

Anderson-Cottonwood Irrigation District

Redding, California

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
WITH INDEPENDENT AUDITORS' REPORTS

December 31, 2015



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I S O M

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, 2015; 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; 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.

INDEPENDENT AUDITORS' REPORT

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the District as of December 31, 2015, 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.

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 June 15, 2016, 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.

KCoe Jam, LLP

June 15, 2016
Redding, California

FINANCIAL SECTION

Anderson-Cottonwood Irrigation District

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, 2015. Please read it in conjunction with the financial statements, which begin on page 8 of this report.

FINANCIAL HIGHLIGHTS

- The District's net position increased by \$1,992,200 as a result of increased water transfer sales.
- During the year the operating revenues of \$3,735,328 were \$1,529,158 more than operating expenses of \$2,206,170. Total operating revenues increased \$861,429 compared to the prior year, while operating expenses decreased by \$2,109 from the prior year. Revenue from water sales increased by \$16,820, while revenues for water transfer sales increased by \$844,286.
- Budgeted non-operating revenues (principally taxes and interest income) were \$392,000.

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 \$15,865,497 a year ago to \$17,857,697 this year, an increase of \$1,992,200. In contrast, last year's total net position increased by \$1,094,829 from the prior year.

Anderson-Cottonwood Irrigation District
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

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

Table 1
Net Position (In Dollars)

December 31	2015	2014
ASSETS		
Current and other assets	\$ 4,524,867	\$ 4,019,011
Capital assets	13,473,146	11,978,463
TOTAL ASSETS	\$ 17,998,013	\$ 15,997,474
LIABILITIES		
Current liabilities	\$ 133,070	\$ 124,038
Other liabilities	7,246	7,939
TOTAL LIABILITIES	\$ 140,316	\$ 131,977
NET POSITION		
Investment in capital assets	\$ 13,473,146	\$ 11,978,463
Unrestricted	4,384,551	3,887,034
TOTAL NET POSITION	\$ 17,857,697	\$ 15,865,497

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 \$3,887,034 on December 31, 2014, to \$4,384,551 at the end of the current year.

Table 2
Changes in Net Position (In Dollars)

Years Ended December 31	2015	2014
Total operating revenues	\$ 3,735,328	\$ 2,873,899
Total operating expenses	2,206,170	2,208,279
Net Operating Income (Loss)	1,529,158	665,620
Total Nonoperating Revenues (Expenses)	463,042	429,209
Increase (Decrease) in Net Position	\$ 1,992,200	\$ 1,094,829

Operating revenues increased when compared to prior year, increasing by 30% from \$2,873,899 to \$3,735,328, due to increased water transfer sales revenue.

Anderson-Cottonwood Irrigation District

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

Operating expenses decreased by \$2,109 or less than 1%. This was primarily due to reduced labor costs resulting from employee absences.

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 2015 operating budget was discussed and approved at the Board of Directors regular meeting in December 2014.

Comparing actual revenue and expenses with budgeted revenues and expenses shows a favorable variance of \$2,004,420 as shown in Table 3.

Table 3
Budget to Actual Variances

		Budget	Actual	Variance + or (-)
Total operating revenues	\$	865,600	\$ 3,735,328	\$ 2,869,728
Total operating expenses		(1,269,820)	(2,206,170)	(936,350)
Net Operating Income (Loss)		(404,220)	1,529,158	1,933,378
Net Increase (Decrease) in Net Position	\$	(12,220)	\$ 1,992,200	\$ 2,004,420

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2015, the District had \$13,473,146 invested in capital assets. This amount represents a net increase of \$1,494,683 from the prior year; acquisition of capital assets, including equipment and infrastructure improvements, offset depreciation expenses to result in this increase.

Debt

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

Anderson-Cottonwood Irrigation District
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Factors considered in preparation of the 2016 operating budget included:

- Salaries and benefits, including anticipated increases pursuant to the 2014-2018 Collective Bargaining Agreement with the Teamsters and increased staffing.
- 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.
- Purchase of new equipment and vehicles.
- Increased vegetation removal/management on open canals.

Financial uncertainties in 2016 that may affect the District's position include: fuel and chemical costs; repairs/improvements to the Anderson Creek siphon; canal lining or other responses to reduce seepage losses from open canals; continuing defense of the Natural Resource Defense Council (NRDC) litigation; and reduced water transfer revenues due to wet-year hydrology and improved statewide water supply.

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 POSITION

December 31, 2015

ASSETS

Current Assets

Cash and cash equivalents	\$	3,439,619
Certificate of deposit		771,601
Assessments receivable		253,534
Supplies inventory		56,082
Prepaid expenses		4,031

Total Current Assets 4,524,867

Capital Assets

Nondepreciable assets		1,673,268
Depreciable capital assets - net		11,799,878

Total Capital Assets 13,473,146

TOTAL ASSETS \$ 17,998,013

LIABILITIES

Current Liabilities

Accounts payable	\$	92,838
Accrued wages		19,216
Accrued compensated absences - current portion		21,016

Total Current Liabilities 133,070

Other Liabilities

Accrued compensated absences - noncurrent portion		7,246
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TOTAL LIABILITIES \$ 140,316

NET POSITION

Investment in capital assets	\$	13,473,146
Unrestricted		4,384,551

TOTAL NET POSITION \$ 17,857,697

The accompanying notes are an integral part of these financial statements

Anderson-Cottonwood Irrigation District
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Year Ended December 31, 2015

Operating Revenues	
Water sales	\$ 670,440
Water transfer sales	3,058,071
Penalty revenue	1,669
Other revenues	5,148
Total Operating Revenues	3,735,328
Operating Expenses	
Salaries and benefits	748,266
Depreciation expense	569,518
Source of supply	263,594
Operations and maintenance	307,684
Pumping	144,815
General and administrative expenses	172,293
Total Operating Expenses	2,206,170
Income (Loss) From Operations	1,529,158
Nonoperating Revenues (Expenses)	
County tax allocation	437,300
Interest income	10,192
Gain on sale of equipment	15,550
Total Nonoperating Revenues (Expenses) - Net	463,042
Change in Net Position	1,992,200
Net Position - Beginning of Year	15,865,497
Net Position - End of Year	\$ 17,857,697

The accompanying notes are an integral part of these financial statements

Anderson-Cottonwood Irrigation District
STATEMENT OF CASH FLOWS

Year Ended December 31, 2015

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$ 3,735,328
Cash paid to suppliers	(883,956)
Cash paid to employees	(746,469)

Net Cash Provided By Operating Activities 2,104,903

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Cash received from county tax allocation	408,271
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Net Cash Provided By Noncapital Financing Activities 408,271

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition of capital assets	(2,064,201)
Proceeds from sale of equipment	15,550
Cash received from capital grants	124,412

Net Cash Used By Capital and Related Financing Activities (1,924,239)

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of certificate of deposit	(5,155)
Interest received	13,509

Net Cash Provided By Investing Activities 8,354

Net Change in Cash and Cash Equivalents 597,289

Cash and Cash Equivalents - Beginning of Year 2,842,330

Cash and Cash Equivalents - End of Year \$ 3,439,619

**RECONCILIATION OF INCOME FROM OPERATIONS TO
NET CASH PROVIDED BY OPERATING ACTIVITIES**

Income from operations \$ 1,529,158

Adjustments to reconcile income from operations to net cash provided

by operating activities:

Depreciation	569,518
Changes in current assets and current liabilities:	
Supplies inventory	(3,553)
Prepaid expenses	1,441
Accounts payable	6,542
Accrued wages	1,209
Accrued compensated absences	588

Total Adjustments 575,745

Net Cash Provided By Operating Activities \$ 2,104,903

The accompanying notes are an integral part of these financial statements

Anderson-Cottonwood Irrigation District

NOTES TO THE 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, 2015, 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.

Anderson-Cottonwood Irrigation District

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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.

Anderson-Cottonwood Irrigation District

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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 consisted of the following:

December 31, 2015

Cash in banks	\$	1,881,793
State of California - Local Agency Investment Fund		1,557,826
Total	\$	3,439,619

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, 2015, the District had cash and certificate of deposit balances in excess of insurance of \$2,403,194. 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).

Anderson-Cottonwood Irrigation District

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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, 2015, 1.40% 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 249 days at December 31, 2015.

3. CAPITAL ASSESTS

A summary of changes in capital assets is as follows:

December 31, 2015	Beginning Balance	Additions	Transfers/ Deletions	Ending Balance
Nondepreciable Capital Assets				
Land	\$ 36,296	\$ -	\$ -	\$ 36,296
Construction in progress	270,874	1,741,460	375,362	1,636,972
Total Nondepreciable Capital Assets	307,170	1,741,460	375,362	1,673,268
Depreciable Capital Assets				
Transmission and distribution	5,143,114	520,900	-	5,664,014
Machinery	175,584	97,585	26,500	246,669
Pumps	240,461	-	-	240,461
Autos and trucks	237,540	72,780	54,837	255,483
Buildings	54,241	-	-	54,241
Yard improvements	14,697	-	-	14,697
Furniture and fixtures	28,838	6,838	5,818	29,858
Fish screens	5,575,575	-	-	5,575,575
Fish ladders	5,575,575	-	-	5,575,575
SCADA equipment	173,243	-	-	173,243
Groundwater program	1,698,214	-	-	1,698,214
Total Depreciable Capital Assets	18,917,082	698,103	87,155	19,528,030
Less: Accumulated depreciation	7,245,789	569,518	87,155	7,728,152
Depreciable Capital Assets - Net	11,671,293	128,585	-	11,799,878
Capital Assets - Net	\$ 11,978,463	\$ 1,870,045	\$ 375,362	\$ 13,473,146

Anderson-Cottonwood Irrigation District

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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, 2015, totaled \$35,824.

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, 2015, 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, 2015, the District did not reduce insurance coverages from coverage levels in place as of December 31, 2014.

6. NET POSITION

The District's net position consisted of the following:

December 31, 2015

Investment In Capital Assets	\$ 13,473,146
Unrestricted	
Board designated:	
Drainage fund	25,000
Water right protection	250,000
Capital improvement fund	146,616
Equipment reserve	102,744
Subtotal	524,360
Undesignated	3,860,191
Total Net Position	\$ 17,857,697

OTHER REPORT SECTION



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, 2015; and the related notes to the financial statements, which collectively comprise the District's basic financial statements; and have issued our report thereon dated June 15, 2016.

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.

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

(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free 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*.

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.

KCoe Jam, LLP

June 15, 2016
Redding, California

FINDINGS SECTION

Anderson-Cottonwood Irrigation District

SCHEDULE OF FINDINGS

December 31, 2015

None.

Anderson-Cottonwood Irrigation District
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
December 31, 2015

AUDIT ADJUSTMENTS

(2014-001)

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 recommended 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.

Response

These prior period adjustments have been duly noted and are documented in the District's financial records. The prior period adjustments resulted in no net change to the District's financial position, and, having been documented, no further action will be taken.

Current Status

Fully implemented.