



MATSON
& ISOM

ANDERSON-COTTONWOOD
IRRIGATION DISTRICT

Redding, California

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION WITH
INDEPENDENT AUDITORS' REPORTS

December 31, 2013

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December 31, 2013

*Anderson-Cottonwood
Irrigation District*

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Anderson-Cottonwood Irrigation District
Anderson, California

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Anderson-Cottonwood Irrigation District (the District) as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; as well as the accounting systems prescribed by the State Controller's Office and state regulations governing special districts; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 business-type activities of the District as of December 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

INDEPENDENT AUDITORS' REPORT

Continued

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 2014, 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* in considering the District's internal control over financial reporting and compliance.

Matson and Isom

March 7, 2014
Redding, California

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Required Supplementary Information)

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2013

*Anderson-Cottonwood
Irrigation District*

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, 2013. Please read it in conjunction with the financial statements, which begin on page 9 of this report.

FINANCIAL HIGHLIGHTS

- The District's net position increased by \$326,838 as a result of grant contributions received and used primarily for capital assets.
- During the year the operating revenues of \$1,514,184 were \$569,257 less than operating expenses of \$2,083,441. Total operating revenues increased \$541,336 compared to the prior year, while operating expenses increased by \$421,682 from the prior year. Revenue from water sales increased by \$13,848, while revenues for water transfer sales increased by \$534,920.
- Budgeted non-operating revenues (principally taxes and interest income) were \$395,000.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; 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.

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 position are an indication of whether its financial health is improving or deteriorating.

The District's total net position increased from \$14,443,830 a year ago to \$14,770,668 this year, an increase of \$326,838. In contrast, last year's total net position increased by \$1,407,103 from the prior year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2013

*Anderson-Cottonwood
Irrigation District*

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

**Table 1
Net Position (In Dollars)**

<u>December 31</u>	<u>2013</u>	<u>2012</u>
ASSETS		
Current and other assets	\$ 2,676,678	\$ 2,774,447
Capital assets	<u>12,222,168</u>	<u>11,992,877</u>
Total Assets	<u>\$ 14,898,846</u>	<u>\$ 14,767,324</u>
LIABILITIES		
Current liabilities	\$ 114,083	\$ 310,539
Other liabilities	<u>14,095</u>	<u>12,955</u>
Total Liabilities	<u>\$ 128,178</u>	<u>\$ 323,494</u>
NET POSITION		
Investment in capital assets	\$ 12,222,168	\$ 11,992,877
Unrestricted	<u>2,548,500</u>	<u>2,450,953</u>
Total Net Position	<u>\$ 14,770,668</u>	<u>\$ 14,443,830</u>

Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by legal requirements or District restrictions increased from \$2,450,953 on December 31, 2012, to \$2,548,500 at the end of the current year.

**Table 2
Changes in Net Position (In Dollars)**

<u>Years Ended December 31</u>	<u>2013</u>	<u>2012</u>
Total operating revenues	\$ 1,514,184	\$ 972,848
Total operating expenses	<u>2,083,441</u>	<u>1,661,759</u>
Net Operating (Loss)	(569,257)	(688,911)
Total Nonoperating Revenues (Expenses)	<u>461,085</u>	<u>457,776</u>
Net Income (Loss) Before Capital Contributions	(108,172)	(231,135)
Capital contributions - principally grants	<u>435,010</u>	<u>1,638,238</u>
Increase (Decrease) in Net Position	<u>\$ 326,838</u>	<u>\$ 1,407,103</u>

Operating revenues increased significantly when compared to prior year, increasing by 56 percent from \$972,848 to \$1,514,184, as a new Water Transfer Program began in the current year.

MANAGEMENT’S DISCUSSION AND ANALYSIS

December 31, 2013

*Anderson-Cottonwood
Irrigation District*

Operating expenses increased by \$421,682, or approximately 25 percent. This was primarily due to the expenses associated with the new Water Transfer Program.

Non-operating revenues for future years, principally taxes and interest income, should be relatively stable with minor year-to-year variations. State allocation 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 see an increase in future years as current rates are at historical lows.

BUDGETARY HIGHLIGHTS

The District's 2013 operating budget was discussed and approved at the Board of Directors regular meeting in December 2012.

Comparing actual revenue and expenses with budgeted revenues and expenses shows a favorable variance of \$328,575 as shown in Table 3.

**Table 3
Budget to Actual Variances**

	Budget	Actual	Variance + or (-)
Total Operating Revenues	\$ 906,500	\$ 1,514,184	\$ 607,684
Total Operating Expenses	(1,300,482)	(2,083,441)	(782,959)
Net Operating Income (Loss)	(393,982)	(569,257)	(175,275)
Net Budgeted Income (Loss)	\$ (1,737)	326,838	\$ 328,575

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2013, the District had \$12,222,168 invested in capital assets. This amount represents a net increase of \$229,291 from the prior year; acquisition of capital assets, including equipment and infrastructure improvements, offset depreciation expenses to result in this increase.

Two projects, the Main Canal Modernization Program and the Conjunctive Use Program – Groundwater Production Element, were completed and placed in service in 2013.

Debt

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

**MANAGEMENT'S DISCUSSION AND
ANALYSIS**

December 31, 2013

*Anderson-Cottonwood
Irrigation District*

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Factors considered in preparation of the 2014 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.

Financial uncertainties in 2014 that may affect the District's position include: fuel and chemical costs; repairs/improvements to the Clear Creek siphon; continuing defense of the Natural Resource Defense Council (NRDC) litigation; and the potential for State reallocation of property tax revenues.

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.

FINANCIAL SECTION

STATEMENT OF NET POSITION*Anderson-Cottonwood
Irrigation District*

December 31, 2013

ASSETS**CURRENT ASSETS**

Cash and cash equivalents	\$ 1,009,272
Certificate of deposit	765,936
Grants receivable	614,716
Assessments receivable	208,676
Supplies inventory	32,869
Prepaid expenses	45,209

Total Current Assets 2,676,678

CAPITAL ASSETS

Nondepreciable assets	36,296
Depreciable capital assets - net	12,185,872

Total Capital Assets 12,222,168

Total Assets \$ 14,898,846

LIABILITIES**CURRENT LIABILITIES**

Accounts payable	\$ 37,166
Accrued grant expenses	36,567
Accrued wages	18,378
Accrued compensated absences - current portion	21,972

Total Current Liabilities 114,083

OTHER LIABILITIES

Accrued compensated absences - noncurrent portion	14,095
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Total Liabilities \$ 128,178

NET POSITION

Investment in capital assets	\$ 12,222,168
Unrestricted	2,548,500

Total Net Position \$ 14,770,668

The accompanying notes are an integral part of these financial statements

**STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION**

*Anderson-Cottonwood
Irrigation District*

Year Ended December 31, 2013

OPERATING REVENUES	
Water sales	\$ 660,666
Water transfer sales	846,527
Penalty revenue	6,249
Other revenues	742
Total Operating Revenues	1,514,184
OPERATING EXPENSES	
Salaries and benefits	722,908
Depreciation expense	510,275
Source of supply	256,339
Operations and maintenance	299,839
Pumping	152,410
General and administrative expenses	141,670
Total Operating Expenses	2,083,441
Income (Loss) From Operations	(569,257)
NONOPERATING REVENUES (EXPENSES)	
County tax allocation	452,305
Interest income	7,580
Gain on sale of equipment	1,200
Total Nonoperating Revenues (Expenses) - Net	461,085
CAPITAL CONTRIBUTIONS	435,010
Change in Net Position	326,838
Net Position - Beginning of Year, as Restated (Note 7)	14,443,830
Net Position - End of Year	\$ 14,770,668

The accompanying notes are an integral part of these financial statements

STATEMENT OF CASH FLOWS*Anderson-Cottonwood
Irrigation District*

Year Ended December 31, 2013

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$ 1,511,231
Cash paid to suppliers	(826,255)
Cash paid to employees	(723,222)
Net Cash (Used) by Operating Activities	(38,246)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Cash received from county tax allocation	506,659
Net Cash Provided by Noncapital Financing Activities	506,659

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Proceeds from sale of capital assets	1,200
Acquisition of capital assets	(957,343)
Cash received from capital grants	978,453
Net Cash Provided by Capital and Related Financing Activities	22,310

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of certificate of deposit	(502,787)
Interest received	7,580
Net Cash (Used) by Investing Activities	(495,207)

Net Change in Cash and Cash Equivalents (4,484)

Cash and Cash Equivalents - Beginning of Year 1,013,756

Cash and Cash Equivalents - End of Year \$ 1,009,272

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

Income (loss) from operations	\$ (569,257)
Adjustments to reconcile income (loss) from operations to net cash used by operating activities:	
Depreciation	510,275
Changes in current assets and current liabilities:	
Supplies inventory	6,582
Prepaid expenses	(8,307)
Accounts payable	22,775
Accrued wages	(1,486)
Accrued compensated absences	1,172
Total Adjustments	531,011
Net Cash Used By Operating Activities	\$ (38,246)

The accompanying notes are an integral part of these financial statements

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. 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.

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 State Treasurer's Local Agency Investment Fund are considered cash equivalents.

Grants and Assessments Receivable Grants and assessments receivable include amounts due from the federal, 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, 2013, as management believes all amounts are collectible.

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.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

Anderson-Cottonwood Irrigation District

Accumulated depreciation is reported on the accompanying statements of net position. 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	3-5 Years
Pumps	20-25 Years
Autos and trucks	5 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 Board (GASB) Statement No. 16, *Accounting for Compensated Absences*, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

Net Position Net position represents the difference between assets and liabilities. The District’s net position is classified as follows:

Investment in Capital Assets: This represents the District’s total investment in capital assets.

Restricted - Expendable: Restricted expendable net position represents resources which are legally or contractually obligated to be spent in accordance with restrictions imposed by external third parties.

Unrestricted: Unrestricted net position represents 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 Revenues and Expenses 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.

Use of Estimates The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the 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.

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS

Cash and cash equivalents December 31, 2013, consisted of the following:

Cash in banks	\$ 957,627
State of California - Local Agency Investment Fund	51,645
Total	\$ 1,009,272

Custodial Credit Risk – Deposits

The *California Government Code* requires California banks and savings and loan associations to secure local agency deposits by pledging government securities as collateral (unless so waived by the governmental unit). The market value of pledged securities must equal at least 110% of a local agency's deposits.

At December 31, 2013, the District had cash and certificate of deposit balances in excess of insurance of \$1,476,866. None of the District’s deposits with institutions in excess of federal deposit insurance limits were held in uncollateralized accounts.

Collateral was not held in the District’s name (there is no government code requirement that collateral be held in the District’s name).

**NOTES TO THE FINANCIAL
STATEMENTS**

December 31, 2013

*Anderson-Cottonwood
Irrigation District*

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, 2013, 1.24% 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 288 days at December 31, 2013.

3. CAPITAL ASSETS

A summary of changes in capital assets for the year ended December 31, 2013, is as follows:

	Adjusted Beginning Balance	Additions	Transfers/ Deletions	Ending Balance
NONDEPRECIABLE CAPITAL ASSETS				
Land	\$ 26,228	\$ 10,068	\$ -	\$ 36,296
Construction in progress - adjusted	2,780,971	432,508	3,213,479	-
Total Nondepreciable Capital Assets	2,807,199	442,576	3,213,479	36,296
DEPRECIABLE CAPITAL ASSETS				
Transmission and distribution	3,034,284	2,089,949	-	5,124,233
Machinery	175,584	-	-	175,584
Pumps	240,461	-	-	240,461
Autos and trucks	225,234	22,306	10,000	237,540
Buildings	54,241	-	-	54,241
Yard improvements	14,697	-	-	14,697
Furniture and fixtures	30,806	-	-	30,806
Fish screens	5,575,575	-	-	5,575,575
Fish ladders	5,575,575	-	-	5,575,575
SCADA equipment	159,616	-	-	159,616
Groundwater program	300,000	1,398,214	-	1,698,214
Total Depreciable Capital Assets	15,386,073	3,510,469	10,000	18,886,542
Less: Accumulated depreciation	6,200,395	510,275	10,000	6,700,670
Depreciable Capital Assets - Net	9,185,678	3,000,194	-	12,185,872
Capital Assets - Net	\$ 11,992,877	\$ 3,442,770	\$ 3,213,479	\$ 12,222,168

4. EMPLOYEE BENEFIT PLANS

Deferred Compensation Plan

The District offers its employees a 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. The account balances in this plan are unfunded and represent money that the participants have previously earned and voluntarily elect to defer.

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 ended December 31, 2013, totaled \$34,378.

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, 2013, the District carried insurance through various commercial carriers to cover all types of 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, 2013, the District did not reduce insurance coverages from coverage levels in place as of December 31, 2012.

6. NET POSITION

The District's net position at December 31, 2013, consisted of the following:

INVESTMENT IN CAPITAL ASSETS	\$ 12,222,168
UNRESTRICTED	
Board designated:	
Drainage fund	25,000
Water right protection	214,030
Capital improvement fund	146,616
Equipment reserve	102,744
M/S annexation	(1,498)
Subtotal	486,892
Undesignated	2,061,608
Total Net Position	\$ 14,770,668

7. PRIOR PERIOD ADJUSTMENT

The net position as of the beginning of the year was restated for errors related to capital assets. Costs incurred in 2007 and 2008 relating to the Barney and Crowley wells were erroneously not capitalized. In addition, net position as of the beginning of the year was restated for errors related to grants payable. Expenses paid in prior years were not properly reflected as a decrease in grants payable.

Net Position - as Previously Reported	\$ 14,110,629
Capitalization of project costs	323,487
Grants payable written off	<u>9,714</u>
Net Position - as Restated	<u>\$ 14,443,830</u>

These items had no impact on the current year operations or change in net position.

OTHER REPORT SECTION



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

To the Board of Directors
Anderson-Cottonwood Irrigation District
Anderson, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Anderson-Cottonwood Irrigation District (the District) as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 7, 2014.

Internal Control over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider to be a significant deficiency (see item 13-1).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

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

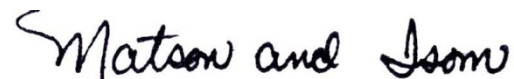
Continued

The District's Response to Findings

The District's response to the findings identified in our audit are described in the accompanying schedule of findings. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

A handwritten signature in black ink that reads "Matson and Isom". The signature is written in a cursive, flowing style.

March 7, 2014
Redding, California

FINDINGS SECTION

SCHEDULE OF FINDINGS

December 31, 2013

*Anderson-Cottonwood
Irrigation District*

AUDIT ADJUSTMENTS

13-1

Condition

During our audit of the current year, we noted adjustments that were material to the financial statements that were required in order for the financial statements to be prepared in accordance and/or conformity with generally accepted accounting principles. These adjustments were not identified through the District's internal control.

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.

**SUMMARY SCHEDULE OF PRIOR
AUDIT FINDINGS**

December 31, 2013

*Anderson-Cottonwood
Irrigation District*

AUDIT ADJUSTMENTS

12-1

Condition

During our audit of the prior year, we noted adjustments that were material to the financial statements that were required in order for the financial statements to be prepared in accordance and/or conformity with generally accepted accounting principles. These adjustments were not identified through the District's internal control.

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.

Current Status

See 13-1.