

EXHIBIT A

Audited Financial Information
PVID 1-16

**PALO VERDE IRRIGATION
DISTRICT**

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

**FOR THE YEARS ENDED
JUNE 30, 2015 AND 2014**

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Independent Auditors' Report

To the Board of Trustees
Palo Verde Irrigation District

We have audited the accompanying basic financial statements of Palo Verde Irrigation District (the "District") as of and for the years ended June 30, 2015 and 2014 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the State Controller's minimum audit requirements for California Special Districts. Those standards require that we plan and perform the audits 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 auditors' 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 District'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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Palo Verde Irrigation District, as of June 30, 2015 and 2014, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the basic financial statements, effective July 1, 2014, the District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis – unaudited information, and information related to the pension and other postemployment benefits on pages 3 to 8 and 33 to 35, respectively, be presented to supplement the basic financial statements. Such information, although not 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 our audits 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 Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements. The accompanying supplementary information on pages 36 through 38 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The organizational information on page 36 and schedule of trustees and management on page 37 and insurance coverage on page 38 have not been subjected to auditing procedures applied in the audit of the basic financial statements and; accordingly, we do not express an opinion or provide any assurance on them.

Ahara Adcock Devlin LLP

Riverside, California
February 8, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED

Palo Verde Irrigation District
Management's Discussion and Analysis – Unaudited

June 30, 2015

Our discussion and analysis of the Palo Verde Irrigation District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2015. Please read it in conjunction with the District's financial statements which begin on page 9.

Financial Highlights

- The District's net position increased \$633 thousand, exclusive of prior period adjustment, or 9.8 percent as a result of the year's operations.
- Total assets increased \$653 thousand mainly due to a \$173 thousand decrease in total current assets and a \$826 thousand net increase in total noncurrent assets.
- Current year operating revenues increased \$1.2 million or 18.9 percent while operating expenses increased \$3 thousand or .04 percent.
- The increase in operating revenues is mainly due to a \$12 increase per acre in water tolls.
- Total capital asset additions increased in the current year by \$1.4 million mainly due to the construction of a new gate for the diversion dam.
- Total operating revenues for the year were \$7.4 million and total operating expenses were \$7.6 million and total nonoperating revenue and gains were \$0.9 million.
- See accompanying charts for revenue and expense details, as well as capital expenditures.

Using This Annual Report

This annual report consists of a series of financial statements. The statements of net position and statements of revenues, expenses, and changes in net position (on pages 9 through 12) provide information about the activities of the District as a whole and present a longer-term view of the District's finances.

Reporting the Agency as a Whole

Our analysis of the District as a whole begins on page 4. One of the most important questions asked about the District's finances is, "Is the District as a whole better off or worse off as a result of the year's activities?" The statement of net position and the statement of revenues, expenses, and changes in net position report information about the District as a whole and about its activities 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 cash is received or paid.

Palo Verde Irrigation District
Management's Discussion and Analysis - Unaudited
(Continued)

June 30, 2015

These two statements report the District's components of net position and changes in them. You can think of the District's net position—the difference between assets and liabilities—as one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net position is one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, such as changes in the District's water toll base and the condition of the District's capital assets, to assess the overall health of the District.

The District reports in the statement of net position and the statement of revenues, expenses, and changes in net position one type of activity for the water service it provides. All District activities are reported in these statements.

The District as a Whole

The District's net position decreased to \$6.1 million from \$6.5 million in FY15 and \$6.5 million from \$6.9 million in FY14. Our analysis below focuses on the net position (Table 1) and the changes in net position (Table 2) of the District's activities.

Table 1

Net Position
(in Thousands)

Account	June 30, 2015	Change	June 30, 2014	Change	June 30, 2013
Capital assets	\$ 9,997	\$ 826	\$ 9,171	\$(528)	\$ 9,699
Current and other assets	2,508	(173)	2,681	735	1,946
Total assets	12,505	653	11,852	207	11,645
Deferred outflows of resources	551	551			
Total assets and deferred outflows of resources	<u>\$13,056</u>	<u>\$1,204</u>	<u>\$11,852</u>	<u>\$ 207</u>	<u>\$11,645</u>
Current liabilities	\$ 1,087	\$ (267)	\$ 1,354	\$ 479	\$ 875
Noncurrent liabilities	5,892	1,853	4,039	217	3,822
Total liabilities	6,979	1,586	5,393	696	4,697
Net position					
Invested in capital assets, net of related debt	9,997	826	9,171	(528)	9,699
Restricted, nonexpendable	62		62		62
Unrestricted	(3,982)	(1,208)	(2,774)	39	(2,813)
Total net position	<u>\$ 6,077</u>	<u>(382)</u>	<u>\$6,459</u>	<u>\$(489)</u>	<u>\$ 6,948</u>
Total liabilities and net position	<u>\$13,056</u>	<u>\$1,204</u>	<u>\$11,852</u>	<u>\$ 207</u>	<u>\$11,645</u>

In fiscal year 2015, the net position increased by \$633 thousand, exclusive of prior period adjustment, from results of operations and decreased \$1 million prior period adjustments for the adoption of a new accounting standard related to employee retirement obligation (see Note 1 of the basic financial statements). The unrestricted net position—the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements—decreased by \$1.2 million, inclusive of prior period adjustment. In FY14, the net position decreased by \$489 thousand and unrestricted net position increased by \$39 thousand.

Palo Verde Irrigation District
Management's Discussion and Analysis - Unaudited
(Continued)
June 30, 2015

Table 2
Changes in Net Position
(in Thousands)

Account	June 30, 2015	Change	June 30, 2014	Change	June 30, 2013
Operating revenues	\$ 7,352	\$ 1,170	\$ 6,182	\$ 50	\$ 6,132
Operating expenses	7,576	3	7,573	96	7,477
Operating loss	(224)	1,167	(1,391)	(46)	(1,345)
Nonoperating revenues	853	(37)	890	(4)	894
Nonoperating expenses	(1)	0	(1)	39	(40)
Capital contributions	5	(8)	13	(5)	18
Change in net position	633	1,122	(489)	(16)	(473)
Beginning net position, as previously reported	6,459	(489)	6,948	(473)	7,421
Less: cumulative effect of change in accounting principle	(1,015)	(1,015)			
Beginning net position, as restated	5,444	(1,504)	6,948	(473)	7,421
Ending net position	\$ 6,077	\$ (382)	\$ 6,459	\$ (489)	\$ 6,948

The District's change in net position for fiscal year 2015 was an increase of \$633 thousand, exclusive of prior period adjustment. The factors driving this result include:

- The District's operating revenue increased by \$1.2 million or 18.9 percent. The increase was primarily due to the District increasing water tolls by \$12 per acre to cover the cost of replacing a gate at the diversion dam. The increase resulted in water tolls increasing \$1.1 million. The District also had an increase in operating revenues of \$60 thousand for the coalition program and \$13 thousand for installing spills and gates. These increases were offset by a decrease of \$30 thousand in reimbursements from other government agencies.
- The District's operating expenses increased by \$3 thousand or .04 percent.
- Depreciation and amortization expense decreased \$38 thousand.
- Nonoperating revenues decreased by \$37 thousand or 4.2 percent. The decrease was the result of \$49 thousand decrease from unrealized gains offset by an increase of \$15 thousand from property taxes. The remaining netted decrease is very insignificant to the District.
- Nonoperating expenses remain basically the same as the prior year.
- Capital contributions decreased \$8 thousand as a result of reduced projects in the District's area.

Palo Verde Irrigation District
Management's Discussion and Analysis - Unaudited
(Continued)

June 30, 2015

The District's change in net position for fiscal year 2014 was a decrease of \$489 thousand. The factors driving this result include:

- The District's operating revenue increased by \$50 thousand or .8 percent. This increase was a result of the initial District billing for the water coalition program in fiscal year 2014 which increased operating revenues by \$85 thousand while the District had slight decreases in the operating revenue for reimbursements from other governmental agencies and installation of spills and gates for farmers.
- The District's operating expenses increased by \$96 thousand or 1.3 percent. The water coalition program increased operating expenses by \$87 thousand which accounted for the majority of the increase.
- Depreciation and amortization expense decreased \$41 thousand.
- Nonoperating revenues decreased by a very small amount of \$4 thousand.
- Nonoperating expenses decreased by \$39 thousand as a result of a \$35 thousand loss on the disposal of fixed assets that occurred in fiscal year 2013 and a \$4 thousand decrease in interest expense.
- Capital contributions decreased \$5 thousand as a result of reduced projects in the District's area.

Palo Verde Irrigation District
Management's Discussion and Analysis - Unaudited
(Continued)
June 30, 2015

Capital Asset and Debt Administration

Capital Assets

At the end of fiscal year 2015, the District had \$10 million invested in a broad range of capital assets and construction in process, including land, dam, canals, buildings, equipment, autos, and furniture (see Table 3 below). This amount represents a net increase (including additions, deletions and depreciation) of \$826 thousand or 9.0 percent over last year.

Table 3
Capital Assets at Year End
(in Thousands)

	June 30,		
	2015	2014	2013
Land, rights of way, and water rights	\$ 1,002	\$ 1,002	\$ 1,002
Land - main canals and drains	3,557	3,557	3,557
Dam	2,727	1,607	1,607
Concrete lined canals	7,502	7,433	7,433
Canal structure	6,017	6,004	5,962
Drainage systems and structures	2,536	2,536	2,536
Irrigation gates	398	393	380
Buildings and structures	1,153	1,153	1,162
General equipment	428	428	511
Shop equipment	46	46	46
Heavy duty equipment	2,423	2,423	2,423
Auto and trucks	2,536	2,272	2,405
Telemetry equipment	3,717	3,717	3,717
Communication equipment	24	24	24
Furniture and fixtures	153	153	153
Construction in progress	36	36	
Accumulated depreciation	(24,258)	(23,613)	(23,219)
Total capital assets	\$ 9,997	\$ 9,171	\$ 9,699
Change	\$826	\$(528)	
Percentage change	9.0%	(5.4)%	

This year's additions included a new gate at the Diversion Dam for \$1.1 million, lining a portion of a canal for \$69 thousand, replacing a canal structure for \$13 thousand, donated contributed capital for \$5 thousand, a semi-truck and pickups for \$280 thousand, and construction in process for another gate at the Diversion Dam for \$36 thousand.

FY14 additions included a semi-truck for \$81 thousand, the installation of a new siphon and delivery for \$41 thousand, donated contributed capital for \$13 thousand, and construction in process for a new gate at the Diversion Dam for \$36 thousand.

Palo Verde Irrigation District
Management's Discussion and Analysis – Unaudited
(Continued)
June 30, 2015

During the 2015 fiscal year, the District had a \$1.1 million increase in the dam, an \$82 thousand increase in canal improvements, a \$264 thousand increase in auto and trucks, a \$5 thousand increase in irrigation gates, and a \$36 thousand increase in construction in process due to the construction of another new gate at the Diversion Dam (not yet completed).

During the 2014 fiscal year, the District had a \$41 thousand increase in canal structures, an \$81 thousand increase in auto and trucks, a \$13 thousand increase in irrigation gates, and a \$36 thousand increase in construction in process due to the construction of a new gate at the Diversion Dam (not yet completed).

Current Liabilities

At the end of fiscal year 2015, the District had \$1.1 million in current liabilities. This liability consisted of \$317 thousand of deferred revenue that the District had received from farmers paying their water tolls before the July 15 deadline, \$136 thousand in deposits from other entities, \$397 thousand of compensated absences payable to the District's employees for accrued sick and vacation time, \$143 thousand in amounts owed to the District's vendors, \$88 thousand of accrued payroll wages and liabilities, and \$6 thousand for unrepresented bond coupons.

At the end of fiscal year 2014, the District had \$1.4 million in current liabilities. This liability consisted of \$594 thousand of deferred revenue that the District had received from farmers paying their water tolls before the July 15 deadline, \$94 thousand in deposits from farmers and other entities, \$447 thousand of compensated absences payable to the District's employees for accrued sick and vacation time, \$136 thousand in amounts owed to the District's vendors, \$77 thousand of accrued payroll wages and liabilities, and \$6 thousand for unrepresented bond coupons.

Noncurrent Liabilities

At the end of fiscal year 2015, the District had \$5.9 million in noncurrent liabilities. This liability consisted of \$4.1 million of other post-employment benefits (OPEB) and \$1.8 million for employee retirement benefits that have been accrued. These liabilities represent the amount due to current and retired employees at the fiscal year-end.

At the end of fiscal year 2014, the District had \$4 million in noncurrent liabilities. This liability consisted of \$3.8 million of other post-employment benefits (OPEB) and \$198 thousand for employee retirement benefits that have been accrued. These liabilities represent the amount due to current and retired employees at the fiscal year-end.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and customers with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Secretary/ Treasurer/ Collector – Kim Bishoff at the Palo Verde Irrigation District office at (760) 922-3144.

FINANCIAL STATEMENTS- AUDITED

PALO VERDE IRRIGATION DISTRICT

Statements of Net Position

	June 30,	2015	2014
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		As adjusted Note 1	
Current assets			
Cash and cash equivalents		\$ 1,706,646	\$ 1,589,542
Accounts receivable		46,575	47,034
Receivable from other agencies		19,335	17,999
Prepaid expenses		282,883	278,227
Inventory		390,539	415,588
Investments in marketable securities			270,590
Total current assets		<u>2,445,978</u>	<u>2,618,980</u>
Noncurrent assets			
Cash and cash equivalents - restricted		62,000	62,000
Capital assets - nondepreciable		4,559,357	4,559,357
Capital assets - depreciable, net of accumulated depreciation		<u>5,438,137</u>	<u>4,611,834</u>
Total noncurrent assets		<u>10,059,494</u>	<u>9,233,191</u>
Total assets		<u>12,505,472</u>	<u>11,852,171</u>
Deferred outflows of resources			
Pension adjustments:			
Difference between expected and actual experience		89,404	
Changes of assumptions		287,707	
Difference between projected and actual earnings on pension plan investments		<u>173,727</u>	
Total deferred outflows of resources		<u>550,838</u>	
Total assets and deferred outflows of resources		<u>\$13,056,310</u>	<u>\$11,852,171</u>

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

	June 30,	2015	2014
LIABILITIES AND NET POSITION	As adjusted Note 1		
Current liabilities			
Accounts payable	\$ 142,802	\$ 136,060	
Accrued payroll liabilities	88,038	77,109	
Accrued compensated absences	396,792	447,136	
Deferred revenue and deposits	452,831	687,263	
Unpresented bond coupons	6,045	6,045	
Total current liabilities	1,086,508	1,353,613	
Noncurrent liabilities			
Employee retirement benefits payable	1,769,140	198,135	
Other post-employment benefits payable	4,123,137	3,840,951	
Total noncurrent liabilities	5,892,277	4,039,086	
Total liabilities	6,978,785	5,392,699	
Net position			
Invested in capital assets, net of related debt	9,997,494	9,171,191	
Restricted, nonexpendable	62,000	62,000	
Unrestricted	(3,981,969)	(2,773,719)	
Total net position	6,077,525	6,459,472	
Total liabilities and net position	\$13,056,310	\$11,852,171	

PALO VERDE IRRIGATION DISTRICT
Statements of Revenues, Expenses, and Changes in Net Position

For the Years Ended June 30,	2015	2014
	As adjusted	
	Note 1	
Operating revenues		
Water tolls	\$6,999,744	\$ 5,874,140
Penalties and interest from water tolls	12,215	11,339
Reimbursements from other governmental agencies	158,516	188,812
Coalition	145,152	84,510
Installation of spills and gates for farmers	36,387	23,237
Total operating revenues	<u>7,352,014</u>	<u>6,182,038</u>
Operating expenses		
Operations	1,732,438	1,961,211
Maintenance	523,894	525,400
Water distribution	2,035,216	1,932,002
Engineering	187,273	179,797
Administration	2,896,328	2,757,152
Fallow program	80,154	92,252
Installation of spills and gates for farmers	25,930	15,259
Coalition	94,753	109,840
Total operating expenses	<u>7,575,986</u>	<u>7,572,913</u>
Operating loss	<u>(223,972)</u>	<u>(1,390,875)</u>
Nonoperating revenues and gains		
Property taxes	771,701	757,141
Penalties and interest from property taxes	7,119	9,641
Rental income	31,530	24,952
Interest and dividends income	8,130	10,589
Unrealized gain on investments	3,665	52,429
Gain on sale of fixed assets	1,700	800
Other	29,212	34,482
Total nonoperating revenues and gains	<u>853,057</u>	<u>890,034</u>
Nonoperating expenses and losses		
Interest	425	1,100
Total nonoperating expenses	<u>425</u>	<u>1,100</u>
Increase (decrease) in net position, before capital contributions	<u>628,660</u>	<u>(501,941)</u>

PALO VERDE IRRIGATION DISTRICT
Statements of Revenues, Expenses, and Changes in Net Position

For the Years Ended June 30,	2015	2014
	As adjusted Note 1	
Increase (decrease) in net position, before capital contributions	\$ 628,660	\$ (501,941)
Capital contributions	<u>4,752</u>	<u>13,052</u>
Increase (decrease) in net position	<u>633,412</u>	<u>(488,889)</u>
Net position		
Beginning of year, as previously stated	6,459,472	6,948,361
Prior period adjustment	<u>(1,015,359)</u>	
Beginning of year, restated	<u>5,444,113</u>	<u>6,948,361</u>
End of year	<u>\$ 6,077,525</u>	<u>\$6,459,472</u>

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

PALO VERDE IRRIGATION DISTRICT**Statements of Cash Flows**

	For the Years Ended June 30,	2015	2014
Cash flows from operating activities			
Cash received from customers		\$ 7,116,706	\$ 6,676,409
Cash paid to employees for services		(2,601,529)	(2,492,953)
Cash paid to suppliers and other		(4,038,239)	(4,074,254)
Net cash provided by operating activities		<u>476,938</u>	<u>109,202</u>
Cash flows from noncapital financing activities			
Property taxes		771,701	757,141
Penalties and interest from property taxes		7,119	9,641
Other revenue		<u>29,212</u>	<u>34,482</u>
Net cash provided by noncapital financing activities		<u>808,032</u>	<u>801,264</u>
Cash flows from capital and related financing activities			
Purchase of capital assets		(1,483,055)	(158,050)
Proceeds from sales of capital assets		1,700	800
Interest paid		<u>(425)</u>	<u>(1,100)</u>
Net cash used in capital and related financing activities		<u>(1,481,780)</u>	<u>(158,350)</u>
Cash flows from investing activities			
Interest and dividends		8,130	10,589
Rental income		31,530	24,952
Proceeds from sale of investments		<u>274,254</u>	
Net cash provided by investing activities		<u>313,914</u>	<u>35,541</u>
Net increase in cash and cash equivalents		117,104	787,657
Cash and cash equivalents			
Balance, beginning of year		<u>1,589,542</u>	<u>801,885</u>
Balance, end of year		<u>\$1,706,646</u>	<u>\$ 1,589,542</u>

PALO VERDE IRRIGATION DISTRICT**Statements of Cash Flows**

	For the Years Ended June 30,	2015	2014
Reconciliation of operating loss to net cash used in operating activities			
Operating loss		\$(223,972)	\$(1,390,875)
Adjustments to reconcile operating loss to net cash used in operating activities			
Depreciation and amortization		661,505	699,213
(Increase) decrease in			
Accounts receivable		(877)	34,453
Inventory		25,049	83,674
Prepaid expenses		(4,656)	(13,159)
Increase (decrease) in			
Accounts payable		6,742	4,295
Accrued payroll liabilities and compensated absences		247,579	231,683
Deferred revenue and deposits		(234,432)	459,918
Net cash provided by operating activities		<u>\$ 476,938</u>	<u>\$ 109,202</u>
Noncash capital and related financing activities			
Contributed capital assets		\$4,752	\$13,052
Cash paid for interest		\$425	\$1,100

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

PALO VERDE IRRIGATION DISTRICT

Notes to Financial Statements

1. Reporting Entity and Summary of Significant Accounting Policies

The Palo Verde Irrigation District (the "District") is a special district created for the purpose of providing irrigation, water, and agricultural drainage to the Palo Verde Valley and the Palo Verde Mesa. The reporting entity includes all the accounts of the District and the special assessment district contained within its service area.

Basis of Accounting and Measurement Focus

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs of providing goods or services to the general public on a continuing basis (including depreciation) be financed or recovered primarily through user charges. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred. An enterprise fund is accounted for on the flow of economic resources measurement focus. This means that all assets and liabilities associated with the activity (whether current or noncurrent) are included on the statement of net position.

The District distinguishes operating revenues and expenses from those revenues and expenses that are nonoperating. Operating revenues are those revenues that are generated by supplying water, while operating expenses pertain directly to the furnishing of those services. Nonoperating revenues and expenses are those revenues and expenses generated that are not directly associated with the normal business of supplying water.

Cash and Cash Equivalents

For the purpose of the statements of cash flows, the District considers all short-term debt securities purchased with an original maturity of three months or less to be cash equivalents. The District invests funds with the State of California's Local Agency Investment Fund (LAIF). Due to the high liquidity of this investment, the funds are classified as cash equivalents. For credit risk purposes, the fund is not rated.

Water Toll Revenues

The District's customers are billed annually for water tolls. The first installment of water tolls is delinquent after July 15, and the second installment is delinquent after January 15. Delinquent water tolls are subject to penalties and interest.

The District's water tolls range from \$72.50 to \$77.00 and \$60.50 to \$65.00 per acre for the years ended June 30, 2015 and 2014, respectively, based on the parcel's type of access to District canals and drains. Assessment rates are \$8.17 per \$100 of assessed value for land, \$1.24 per \$100 of assessed value for improvements, \$0.40 per \$100 of assessed value for land on the Palo Verde Mesa, and \$0.70 per \$100 assessed value for improvements on the Palo Verde Mesa for both the years ended June 30, 2015 and 2014. The assessed value is determined by the District's assessor. The assessed value is not at full market value.

Inventory

Inventory is valued at the lower of cost or market using the average cost method.

PALO VERDE IRRIGATION DISTRICT

Notes to Financial Statements

1. Reporting Entity and Summary of Significant Accounting Policies (Continued)

Accounts Receivable and Delinquent Water Tolls and Assessments

As the District believes that all accounts receivable will ultimately prove collectible in full, no allowance for doubtful accounts is provided.

It is the District's policy to file with and obtain a sales certificate with Riverside or Imperial County on any property with water tolls and assessments delinquent for more than one year. If delinquent water tolls and assessments and any associated interest and penalties are not paid in full within five years, the District can obtain a collector's deed for the property. In Imperial County, a collector's deed will enable the District to acquire the property and, subsequently, sell the property. In the County of Riverside, the District will file a lien on the property allowing them to collect delinquent tolls and assessments when the property is sold. The proceeds from the sale of property have, in the past, covered the delinquent water tolls and assessments and any associated interest and penalties, with all excess being retained by the District.

Capital Assets

Capital assets acquired and/or constructed are carried at historical cost. Donated assets are recorded at estimated fair market value at the date of donation. The District's capitalization threshold is \$5,000 for equipment used in operations. Depreciation of capital assets is provided on a straight-line method over the following estimated useful lives:

	<u>Years</u>
Dams and canals	20-50
Buildings	10-20
Machinery and equipment	3-15
Furniture and fixtures	3

Property Taxes

The District assesses all real property within the District's boundaries each year, and bills and collects the District's property taxes and assessments. Property tax in California is levied in accordance with Article 13A of the State Constitution at 1.0 percent of countywide assessed valuations.

The property tax calendar is as follows:

Lien date:	March 1
Levy date:	July 1 to June 30
Due date:	Third Monday in October – both installments
Delinquent date:	After the first Monday in December – 1st installment After the last Monday in April – 2nd installment

Delinquent property taxes are subject to penalties and interest.

PALO VERDE IRRIGATION DISTRICT

Notes to Financial Statements

1. Reporting Entity and Summary of Significant Accounting Policies (Continued)

Net Position

The financial statements utilize a net position presentation. Net position is categorized as follows:

Net Investment in Capital Assets – This component of net position consists of capital assets, net of accumulated depreciation and reduced by any debt outstanding against the acquisition, construction, or improvement of those assets.

Restricted Net Position – This component of net position is the result of external constraints placed on net position by creditors (such as through debt covenants), grants, contributors, or laws or regulations of other governments or constraints imposed by law through statutory provisions or legislation.

Unrestricted Net Position – This component of net position consists of net position that does not meet the definition of restricted or net investment in capital assets.

Compensated Absences

Employees of the District are entitled to paid vacation and sick leave depending on length of service and other factors. The liability for these benefits has been accrued in these financial statements.

Budgetary Policies

The District adopts an annual nonappropriated budget for planning, control, and evaluation purposes. Budgetary control and evaluation are affected by comparisons of actual revenues and expenses with planned revenues and expenses for the period. Encumbrance accounting is not used to account for commitments related to unperformed contracts for construction and services.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and disclosures made in the accompanying notes to the financial statements. While management believes these estimates are adequate, actual results could differ from those estimates.

Pension Accounting

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the plan and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by Hooker and Holcombe, Inc. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

PALO VERDE IRRIGATION DISTRICT

Notes to Financial Statements

1. Reporting Entity and Summary of Significant Accounting Policies (Continued)

Net Pension Liability, Deferred Outflows of Resources, Deferred Inflows of Resources, Pension Expense, and Implementation of Accounting Principles

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* (GASB 68), provides requirements for how pension costs and obligations are measured and reported in the basic financial statements. When an organization's pension liability exceeds the pension plan's net position available for paying benefits, there is a net pension liability which must be reported in the basic financial statements. In addition, GASB 68 requires that projected benefit payments be discounted to their actuarial present value using a single rate that reflects (1) a long-term expected rate of return on pension plan investments to the extent that the pension plan's fiduciary net position is projected to be sufficient to pay benefits and pension plan assets are expected to achieve that rate and (2) a tax-exempt, high-quality municipal bond rate to the extent that the conditions under (1) are not met.

GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68* (GASB 71) requires that, at transition to the new accounting standards in accordance with GASB 68, a government should recognize a beginning deferred outflow of resources for its pension contributions made after the measurement date of the beginning net pension liability. However, it continues to require that the beginning balances for other deferred outflows and deferred inflows be reported at transition only if it is practical to determine such amounts. The District did not restate the financial statements for the year ended June 30, 2014 because the necessary actuarial information was not provided for the prior year presented. As of July 1, 2014, the District restated beginning net position in the amount of \$(1,015,359) to record the beginning deferred pension contributions and net pension liability.

New Accounting Pronouncements

The District is currently evaluating its accounting practices to determine the potential impact on the financial statements for the following GASB statements:

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application* (GASB 72). GASB 72 is intended to improve accounting and financial reporting for state and local governments' investments by enhancing the comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. GASB 72 is effective for the District's fiscal year ending June 30, 2016.

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68 and Amendments to Certain Provisions of GASB Statements 67 and 68* (GASB 73), which establishes requirements for defined benefit pensions that are not within the scope of GASB 68, as well as for the assets accumulated for the purposes of providing those pensions. GASB 73 amends certain provisions of GASB Statement No. 67, *Financial Reporting for Pension Plans* (GASB 67), and GASB 68 for pension plans and pensions that are within their respective scopes. GASB 73 addresses the recognition of the total pension liability of such plans and the disclosures necessary for the plans that did not meet the definition of GASB 68. GASB 73 is effective for the District's fiscal year ending June 30, 2016.

PALO VERDE IRRIGATION DISTRICT

Notes to Financial Statements

1. Reporting Entity and Summary of Significant Accounting Policies (Continued)

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (GASB 74), which establishes new accounting and financial reporting requirements for governments whose employees are provided with other postemployment benefits (OPEB), as well as for certain nonemployer governments that have a legal obligation to provide financial support to OPEB provided to the employees of other entities. GASB 74 also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are not administered through trusts that meet the specified criteria. GASB 74 replaces GASB Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended* (GASB 43), and GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple Employer Plans* (GASB 57). It also includes requirements for defined contributions OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, as amended*, GASB 43, and GASB Statement No. 50, *Pension Disclosures*. GASB 74 is effective for the District's fiscal year ending June 30, 2017.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75), which establishes new accounting and financial reporting requirements for OPEB improving the accounting and financial reporting by state and local governments for OPEB and provides information provided by state and local government employers about financial support for OPEB that is provided by other entities. This statement replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* and GASB 57. GASB 75 is effective for the District's fiscal year ending June 30, 2018.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (GASB 76). GASB 76 identifies the hierarchy of generally accepted accounting principles (GAAP) used to prepare financial statements of state and local governmental entities. This statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. GASB 76 supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, and is effective for the District's fiscal year ending June 30, 2016.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures* (GASB 77), which requires governments that enter into tax abatement agreements to disclose information about (1) the government's own tax abatement agreements and (2) those that are entered into by other governments and reduce the reporting government's tax revenues. In addition, GASB 77 requires the disclosure of the nature and magnitude of tax abatements to make these transactions more transparent to financial statement users. The District does not enter into tax abatement agreements; as such, this statement does not apply.

Reclassifications

Certain reclassifications have been made to the June 30, 2014 information to conform to the current year presentation.

PALO VERDE IRRIGATION DISTRICT

Notes to Financial Statements

2. Cash and Investments

Cash and investments are included in the statements of net position in the following captions at June 30:

	2015	2014
Cash and cash equivalents	\$1,706,646	\$1,589,542
Cash and cash equivalents – restricted	62,000	62,000
Total cash and cash equivalents	1,768,646	1,651,542
Investments in marketable securities	-	270,590
	<u>\$1,768,646</u>	<u>\$1,922,132</u>

For purposes of the following discussion, these accounts have been classified as follows at June 30:

	2015	2014
Deposits	\$ 710,163	\$ 617,629
Investments	1,058,483	1,304,503
	<u>\$1,768,646</u>	<u>\$1,922,132</u>

Deposits

The California Government Code does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: the California Government Code requires that a financial institution secure deposits made by state 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 market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits. At June 30, 2015 and 2014, the carrying amount of the District's deposits were \$710,163 and \$617,629, respectively, and the bank balances were \$762,963 and \$585,327, respectively. The District has cash in financial institutions insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 and the remaining balance is collateralized in accordance with California Government Code.

Investments

The board of trustees has authorized investments in certificates of deposit, the state local agency investment fund, and remainder interest of common stock of a publically traded insurance company related to a former insurance contract for a frozen retirement plan, which is in accordance with California Government Code Sections 53600 through 53686 et seq.

PALO VERDE IRRIGATION DISTRICT

Notes to Financial Statements

2. Cash and Investments (Continued)

Investments are classified in three categories of credit risk as follows: Category 1 – insured or registered, with securities held by the District or its agent in the District's name; Category 2 – uninsured and unregistered, with securities held by the counterparty's trust department or agent in the District's name; and Category 3 – uncollateralized, uninsured, unregistered, and classifiable investment not belonging to 1 or 2 above with securities held by the counterpart or by its trust department or agent, but not in the District's name. Investments in pools managed by other governments or in mutual funds are not required to be categorized because they are not evidenced by securities that exist in physical or book entry form.

The District is a voluntary participant in LAIF that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. For LAIF's annual financial report, contact the California State Treasurer at: 915 Capitol Mall, Room 106, Sacramento, California 95814.

Investments in marketable securities at June 30, 2014 are classified as Category 1 and are recorded at their fair value based on quoted market prices. This investment at June 30, 2014 represents five percent or more of the total investments of the District. Investment in LAIF is not required to be included in the concentration of credit risk disclosure. The District does not have an investment policy that covers its concentration of credit risk.

Investments at June 30, 2015 were as follows:

	Category			Fair Value
	1	2	3	
Not subject to categorization - LAIF				\$1,058,483
				<u>\$1,058,483</u>

Investments at June 30, 2014 were as follows:

	Category			Fair Value
	1	2	3	
Available for sale securities	\$270,590			\$ 270,590
Not subject to categorization - LAIF				<u>1,033,913</u>
				<u>\$1,304,503</u>

PALO VERDE IRRIGATION DISTRICT

Notes to Financial Statements

2. Cash and Investments (Continued)

At June 30, 2015 and 2014, the District had no investments in repurchase and reverse repurchase agreements and did not invest in such during the years then ended.

3. Capital Assets

The following is the activity for the year ended June 30, 2015:

	Balance June 30, 2014	Additions	Disposals	Balance June 30, 2015
Not being depreciated:				
Land	\$ 144,715			\$ 144,715
Rights of way	267,800			267,800
Water rights	589,439			589,439
Land – main canals and drains	3,557,403			3,557,403
Total not being depreciated	<u>\$4,559,357</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$4,559,357</u>
	Balance June 30, 2014	Additions	Disposals	Balance June 30, 2015
Being depreciated:				
Dams and canals	\$ 17,972,670	\$1,207,067		\$ 19,179,737
Buildings and structures	1,153,483			1,153,483
Machinery and equipment	8,910,161	280,534	\$(17,182)	9,173,513
Furniture and fixtures	153,152			153,152
Total being depreciated	28,189,466	1,487,601	(17,182)	29,659,885
Accumulated depreciation	(23,613,358)	(661,505)	17,182	(24,257,681)
Projects in process	35,726	20,587	(20,380)	35,933
Total – net of depreciation	<u>\$ 4,611,834</u>	<u>\$ 846,683</u>	<u>\$(20,380)</u>	<u>\$ 5,438,137</u>

PALO VERDE IRRIGATION DISTRICT

Notes to Financial Statements

3. Capital Assets (Continued)

The following is the activity for the year ended June 30, 2014:

	Balance June 30, 2013	Additions	Disposals	Balance June 30, 2014
Not being depreciated:				
Land	\$ 144,715			\$ 144,715
Rights of way	267,800			267,800
Water rights	589,439			589,439
Land – main canals and drains	3,557,403			3,557,403
Total not being depreciated	<u>\$4,559,357</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$4,559,357</u>
	Balance June 30, 2013	Additions	Disposals	Balance June 30, 2014
Being depreciated:				
Dams and canals	\$ 17,918,293	\$ 54,377		\$ 17,972,670
Buildings and structures	1,161,834		\$ (8,351)	1,153,483
Machinery and equipment	9,125,333	81,000	(296,172)	8,910,161
Furniture and fixtures	153,152			153,152
Total being depreciated	28,358,612	135,377	(304,523)	28,189,466
Accumulated depreciation	(23,218,668)	(699,213)	304,523	(23,613,358)
Projects in process		35,726		35,726
Total – net of depreciation	<u>\$ 5,139,944</u>	<u>\$(528,110)</u>	<u>\$ -</u>	<u>\$ 4,611,834</u>

4. Employee Retirement Plan

(a) General Information About the Pension Plan

Plan Description and Benefits Provided

All full-time employees with one year of service are eligible to participate in the Retirement Plan for Employees of Palo Verde Irrigation District (the "Retirement Plan"), a single-employer defined benefit pension plan administered by Aetna Life Insurance Company. The Retirement Plan provides pension, death, and disability benefits. A member may retire after reaching the age of 65 for normal retirement, but may retire early at age 55 with benefits accruing to the early retirement age reduced by the appropriate early retirement factor. Eligibility of employees starts after one full year of service to the District, with benefits fully vested after five years of service. Employees who retire at the age of 65 are entitled to pension payments for the remainder of their lives equal to 1.25 percent of earnings during each plan year as an active participant. Pension provisions include death and disability benefits whereby the disabled employee will receive 100 percent of benefits accrued to the date of disability, or a surviving spouse is entitled to receive an amount equal to 50 percent of the joint annuity benefit which the participant would have received upon early retirement as discussed above.

PALO VERDE IRRIGATION DISTRICT

Notes to Financial Statements

4. Employee Retirement Plan (Continued)

The District, through the action of its board, may amend or establish Retirement Plan provisions. The board has appointed a third party to carry out substantially all administrative responsibilities, including custody of the Retirement Plan assets and as a result, excludes the pension trust funds from these financial statements. A separate stand-alone financial report is available and can be obtained from the District office through the Finance Department.

Funding Policy

Under the Retirement Plan provisions established by the board, the Retirement Plan is to be funded in amounts equal to the normal costs of the Retirement Plan plus an amortization of the past service liability.

The plan's provisions and benefits in effect at June 30, 2015 are summarized as follows:

Benefit formula	1.25 percent at 65
Benefit vesting schedule	5 years
Benefit payments	Monthly for life
Final average compensation period	12 months
Retirement age	65
Monthly benefits as a percent of eligible compensation	1.25 percent
Cost of living adjustment	3.0 percent
Required employer contribution 2015	\$167,781

At January 1, 2015, the following employees were covered by benefits:

	January 1, 2015
Inactive employees (or their beneficiaries) currently receiving benefits	32
Inactive employees entitled to but not yet receiving benefits	23
Active members	<u>61</u>
Total	<u>116</u>

(b) Actuarial Methods and Assumptions Used to Determine Total Pension Liability

For the measurement period ending June 30, 2015 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2014 total pension liability.

PALO VERDE IRRIGATION DISTRICT

Notes to Financial Statements

4. Employee Retirement Plan (Continued)

The June 30, 2015 and the June 30, 2014 total pension liabilities were based on the following actuarial methods and assumptions:

Actuarial cost method	Entry age normal
Actuarial Assumptions:	
Discount rate	7.0 percent
Inflation	3.0 percent
Salary increases	3.0 percent per year
Investment rate of return	7.0 percent net of pension plan investment and administrative expenses; includes inflation
Mortality rate table	RP 2000 mortality with separate tables for annuitants and nonannuitants projected using Scale AA to the valuation date.

Discount Rate

The discount rate used to measure the total pension liability was 7.0 percent. The long-term expected rate of return on investments may be used to discount liabilities to the extent that the plan's fiduciary net position and future contributions are projected to be sufficient to cover expected benefit payments and administrative expenses for current plan members. Projections of the plan's fiduciary net position incorporate all cash flows for contributions from the employer and employee and administrative expenses. Professional judgment should be applied to the projections of contributions in circumstances where (a) contribution amounts are established by statute or contract or (b) a formal written policy exists. Consideration should also be given to the most recent five-year contribution history as key indicators of future contributions. It should not include cash flows for future plan members.

If the amount of the plan's fiduciary net position is projected to be greater than or equal to the benefit payments and administrative expenses made in that period, the actuarial present value of payments should be discounted using the long-term expected rate of return on those investments. A 20-year, high quality (AA/Aa or higher), tax-exempt municipal bond yield or index rate must be used to discount benefit payments for periods where the fiduciary net position is not projected to cover expected benefit payments and administrative expenses.

Plans that are projected to have sufficient fiduciary net position indefinitely will use the long-term expected return on investments to determine liabilities but will have to substantiate their projected solvency.

GASB permits alternative methods to evaluate the sufficiency of the plan's net fiduciary position. Based on the plan's current net pension liability and current contribution policy, the plan's projected fiduciary net position will be sufficient to cover projected benefit payments and administrative expenses indefinitely. Therefore, since the fund is not projected to run out of money, a 7.00 percent interest rate assumption was used to discount plan liabilities.

PALO VERDE IRRIGATION DISTRICT

Notes to Financial Statements

4. Employee Retirement Plan (Continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return*	Weighting
AETNA – fixed bonds	100.00%	2.00%	2.00%
	100.00%		2.00
Long-term inflation expectation			<u>3.00</u>
Long-term expected nominal return			<u>5.00%</u>

**Long-term returns are provided by Hooker & Holcombe Investment Advisors. The returns are geometric means.*

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 are developed. Best estimates of the real rates of return for each major asset class are included in the pension plan's target asset allocation.

The information above is based on geometric means and does not reflect additional returns through investment selection, asset allocation, and rebalancing. The results support a rate between 4.50 percent and 5.50 percent. An expected rate of return of 7.00 percent was used. The deficiency in the expected rate of return was discussed with the plan sponsor and there is a plan to lower the expected rate of return.

(c) Changes in the Net Pension Liability

The following table shows the changes in net position liability recognized over the measurement period.

	Total Pension Liability	Increase (decrease) Pension Fiduciary Net Position	Net Pension Liability
Balance at June 30, 2014	\$4,310,898	\$3,097,405	\$1,213,493
Changes recognized for the measurement period:			
Service cost	68,282		68,282
Interest on the total pension liability	298,733		298,733
Administrative expenses		(26,983)	26,983
Differences between expected and actual experience	89,404		89,404
Changes of assumptions	287,707		287,707
Contributions from the employer		175,000	(175,000)
Net investment income		40,462	(40,462)
Benefit payments, including refunds of employee contributions	(223,149)	(223,149)	
Net changes	520,977	(34,670)	555,647
Balance at June 30, 2015	\$4,831,875	\$3,062,735	\$1,769,140

PALO VERDE IRRIGATION DISTRICT

Notes to Financial Statements

4. Employee Retirement Plan (Continued)

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

The following presents the net pension liability of the plan as of the measurement date calculated using the discount rate of 7.0 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.0 percentage – 1.0 point lower (6.0 percent) or 1.0 percentage-point higher (8.0 percent) than current rate:

	Discount Rate -1.0%	Current Discount	Discount Rate + 1.0%
Net pension liability	(6.0%) \$2,261,014	(7.0%) \$1,769,140	(8.0%) \$1,352,656

Recognition of Gains and Losses

Under GASB 68, gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time.

The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense.

The amortization period differs depending on the source of the gain or loss:

Difference between projected and actual earnings	5 year straight-line amortization
Change of assumptions	7 year straight-line amortization
Differences between expected and actual experience	7 year straight-line amortization

(d) Pension Expense, Deferred Outflows and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2015, the District recognized pension expense of \$175,000. At June 30, 2015, the District deferred outflows of resources related to pensions as follows:

	Deferred Outflows of Resources
Differences between expected and actual experience	\$ 89,404
Changes of assumptions	287,707
Net difference between projected and actual earnings on pension plan investments	<u>173,727</u>
Total	<u><u>\$550,838</u></u>

PALO VERDE IRRIGATION DISTRICT

Notes to Financial Statements

4. Employee Retirement Plan (Continued)

The amounts above are net of outflows recognized in the pension expense for the fiscal year ended June 30, 2015.

The net differences between projected and actual earnings on pension plan investments will be recognized in future pension expense as follows:

Fiscal Year Ending June 30,	Deferred Outflows of Resources
2016	\$93,668
2017	\$93,668
2018	\$93,668
2019	\$93,668
2020	\$93,670
Thereafter	\$82,496

Fiscal Year 2015 Pension Disclosures

(e) Funding Policy

The actuarial methods and assumptions used are those adopted by the Board of Trustees. The required employer contribution for fiscal year 2015 was \$167,781. The provisions of the plan set forth funding annually of the amount equal to the normal costs of the plan plus an amortization of past service liability which has a current amortization period of 30 years.

(f) Annual Pension Cost and Net Pension Obligation

For fiscal year 2015, the District's annual pension cost was \$167,781 and the contribution made was \$175,000. The required contribution for fiscal year 2015 was based actuarial valuation performed by an outside actuary using the actuarial assumptions discussed in Note 4(b). For fiscal year 2014, the District's annual pension cost was \$127,019 and the contribution made was \$175,000.

Two-Year Trend Information

Year ended June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
2014	\$127,019	100%	0
2015	\$167,781	100%	0

(g) Funded Status and Funding Progress

As of June 30, 2015, the actuarial valuation date, the plan was 63.4 percent funded. The actuarial accrued liability for benefits was \$4,831,875 and the actuarial value of assets was \$3,062,735 resulting in an unfunded actuarial accrued liability (AAL) of \$1,769,140. The covered payroll (annual payroll of active employees covered by the plan) was \$2,117,886, and the ratio of the UAAL to the covered payroll was 83.53 percent. This valuation reflects changes to the method for calculating the actuarial value of assets.

The Schedule of Funding Progress, presented as required supplementary information (RSI) following the notes to the basic financial statements presents multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

PALO VERDE IRRIGATION DISTRICT

Notes to Financial Statements

5. Post-employment Benefits

Plan Description

In addition to the pension benefits described in Note 4, the District provides post-employment retirement health and dental care benefits to retired employees and their surviving spouses in accordance with State of California Code Sections 53205 and 53205.1 ("the OPEB Plan"). District employees who retire from the District, or leave the District due to permanent disability, with 20 or more consecutive years of service with the District, and whose age and years of service add up to at least 80, are eligible for lifetime medical and dental benefits starting at retirement. The OPEB Plan is a single-employer defined benefit plan administered by the management of the District. The District has elected to have an actuarial valuation performed every three years, the most recent of which was at January 1, 2013. As of January 1, 2013, there were 66 active employees and 20 participating retirees included in the OPEB Plan.

Funding Policy

During the years ended June 30, 2015 and 2014, the District funded these benefits on a pay-as-you-go basis. All retirees under the age of 65 are covered by insurance, as are all active employees. The monthly insurance premium for single employees is \$613.00 and \$618.00 per month for fiscal years ended June 30, 2015 and 2014, respectively. The District will pay all of this except for a contribution per month by the employee of \$59.00 for both fiscal years ended June 30, 2015 and 2014. Retirees over the age of 65 are allowed to select from a variety of plans for their medical supplement premium and prescription Rx plans which range from \$155.00 to \$417.00 per month for which the retiree pays \$10.00 per month. Dental benefits for a single retiree, regardless of age, are \$30.00 per month for both fiscal years ended June 30, 2015 and 2014. The District will pay for all of this. Spouses of retirees who retired in 2008 or later are entitled to dental benefits for their lifetime. Spouses of retirees who retired before 2008, if they were married to the retirees at the date of retirement, are entitled to lifetime benefits of \$150.00 per month, plus lifetime dental benefits. They must pay any excess medical costs over \$150.00 per month. Dental benefits for a married retiree, regardless of age, are \$74.28 per month. The District will pay all of this except for a contribution of \$5.21 per month by the employee. Spouses of retirees are eligible for survivor benefits. Surviving spouses of retirees who retired before 2008 receive the same benefits as single retirees for life. Surviving spouses of employees who retired in or after 2008 receive lifetime dental benefits but no medical benefits.

Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost and net OPEB obligation for the year ended June 30:

	2015	2014
Annual required contribution	\$ 424,649	\$ 396,776
Interest on net OPEB obligation	150,098	141,410
Adjustment to annual required contribution	(208,348)	(189,805)
Annual OPEB cost	366,399	348,381
Contributions made	(84,213)	(83,310)
Increase in net OPEB obligation	282,186	265,071
Net OPEB obligation, beginning of year	3,840,951	3,575,880
Net OPEB obligation, end of year	<u>\$4,123,137</u>	<u>\$3,840,951</u>

PALO VERDE IRRIGATION DISTRICT

Notes to Financial Statements

5. Post-employment Benefits (Continued)

Actuarial Methods and Assumptions

The schedules of funding progress immediately following the notes to the financial statements presents multiyear trend information, as available, about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. The annual required contribution for the year ended June 30, 2015 was determined as part of the July 1, 2013 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included a discount rate of 4.00 percent, a projected salary increase of 2.00 percent, and increasing medical costs using a health care trend rate, which ranges from 7.50 percent to 5.00 percent in future years. The assumptions did not include postretirement benefit increases, which are at the discretion of the District. The OPEB Plan has no assets, as the plan is funded entirely on a pay-as-you-go basis for insurance premiums. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2015 was 24 years.

Three-Year Trend Information

Plan Year Ended December 31	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation
2013	\$330,907	23.07%	\$3,575,880
2014	\$348,381	23.91%	\$3,840,951
2015	\$366,399	22.98%	\$4,123,137

Actuarial information for years prior was not available.

6. Net Position

Net position invested in capital assets, net of related debt (none at end of either year) of \$9,997,494 and \$9,171,191 represent the value of capital assets held at June 30, 2015 and 2014, respectively. Unrestricted net position deficits of \$(3,981,969), restated, and \$(2,773,719), represents fund deficit of the District at June 30, 2015 and 2014, respectively. Of the restricted net position, \$60,000 is temporarily restricted for reclaiming the surface mine pursuant to Surface Mining Reclamation Act of 1975 and \$2,000 is temporarily restricted as a reserve for properties not collectible at June 30, 2015 and 2014. Investment income earned on restricted net position is included in unrestricted net position and is available for use.

7. Joint Ventures (Joint Powers Agreements)

On September 1, 2005, the District entered into the Lower Colorado River Multi-Species Conservation Program with nine other participating California agencies and one investor-owned utility. This agreement is intended to meet California's funding requirement for a 50-year, \$628,180,000 comprehensive species conservation and habitat management program. The Federal government will fund 50 percent of the program costs. California will fund 50 percent of the nonfederal costs, with Arizona and Nevada each funding 25 percent of the nonfederal costs.

PALO VERDE IRRIGATION DISTRICT

Notes to Financial Statements

7. Joint Ventures (Joint Powers Agreements) (Continued)

The District is responsible to pay 3.6 percent of California's cost. The District is scheduled to pay \$5,635,620 in quarterly payments during the 50-year program. Participation in this program will provide the District with comprehensive compliance protection for 50 years. As a stakeholder, the District has a seat on the steering committee. During the years ended June 30, 2015 and 2014, the District made four payments totaling \$174,084 and \$143,117, respectively.

The District participates in a joint venture under a joint powers agreement (JPA) with the Association of California Water Agencies Joint Powers Insurance Authority (JPIA). The relationship between the District and the JPIA is such that the JPA is not a component unit of the District for financial reporting purposes. Audited financial statements are available by contacting the JPIA at 5620 Birdcage Street, Suite 200, Citrus Heights, California 95610.

The Association of California Water Agencies Joint Powers Insurance Authority arranges for and provides insurance coverage for its nearly 300 member districts. JPIA is governed by a board of directors and each member agency is required to designate one representative from its local board of directors to participate in the JPIA board.

From the board of directors, nine members of a ten-member executive committee are elected and delegated the authority to make JPIA's preliminary policy decisions relying upon input received from other standing and ad hoc committees and subcommittees. These policy decisions, along with other matters such as financial and claims data, are ultimately brought before the full board for review and/or ratification. The board controls the operations of the JPIA, including selection of management and approval of operating budgets, independent of any influence by the member agencies beyond their representation on the board. JPIA provides joint protection coverage for losses in excess of the member districts' individually specified self-insurance retention levels. Individual claims (and aggregate public liability and property claims) in excess of specified levels are covered by excess insurance policies purchased from commercial insurance carriers.

Condensed audited financial information of the Association of California Water Agencies Joint Powers Insurance Authority for the year ended September 30 follows:

	2014	2013
Total assets	<u>\$195,584,006</u>	<u>\$194,823,604</u>
Total liabilities	107,626,833	100,307,836
Net position	<u>87,957,173</u>	<u>94,515,768</u>
Total liabilities and net position	<u>\$195,584,006</u>	<u>\$194,823,604</u>
Total revenues	\$ 142,014,403	\$ 140,290,060
Total expenses	(149,684,189)	(133,299,974)
Total other income	<u>1,111,191</u>	<u>162,348</u>
Increase (decrease) in net position	<u>\$ (6,558,595)</u>	<u>\$ 7,152,434</u>

8. Operating Leases

The District leases equipment under long-term noncancelable lease agreements which qualify as operating leases. Lease payments of \$37,704 for both the years ended June 30, 2015 and 2014, were included in administrative expenses.

PALO VERDE IRRIGATION DISTRICT

Notes to Financial Statements

8. Operating Leases (Continued)

Minimum future lease payments including sales tax as of June 30, 2015 are as follows:

Year ending June 30,	
2016	\$45,033
2017	26,180
2018	<u>1,832</u>
Total lease payments	<u>\$73,045</u>

9. Risk Management

The District is exposed to various risks of loss related to torts, theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance through participation in the Association of California Water Agencies Joint Powers Insurance Authority (see Note 7). The insurance purchased is for liability, property, and workers' compensation insurance and there are various deductibles per occurrence.

10. Subsequent Events

In the preparation of these financial statements, the District considered subsequent events through February 8, 2016 which is the date these financial statements were issued.

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SUPPLEMENTARY INFORMATION - UNAUDITED

PALO VERDE IRRIGATION DISTRICT
Required Supplementary Information – Unaudited

June 30, 2015

Schedule of Changes in Net Pension Liability and Related Ratios

	<u>2015¹</u>
TOTAL PENSION LIABILITY	
Service cost	\$ 68,282
Interest on total pension liability	298,733
Benefit payments, including refunds of employee contributions	(223,149)
Difference between actual and expected experience	89,404
Change of assumptions	<u>287,707</u>
Net change in total pension liability	520,977
Total pension liability – beginning	<u>4,310,898</u>
Total pension liability – ending (a)	<u>\$4,831,875</u>
PLAN FIDUCIARY NET POSITION	
Contribution – employer	\$ 175,000
Administrative expenses	(26,983)
Net investment income	40,462
Benefit payments, including refunds of employee contributions	<u>(223,149)</u>
Net change in fiduciary net position	(34,670)
Plan fiduciary net position – beginning	<u>3,097,405</u>
Plan fiduciary net position – ending (b)	<u>\$3,062,735</u>
Plan net pension liability – ending (a) – (b)	<u>\$1,769,140</u>
Plan fiduciary net position as a percentage of the total pension liability	63.39%
Covered employee payroll	\$2,117,886
Plan net pension liability as a percentage of covered-employee payroll	83.53%

¹Historical information is required only for measurement periods for which GASB 68 is applicable.

Notes to Schedule:

Benefit changes: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2015.

Changes of Assumptions: Changes of assumptions were revising salary scale increases from 2.0 percent to 3.0 percent and the mortality table was changed to better reflect improvements in mortality. These changes resulted in an increase to the accrued liability of \$287,707.

PALO VERDE IRRIGATION DISTRICT
Required Supplementary Information – Unaudited

June 30, 2015

Schedule of Plan Contributions¹

(Dollars in thousands)	2015
Actuarially determined contribution	\$ 167,781
Contributions in relation to the actuarially determined contribution	<u>(167,781)</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered employee payroll	\$2,117,886
Contributions as a percentage of covered-employee payroll	7.9%

¹Historical information is required only for measurement periods for which GASB 68 is applicable.

Notes to Schedule:

Valuation date: January 1, 2015 rolled forward to June 30, 2015.

Methods and assumptions used to actuarially determine contributions rates for fiscal year 2015.

Actuarial Cost Method	Entry Age Normal
Amortization method/period	Level of percent of payroll/ 30 years as of the valuation date
Asset valuation method	15 year smoothed market
Inflation	3.00 percent
Salary increases	3.00 duration of employment
Investment rate of return	7.00 percent (net of administrative expenses)
Retirement age	RP 2000 Mortality with separate tables for annuitants and nonannuitants projected using Scale AA to the valuation date.

PALO VERDE IRRIGATION DISTRICT
Required Supplementary Information - Unaudited

June 30, 2015

Required Supplementary Information - Plan's Risk History of Funded Status and Funding Progress (Dollar Amounts in Thousands)

Pension Plan

Actuarial Valuation Date	Actuarial Asset Value	Entry Age Actuarial Accrued Liability	(Overfunded) Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Actuarial Liability as Percentage of Covered Payroll
1/01/07	\$2,347.4	\$2,615.1	\$267.7	89.8%	\$2,233	12.0%
1/01/09	\$2,146.7	\$2,783.7	\$637.0	77.1%	\$2,248	28.3%
1/01/11	\$2,639.9	\$3,034.7	\$394.8	87.0%	\$2,284	17.3%
1/01/13	\$2,920.9	\$3,469.2	\$548.3	84.2%	\$2,138	25.6%
1/01/15	\$3,189.5	\$4,724.6	\$1,535.0	67.5%	\$2,181	70.4%

Other Post-employment Benefits

Actuarial Valuation Date	Actuarial Asset Value	Entry Age Actuarial Accrued Liability	(Overfunded) Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Actuarial Liability as Percentage of Covered Payroll
6/30/10	-	\$2,463.0	\$2,463.0	0%	N/A	N/A
6/30/11	-	\$3,321.3	\$3,321.3	0%	N/A	N/A
1/01/13	-	\$3,873.4	\$3,873.4	0%	N/A	N/A

Actuarial valuations of the ongoing plans involved estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about demographics regarding retirement, disability, turnover, mortality, and healthcare cost trends. See Notes 4 and 5.

PALO VERDE IRRIGATION DISTRICT

Organizational Information

June 30, 2015

Organization and Description of the District

The District was formed in 1925, taking over the assets and liabilities of three predecessor organizations, for the purpose of providing irrigation water and agricultural drainage to the Palo Verde Valley and the Palo Verde Mesa. The District occupies approximately 189 square miles in Riverside and Imperial Counties of California.

An abundant supply of water for irrigation has been available for the Palo Verde Valley since the construction of Hoover Dam and the subsequent control of the Colorado River. Due to irrigation practices, the original saline condition of the valley soils, the flat slope of the valley, and other related factors, diversion per acre is high; however, considerable water, both operational spill and drainage flow, is returned to the Colorado River at the lower end of the valley.

The District holds the oldest water rights on the lower Colorado River according to a federal compact of 1922. The District has the number one priority and holds in perpetuity the right to irrigate 104,500 acres and the only limitation is that the water be used for beneficial purposes.

The District canal system consists of approximately 244.23 miles of main and lateral canals with capacities from 2,100 cubic feet per second, at the upper or north end of the District, down to 25 cubic feet per second in various small laterals throughout the valley. As a part of this canal system there are more than 2,550 structures necessary to operate the system. These structures are canal headings, checks, siphons, deliveries, bridges, flumes, pump plants, moss racks, and miscellaneous structures. The District drainage system is composed of approximately 141.4 miles of open drainage channels carrying groundwater drainage and canal operational spill water away from farmland and back to the Colorado River. This system of drains includes over 250 siphons, or submerged culverts. The groundwater is hydraulically connected to the Colorado River. The valley average depth to groundwater below farmland, as shown by over 200 observation wells throughout the valley, is approximately 10 feet as compared to 5½ feet in 1957.

The District is governed by a seven-member board of trustees elected by the landowners within the District. Trustees serve three-year terms. The District operations are carried out under the direction of Ned Hyde, General Manager.

PALO VERDE IRRIGATION DISTRICT

Schedule of Trustees and Management

June 30, 2015

The trustees and senior management of Palo Verde Irrigation District are listed below:

	<u>Term Expires</u>
Jack Seiler, President 1187 Eucalyptus Street Blythe, California 92225	September 2017
Bart Fisher, Vice President P.O. Box 2399 Blythe, California 92226	September 2016
Daniel E. Robinson, Trustee 14530 S. Commerical Blythe, California 92225	September 2015
Duane Berger, Trustee 1091 S. Intake Boulevard Blythe, CA 92225	September 2017
Gary A. Bryce, Trustee P.O. Box 1230 Blythe, CA 92226	September 2015
Jill Johnson, Trustee 10970 Williams Avenue Blythe, CA 92225	September 2017
Charles Van Dyke, Trustee 1725 N. Lovekin Boulevard Blythe, CA 92225	September 2016
Ned Hyduke, General Manager	N/A
Richard Gilmore, Assistant Manager/ Assessor	N/A
Kim Bishoff, Secretary/ Treasurer/ Collector	N/A

PALO VERDE IRRIGATION DISTRICT

Schedule of Insurance Coverage

June 30, 2015

At June 30, 2015, Palo Verde Irrigation District carried insurance as outlined below:

Property coverage – blanket policy	\$150,000,000
General liability and wrongful acts	\$25,000,000
Employee dishonesty and forgery or alteration, computer fraud, and ERISA	\$100,000
Auto liability	\$25,000,000
Public officials errors and omissions	\$25,000,000
Worker's compensation insurance	Statutory

Deductibles on the insurance policies are generally \$500 to \$5,000.

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Linda S. Devlin, CPA
Andrew Steinke, CPA

Of Counsel
Michael R. Adcock, CPA
Thomas E. Ahern, CPA

A California Limited Liability Partnership
Certified Public Accountants



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**To the Board of Trustees
Palo Verde Irrigation District**

We have audited the financial statements of Palo Verde Irrigation District (the "District") for the year ended June 30, 2015. Professional standards require that we provide you with information about our responsibilities under United States of America generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 6, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the financial statements. As described in Note 1 to the financial statements, the District changed accounting policies related to accounting and reporting of the pension plan by adopting Statement of Governmental Accounting Standards No. 68 and No. 71 as of July 1, 2014. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the District's financial statements were:

- Management's estimate of the depreciation and amortization is based on useful life of capital assets, which vary from three to fifty years.
- Management's estimate of the retirement and other post-employment benefit liabilities and expenses is based on actuarial computations prepared by outside actuarial consultants.

We evaluated the key factors and assumptions used to develop the estimates to determine that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

- The disclosure of the estimate on retirement plan liability is included in Note 4.
- The disclosure of the estimate on other post-employment benefits is included in Note 5.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial and communicate them to the appropriate level of management. The following material misstatement was detected as a result of audit procedures and was corrected by management:

- Adjustment to net position of \$551k for deferred outflow related to adoption of new pension plan standards. (See Note 1).

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 8, 2016.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a second opinion on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to information related the pension benefits plan on pages 33 through 35 of the financial statements, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the Organizational Information, Schedule of Trustees and management, and Schedule of Insurance Coverage, which accompany the financial statements but are not required supplementary information. With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

* * * * *

This information is intended solely for the use of the board of trustees and management of Palo Verde Irrigation District and is not intended to be, and should not be, used by anyone other than these specified parties.

Ahern Adcock Devlin LLP

Riverside, California
February 8, 2016

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To the Board of Trustees and Management of Palo Verde Irrigation District

In planning and performing our audit of the financial statements of the business-type activities of the Palo Verde Irrigation District (the "District") as of and for the year ended June 30, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies; therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies in the District's internal control to be material weaknesses:

Segregation of Duties

To ensure the protection of the District's assets, certain everyday tasks need to be separated as much as possible. Segregation of duties, if adequate, will keep a person from both perpetuating and concealing an irregularity or fraudulent activity. While we have no reason to suspect an irregularity or any fraudulent activity has occurred or is occurring, we did note functions in the accounting system which might allow such an event to occur. With all small organizations, segregation of duties among employees is often difficult, if not impossible. We recommend that wherever possible, incompatible duties be segregated.

Management has taken action to determine what would be necessary to provide for adequate segregation of duties. Based on various scenarios, management has determined there is no resolution that would allow for adequate segregation to occur at a reasonable cost. In order to mitigate and reduce the risk of improprieties, management has directed that a detailed review of pertinent financial information occur on a regular and consistent basis.

One employee has sole responsibility for the human resources and payroll functions which include manually entering timesheet data, maintaining employee withholding documentation, recording and processing electronic payments for payroll items (other than employee paychecks), administering the vacation and sick time records, and complying with all garnishment demands. This combination of responsibilities will always represent a business risk. To minimize the risk, the employee should be required to take vacation at which time the payroll is processed, allowing for the utilization of the cross-trained skills of other staff. This will serve two purposes, one to ensure the strength of skills of those who have been cross-trained and two having a second person processing the information for errors or misappropriations.

* * * * *

This communication is intended solely for the information and use of management, the board of trustees, and others within the District, and is not intended to be, and should not be, used by anyone other than these specified parties.

Ahira Adcock Devlin LLP

Riverside, California
February 8, 2016