

ANDERSON-COTTONWOOD IRRIGATION DISTRICT
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Anderson-Cottonwood Irrigation District
Anderson, California

We have audited the accompanying financial statements of the business-type activities of the Anderson-Cottonwood Irrigation District (District) as of and for the year ended December 31, 2011, which comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the State Controller's Minimum Audit Requirements and Reporting Guidelines for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Anderson-Cottonwood Irrigation District as of December 31, 2011, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America as well as the accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 5, 2012, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during 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.

Matson and Isom

April 5, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the Anderson-Cottonwood Irrigation District's financial performance provides an overview of the District's financial activities for the fiscal year ended December 31, 2011. Please read it in conjunction with the financial statements, which begin on page 8 of this report.

FINANCIAL HIGHLIGHTS

- The District's net assets decreased by \$93,512 as a result of depreciation expense of \$435,529. Absent depreciation, all 2011 revenues and expenses (operating and non-operating combined) resulted in a favorable variance of \$342,017.
- During the year the operating revenues of \$975,515 were \$740,722 less than operating expenses of \$1,716,237. Total operating revenues increased \$73,352 compared to the prior year, while operating expenses increased by \$127,667 from the prior year. Revenue from water sales increased by \$37,022, while revenues for water transfer sales increased by \$39,842.
- Budgeted non-operating revenues (principally taxes and interest income) were \$424,434.
- Non-budgeted capital and related financing activities resulted in net cash expense of \$213,058. Approximately \$122,000 of this total went for a dump truck, vehicles, and pump equipment, and the remainder was for capital infrastructure projects.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Fund Net Assets; and the Statement of Cash Flows provide information about the activities of the District and a long-term view of the District's finances.

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 revenue and expenses are taken into account regardless of when cash is received or paid.

ANDERSON-COTTONWOOD IRRIGATION DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2011

CONDENSED FINANCIAL INFORMATION

The difference between assets and liabilities is one way to measure the District's financial health. Over time, increases or decreases in net assets are an indication of whether its financial health is improving or deteriorating.

The District's total net assets decreased from \$12,797,038 a year ago to \$12,703,526 this year, a decrease of \$93,512. In contrast, last year's total net assets increased by \$24,198 from the prior year.

The analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2).

Table 1
Net Assets (in dollars)

	<u>2011</u>	<u>(Restated) 2010</u>
Assets		
Current and other assets	\$ 2,470,955	\$ 2,844,440
Capital assets	<u>10,465,642</u>	<u>10,532,335</u>
Total assets	<u>12,936,597</u>	<u>13,376,775</u>
Liabilities		
Current liabilities	213,187	569,045
Other liabilities	<u>19,884</u>	<u>10,692</u>
Total liabilities	<u>233,071</u>	<u>579,737</u>
NET ASSETS		
Invested in capital assets, net of debt	10,465,642	10,532,335
Restricted	-	-
Unrestricted	<u>2,237,884</u>	<u>2,264,703</u>
Total net assets	<u>\$ 12,703,526</u>	<u>\$ 12,797,038</u>

Net assets of the District's activities decreased by \$93,512. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by legal requirements or District restrictions decreased from \$2,264,703 on December 31, 2010 to \$2,237,884 at the end of the current year.

ANDERSON-COTTONWOOD IRRIGATION DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011**

**Table 2
Changes in Net Assets (in dollars)**

	<u>2011</u>	(Restated) <u>2010</u>
Total operating revenues	\$ 975,515	\$ 902,163
Total operating expenses	<u>1,716,237</u>	<u>1,588,570</u>
Net operating income	(740,722)	(686,407)
Total non-operating revenues (expenses)	<u>424,434</u>	<u>421,993</u>
Net income (loss) before capital contributions	(316,288)	(264,414)
Capital contributions, principally grants	<u>222,776</u>	<u>288,612</u>
Increase (decrease) in net assets	\$ <u><u>(93,512)</u></u>	\$ <u><u>24,198</u></u>

Compared to a year ago, operating revenues increased from \$902,163 to \$975,515, just over 8 percent, mostly as a result of increased water sales including a new agreement to wholesale municipal and industrial water to the City of Redding.

Operating expenses increased by \$127,667, or approximately 8 percent. This was due to increases to expenses across the board, including salaries and benefits, depreciation, source of supply expenses associated with Project water transfers, and maintenance and administrative expenses.

Non-operating revenues for future years, principally taxes and interest income, should be relatively stable with minor year-to-variations. State raids of property tax income and reduced interest income resulting from federal rate adjustments are the most likely sources of reduced non-operating revenues in future years. Interest income may have bottomed out, as current returns are almost nonexistent.

BUDGETARY HIGHLIGHTS

The District's 2011 operating budget was discussed and approved at the Board of Directors regular meeting in December 2010.

Comparing actual revenue and expenses with budgeted revenues and expenses shows a favorable variance of \$46,833 as shown in Table 3.

ANDERSON-COTTONWOOD IRRIGATION DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011**

**Table 3
Changes in Net Assets (in dollars)**

	<u>Budget</u>	<u>Actual</u>	Variance <u>+ or (-)</u>
Total operating revenues	\$ 830,000	\$ 975,515	\$ 145,515
Total operating expenses	<u>(1,144,485)</u>	<u>(1,716,237)</u>	<u>(571,752)</u>
Net operating income (loss)	<u>(314,485)</u>	<u>(740,722)</u>	<u>(426,237)</u>
Net budgeted income (loss)	\$ <u>63,015</u>	\$ <u>(93,512)</u>	\$ <u>(156,527)</u>

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2011, the District had \$10,465,642 invested in capital assets. This amount represents a net decrease of \$66,693 from the prior year; acquisition of capital assets, including vehicles, equipment, and infrastructure improvements, offset depreciation expenses to result in this increase.

The District is currently working on a proposal to issue Grant Anticipation Notes to temporarily finance capital improvements to the system. Implementation of two projects funded by State and Federal grants is underway, and the delay in State reimbursement to contractors may be mitigated by temporary borrowing against the anticipated funding. The current projects include the Main Canal Modernization Program and the Conjunctive Use Program – Groundwater Production Element, both of which will provide additions to the District's capital assets.

Debt

The District has no outstanding bonds, loans, or certificates of participation.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Factors considered in preparation of the 2012 operating budget included:

- Salaries and benefits, including anticipated increases pursuant to the 2011-2014 Collective Bargaining Agreement with the Teamsters.
- Water rights protection costs, specifically the defense of litigation filed in Federal court by the National Resources Defense Council challenging the District's Settlement Contract and right to divert.
- Increased liability insurance costs.

ANDERSON-COTTONWOOD IRRIGATION DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2011

- System improvements, including improvements to the Clear Creek siphon; replacement of rolling stock.
- Confirmed and expected revenue from water transfer sales.

Financial uncertainties in 2012 that may affect the District's position include: potential changes to liability insurance premiums resulting from recent litigation; fuel and chemical costs; repairs/improvements to the Clear Creek siphon; and continuing defense of the NRDC litigation.

CONTACTING THE DISTRICT

This financial report is designed to provide the public 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 District's office at 2810 Silver Street, Anderson, California, 96007; or call (530) 365-7329.

ANDERSON-COTTONWOOD IRRIGATION DISTRICT
STATEMENT OF NET ASSETS
DECEMBER 31, 2011

ASSETS

Current assets:

Cash and cash equivalents	\$ 2,099,201
Grants receivable	146,506
Assessments receivable	209,460
Inventories	11,557
Prepaid expenses	4,231
Total current assets	2,470,955

Capital assets:

Non-depreciable assets	866,743
Depreciable capital assets, net	9,598,899
Total capital assets	10,465,642
Total assets	12,936,597

LIABILITIES

Current liabilities:

Accounts payable	173,771
Accrued wages	15,818
Accrued compensated absences, current portion	10,619
Amount held for others	12,979
Total current liabilities	213,187

Other liabilities:

Accrued compensated absences, non-current portion	19,884
Total liabilities	233,071

NET ASSETS

Invested in capital assets, net of related debt	10,465,642
Unrestricted net assets	2,237,884
Total net assets	\$ 12,703,526

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

ANDERSON-COTTONWOOD IRRIGATION DISTRICT

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS

YEAR ENDED DECEMBER 31, 2011

OPERATING REVENUES

Water sales	\$ 650,511
Water transfer sales	312,348
Penalty revenue	5,922
Other revenues	6,734
	<hr/>
Total operating revenues	975,515

OPERATING EXPENSES

Salaries and benefits	688,490
Depreciation expense	435,529
Source of supply	141,270
Maintenance	178,035
Pumping	123,045
General and administrative expenses	149,868
	<hr/>
Total operating expenses	1,716,237

INCOME (LOSS) FROM OPERATIONS

(740,722)

NON-OPERATING REVENUES (EXPENSES)

County tax allocation	401,966
Interest income	18,068
Sale of equipment	4,400
	<hr/>
Total non-operating revenues (expenses), net	424,434

CAPITAL CONTRIBUTIONS

222,776

CHANGE IN NET ASSETS

(93,512)

NET ASSETS, BEGINNING OF YEAR, AS RESTATED

12,797,038

NET ASSETS, END OF YEAR

\$ 12,703,526

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

ANDERSON-COTTONWOOD IRRIGATION DISTRICT
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2011

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	\$ 971,555
Cash paid to suppliers	(939,809)
Cash paid to employees	(686,543)
Net cash used by operating activities	<u>(654,797)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Cash received from county tax allocation	<u>403,887</u>
Net cash provided by noncapital financing activities	<u>403,887</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Proceeds from sale of capital assets	4,400
Acquisition of capital assets	(368,836)
Cash received from capital grants	581,894
Net cash provided by capital and related financing activities	<u>217,458</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest received	<u>18,068</u>
Net cash provided by investing activities	<u>18,068</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(15,384)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>2,114,585</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 2,099,201</u></u>

(Continued on following page)

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

ANDERSON-COTTONWOOD IRRIGATION DISTRICT
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2011

**RECONCILIATION OF INCOME (LOSS) FROM OPERATIONS TO
NET CASH USED BY OPERATING ACTIVITIES:**

Income (loss) from operations	<u>\$ (740,722)</u>
Adjustments to reconcile income (loss) from operations to net cash used by operating activities:	
Depreciation	435,529
(Increase) decrease in assets:	
Inventories	(834)
Prepaid expenses	(2,104)
Increase (decrease) in liabilities:	
Accounts payable	(344,653)
Accrued wages	(1,826)
Accrued compensated absences	3,773
Amounts held for others	<u>(3,960)</u>
Total adjustments	<u>85,925</u>
NET CASH USED BY OPERATING ACTIVITIES	<u><u>\$ (654,797)</u></u>

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

ANDERSON-COTTONWOOD IRRIGATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

The Anderson-Cottonwood Irrigation District (the District) was formed in 1914 and provides irrigation water to residents of the District. The District encompasses approximately 32,000 acres in Shasta and Tehama Counties. District irrigation facilities include the main canal diversion dam on the Sacramento River in Redding, a pump station to serve the Churn Creek Bottom area, and approximately 120 miles of canals and pipelines.

The District operates under an elected Board of Directors. The accounting methods and procedures adopted by the District conform to generally accepted accounting principles (GAAP) as applied to government entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Consistent with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the District has elected to apply all Financial Accounting Standards Board (FASB) Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements. As required by accounting principles generally accepted in the United States of America, these financial statements present the Anderson-Cottonwood Irrigation District alone, as the District has no component units, related organizations or jointly governed organizations.

BASIS OF ACCOUNTING

The District's activities are accounted for as an enterprise fund (a business-type activity) and the accounting records are maintained on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

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

(Continued on following page)

ANDERSON-COTTONWOOD IRRIGATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

CASH AND CASH EQUIVALENTS

For the purposes of the Statement of Cash Flows, the District considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Funds invested in the County Treasurer's investment pool are considered cash equivalents.

GRANTS AND ASSESSMENTS RECEIVABLE

Grants and assessments receivable include amounts due from the federal government, state, and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the District's grants and contracts. Losses on uncollectible accounts receivable are recognized when such losses become known or indicated. No allowance is recorded at December 31, 2011, as management believes all amounts are collectible.

INVENTORIES

Inventories are valued at cost, which approximates market, using the first-in, first-out method.

PREPAID EXPENSES

Payments made to vendors for services that will benefit periods beyond the fiscal year end are recorded as prepaid assets.

CAPITAL ASSETS

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related assets, as applicable.

All purchased capital assets are valued at cost based upon purchasing records when available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at estimated fair market value on the date received.

(Continued on following page)

ANDERSON-COTTONWOOD IRRIGATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

CAPITAL ASSETS (Continued)

Accumulated depreciation is reported on the accompanying statements of net assets. Depreciation has been provided over the estimated useful lives of the assets using the straight-line method.

The estimated useful lives are as follows:

Transmission and distribution	50 - 60 years
Machinery	3 - 50 years
Pumps	20 - 25 years
Autos and trucks	50 years
Buildings	10 - 30 years
Yard improvements	15 years
Furniture and fixtures	3 - 10 years
Fish screens	25 years
Fish ladders	50 years
Scada equipment	5 years
Groundwater program	50 years

COMPENSATED ABSENCES

Vested or accumulated sick leave and vacation pay is recorded as an expense and liability as the benefits accrue to employees. In accordance with the provisions of Governmental Accounting Standards (GASB) Statement No. 16, *Accounting for Compensated Absences*, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

NET ASSETS

Net assets represent the difference between assets and liabilities. The District's net assets are classified as follows:

- *Invested in capital assets, net of related debt* – This represents the District's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component invested in capital assets, net of related debt.

Continued on following page)

ANDERSON-COTTONWOOD IRRIGATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

NET ASSETS (Continued)

- *Restricted net assets-expendable* – Restricted expendable net assets represent resources which are legally or contractually obligated to be spent in accordance with restrictions imposed by external third parties.
- *Unrestricted net assets* – Unrestricted net assets represent resources available for transactions relating to the general operations of the District, and may be used at the discretion of the governing board to meet current expenses for any purpose.

OPERATING REVENUE AND EXPENSE

The District distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges to customers for sales and services. Operating expenses for the District include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

TAX REVENUES

The County of Shasta assesses, bills and collects property taxes for the District.

The County property tax is levied each November 1st on the assessed valuation of land located in the County as of the preceding lien date (March 1). Taxes are receivable in two equal installments which become delinquent the first working day after December 10th and April 10th.

The County adopted the alternative method of tax apportionment ("Teeter Plan"). The District determined they would participate in this plan. Under the plan the County remits all property taxes and special assessments due to the District without regard to their current or delinquent status.

(Continued on following page)

ANDERSON-COTTONWOOD IRRIGATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

USE OF ESTIMATES

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

BUDGET

The District's budget is adopted on a modified accrual basis, which is a comprehensive basis of accounting other than generally accepted accounting principles. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The annual appropriations lapse at fiscal year end.

NOTE 2 CASH AND CASH EQUIVALENTS

Cash and cash equivalents at December 31, 2011, consist of the following:

Cash in banks	\$ 1,674,610
State of California – Local Agency Investment Fund	<u>424,591</u>
	<u>\$ 2,099,201</u>

(Continued on following page)

ANDERSON-COTTONWOOD IRRIGATION DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2011

NOTE 2 CASH AND CASH EQUIVALENTS
 (Continued)

DEPOSITS

Custodial credit risk – The District’s deposits at December 31, 2011, were as follows:

Carrying amount	\$ <u>1,674,610</u>
Bank balance	\$ 1,674,610
Amount covered by Federal depository insurance	<u>250,000</u>
Amount covered by collateral held by agents of pledging banks	\$ <u>1,424,610</u>

All of the District’s deposits in financial institutions are entirely insured or collateralized. The California Government Code requires California banks and savings and loan associations to secure local agency deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of a local agency’s deposits.

Collateral was not held in the District’s name. (There is no Government Code requirement that collateral be held in the District’s name).

EQUITY IN POOLED CASH AND INVESTMENTS

The District invests funds in the State Treasurer’s Pooled Money Investment Account (PMIA) through the Local Agency Investment Fund (LAIF), a voluntary program created by statute in 1977. The PMIA has regulatory oversight from the Pooled Money Investment Board and an in-house Investment Committee. The Local Agency Investment Advisory Board has oversight of LAIF. The fair value of the District’s position in the pool is materially equivalent to the value of pool shares. The pool is unrated.

In accordance with authorized investment laws, the State Treasurer’s Investment Pool (LAIF) invests in various structured notes and mortgage-backed securities, such as collateralized mortgage obligations. As of December 31, 2011, 5.41% of LAIF’s investment portfolio was invested in structured notes and other asset-backed securities. (Copies can be obtained from the Local District Investment Fund, P.O. Box 942809, Sacramento, CA 94209.) PMIA’s weighted average maturities was 256 days at December 31, 2011.

(Continued on following page)

ANDERSON-COTTONWOOD IRRIGATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 3 CAPITAL ASSETS

A summary of changes in capital assets for the year ended December 31, 2011 is as follows:

	(As Restated) Beginning Balance	Additions	Transfers/ Deletions	Ending Balance
Non-depreciable capital assets:				
Land	\$ 18,885	\$ -	\$ -	\$ 18,885
Construction in progress	<u>605,549</u>	<u>242,309</u>	<u>-</u>	<u>847,858</u>
Non-depreciable capital assets total	<u>624,434</u>	<u>242,309</u>	<u>-</u>	<u>866,743</u>
Depreciable capital assets:				
Transmission and distribution	2,869,403	9,318	-	2,878,721
Machinery	320,571	-	22,409	298,162
Pumps	236,595	-	-	236,595
Autos and trucks	129,938	115,890	37,994	207,834
Buildings	54,241	-	-	54,241
Yard improvements	14,697	-	-	14,697
Furniture and fixtures	31,239	1,319	2,854	29,704
Fish screens	5,575,575	-	-	5,575,575
Fish ladders	5,575,575	-	-	5,575,575
Scada equipment	159,616	-	-	159,616
Groundwater program	<u>300,000</u>	<u>-</u>	<u>-</u>	<u>300,000</u>
	15,267,450	126,527	63,257	15,330,720
Less accumulated depreciation	<u>5,359,549</u>	<u>435,529</u>	<u>(63,257)</u>	<u>5,731,821</u>
Depreciable capital assets, net	<u>9,907,901</u>	<u>(309,002)</u>	<u>-</u>	<u>9,598,899</u>
Capital assets, net	<u>\$ 10,532,335</u>	<u>\$ (66,693)</u>	<u>\$ -</u>	<u>\$ 10,465,642</u>

NOTE 4 EMPLOYEE BENEFIT PLANS

DEFERRED COMPENSATION PLAN

The District offers its employees a non-contributory deferred compensation plan created in accordance with IRC Section 457. The plan, available to all District employees, permits them to defer a portion of their current salary until future years. Deferred compensation benefits are not available to the employees until termination, retirement, death, or unforeseeable emergency.

(Continued on following page)

ANDERSON-COTTONWOOD IRRIGATION DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2011

NOTE 4 EMPLOYEE BENEFIT PLANS
 (Continued)

PENSION PLAN

District employees (except for the general manager) are covered by a pension plan through their collective bargaining agreement with the General Teamsters Local #137. Total District contributions for the year totaled \$30,877.

NOTE 5 RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended December 31, 2011, the District carried insurance through various commercial carriers to cover all risks of losses. The District has had no settled claims resulting from these risks that exceeded its commercial coverage in any of the past three fiscal years.

During the year ended December 31, 2011, the District did not reduce insurance coverages from coverage levels in place as of December 31, 2010.

NOTE 6 NET ASSETS

The District's net assets at December 31, 2011, consist of the following:

Investment in capital assets		\$ 10,465,642
Unrestricted:		
Board designated:		
Drainage fund	\$ 25,000	
Water right protection	242,809	
Capital improvement fund	135,771	
Equipment reserve	138,335	
M/S annexation	<u>16,233</u>	558,148
Undesignated		<u>1,679,736</u>
Total net assets		\$ <u>12,703,526</u>

(Continued on following page)

ANDERSON-COTTONWOOD IRRIGATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 7 PRIOR PERIOD ADJUSTMENT

During the current year, it was determined that grant revenues related to capital projects were not being reported correctly. Grant revenues, and related capital additions, were being reported when funding was approved rather than when funds were earned. The effect of the prior period adjustment increases accounts payable and non-depreciable capital assets by \$177,063 and increases accounts receivable and net assets by \$170,246. The effect of this change increases the change in net assets during the prior year by \$170,246.

During the current year, it was also determined that depreciation expense had been reported on assets that had been disposed of during the year ended December 31, 2010. The effect of the correction of this error decreased accumulated depreciation and depreciation expense by \$4,229. The effect of this change increases the change in net assets during the prior year by \$4,229.

The effect of these changes on net assets at December 31, 2010 is as follows:

Net asset balance, as previously reported	\$ 12,622,563
Grant revenue understatement	170,246
Depreciation overstatement	<u>4,229</u>
Net asset balance, as restated	\$ <u>12,797,038</u>

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

Board of Directors
Anderson-Cottonwood Irrigation District
Anderson, California

We have audited the financial statements of the business-type activities of Anderson-Cottonwood Irrigation District, as of and for the year ended December 31, 2011 and have issued our report thereon dated April 5, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting described in the accompanying schedule of findings that we consider to be a significant deficiency in internal control over financial reporting.

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.

Compliance and Other Matters

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

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

Matson and Isom

April 5, 2012

ANDERSON-COTTONWOOD IRRIGATION DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2011

A. FINDINGS – FINANCIAL STATEMENTS AUDIT

2011-1 – Audit Adjustments

Condition: During our audit of the current year, we noted an adjustment that was material to the financial statements that was required in order for the financial statements to be prepared in accordance and/or conformity with generally accepted accounting principles. This adjustment was not identified through the District's internal control. The adjustment related to one specific grant that is complicated due to the fact that there are numerous parties involved. While the District overall has a good process in place for capturing and accounting for the revenue and expenses of this grant, they did not account for costs that had accrued under the grant but not been billed to the District yet.

Criteria: All adjustments necessary for financial statements to be prepared in accordance and/or conformity with generally accepted accounting principles should be identified and posted by the District.

Effect: Financial statements which are not in conformity with generally accepted accounting principles could have been prepared and distributed.

Recommendation: We recommend that management take steps to ensure that all adjustments necessary to prepare financial statements in conformity with generally accepted accounting principles be identified and posted prior to the start of the audit.