

ANDERSON-COTTONWOOD  
IRRIGATION DISTRICT  
AUDITED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
DECEMBER 31, 2008

**ANDERSON-COTTONWOOD IRRIGATION DISTRICT  
PRINCIPAL OFFICIALS**

**BOARD OF DIRECTORS**

at  
December 31, 2008

| <u>Board Members</u> | <u>Title</u>   |
|----------------------|----------------|
| Brenda Haynes        | President      |
| Ron Jones            | Vice President |
| Stan Wangberg        | Secretary      |
| Shawn Kreps          | Member         |
| Ken Jordan           | Member         |
| Jason Munson         | Member         |

**GENERAL MANAGER**

at  
December 31, 2008

Stan Wangberg

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# Donald R. Reynolds

Certified Public Accountant

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Anderson-Cottonwood Irrigation District  
Anderson, California

I 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, 2008, which collectively 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. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my 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. Those standards require that I 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activities of the District as of December 31, 2008, and their respective changes in financial position and cash flows, where applicable, there of and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated April 19, 2009, on our consideration of the District's internal control over financial reporting and on my 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 result 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 my audit.

P.O. Box 994508, 1438 Oregon St., Redding, California 96099 . (530) 246-2834 . FAX (530) 244-0331

The Management's Discussion and Analysis on pages 3-6 is not a required part of the basic financial statements but is supplemental information required by the Government Auditing Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Anderson-Cottonwood Irrigation District's basic financial statements. The accompanying supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.



Donald R. Reynolds  
Certified Public Accountant  
April 19, 2009

## MANAGEMENT'S DISCUSSION AND ANALYSIS FISCAL YEAR 2008

The following discussion and analysis of Anderson-Cottonwood Irrigation District's financial performance provides an overview of the District's financial activities for the fiscal year ended December 31, 2008. Please read it in conjunction with the financial statements, which begin on page 8 of this report.

### FINANCIAL HIGHLIGHTS

- The District's net assets increased by \$15,127 or a .2% increase compared to a year ago.
- During the year the operating revenues of \$951,757 were \$947,606 less than operating expenses of \$1,899,363. Total operating revenues increased \$331,752 compared to the prior year, while operating expenses increased by \$113,532. Revenue from water sales remained unchanged, while revenues for water transfer sales provided most of the increase in operating revenue.

The increase over prior year operating expenses was mostly due to increased water purchase payouts which accounted for \$95,000 of the increase. Water rights protection accounted for an additional \$31,000.

Water transfer sales resulted in a favorable variance in the projected budget of over \$242,000. Disputes regarding existing water transfer agreements and delays in approval of the transfers by the Bureau of Reclamation have impeded the District's ability to collect on existing agreements, however the current years collections have exceeded prior years significantly.

- Budgeted non-operating revenues (principally taxes and interest income) were \$893,894, which resulted in a favorable variance of \$355,715. Non-budgeted capital contributions, principally from grants, totaled \$128,840, and resulted in a total favorable variance to non-operating revenues of \$484,555.
- Absent depreciation, all 2008 revenues and expenses (operating and non-operating combined) resulted in a favorable variance of \$462,739. Accounting for depreciation of \$437,111 resulted in the increase to net assets, provided in bullet one above, of \$15,127.

### 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.

## 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 net assets increased from \$12,678,282 a year ago to \$12,693,409 this year, an increase of \$15,127. In contrast, last year's assets decreased by \$287,295 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)**

|   | 2008              | 2007              |
|---|-------------------|-------------------|
| <b>Assets</b>                           |                   |                   |
| Current and other assets                | 2,512,792         | 2,315,059         |
| Capital assets                          | 10,322,905        | 10,737,487        |
| <b>Total assets</b>                     | <b>12,835,697</b> | <b>13,052,546</b> |
| <b>Liabilities</b>                      |                   |                   |
| Current liabilities                     | 142,288           | 374,264           |
| <b>Total liabilities</b>                | <b>142,288</b>    | <b>374,264</b>    |
| <b>Net Assets</b>                       |                   |                   |
| Invested in capital assets, net of debt | 10,324,905        | 10,737,487        |
| Restricted                              | 5,000             | 5,000             |
| Unrestricted                            | 2,365,504         | 1,935,795         |
| <b>Total net assets</b>                 | <b>12,693,409</b> | <b>12,678,282</b> |

Net assets of the District's activities increased by \$15,127. 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 increased from \$1,935,795 on December 31, 2007 to \$2,365,504 at the end of the current year.

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

|  | 2008      | 2007        |
|--|-----------|-------------|
| Total operating revenues                       | 951,757   | 620,005     |
| Total operating expenses                       | 1,899,364 | 1,785,832   |
| Net operating income                           | (947,607) | (1,165,827) |
| Total non-operating revenues (expenses)        | 833,894   | 584,623     |
| Net income (loss) before capital contributions | (113,713) | (581,204)   |
| Capital contributions, principally grants      | 128,840   | 293,909     |
| Prior period adjustments                       | 0         | -           |
| Increase (decrease) in net assets              | 15,127    | (287,295)   |

Compared to a year ago, operating revenues increased from \$620,005 to \$951,757, or approximately 54 percent, mostly as a result of increased water transfer sales.

Operating expenses increased by \$113,532, or approximately 6 percent. As noted earlier in this report, the increase in operating expenses was almost entirely due to additional water purchases and increased legal fees for water rights protection (+\$31,000) compared to the prior year.

The increase in non-operating revenues was due primarily to the recovery of amounts related to an accident which damaged District property. Other 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.

### **BUDGETARY HIGHLIGHTS**

The District's 2008 operating budget was discussed and approved at the Board of Directors regular meeting in December 2007.

Comparing actual revenue and expenses with budgeted revenues and expenses shows a favorable variance of \$25,627 as shown in Table 3.

**Table 3  
Actual Compared to Budget (in dollars)**

|                                 | <b>Budget</b> | <b>Actual</b> | <b>Variance + or (-)</b> |
|---------------------------------|---------------|---------------|--------------------------|
| Operating revenues              | 571,470       | 951,757       | 380,287                  |
| Operating expenses              | 1,060,149     | 1,899,364     | (839,215)                |
| Net operating income            | (488,679)     | (947,607)     | (458,928)                |
| Non-operating revenue (expense) | 478,179       | 962,734       | 484,555                  |
| Net budgeted income (loss)      | (10,500)      | 15,127        | 25,627                   |

### **CAPITAL ASSET AND DEBT ADMINISTRATION**

#### **Capital Assets**

As of December 31, 2008 the District had \$10,322,905 invested in capital assets. This amount represents a net decrease of \$414,582 from the prior year; depreciation taken in 2008 was \$437,111 that accounts for the decrease in capital assets.

The District has no current plans to issue debt to finance capital improvements to the system, but is currently implementing two projects funded by State and Federal grants that include local cost share. These projects contain various levels of local share and are in various stages of development. At least some of these costs will be accrued in 2008.

#### **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 2008 operating budget included:

- Potential decline in subscriber acreage and water sales.
- Salaries and benefits, including increases pursuant to the 2008 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.
- Fuel and energy cost increases.
- Long-term capital and system improvement program.
- Confirmed and expected revenue from water transfer sales.
- Decline of interest revenue due to low rates.

One of the most important decisions implemented by the Board of Directors for fiscal year 2009 was a water rate increase from \$69 per acre to \$75 per acre. The purpose was to offset increasing operational costs that have continued since the last prior rate increase in 2003.

A major source of financial uncertainty is the need for improvements to two fundamental components of the District's conveyance system; the Anderson Creek arch flume and the Cottonwood Creek siphon. Repairs to these facilities are necessary to ensure continued operations, and the costs are likely to be approximately 10% of the District's General Fund reserve.

Some certainty regarding future revenues was achieved by Federal approval of a third long-term transfer of the District's CVP water; all Bureau charges associated with such water will be borne by the transferees, and an administrative fee will be paid to the District each year.

## **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**  
**PROPRIETARY FUNDS**  
**DECEMBER 31, 2008**

|   | <u>Business-type<br/>Activities</u> |
|---|-------------------------------------|
| <b>ASSETS</b>                                     |                                     |
| <b><u>Current Assets:</u></b>                     |                                     |
| Cash and Cash Equivalents (Note 3)                | \$ 3,165                            |
| Temporary Investments (Note 3)                    | 1,917,029                           |
| Accounts Receivable Utilities                     | -                                   |
| Accounts Receivable - Other                       | 363,291                             |
| Assessments Receivable                            | 205,881                             |
| Interest Receivable                               | 13,996                              |
| Inventory - Average Cost                          | 6,075                               |
| Prepaid Expenses                                  | 3,355                               |
| Total Current Assets                              | <u>2,512,792</u>                    |
| <b><u>Noncurrent Assets:</u></b>                  |                                     |
| Capital Assets - Net (Note 4)                     | <u>10,322,905</u>                   |
| Total Noncurrent Assets                           | <u>10,322,905</u>                   |
| Total Assets                                      | <u>\$ 12,835,697</u>                |
| <b><u>LIABILITIES</u></b>                         |                                     |
| <b><u>Current Liabilities:</u></b>                |                                     |
| Accounts Payable                                  | \$ 118,896                          |
| Accrued Vacation                                  | 23,392                              |
| Accrued Payroll Taxes                             | -                                   |
| Other Liabilities                                 | -                                   |
| Total Current Liabilities                         | <u>142,288</u>                      |
| <b><u>Noncurrent Liabilities:</u></b>             |                                     |
| Loans   | <u>-</u>                            |
| Total Noncurrent Liabilities                      | <u>-</u>                            |
| Total Liabilities                                 | <u>142,288</u>                      |
| <b><u>Net Assets</u></b>                          |                                     |
| Investment in Capital Assets, net of related debt | 10,322,905                          |
| Restricted for:                                   |                                     |
| Creekside Subdivision                             | 5,000                               |
| Unrestricted:                                     |                                     |
| Designated  | 677,892                             |
| Undesignated                                      | 1,687,612                           |
| Total Net Assets                                  | <u>12,693,409</u>                   |
| Total Liabilities and Net Assets                  | <u>\$ 12,835,697</u>                |

The Accompanying notes are an integral part of these financial statements

**ANDERSON-COTTONWOOD IRRIGATION DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUND TYPES**  
**For the Year Ended December 31, 2008**

|  | <u>Business-type<br/>Activities</u> |
|--|-------------------------------------|
| <b>OPERATING REVENUES</b>                  |                                     |
| Water Sales                                | \$ 561,619                          |
| Water transfer sales                       | 372,720                             |
| Penalty revenue                            | 5,318                               |
| Other                                      | <u>12,100</u>                       |
|  | <u>951,757</u>                      |
| <b>OPERATING EXPENSES</b>                  |                                     |
| Source of Supply                           | 222,719                             |
| Pumping                                    | 105,417                             |
| Transmission and Distribution              | 863,404                             |
| General and Administrative                 | 270,713                             |
| Depreciation                               | <u>437,111</u>                      |
| Total Operating Expenses                   | <u>1,899,364</u>                    |
| Operating Income                           | <u>(947,607)</u>                    |
| <b>NONOPERATING REVENUES</b>               |                                     |
| Assessments - taxes                        | 424,778                             |
| Interest Income                            | 69,717                              |
| Construction income                        | -                                   |
| Less, construction costs                   | -                                   |
| Other income                               | 339,399                             |
| Assignment - water contract (Note 10)      | -                                   |
| Total Nonoperating Revenues                | <u>833,894</u>                      |
| <b>INCOME (LOSS) BEFORE CONTRIBUTIONS</b>  | (113,713)                           |
| Capital Contributions, principally grants  | <u>128,840</u>                      |
| <b>CHANGE IN NET ASSETS</b>                | 15,127                              |
| <b>TOTAL NET ASSETS, BEGINNING OF YEAR</b> | 12,678,282                          |
| Prior period adjustments                   | <u>-</u>                            |
| <b>TOTAL NET ASSETS, END OF YEAR</b>       | <u>\$ 12,693,409</u>                |

The Accompanying notes are an integral part of these financial statements

**ANDERSON-COTTONWOOD IRRIGATION DISTRICT**  
**STATEMENT OF CASH FLOWS -**  
**PROPRIETARY FUND TYPES**  
**For the Year Ended December 31, 2008**

|   | <u>Business-type<br/>Activities</u> |
|---|-------------------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                              |                                     |
| Receipts from customers   | \$ 701,757                          |
| Payments to suppliers for goods and services                              | (852,420)                           |
| Payment to employees and benefits   | (589,171)                           |
| Net Cash Provided by Operating Activities                                 | <u>(739,834)</u>                    |
| <b>CASH FLOWS FROM (TO) NONCAPITAL<br/>FINANCING ACTIVITIES:</b>          |                                     |
| Receipts from property taxes  | 423,088                             |
| Other   | 339,399                             |
| Nonoperating expenses   | -                                   |
| Net Cash Provided by Noncapital<br>Financing Activities                   | <u>762,487</u>                      |
| <b>CASH FLOWS FROM (TO) CAPITAL AND RELATED<br/>FINANCING ACTIVITIES:</b> |                                     |
| Acquisition of fixed assets   | -                                   |
| Sale / disposal of fixed assets   | (22,529)                            |
| Decrease in work in progress  | -                                   |
| Capital contributions   | (129,293)                           |
| Net Cash Provided by Capital and<br>Related Financing Activities          | <u>(151,822)</u>                    |
| <b>CASH FLOWS FROM INVESTMENT ACTIVITIES:</b>                             |                                     |
| Interest received   | 81,070                              |
| Net Cash Provided by Investing Activities                                 | <u>81,070</u>                       |
| <b>INCREASE (DECREASE) IN CASH AND CASH<br/>EQUIVALENTS</b>               | <b>(48,099)</b>                     |
| <b>CASH AND CASH EQUIVALENTS - Beginning</b>                              | <b><u>1,968,293</u></b>             |
| <b>CASH AND CASH EQUIVALENTS - Ending (Note 9)</b>                        | <b><u>\$ 1,920,194</u></b>          |

The Accompanying notes are an integral part of these financial statements

**ANDERSON-COTTONWOOD IRRIGATION DISTRICT**  
**STATEMENT OF CASH FLOWS -**  
**PROPRIETARY FUND TYPES**  
**For the Year Ended December 31, 2008**

**Reconciliation of Operating Income to Net Cash Provided by Operating Activities:**

|   | <u>Business-type<br/>Activities</u> |
|---|-------------------------------------|
| Operating Income  | \$ (947,607)                        |
| Adjust to Reconcile Operating Income to<br>Net Cash Provided by Operating Activities: |                                     |
| Prior Period Adjustments  | -                                   |
| Depreciation Expense  | 437,111                             |
| (Increase) Decrease in Operating Assets:  |                                     |
| Accounts Receivable   | -                                   |
| Inventory   | 4,221                               |
| Prepaid Expenses  | (1,583)                             |
| Increase (Decrease) in Operating Liabilities:   |                                     |
| Accounts Payable  | 17,837                              |
| Deposits  | (250,000)                           |
| Accrued Payroll Taxes   | -                                   |
| Accrued vacation  | 187                                 |
|   | <u>207,773</u>                      |
| Total Adjustments   | 207,773                             |
| Net Cash Provided By Operating Activities   | <u>\$ (739,834)</u>                 |

The Accompanying notes are an integral part of these financial statements

**ANDERSON-COTTONWOOD IRRIGATION DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2008**

**NOTE 1 ORGANIZATION**

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 is governed by a Board of Directors which is elected by the residents of the District.

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Anderson-Cottonwood Irrigation District conform to generally accepted accounting principles applicable to enterprise funds. The District applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

**FUND ACCOUNTING**

The District uses fund accounting to report on its financial position and the results of operation. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self balancing set of accounts.

The District uses a Proprietary Fund type (Enterprise Fund) to account for its operations. An enterprise fund is used because the District finances and conducts its operations in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

An enterprise fund allows for the periodic determination of revenues earned, expenses incurred and/or net income. The Board considers this to be appropriated for capital maintenance, public policy, management control, and accountability and are all necessary or useful to sound financial administration.

The government-wide financial statements (i.e., the statement of net assets and statement of activities) report information on the Districts activities as a whole.

**MEASUREMENT FOCUS**

Measurement focus is the accounting convention that determines:

(Continued on following page)

**ANDERSON-COTTONWOOD IRRIGATION DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2008**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**MEASUREMENT FOCUS - (Continued)**

1. Which assets and liabilities are included on an entity's statement of net assets, and
2. Whether its operating statements present "financial flow" information (revenues and expenditures) or "economic resources" information (revenues and expenses).

All proprietary funds are accounted for on a cost of service or "economic resources" measurement focus. This means that all assets and liabilities associated with their activities, whether current or non-current, are included on their statement of net assets.

**BASIS OF ACCOUNTING**

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made regardless of the measurement focus applied. Enterprise funds utilize the accrual basis of accounting. Revenue is recognized when earned and expenses are recognized when incurred.

The District has elected to follow Governmental Accounting Standard Board (GASB) pronouncements, and not Financial Accounting Standard Board (FASB) pronouncements after 1989, as presented by GASB Statement Number 20.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District are charges to customers for water services. Operating expenses for the District include the cost of services and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**INVENTORY**

Inventories have been valued at the lower of cost (first-in, first-out) or market.

**CAPITAL ASSETS**

Capital assets are recorded at cost. Donated property and equipment is stated at the fair value at the date of donation and aided as contributed capital. Depreciation is provided on the straight-line basis over the estimated useful lives of the assets as follows:

|                            |            |
|----------------------------|------------|
| Vehicles and Equipment     | 3-10 Years |
| Furniture and fixtures     | 3-20 Years |
| Structure and Improvements | 5-50 Years |

(Continued on following page)

**ANDERSON-COTTONWOOD IRRIGATION DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2008**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**CASH AND CASH EQUIVALENTS**

For purposes of the statements of Cash Flows, the District considers all unrestricted and unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

**INVESTMENTS**

Investments consist of LAIF (State of California pooled investment fund). Investments are stated at market value. Such investment is within the State statutes and the District's investment policy.

**COMPENSATED ABSENCES**

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expense and as a current liability. Sick leave hours accrued in excess of 200 hours are paid off at \$1 for each \$2 accrued on December 1 of each year.

**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 may differ from those estimates.

**BAD DEBT**

Uncollectible accounts are written off upon determination that the account is no longer collectable.

**NET ASSETS**

Net assets is the difference between assets and liabilities. Net assets invested in capital assets are capital assets, less accumulated depreciation and any outstanding debt related to the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are legal limitations imposed on their use by the District or external restrictions by other governments, creditors or grantors.

(Continued on following page)



**ANDERSON-COTTONWOOD IRRIGATION DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

**NOTE 3 CASH AND CASH EQUIVALENTS**

At year-end the carrying amount of the District's deposits was \$2,965 and the bank balance was \$152,400. The bank balance was covered by Federal depository insurance and collateral held in the pledging bank's trust department as mandated by State law.

|                   |                 |
|-------------------|-----------------|
| Checking accounts | \$ 2,965        |
| Cash on hand      | <u>200</u>      |
|                   | <u>\$ 3,165</u> |

Investments:

California statutes authorize the District to invest in a variety of credit instruments as provided for in the California Government Code Section 53600, Chapter 4 - Financial Affairs. The Government Code allows investments in obligations of the U.S. Treasury, agencies, and instrumentalities, commercial paper rated A-1 by Standard & Poor's or P-1 by Moody's Commercial Paper Record, bankers' acceptances, repurchase agreements, medium-term corporate notes, mutual funds and the State Treasurer's Local Agency Investment Fund (LAIF). The investment in LAIF is reported at fair value.

|                              | <u>Carrying<br/>Amount</u> | <u>Market<br/>Value</u> |
|------------------------------|----------------------------|-------------------------|
| Balance, December 31, 2008   |                            |                         |
| Local Agency Investment Fund | <u>\$1,917,028</u>         | <u>\$1,917,028</u>      |

Pursuant to Government Accounting Standards Board Statement 3, the investment in LAIF is not classified in categories of credit risk. The District's funds in LAIF are invested in a diversified portfolio (of underlying investments e.g. U.S. Treasury obligations) such that it considers the risk of material loss to be minimal. The funds held in LAIF can be withdrawn on demand.

**NOTE 4 CHANGES IN CAPITAL ASSETS**

A schedule of changes in capital assets for year ended December 31, 2008 are as follows:

|  | <u>Balance<br/>December 31, 2007</u> | <u>Additions</u> | <u>Disposals</u> | <u>Balance<br/>December 31, 2008</u> |
|--|--------------------------------------|------------------|------------------|--------------------------------------|
| Capital Assets not Being Depreciated:      |                                      |                  |                  |                                      |
| Land                                       | \$ 18,885                            | \$ -             | \$ -             | \$ 18,885                            |
| Total Capital Assets not Being Depreciated | <u>18,885</u>                        | <u>-</u>         | <u>-</u>         | <u>18,885</u>                        |

(Continued on following page)

**ANDERSON-COTTONWOOD IRRIGATION DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

**NOTE 4 CHANGES IN CAPITAL ASSETS (Continued)**

|   | <u>Balance</u><br><u>December 31, 2007</u> | <u>Additions</u>        | <u>Disposals/<br/>Adjustments</u> | <u>Balance</u><br><u>December 31, 2008</u> |
|---|--|-------------------------|-----------------------------------|--|
| Capital Assets Being Depreciated:             |  |                         |                                   |  |
| Transmission and distribution                 | 2,460,463                                  | -                       | -                                 | 2,460,463                                  |
| Machinery                                     | 316,975                                    | -                       | -                                 | 316,975                                    |
| Pumps   | 236,595                                    | -                       | -                                 | 236,595                                    |
| Autos and trucks                              | 118,833                                    | 11,105                  | -                                 | 129,938                                    |
| Buildings                                     | 47,986                                     | 8,899                   | -                                 | 56,885                                     |
| Yard improvements                             | 14,697                                     | -                       | -                                 | 14,697                                     |
| Furniture and fixture                         | 14,994                                     | 2,525                   | -                                 | 17,519                                     |
| Fish screens                                  | 5,575,575                                  | -                       | -                                 | 5,575,575                                  |
| Fish ladders                                  | 5,575,575                                  | -                       | -                                 | 5,575,575                                  |
| Scada equipment                               | 136,865                                    | -                       | -                                 | 136,865                                    |
| Groundwater program                           | <u>300,000</u>                             | <u>-</u>                | <u>-</u>                          | <u>300,000</u>                             |
| <br>Total Capital Assets Being<br>Depreciated | <br><u>14,798,558</u>                      | <br><u>22,529</u>       | <br><u>-</u>                      | <br><u>14,821,087</u>                      |
| <br>Less Accumulated Depreciation             | <br><u>(4,079,956)</u>                     | <br>\$ <u>(437,111)</u> | <br>\$ <u>-</u>                   | <br><u>(4,517,067)</u>                     |
| <br>Net Depreciable Assets                    | <br><u>10,718,602</u>                      |                         |                                   | <br><u>10,304,020</u>                      |
| <br>Total Capital Assets                      | <br>\$ <u>10,737,487</u>                   |                         |                                   | <br>\$ <u>10,322,905</u>                   |

**NOTE 5 RETIREMENT 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.

District employees (except for the General Manager) are covered by a pension plan.

(Continued on following page)

**ANDERSON-COTTONWOOD IRRIGATION DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2008**

**NOTE 6 GRANTS**

The District operates as a pass through agency, work is provided by outside contractors and progress billing is submitted to granting agencies for payment.

The status of grants is analyzed as follows:

|  | <u>Grant<br/>Approved</u> | <u>Received<br/>to date</u> | <u>Expenditure<br/>to date</u> | <u>Balance</u> |
|--|---------------------------|-----------------------------|--------------------------------|----------------|
| DWR - Main Canal Modernization Project | \$ <u>225,000</u>         | \$ <u>225,000</u>           | \$ <u>225,000</u>              | \$ _____ -     |
| Total                                  | \$ <u>225,000</u>         | \$ <u>225,000</u>           | \$ <u>225,000</u>              | \$ _____ -     |

**NOTE 7 RISK OF LOSS**

Anderson-Cottonwood Irrigation District is exposed to various risks of loss related to theft of, damage to, and destruction of assets; and injuries to employees. The District purchased certain commercial insurance coverages to provide for these risks.

**NOTE 8 LITIGATION**

The District is involved in various claims and litigation arising in the ordinary course of business. District management is of the opinion that the ultimate resolution of such matters will not have a materially adverse effect on the District's financial position or results of operations.

**NOTE 9 NET ASSETS**

The District net assets consists of the following:

|                              |                |                      |
|------------------------------|----------------|----------------------|
| Investment in capital assets |                | \$ 10,322,905        |
| Restricted:                  |                |                      |
| Creekside Subdivision        |                | 5,000                |
| Unrestricted:                |                |                      |
| Board Designated:            |                |                      |
| Capital improvement          | \$ 76,644      |                      |
| Drainage fund                | 196,354        |                      |
| Water right protection       | 220,179        |                      |
| Equipment reserve            | <u>184,715</u> |                      |
| Undesignated                 |                | <u>677,892</u>       |
| Total Net Assets             |                | <u>\$ 12,693,409</u> |

**REQUIRED SUPPLEMENTAL INFORMATION**

**ANDERSON-COTTONWOOD IRRIGATION DISTRICT  
SCHEDULE OF REVENUE, EXPENSES AND  
CHANGES IN NET ASSETS**

**Budget Vs. Actual**

**For the Year Ended December 31, 2008**

|                                      | <u>Budget</u>  | <u>Actual</u>  | <u>Variance<br/>Favorable<br/>(Unfavorable)</u> |
|--------------------------------------|----------------|----------------|---|
| <b>OPERATING REVENUES:</b>           |                |                |   |
| Water Sales                          | \$ 550,500     | \$ 561,619     | \$ 11,119                                       |
| Water transfer sales                 | 10,470         | 372,720        | 362,250   |
| Penalty revenue                      | 5,000          | 5,318          | 318   |
| Other                                | 5,500          | 12,100         | 6,600   |
| TOTAL OPERATING REVENUES             | <u>571,470</u> | <u>951,757</u> | <u>380,287</u>                                  |
| <b>OPERATING EXPENSES</b>            |                |                |   |
| Source of Supply                     |                |                |   |
| Permit fees                          | 6,000          | 9,053          | (3,053)   |
| Water purchases/Other costs          | 74,370         | 182,597        | (108,227)                                       |
| Water rights protection              | -              | 31,069         | (31,069)  |
| Total source of supply               | <u>80,370</u>  | <u>222,719</u> | <u>(142,349)</u>                                |
| Pumping                              |                |                |   |
| Pump maintenance                     | 7,000          | 5,467          | 1,533   |
| Utilities                            | 83,345         | 99,950         | (16,605)  |
| Total pumping                        | <u>90,345</u>  | <u>105,417</u> | <u>(15,072)</u>                                 |
| Transmission and Distribution        |                |                |   |
| Salaries                             | 295,665        | 307,464        | (11,799)  |
| Retirement                           | 16,250         | 16,570         | (320)   |
| Payroll taxes                        | 23,241         | 26,209         | (2,968)   |
| Workers compensation                 | 26,030         | 32,207         | (6,177)   |
| Health insurance                     | 78,000         | 83,503         | (5,503)   |
| Fuel                                 | 25,000         | 26,409         | (1,409)   |
| Equipment rental                     | 3,000          | 3,093          | (93)  |
| Vehicle expenses                     | 5,600          | 16,533         | (10,933)  |
| Equipment maintenance & small tools  | 8,000          | 6,777          | 1,223   |
| Property and liability insurance     | 22,200         | 27,545         | (5,345)   |
| Monitoring and fish passage projects | -              | 130,111        | (130,111)                                       |
| Maintenance                          | 31,000         | 63,958         | (32,958)  |
| Personal supplies                    | 1,000          | 524            | 476   |
| Chemicals                            | 18,000         | 11,555         | 6,445   |
| Maintenance supplies                 | 14,000         | 67,055         | (53,055)  |
| Building maintenance                 | 2,000          | 12,388         | (10,388)  |
| Professional services                | 25,000         | 31,502         | (6,502)   |
| Total transmission and distribution  | <u>593,986</u> | <u>863,403</u> | <u>(269,417)</u>                                |

The Accompanying notes are an integral part of these financial statements

**ANDERSON-COTTONWOOD IRRIGATION DISTRICT  
SCHEDULE OF REVENUE, EXPENSES AND  
CHANGES IN NET ASSETS**

**Budget Vs. Actual**

**For the Year Ended December 31, 2008**

|  | <u>Budget</u>      | <u>Actual</u>    | <u>Variance<br/>Favorable<br/>(Unfavorable)</u> |
|--|--------------------|------------------|---|
| <b>OPERATING EXPENSES (Continued)</b>          |                    |                  |   |
| General and Administrative                     |                    |                  |   |
| Salaries                                       | 141,040            | 139,969          | 1,071   |
| Retirement                                     | 11,105             | 11,643           | (538)   |
| Payroll taxes                                  | 11,503             | 11,414           | 89  |
| Workers compensation                           | 1,100              | 730              | 370   |
| Health insurance                               | 28,500             | 30,022           | (1,522)   |
| Utilities                                      | 12,500             | 13,565           | (1,065)   |
| Travel and training expenses                   | 3,000              | 4,111            | (1,111)   |
| Medical supplies                               | 500                | 1,145            | (645)   |
| Office supplies                                | 8,500              | 8,168            | 332   |
| Association dues                               | 11,700             | 13,691           | (1,991)   |
| Legal fees                                     | 40,000             | 15,168           | 24,832  |
| County taxes                                   | 4,000              | 7,482            | (3,482)   |
| Audit  | 6,000              | 6,000            | -   |
| Office equipment maintenance                   | 2,000              | 144              | 1,856   |
| Other  | 1,500              | 6,056            | (4,556)   |
| Public notices                                 | 500                | 185              | 315   |
| Election expenses                              | -                  | -                | -   |
| Incentive awards                               | 2,000              | 1,221            | 779   |
| Vehicle Insurance                              | 10,000             | -                | 10,000  |
| Total general and administrative               | <u>295,448</u>     | <u>270,714</u>   | <u>24,734</u>                                   |
| Depreciation                                   | -                  | 437,111          | (437,111)                                       |
| <b>TOTAL OPERATING EXPENSES</b>                | <u>1,060,149</u>   | <u>1,899,364</u> | <u>(839,215)</u>                                |
| <b>OPERATING INCOME (LOSS)</b>                 | <u>(488,679)</u>   | <u>(947,607)</u> | <u>(458,928)</u>                                |
| <b>NON-OPERATING REVENUES (EXPENSES):</b>      |                    |                  |   |
| Assessments - taxes                            | 388,258            | 424,778          | 36,520  |
| Interest Income                                | 89,921             | 69,717           | (20,204)  |
| Other Income                                   | -                  | 339,399          | 339,399   |
| Capital Contributions, principally grants      | -                  | 128,840          | 128,840   |
| <b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b> | <u>478,179</u>     | <u>962,734</u>   | <u>484,555</u>                                  |
| <b>NET INCOME (LOSS)</b>                       | <u>\$ (10,500)</u> | <u>\$ 15,127</u> | <u>\$ 25,627</u>                                |

The Accompanying notes are an integral part of these financial statements

# *Donald R. Reynolds*

Certified Public Accountant

## 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 Trustees  
Anderson-Cottonwood Irrigation District  
Anderson, California

I have audited the financial statements of the business type activities of Anderson-Cottonwood Irrigation District (the District) as of and for the year ended December 31, 2008, which collectively comprise the District's basic financial statements and have issued my report thereon dated April 19, 2009. I conducted my 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 my audit, I considered the District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

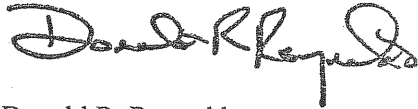
P.O. Box 994508, 1438 Oregon St., Redding, California 96099 . (530) 246-2834 . FAX (530) 244-0331

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

I noted certain matters that I have reported to management of Anderson-Cottonwood Irrigation District, in a separate letter dated April 19, 2009.

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



Donald R. Reynolds,  
Certified Public Accountant  
April 19, 2009