARADISE IRRIGATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2017

NOTE 1. Significant Accounting Policies

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

Financial Reporting Entity

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

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

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

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

Paradise Irrigation District Public Facilities Financing Corporation (the Corporation) was incorporated in January 1993. The Corporation is a nonpublic benefit corporation whose primary purpose is to provide assistance to the District by financing acquisition, construction and installation of public facilities for use of the District. Separate financial statements for the Corporation are not issued. The Corporation had no activity for the year ended June 30, 2017.

Basic Financial Statements

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

Basis of Presentation

Proprietary funds account for activities of the District similar to those found in the private sector, where cost recovery and the determination of net income are useful or necessary for sound fiscal management. The focus of proprietary fund measurement is upon the determination of operating

PARADISE IRRIGATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2017

income, changes in net position, financial position and cash flows. Currently enterprise funds are the only type of proprietary fund that the District uses.

Measurement Focus and Basis of Accounting

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

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

Cash and Cash Equivalents

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

Restricted Assets

The restricted cash and cash equivalents are certain resources set aside for repayment of debt obligations and are classified as restricted assets on the Statement of Net Position, because they are maintained in separate bank accounts and their use is limited by applicable debt covenants.

Receivables

Accounts receivable consists of amounts due on water services from customers. Delinquent receivables are submitted annually to the Butte County Tax Assessor to be encumbered on secured property tax bills. As a result of the process, no doubtful account allowance was deemed necessary on June 30, 2017. Other receivables consist primarily of grants receivable for expenses incurred on pipeline projects.

Inventory

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

Prepaid Expenses

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

PARADISE IRRIGATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

Year Ended June 30, 2017

Capital Assets

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

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

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

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

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

Compensated Absences

Vacation and sick leave is accumulated for District employees at varying amounts per year depending on length of employment. Upon termination of employment the District will pay out vacation at 100% of accumulated amounts and sick leave at varying amounts from 25% to 75%, depending on the length of employment.

The District has accrued a liability for accrued vacation and sick leave that has been earned but not taken by District employees. The accrued liability is included in the accrued payroll liabilities at June 30, 2017.

Long-Term Debt

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

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

PARADISE IRRIGATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

Year Ended June 30, 2017

Net Position

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

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

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

Operating Revenues and Expenses

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

Property Tax Revenue

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

Unbilled Service Revenues

Operating revenues for the District include sales of water. These revenues are billed to customers monthly. Unbilled revenue is recorded based on usage as of June 30, 2017, that is billed during the month of July 2017. Unbilled revenue in the amount of \$739,974 is included in revenues for the year ended June 30, 2017.

Facility Contributions

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

Estimates

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

PARADISE IRRIGATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2017

NOTE 2. CASH AND INVESTMENTS

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

Cash and cash equivalents	\$ 1,438,452
Restricted cash and cash equivalents	827,265
Total Cash and Cash Equivalents	2,265,717
Investments	69,769
Total Cash and Investments	\$ 2,335,486

Cash and investments at June 30, 2017, consist of the following:

Petty cash	\$ 1,000
Demand deposits	1,057,466
Local Agency Investment Fund	1,207,251
Investments	69,769
Total Cash and Investments	\$ 2,335,486

Deposits

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

As of June 30, 2017, all of the District's deposits in excess of the federal depository insurance limits were collateralized as required by law. As of June 30, 2017, the carrying amount of the District's deposits, were \$1,057,466, and the bank balances were \$1,119,121.

PARADISE IRRIGATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2017

Investments

As of June 30, 2017, the District had the following investments:

Investment Description	Fair Value	Investment Maturities (in Years)	
		Less than 1	1 to 5
Municipal Bonds	\$ 69,769	\$ -	\$ 69,769
Total Investments	\$ 69,769	\$ -	\$ 69,769

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

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

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code 53601 through 53659 and contractual agreements.

Investments held by the bond/COP fiscal agents (trustees) are governed by the provisions of the various debt indenture agreements rather than the general provisions of the District's investment policy or the California Government Code.

PARADISE IRRIGATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2017

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

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

Credit Risk

California Government Code Section 53601 limits investments in commercial paper to "prime" quality of the highest ranking or of the highest letter and numerical rating as provided by Nationally Recognized Statistical Rating Organizations (NRSROs), and limits investments in medium-term notes to a rating of A or better. The District has no investment policy that would further limit its investment choices. The District's investment in the local agency investment pool is unrated. As of June 30, 2017, the District's investments were in compliance with the ratings required by the District's investment policy and the Bond/COP Indenture Agreements.

Interest Rate Risk

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

PARADISE IRRIGATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2017

NOTE 3. NOTE RECEIVABLE

Note receivable at June 30, 2017, consisted of the following:

Note receivable from The ARC of Butte Co. Inc., in monthly installments of \$2,498 including interest at 6.50%. The note is due in January 2032 and is secured by real property.	\$	281,949
Less: Current Portion		(11,999)
Note Receivable, Net of Current Portion	\$	269,950

NOTE 4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017, is shown below:

	Balance July 1, 2016	Additions	Deductions	Balance June 30, 2017
Capital assets, not being depreciated:				
Land	\$ 2,013,637	\$ 58,055	\$ -	\$ 2,071,692
Construction in Progress	1,950,586	317,882	-	2,268,468
Total capital assets, not being depreciated	3,964,223	375,937	-	4,340,160
Capital assets, being depreciated:				
Dams & Dam Property	7,499,535	-	-	7,499,535
Recreational Facilities	202,868	-	-	202,868
Pumping Plant	495,980	-	-	495,980
Water Treatment Plant	19,284,968	-	-	19,284,968
Transmission and Distribution System	31,173,252	486,363	-	31,659,615
General Plant	3,286,094	-	-	3,286,094
Vehicles	1,796,199	-	-	1,796,199
Office Facilities	1,224,331	-	-	1,224,331
Total capital assets, being depreciated	64,963,227	486,363	-	65,449,590
Less accumulated depreciation for:				
Dams & Dam Property	4,729,070	116,647	-	4,845,717
Recreational Facilities	161,874	5,890	-	167,764
Pumping plant	362,445	13,288	-	375,733
Water Treatment Plant	9,622,161	480,536	-	10,102,697
Transmission and Distribution System	14,161,579	1,068,563	-	15,230,142
General Plant	642,846	85,367	-	728,213
Vehicles	1,652,023	33,787	-	1,685,810
Office Facilities	387,920	47,964	-	435,884
Total accumulated depreciation	31,719,918	1,852,042	-	33,571,960
Total capital assets, being depreciated, net	33,243,309	(778,337)	-	31,877,630
Capital assets, net of depreciation	\$ 37,207,532	\$ (402,400)	\$ -	\$ 36,217,790

Depreciation expense for the year ended June 30, 2017 totaled \$1,852,042.

PARADISE IRRIGATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2017

NOTE 5. LONG-TERM DEBT

Long-term debt at June 30, 2017, consisted of the following:

Private Placement Loan payable to Capital One Public Funding, LLC with principal and interest payments at 2.42% due semi-annually in November and May. The loan is due in November 2028.	\$ 2,438,000
Loan payable to the California Infrastructure and Economic Development Bank, with principal payments due annually in September and interest payable semi-annually at 2.77%. The note is due in September 2027.	1,233,202
2009 Water Revenue Certificates of Participation at 2.00-4.65%. Annual principal and interest payments of \$95,323 to \$617,094 are due October of each year. All net water system revenues are pledged against the certificates of participation. The certificates mature from October 2010 to October 2024.	4,140,000
Add: Water Revenue COPs, net original issue premiums	16,836
Subtotal	7,828,038
Less: Current Portion	(736,835)
Long-Term Debt , Net of Current Portion	\$ 7,091,203

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

	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017	Amounts Due Within One Year
Davis Grunsky	\$ 167,067	\$ -	\$ 167,067	\$ -	\$ -
Davis Grunsky - Deferred Interest	13,304	-	13,304	-	-
Private Placement Loan	-	2,640,000	202,000	2,438,000	187,000
CIEBD Loan Payable	1,328,005	-	94,803	1,233,202	97,429
City National Bank Loan Payable	2,515,296	-	2,515,296	-	-
Water Revenue Certificates of Participation	4,570,000	-	430,000	4,140,000	450,000
2009 COP Premium	19,241	-	2,405	16,836	2,406
Total	\$ 8,612,913	\$ 2,640,000	\$ 3,424,875	\$ 7,828,038	\$ 736,835

PARADISE IRRIGATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2017

Annual requirements to amortize long-term debt outstanding as of June 30, 2017, are as follows:

Years Ending June 30	Principal	Interest	Total
2018	\$ 736,835	\$ 257,778	\$ 994,613
2019	758,533	232,193	990,726
2020	785,307	205,734	991,041
2021	813,157	177,986	991,143
2022	841,086	148,569	989,655
2023-2027	3,407,077	295,165	3,702,242
2028-2029	486,043	10,473	496,516
Totals	\$ 7,828,038	\$ 1,327,898	\$ 9,155,936

NOTE 6. FUNDS HELD FOR OTHERS

On June 5, 1991, the District entered into an agreement with the Town of Paradise Fire Department (the Town) to collect a surcharge to maintain hydrants. This agreement was amended in 1999 to include pre-approved relocation and/or replacement of water mains. The agreement was most recently amended on July 1, 2004, to address changes in administrative fees charged by the District. Funds collected and not expended or returned to the Town are reflected as a liability. The amount owed to the Town at June 30, 2017, is \$495,068.

NOTE 7. DEFERRED COMPENSATION AND MONEY PURCHASE RETIREMENT PLANS

The District participates in a 457 Deferred Compensation Plan and 401(a) Money Purchase Retirement Plan, both of which are administered by the ICMA Retirement Corporation for the benefit of its employees. The District's manager has a separate 401(a) plan administered by the ICMA Retirement Corporation. The purpose of these programs is to provide deferred compensation for employees that elect to participate in the plans. Generally, eligible employees may defer receipt of a portion of their salary until termination, retirement, death or unforeseen emergency. The District will contribute 9% of the employees' base pay to the 457 Plan and will match up to 3% of the employees' elected deferral into the 401(a) Plan. Employees may elect to defer up to 3% of their base pay to the 457 Plan. The District's retirement contribution expense for the year ended June 30, 2017, was \$297,542.

PARADISE IRRIGATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2017

NOTE 8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (OPEB)

Plan Description

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

On June 30, 2017, 4 retirees met these eligibility requirements and were participants. The District currently has 32 additional active employees who may become eligible to retire and receive benefits in the future.

Funding Policy

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

Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution (ARC)	\$ 121,151
Interest adjustment	30,571
Amortization of unfunded actuarial liabilities	(43,967)
Annual OPEB cost (expense)	107,755
Contributions made, adjusted for implicit subsidy	55,253
Increase in net OPEB obligation	52,502
Net OPEB obligation - Beginning of Year	679,346
Net OPEB obligation - End of Year	\$ 731,848

The District’s annual OPEB costs, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for the year ended June 30, 2017, 2016 and 2015 are as follows:

PARADISE IRRIGATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2017

Fiscal Year Ended	Annual OPEB Cost	Actual Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/15	\$ 175,462	\$ 66,620	38%	\$ 564,553
6/30/16	\$ 173,522	\$ 58,729	34%	\$ 679,346
6/30/17	\$ 107,755	\$ 55,253	51%	\$ 731,848

Funding Status and Funding Progress

The funded status of the plan as of June 30, 2016, the date of the most recent actuarial valuation, is as follows:

Actuarial accrued liability (AAL)	\$ 1,315,833
Actuarial value of assets	-
Unfunded AAL (UAAL)	\$ 1,315,833
Funded ratio	0%
Covered payroll	\$ 2,087,235
UAAL as % of covered payroll	63%

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

Actuarial Methods and Assumptions

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

In the June 30, 2016, actuarial valuation, the alternative measurement method was used to compute the value of the liability. The actuarial assumptions included (a) 4.5% discount rate, rate and (5) 4.5% ultimate trend rate. The District's unfunded actual accrued liability is being amortized over 30 years. The remaining amortization period at June 30, 2017, was 27 years.

PARADISE IRRIGATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2017

NOTE 9. RISK MANAGEMENT

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

NOTE 10. CONTINGENCIES

NPDES Permit

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

Water Rights

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

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

PARADISE IRRIGATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

Year Ended June 30, 2017

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

Grants

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

NOTE 11. COMMITMENTS

As of June 30, 2017, the District is committed under numerous contracts related to various construction projects. The total amount of the contracts was \$823,443. As of June 30, 2017, the District has paid \$209,227 on the contracts. The remaining liability of the District for the construction projects at June 30, 2017, was \$614,216.

REQUIRED SUPPLEMENTARY INFORMATION

PARADISE IRRIGATION DISTRICT
SCHEDULE OF FUNDING PROGRESS FOR OTHER
POSTEMPLOYMENT BENEFITS
Year Ended June 30, 2017

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b - a) / c]
July 1, 2010	\$ -	\$ 1,962,880	\$ 1,962,880	0%	\$ 1,815,625	108%
July 1, 2013	\$ -	\$ 1,472,596	\$ 1,472,596	0%	\$ 1,960,157	75%
June 30, 2016	\$ -	\$ 1,315,833	\$ 1,315,833	0%	\$ 2,087,235	63%

OTHER INDEPENDENT AUDITORS' REPORT



TIMOTHY A. TITTLE, CPA ■ HEIDI M. COPPIN, CPA ■ CHANDESE D. MEGHDADI, 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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Paradise Irrigation District (the District), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 8, 2018.

Internal Control Over Financial Reporting

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

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

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

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

Continued

Compliance and Other Matters

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

Purpose of This Report

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

Tittle & Company, LLP

Chico, California
February 8, 2018