PARADISE RECREATION AND PARK DISTRICT

FINANCIAL STATEMENTS WITH INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED JUNE 30, 2017

Paradise Recreation and Park District
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For the Year Ended June 30, 2017

Matthews, Hutton & Warren
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Paradise Recreation and Park District
Paradise, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Paradise Recreation and Park District as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions 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 the *Government Auditing Standards,* issued by the Comptroller General of the United States. 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 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Paradise Recreation and Park District as of June 30, 2017, and the respective changes in financial position, thereof, and the respective budgetary comparison for the General Fund, for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

www.mhwcpa.com

Oroville Office
2227 Myers Street, Suite A
Oroville, CA 95966
Tel: 530.5349047 Fax: 530.534.5915

Chico Office
2639 Forest Avenue, Suite 110
Chico, CA 95928
Tel: 530.327.4488

Paradise Office
5973 Almond Street
Paradise, CA 95969
Tel: 530.877.6793 Fax: 530.877.6088

Other Matters

The Paradise Recreation and Park District has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

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

Required Supplementary Information

Accounting standards generally accepted in the United States of America require that the management's discussion and analysis (MD&A) and required supplementary information (RSI), 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 RSI in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding 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 our 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 November 1, 2017 on our consideration of the Paradise Recreation and Park District's internal control over financial reporting and 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 my 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* in considering Paradise Recreation and Park District's internal control over financial reporting and compliance.

Matthews Hutton & Warren

Matthews, Hutton and Warren, CPAs
Paradise, California
November 1, 2017

Paradise Recreation and Park District
Statement of Net Position
June 30, 2017

		Governmental Activities
ASSETS		
Cash in County Treasury	$	1,109,132
Reserved Cash in County Treasury		378,816
Petty cash		300
Interest receivable		2,736
Loans Receivable		300,322
Capital assets:		
Construction in progress		201,963
Land		729,970
Other capital assets, net of accum. depr.		1,957,908
Total Assets		4,681,147
DEFERRED OUTFLOWS OF RESOURCES		
CalPERS pension contributions		176,118
Total Deferred Outflows of Resources		4,857,265
LIABILITIES		
Accounts payable		74,776
Warrants payable		46,120
Security deposits		1,000
Noncurrent liabilities:		
Compensated absences		49,911
Other post employment benefits		40,771
Net pension liability		188,863
Total Liabilities		401,441
DEFERRED INFLOWS OF RESOURCES		
Deferred revenue		39,156
CalPERS pension expense		88,167
Total Deferred Inflows of Resources		127,323
NET POSITION		
Investment in capital assets - net of related debt		2,889,841
Restricted for Impact and Development		378,816
Restricted for special projects		73,432
Unrestricted		986,403
Total Net Position	$	4,328,492

The accompanying notes are an integral part of this statement.

Paradise Recreation and Park District
Statement of Activities
For the year ended June 30, 2017

		Program Revenues			
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (expense) Revenue
Governmental activities:					
Recreation	$ 2,319,506	$ 474,192	$ -	$ -	$ (1,845,314)

General revenues:	
Taxes	1,410,840
Impact and development	41,647
Investment income	(384)
Other revenue	17,573
Total General Revenues	1,469,676
Changes in net position	(375,638)
Net position, beginning	4,704,130
Net position, ending	$ 4,328,492

The accompanying notes are an integral part of this statement.

Paradise Recreation and Park District
Balance Sheet - Governmental Funds
June 30, 2017

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash in County Treasury	$ 1,035,434	$ 73,698	$ 1,109,132
Reserved Cash in County Treasury	378,816	-	378,816
Petty cash	300	-	300
Interest receivable	2,736	-	2,736
Loan Receivable	300,322	-	300,322
Total Assets	$ 1,717,608	$ 73,698	$ 1,791,306
LIABILITIES			
Accounts payable	$ 74,776	$ -	$ 74,776
Warrants payable	45,854	266	46,120
Security deposits	1,000	-	1,000
Total Liabilities	121,630	266	$ 121,896
DEFERRD INFLOWS OF RESOURCES			
Deferred revenue	39,156	-	39,156
Total Deferred Inflows of Resources	39,156	-	39,156
FUND BALANCES			
Nonspendable			
Reserved for petty cash	300	-	300
General reserve	2,000	-	2,000
Restricted for			
Capital outlay	702,200	-	702,200
Impact and Development	378,816	-	378,816
Special projects	-	73,432	73,432
Unassigned	473,506	-	473,506
Total Fund Balances	1,556,822	73,432	1,630,254
Total Liabilites, Deferred Inflows of Resources, and Fund Balances	$ 1,717,608	$ 73,698	$ 1,791,306

The accompanying notes are an integral part of this statement.

Paradise Recreation and Park District
Reconciliation of the Governmental Funds
Balance Sheet to the Statement of Net Position
June 30, 2017

Total fund balances – governmental funds			$1,630,254
In governmental funds, only current assets are reported. In the statement of net position, all assets are reported, Including capital assets and accumulated depreciation.			
	Capital assets at historical cost	$7,003,749	
	Accumulated depreciation	(4,113,908)	
	Net		2,889,841
Long-term liabilities: In governmental funds, only current liabilities are reported. In the statement of net position, all liabilities, including long-term liabilities are reported. Long-term liabilities relating to governmental activities consist of:			
	Compensated absences payable	(49,911)	
	Other post employment benefits payable	(40,771)	
	Net pension liability	(188,863)	
	Net		(279,545)
Deferred outflows and inflows of resources represent pension related activity that will occur in future periods and, therefore, are not reported in the governmental fund.			87,942
Net position of governmental activities			$4,328,492

The accompanying notes are an integral part of this statement.

Paradise Recreation and Park District
Statement of Revenues, Expenditures, and Changes to Fund Balances - Governmental Funds
For the Year Ended June 30, 2017

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:			
Taxes:			
Current secured property taxes	$ 1,291,734	$ -	$ 1,291,734
Current supplemental property taxes	17,097	-	17,097
Current unsecured property taxes	67,457	-	67,457
Prior property taxes	1,554	-	1,554
Miscellaneous taxes	14,403	-	14,403
Investment income	(480)	96	(384)
Reserved for Impact & Development	41,647	-	41,647
Aid from other governmental agencies:			
State: Homeowners' property tax relief	18,595	-	18,595
Charges for current services	474,192	-	474,192
Other revenue	8,521	9,052	17,573
Total Revenues	1,934,720	9,148	1,943,868
Expenditures:			
Salaries and benefits	1,361,942	-	1,361,942
Services and supplies	512,383	5,110	517,493
Contributions to Other Agencies	38,266	-	38,266
Capital Outlay	123,847	-	123,847
Total Expenditures	2,036,438	5,110	2,041,548
Excess (deficiency) of revenues over expenditures	(101,718)	4,038	(97,680)
Fund balances at beginning of year	1,658,540	69,394	1,727,934
Fund balances at end of year	$ 1,556,822	$ 73,432	$ 1,630,254

The accompanying notes are an integral part of this statement

Paradise Recreation and Park District
Reconciliation of the Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances to the Statement of Activities
For the Year Ended June 30, 2017

The schedule below reconciles the Net Changes in Fund Balances reported on the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances, which measures only changes in current assets and current liabilities on the modified accrual basis, with the Change in Net Positon of Governmental Activities reported in the Statement of Activities, which is prepared on the full accrual basis.

Net change in fund balances – total governmental funds		$ (97,680)
Amounts reported for governmental activities in the statement of activities differ because:		
Governmental funds report capital outlays as expenditures; however in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:		
Capitalizable expenditures added back to fund balances	$ 0	
Depreciation expense not reported in governmental funds	(269,991)	
		(269,991)
The amounts below included in the Statement of Activities do not provide or (require) the use of current financial resources and therefore are not reported as revenue or expenditures in governmental funds (net change):		
Compensated absences	21,098	
Other post employment benefits	(6,735)	
		4,363
Certain pension expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental fund		(22,330)
Change in net position of governmental activities		$(375,638)

Paradise Recreation and Park District
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual - General Fund
For the Year Ended June 30, 2017

	Budgeted Amounts			Variance Favorable
	Original	Final	Actual	(Unfavorable)
Revenues:				
Taxes (note 5):				
Current secured property taxes	$ 1,241,160	1,241,160	$ 1,291,734	$ 50,574
Current supplemental property taxes	9,000	9,000	17,097	8,097
Current unsecured property taxes	67,200	67,200	67,457	257
Prior property taxes	900	900	1,554	654
Miscellaneous taxes	6,540	6,540	14,403	7,863
Investment income	8,000	8,000	(480)	(8,480)
Reserved for Impact & Development	-	-	41,647	41,647
Aid from other governmental agencies:				
State: Homeowners' property tax relief	18,000	18,000	18,595	595
Charges for current services	707,910	707,910	474,192	(233,718)
Other revenue	7,680	7,680	8,521	841
Total Revenues	2,066,390	2,066,390	1,934,720	(131,670)
Expenditures:				
Salaries and benefits	1,361,048	1,361,048	1,361,942	(894)
Services and supplies	565,940	565,940	512,383	53,557
Contributions to other agencies	14,012	14,012	38,266	(24,254)
Fixed assets:				
Impact and development	-	-	-	-
Other	270,000	270,000	123,847	146,153
Debt service	-	-	-	-
Appropriation for contingencies	100,000	100,000	-	100,000
Total Expenditures	2,311,000	2,311,000	2,036,438	274,562
Excess (deficiency) of revenues over expenditures	(244,610)	(244,610)	(101,718)	142,892
Fund balance at beginning of year	1,658,540	1,658,540	1,658,540	-
Fund balance at end of year	$ 1,413,930	$ 1,413,930	$ 1,556,822	$ 142,892

The accompanying notes are an integral part of this statement.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Paradise Recreation and Park District (District) provides recreation services to over 40,000 residents of the Paradise, Paradise Pines, Magalia, Butte Creek Canyon, and Concow areas of Butte County. The District was incorporated in 1948, and encompasses approximately 169 square miles. The District's recreation area includes 75 acres of fully or partially developed area and 395 acres of unimproved open space.

The district is an autonomous Special District of the State of California, formed under Sections 5780-5791 of the Public Resources Code Article V, and is governed by a five-member Board of Trustees elected by the voters of the District. A salaried General Manager administrates the operations of the District, in accordance with policies adopted by the Board of Trustees. These financial statements encompass all fiscal activities conducted by the District.

The District's basic financial statements include the operations of all organizations for which the Board of Directors exercises oversight responsibility. Oversight responsibility is demonstrated by financial interdependency, selection of the governing authority, designation of management, ability to significantly influence operations, and accountability of fiscal matters.

No operations of other entities met the aforementioned oversight criteria for inclusion or exclusion from the accompanying basic financial statements in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, as amended by GASB Statement No.39.

B. Basis of Presentation

The District's basic financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States of America.

Government-wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the primary government. These statements include the financial activities of the overall District government. Eliminations have been made to minimize the double counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation (Continued)

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the District's activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational need of a particular program, and (c) fees, grants, and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements

The fund financial statements provide information about the District's funds. The emphasis of fund financial statements is on major individual funds, each of which is displayed in a separate column.

Fund Equity

Governmental fund equity is classified as fund balance. Fund balance is further classified as nonspendable, restricted, committed, assigned, or unassigned. Nonspendable fund balance cannot be spent because of its form. Restricted fund balance has limitations imposed by creditors, grantors, or contributors or by enabling legislation or constitutional provisions. Committed fund balance is a limitation imposed by the District board through approval of resolutions. Assigned fund balances is a limitation imposed by a designee of the District board. Unassigned fund balance in the General Fund is the net resources in excess of what can be properly classified in one of the above four categories. Negative unassigned fund balance in other governmental funds represents excess expenditures incurred over the amounts restricted, committed, or assigned to those purposes. Proprietary fund equity is classified the same as in the government-wide statements.

When both restricted and unrestricted fund balances are available for use, it is the District's policy to use restricted fund balance first, then unrestricted fund balance. Furthermore, committed fund balances are reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications can be used.

Net Position

For the government-wide financial statements, net position is classified as net investment in capital assets, restricted net position and unrestricted net position. Net investment in capital assets consists of capital assets net of accumulated depreciation reduced by any outstanding debt incurred for the acquisition, construction and improvement of the assets. Net position is reported

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation (Continued)

Net Position (Continued)

as restricted when constraints placed on net assets are either: (1) Externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation. All other net position that does not meet the definitions of net investment in capital assets or restricted net position is reported as unrestricted.

C. Major Funds

GASB Statement No. 34 defines major funds and requires that the District's major governmental funds are identified and presented separately in the fund financial statements.

Major funds are defined as funds that have either assets and deferred outflows, liabilities and deferred inflows, revenues, or expenditures equal to ten percent of their fund-type total. The General Fund is always a major fund.

The District reported the following major governmental funds in the accompanying financial statements:

General Fund
This fund accounts for all financial resources except those to be accounted for in another fund. It is the general operating fund of the District.

D. Basis of Accounting

The government-wide financial statements are reported using the *economic measurement focus* and the full accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Governmental funds are reported using the *current financial resources* measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after fiscal year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent that they have matured. Capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as *other financing sources*.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting (Continued)

Non-exchange transactions, in which the District gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenues from property taxes are recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Other revenues susceptible to accrual include other taxes, intergovernmental revenues, interest, and charges for services.

E. Budgetary Reporting

The District prepares and legally adopts a final operating budget on or before October 1 each fiscal year. Until the adoption of this final budget, operations are governed by the proposed budget approved by the Board in July. The Board then adopts the final budget by August 1, and submits it to Butte County. Butte County adjusts the budget to reflect their most current estimates of tax revenue. These adjustments are automatically accepted by the Board.

F. Capital Assets

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair value on the date contributed. The District's policy is to capitalize all capital assets with costs exceeding a minimum threshold of $5,000.

The purpose of depreciation is to spread the cost of capital assets equitable among all users over the life of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of cost of capital assets. GASB Statement No. 34 requires that all capital assets with limited useful lives be depreciated over their estimated useful lives. Depreciation is provided using the straight line method which means the cost of the capital asset is divided by its expected useful life in years and the result is charged to expense each year until the capital asset is fully depreciated. The District has assigned the useful lives listed below to capital assets.

Structures	25 Years
Improvements	25 Years
Equipment	7 Years
Office furniture and equipment	3-5 Years

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Property Taxes

The District receives property taxes from Butte County (County), which has been assigned the responsibility for assessment, collection, and apportionment of property taxes for all taxing jurisdictions within the County. The District's property taxes are levied each July 1, on the assessed values as of the prior January 1, for all real and personal property located in the District. Property sold after the assessment date (January1) is reassessed and the amount of supplemental property tax levied is prorated. Secured property taxes are due in two installments on November 1, and February 1, and are delinquent after December 10 and April 10, respectively. Property taxes on the unsecured roll are due on January 1 lien date and become delinquent if unpaid by August 31. Property tax revenues are recognized in the fiscal year they are received.

The District participates in the County "Teeter Plan" method of property tax distribution and thus receives 100% of the District's apportionment each fiscal year, eliminating the need for an allowance for uncollectible taxes. The County, in return, receives all penalties and interest on the related delinquent taxes. Under the Teeter Plan, the County remits property taxes to the District based on assessments, not collections, according to the following schedule: 55 percent in December, 40 percent in April, and 5 percent at the end of the fiscal year.

H. Use of Estimates

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America, as prescribed by the GASB and the AICPA, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

(2) CASH AND INVESTMENTS

The District's cash and investments at June 30, 2017 consisted of the following:

Cash and investments with the County Treasurer	$1,487,948

A. Investments Authorized by the District's Investment Policy

The District's investment policy only authorizes investment in the local government investment pool administered by the County of Butte. The District's investment policy does not contain any specific provisions intended to limit the District's exposure to interest rate risk, credit risk, and concentration of credit risk.

(2) CASH AND INVESTMENTS (Continued)

B. Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will 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 term 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 operations.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity:

		Remaining Maturity (in Months)			
Investment Type	Carrying Amount	12 Months Or Less	13-24 Months	25-60 Months	More than 60 months
Butte County Investment Pool	$ 1,487,948	$1,487,948	$ -	$ -	$ -
Total	$ 1,487,948	$1,487,948	$ -	$ -	$ -

C. Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfil its obligation to the holder of the investment. This is measured by the assignment of rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code and the District's investment policy, and the actual rating as of fiscal year end for each investment type:

				Rating as of Fiscal Year End		
Investment Type	Carrying Amount	Minimum Legal Rating	Exempt From Disclosure	AAA	Aa	Not Rated
Butte County Investment Pool	$ 1,487,948	N/A	$ 1,487,948	$ -	$ -	$ -
Total	$ 1,487,948		$ 1,487,948	$ -	$ -	$ -

(2) CASH AND INVESTMENTS (Continued)

D. Concentration 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. There are no investments in any one issuer that represent 5% or more of total District investments.

E. 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 the possession of an outside 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 credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or 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 fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure the District's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

None of the District's deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts.

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (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 credit risk for investments.

With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as Butte County Investment Pool).

(3) LOAN RECEIVABLE

The District executed Notes Receivable with Paradise Youth Sports and Family Center, dba Paradise Community Village, on March 15, 2012. The notes do not bear interest and were initially due on August 22, 2016. Pursuant to a separate loan agreement, if at least $100,322 is expended by the Maker for a public park or public recreation facility with a fair market value of at least $100,322 by the due date, $100,322 of the principal will be waived. The debt was subordinated to other debt in fiscal year 2013/2014. At the July 12, 2016 board meeting the due date was extended to August 22, 2018. Balance at June 30, 2017 is $300,322.

(4) DEFERRED REVENUE

Deferred revenue represents payments made for activities not yet earned.

	Balance July 1, 2016	Increase	Decrease	Balance June 30, 2017
Deferred revenue	$ 43,194	$ -	$ 4,038	$ 39,156

(5) CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2017, was as follows:

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017
Governmental Activities				
Nondepreciable capital assets				
Land	$ 729,970	$ -	$ -	$ 729,970
Construction in progress	201,963	-	-	201,963
Total nondepreciable capital assets	$ 931,933	$ -	$ -	$ 931,933
Depreciable capital assets				
Building and improvements	$ 5,534,233	$ -	$ -	$ 5,534,233
Equipment	537,583	-	-	537,583
Total capital assets depreciated	6,071,816	-	-	6,071,816
Less: accumulated depreciation	(3,843,917)	269,991	-	(4,113,908)
Net depreciable assets	$ 2,227,899	$(269,991)	$ -	$ 1,957,908
Net capital assets	$ 3,159,832	$(269,991)	$ -	$ 2,889,841

Depreciation for the year ended June 30, 2017, was $269,991 which was included in the Recreation function in the statement of activities.

(6) WARRANTS PAYABLE

Warrants payable represent warrants issued but not yet redeemed by the County Treasurer.

(7) COMPENSATED ABSENCES

An employee earns vacation days as follows:

The District's policy allows employees to accumulate sick leave up to 120 days and vacation leave up to 20 to 36 days depending on the employee's length of service. Upon retirement or separation from the District, the employee is entitled to full compensation for unused vacation and compensatory leave, and compensated at ½ the normal rate of pay for sick leave in excess of 20 days. The maximum sick leave payable upon separation is $3,200.

Compensated absences activity for the fiscal year ended June 30, 2017, was as follows:

	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017
Compensated absences	$ 71,009	$ -	$ -	$ 71,009

(8) 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.

There is no claims liability to be reported based on the requirements of GASB Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount for the loss can be reasonably estimated.

There are no significant reductions in insurance coverage from prior years and there have been no settlements exceeding the insurance coverage for each of the past three years.

(9) POST EMPLOYMENT BENEFITS

Effective for fiscal year ended June 30, 2010, the district implemented Governmental Accounting Standards Board (GASB) Statement 45 "Accounting and Financial Reporting by Employers for Post-employment Benefits Other than Pensions (OPEB)" prospectively (no beginning Net OPEB Obligation).

Program Description

In addition to the pension benefits described in Note 10, the District makes available health care benefits to retired employees who meet certain eligibility requirements.

Funding Policy

The District contribution to the Program consists of pay-as-you-go claims.

(9) POST EMPLOYMENT BENEFITS (Continued)

Annual OPEB Cost and Net OPEB Obligation

The District's annual other post-employment benefit (OPEB) cost (expense) for the Program is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45.

Annual OPEB Cost and Net OPEB Obligation (Continued)

The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) 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, and changes in the District's net OPEB obligation.

Annual required contribution	$ 2,723
Interest on net OPEB obligation	259
Adjustment to annual required contribution	3,753
Annual OPEB cost (expense)	6,735
Contributions made	-
Change in OPEB obligation	6,735
Net OPEB obligation (asset) - beginning of year	34,036
Net OPEB obligation (asset) - end of year	$ 40,771

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation at June 30, 2017 were as follows:

Fiscal Year	Annual OPEB Costs	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2009/2010	$ 2,825	0.0%	$ 2,825
2010/2011	4,826	0.0%	4,826
2011/2012	4,925	0.0%	4,925
2012/2013	4,869	0.0%	4,869
2013/2014	4,772	0.0%	4,772
2014/2015	4,424	0.0%	4,424
2015/2016	7,395	0.0%	7,395
2016/2017	6,735	0.0%	6,735
	$ 40,771	0.0%	$ 40,771

(9) POST EMPLOYMENT BENEFITS (Continued)

Funded Status and Funding Progress

As of June 30, 2017, the most recent actuarial valuation date, the actuarial accrued liability for benefits was $59,474, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was $921,985, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 6.45%.

Actuarial values of the program involve estimates of the value of reported amounts and assumptions of the probability of occurrence of events far into the future. Examples include assumptions and future employment, mortality, and healthcare costs trend. Amounts determined regarding the funded status of the program and 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. The following schedule of funding progress presents multiyear trend information (only one year presented in this year of implementation) that shows whether the actuarial value of plan assets held in an irrevocable trust is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

The District performed its own actuarial calculations.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members at 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, 2017, actuarial valuation, the individual entry-age actuarial cost method was used. The actuarial assumptions include a 4.0% investment rate of return (compounded annually) and an annual healthcare cost trend rate of 10.0% initially, reduced by decrements to an ultimate rate of 5.0% after 10 years. The District's unfunded actuarial accrued liability is being amortized as a level percent of active member payroll over a closed period. The remaining amortization period at June 30, 2017 was 22 years.

(10) LEASES

The District leases real property on Skyway in Paradise known as the Terry Ashe Recreation Center, which includes the District's offices. The lease was negotiated on December 10, 2002, for a term of 50 years. Initial rental of $5,000 is recalculated every ten years with a CPI escalator (but not more than 3% increase). The District has negotiable renewal options. Future rentals for the following fiscal years are as follows:

(10) LEASES (Continued)

For Fiscal Year Ended June 30	Real Property	Ice Rink
2018	5,095	$ 80,172
2019-2020	10,190	
2021-2025	25,475 *	
2026-2030	25,475 *	
2031-2035	25,475 *	
2036-2040	25,475 *	
2041-2045	25,475 *	
2046-2050	25,475 *	
2051-2052	10,190 *	

*Subject to CPI increase.

The District has an equipment rental and training agreement with Magic Ice USA, Inc. Fiscal year ending June 30, 2018 is the fourth and final year of the ice-skating rink agreement.

The District entered into a ninety-nine year land lease with the Paradise Irrigation District on February 1, 2011. There is no rent payable. The District is obligated to use the property for recreational and park purposes.

(11) REVENUE LIMITATION IMPOSED BY CALIFORNIA PROPOSITION 218

Proposition 218, which was approved by the voters in 1996, regulates the District's ability to impose, increase, and extend taxes, assessments, and fees. Any new, increased, or extended taxes, assessments, and fees subject to the provisions of Proposition 218 require voter approval before they can be implemented. Additionally Proposition 218 provides that these taxes, assessments, and fees are subject to the voter initiative process and may be rescinded in the future years by the voters.

(12) PENSION PLAN

A. General Information about the Pension Plans

Plan Description

All qualified permanent and probationary employees are eligible to participate in the cost-sharing multiple employer defined benefit pension plan (Plan) administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and Local Government resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

(12) PENSION PLAN (Continued)

A. General Information about the Pension Plans (Continued)

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law. The Public Employees' Pension Reform Act of 2013 (PEPRA) requires new benefits and member contributions as defined by PEPRA, that are hired after January 1, 2013.

The Plans' provisions and benefits in effect at June 30, 2017 are summarized as follows:

	Miscellaneous	
	Prior to	On or after
Hire date	January 1, 2013	January 1, 2013
Benefit formula	2.5% @ 55	2% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50-55	52-67
Monthly benefits as a % of eligible compensation	2.0% to 2.5%	1.0% to 2.5%
Required employee contribution rates	7.000%	7.000%
Required employer contribution rates	8.377%	8.377%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Local Government is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the year ended June 30, 2017, the contributions recognized as part of pension expense for the Plan was as follows:

Contributions – employer	$76,142
Contributions – employee (paid by employer)	$49,587

(12) PENSION PLAN (Continued)

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions.

As of June 30, 2017, the District reported net pension liability of $188,863 for its share of the net pension liability of the Plan. The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2016, and the total pension liability for each Plan use to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015, rolled forward to June 30, 2016, using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined.

The District's proportionate share of the net pension liability for the Plan as of June 30, 2015 and 2016, were as follows:

Proportion – June 30, 2014	.008954%
Proportion – June 30, 2015	.010790%
Change – Increase (Decrease)	.001836%

For the year ended June 30, 2017, the District recognized pension expense of $125,729. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience	$ 222	$ 508
Changes in assumptions	-	20,983
Net differences between projected and actual earnings on plan investments	175,896	66,685
Total	$ 176,118	$ 88,176

$176,118 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30	
2017	$ 5,247
2018	7,332
2019	49,071
2020	28,287
2021	-
Thereafter	-

(12) PENSION PLAN (Continued)

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions. (Continued)

Actuarial Assumptions

The total pension liabilities in the June 30, 2015 actuarial valuations were determined using the following actuarial assumptions:

Actuarial Assumptions (Continued)

		Miscellaneous
Valuation date		June 30, 2015
Measurement date		June 30, 2016
Actuarial Cost Method	Entry-Age Normal Cost Method	
Actuarial Assumptions:		
Discount Rate		7.7%
Inflation		2.75%
Payroll Growth		3.00%
Projected Salary Increase		(1)
Investment Rate of Return		7.5% (2)
Mortality		CalPERS Table (3)

(1) Depending on age, service and type of employment

(2) Net of pension plan investment expenses, including inflation

(3) Derived using CalPERS membership data for all funds

The underlying mortality assumptions and all other actuarial assumptions used in June 30, 2015 valuation were based on the results of a January 2016 actuarial experience study for the period 1998 to 2012. Further details of the Experience Study can be found on the CalPERS website.

Discount Rate

The discount rate used to measure the total pension liability was 7.50% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

(12) PENSION PLAN (Continued)

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (Continued).

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

(12) PENSION PLAN (Continued)

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (Continued).

Asset Class	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+ (b)
Global Equity	51%	5.25%	5.71%
Global Fixed Income	20%	0.99%	2.43%
Inflation Sensitive	6%	0.45%	3.36%
Private Equity	10%	6.83%	6.95%
Real Estate	10%	4.50%	5.13%
Infrastructure and Forestland	2%	4.50%	5.09%
Liquidity	1%	-0.55%	-1.05%
Total	100%		

(a) An expected inflation of 2.5% used for this period

(b) An expected inflation of 3.0% used for this period

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Local Government for each Plan, calculated using the discount rate for each Plan, as well as what the Local Government's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
Discount Rate	6.65%	7.65%	8.65%
Net Pension Liability	$ 294,294	$ 188,863	$ 101,771

Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

(13) FUNDS WITH DEFICITS

The General Fund and the Endowment/Scholarship Fund reported operating deficits of $101,718 and $577 respectively.

(14) APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the Manager and authorized for issue on November 1, 2017. Subsequent events through that date have been considered in these financial statements.

Paradise Recreation and Park District
Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2017

	Endowment and Scholarship Funds	Donation/Grant Fund	Totals
ASSETS			
Cash in County Treasury	$ 55,678	$ 18,020	$ 73,698
Total Assets	$ 55,678	$ 18,020	$ 73,698
LIABILITIES			
Due to other funds	$ -	$ -	$ -
Warrants payable	-	266	266
Total Liabilities	-	266	266
FUND BALANCES			
Designated for special projects	55,678	17,754	73,432
Total Fund Balances	55,678	17,754	73,432
Total Liabilities and Fund Balances	$ 55,678	$ 18,020	$ 73,698

The accompanying notes are an integral part of this statement.

Paradise Recreation and Park District
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds
For the Year Ended June 30, 2017

	Endowment and Scholarship Funds	Donation/Grant Fund	Totals
Revenues:			
Investment income	$ 96	$ -	$ 96
Donations revenue	-	9,052	9,052
Total Revenues	96	9,052	9,148
Expenditures:			
Services and supplies	673	4,437	5,110
Total Expenditures	673	4,437	5,110
Excess (deficiency) of revenues over expenditures	(577)	4,615	4,038
Fund balances at beginning of year	56,255	13,139	69,394
Fund balances at end of year	$ 55,678	$ 17,754	$ 73,432

The accompanying notes are an integral part of this statement.

Paradise Recreation and Park District
Schedule of Proportionate Share of the Net Pension Liability
June 30, 2017
Last 10 years*

Proportion of the collective net pension liability		0.00989%
Proportionate share of the net pension liability	$	188,863
Covered employee payroll	$	921,985
Proportion of the collective net pension liability as a percentage of covered employee payroll		20.48%
Plan's fiduciary net position	$	1,184,721
Plan's fiduciary net position as a percentage of the total pension liability		86.25%

Notes to Schedule:

Benefit Changes The above amounts do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2015, as they have a minimal cost impact.

Changes in Assumptions None

*Fiscal year 2016/2017 is the third year of implementation, therefore only the last three years are shown.

Paradise Recreation and Park District
Schedule of Pension Contributions
June 30, 2017
Last 10 years*

Contractually required contributions (actuarially determined)	$ 263,543
Contributions in relation to the actuarially determined contributions	263,543
Contribution deficiency (excess)	$ -
Covered employee payroll	$ 2,485,807
Contributions as a percentage of covered employee payroll	10.60%

*Fiscal year 2016/2017 is the third year of implementation, therefore only the last three years are shown.

Paradise Recreation and Park District
Other Post Employment Benefits
Schedule of Funding Progress
June 30, 2016
Last 10 years*

Fiscal Year	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability*	Funded Ratio (1)(2)	Unfunded Actuarial Accrued Liability	Annual Covered Payroll	Unfunded Actuarial Accrued Liability as a % of Covered Payroll
6/10	-	$ 20,633	0.0%	$ 20,633	$ 540,339	3.82%
6/11	-	38,106	0.0%	38,106	559,133	6.82%
6/12	-	39,524	0.0%	39,524	570,011	6.93%
6/13	-	39,628	0.0%	39,628	575,602	6.88%
6/14	-	40,433	0.0%	40,433	665,098	6.08%
6/15	-	37,844	0.0%	37,844	704,069	5.38%
6/16	-	64,626	0.0%	64,626	859,753	7.52%
6/17	-	59,474	0.0%	59,474	921,985	6.45%

*As of June 30, 2017, the date of the actuarial valuation.

Matthews, Hutton & Warren
Certified Public Accountants

INDEPENDENT AUDITOR'S 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 Recreation and Park District
Paradise, California

We have audited, 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, the financial statements of the governmental activities and each major fund of the Paradise Recreation and Park District, California, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Paradise Recreation and Park District, California's basic financial statements and have issued our report thereon dated November 1, 2017.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. 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.

www.mhwcpa.com

Oroville Office
2227 Myers Street, Suite A
Oroville, CA 95966
Tel: 530.5349047 Fax: 530.534.5915

Chico Office
2639 Forest Avenue, Suite 110
Chico, CA 95928
Tel: 530.327.4488

Paradise Office
5973 Almond Street
Paradise, CA 95969
Tel: 530.877.6793 Fax: 530.877.6088

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Paradise Recreation and Park District, California's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulation, 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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Matthews Hutton & Warren

Matthews, Hutton and Warren, CPAs
Paradise, California
November 1, 2017