

COTTONWOOD WATER DISTRICT

Audited Basic Financial Statements

For Year Ended June 30, 2013



COTTONWOOD WATER DISTRICT

Audited Basic Financial Statements
For the Year Ended June 30, 2013

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COLLINS ACCOUNTANCY COMPANY

620 THIRD STREET, SUITE 120
POST OFFICE BOX 426
LINCOLN, CALIFORNIA 95648-0426
TELEPHONE: (916) 626-4984

CRAIG D. COLLINS, CPA
LINDA FOSTER, CPA, MS TAX
WEBSITE: [HTTP://WWW.COLLINSACCT.COM/](http://www.collinsacct.com/)

Independent Auditor's Report on Basic Financial Statements

The Honorable Board of Directors of the
Cottonwood Water District
Cottonwood, California

Report on the Financial Statements

We have audited the accompanying basic financial statements of Cottonwood Water District (the "District") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's 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; 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.

Auditor's Responsibility

Our responsibility is to express opinions 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. 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 auditor's 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 entity'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 entity'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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Cottonwood Water District (the "District"), as of June 30, 2013, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information presented in the required supplementary information section, referred to in the table of contents, 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.

Management has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

The Honorable Board of Directors of the
Cottonwood Water District
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Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated April 9, 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 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 District's internal control over financial reporting and compliance.

Collins Accountancy Company
Lincoln, California
April 9, 2014

COTTONWOOD WATER DISTRICT

Statement of Net Position June 30, 2013

Assets:	
<i>Current Assets:</i>	
Cash	\$ 58,806
Cash - Time Deposits	107,061
Accounts Receivable	55,080
Inventory	19,210
Prepaid Expenses	7,973
Interest receivable	291
Total Current Assets	<u>248,421</u>
<i>Non-Current Assets:</i>	
Restricted cash	411,099
Capital assets, non-depreciable	38,077
Capital assets, depreciable, net of accumulated depreciation	1,076,978
Total Non-current Assets	<u>1,526,154</u>
Total Assets	<u>\$ 1,774,575</u>
Liabilities:	
<i>Current Liabilities</i>	
Accounts payable	\$ 6,770
Liability for compensated absences	4,303
Accrued liabilities	--
Current portion of deposits from customers	6,000
Total Current Liabilities	<u>17,073</u>
<i>Non-Current Liabilities</i>	
Non-current portion of deposits from customers	15,441
Total Liabilities	<u>32,514</u>
Net Position:	
Net investment in capital assets	1,115,055
Restricted for expansion	411,099
Unrestricted	215,907
Total Net Position	<u>1,742,061</u>
Total Liabilities and Net Position	<u>\$ 1,774,575</u>

See accompanying notes to financial statements

COTTONWOOD WATER DISTRICT

Statement of Revenues, Expenses and Changes in Net Position For the Year Ended June 30, 2013

Operating Revenues:	
Water sales	\$ 436,186
Other charges	9,394
Total Operating Revenues	<u>445,580</u>
Operating Expenses:	
<i>Payroll and benefits</i>	
Administrative payroll	59,209
Transmission and maintenance payroll	59,680
Payroll benefits	34,060
Insurance - health	39,683
Total Payroll and benefits	<u>192,632</u>
<i>Services and supplies</i>	
Utilities	115,428
Transmission and maintenance	21,302
Office and general expenses	24,111
Insurance - general liability	7,218
Tools and supplies	6,960
Legal and audit	4,040
Contracted services	4,943
Auto and truck	1,298
Total Services and supplies	<u>185,300</u>
<i>Depreciation</i>	<u>65,710</u>
Total Operating Expenses	<u>443,642</u>
Operating Income (Loss)	1,938
Non-Operating Revenues and Expenses:	
Capacity expansion fees	27,600
Interest income	1,841
Change in Net Position	<u>31,379</u>
Net Position - Beginning	<u>1,710,682</u>
Net Position - Ending	<u>\$ 1,742,061</u>

See accompanying notes to financial statements

COTTONWOOD WATER DISTRICT

Statement of Cash Flows
For the Year Ended June 30, 2013

Cash Flows From Operating Activities:	
Cash received from customers	\$ 434,209
Cash payments to suppliers for goods and services	(196,159)
Cash payments to employees for services	(120,364)
Cash payments for payroll taxes and employee benefits	<u>(73,743)</u>
Net Cash Provided (Used) by Operating Activities	<u>43,943</u>
Cash Flows from Capital and Related Financing Activities:	
Cash received for connection charges	<u>27,600</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>27,600</u>
Cash Flows from Investing Activities:	
Interest on Investments	<u>1,550</u>
Net Increase (Decrease) in Cash and Cash Equivalents	73,093
Cash and Cash Equivalents - Beginning of Year	<u>503,873</u>
Cash and Cash Equivalents - End of Year	<u>\$ 576,966</u>

See accompanying notes to financial statements

COTTONWOOD WATER DISTRICT

Statement of Cash Flows
For the Year Ended June 30, 2013

Reconciliation of Operating Loss to Net Cash

Provided by Operating Activities

Operating Income \$ 1,938

Adjustment to reconcile operating loss to net cash provided by operating activities:

Depreciation and amortization 65,710

Change in assets and liabilities

(Increase) decrease in accounts receivable (7,189)

(Increase) decrease in inventory 3

(Increase) decrease in prepaid expense (5,443)

Increase (decrease) in accounts payable and accrued expenses (10,862)

Increase (decrease) in current customer deposits 1,261

Increase (decrease) in accrued compensated absences (1,475)

Net Cash Provided by Operating Activities \$ 43,943

Cash and Cash Equivalents

Financial Statement Classification:

Cash \$ 58,806

Cash - Time Deposits 107,061

Restricted cash 411,099

Total Cash and Cash Equivalents - Reported on Balance Sheet

\$ 576,966

See accompanying notes to financial statements

COTTONWOOD WATER DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2013

Note 1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) Description of Reporting Entity

The Cottonwood Water District (the "District"), a special district of the State of California, was organized to provide water to the residents of the area in and around the town of Cottonwood, California. The financial statements of the District include the financial activities of the Cottonwood Water District.

Cottonwood Water District was created under the State of California Water Code on January 20, 1955. The District's primary source of revenues is from charges to residential customers for water services in the District's boundaries located in Southern Shasta County, California. As well, the District receives a small amount of interest income from investments.

The governing body of the District is a Board of Directors consisting of five members elected for four year terms. Management of the District is the responsibility of the General Manager as appointed by the Board of Directors. The District's Board of Directors as a group and the District itself are not financially accountable for any other separate legal entities and therefore the District has no component units in accordance with Governmental Accounting Standards Board (GASB) Statement 61.

(B) Basis of Presentation.

All activities of the District are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated 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; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

COTTONWOOD WATER DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2013

Note 1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(C) Basis of Accounting.

Proprietary funds are accounted for on a flow of economic resources measurement focus, which requires use of the accrual basis of accounting. On this basis, all assets and liabilities associated with operations are included on the statement of net position, revenues are recognized when earned, and expenses are recorded at the time the liabilities are incurred, regardless of the timing of the related cash flows.

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 District's principal ongoing operations provide water services to customers. Accordingly, the principal operating revenues of the District are charges to customers for water and closely related services. Operating expenses include the costs of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting the definition of *operating* revenues or expenses above are reported as *non-operating* revenues and expenses. Revenues from connection fees and interest income are considered non-operating revenues.

For purposes of the Statements of Cash Flows, the District defines cash and cash equivalents as bank account balances available on demand, cash on hand, and investment account balances that can be easily converted to cash within seven calendar days (such as the Local Agency Investment Fund). Cash flows from operating activities are presented using the direct method. All investments are reported at fair value, which is either the market price or amortized cost.

Statement of Net position – The statement of net position is designed to report the financial position of the District at the balance sheet date. The District's fund equity (net position) shown on this statement is separated into three categories defined as follows:

COTTONWOOD WATER DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2013

Note 1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- **Net investment in capital assets** – This component of net position consists of capital assets, net of accumulated depreciation and reduced by any outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets. This category of net position is considered non-expendable.
- **Restricted Net Position.** This component of net position consists of constraints placed on net position used through external constraints imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments. It includes net position constrained by law, constitutional provisions or enabling legislation.
- **Unrestricted Net Position** - This component of net position consists of net position that do not meet the definition of “restricted” or “net investment in capital assets.” The District’s Board of Directors may designate portions of unrestricted net position for particular purposes.

Statement of Revenues, Expenses and Changes in Net Position – The statement of revenues, expenses and changes in net position presents the results of operations of the proprietary funds for the current period. Revenues are reported by major source. Operating revenues and expenses are presented separately from non-operating items and an operating income subtotal is presented prior to adjustment for non-operating items.

(D) Revenue Policies – Utility Fees.

The District’s principal sources of revenue are from water sales, water connection fees, and capacity expansion charges. Water rates are established by the Board. The District’s authority to set water rates is not subject to the oversight or approval of the California Public Utilities Commission or another regulatory agency. The District recognizes these charges when they are earned through the provision of services.

(E) Customer deposits.

First time customers are required to post a deposit of \$40, which is returned after one year of good payment history. Deposits are recorded as a liability until such time as

COTTONWOOD WATER DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2013

Note 1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

they are returned to the customer or forfeited to the District due to non-payment of the customer's account.

(F) Inventories.

The District's inventories are valued at historical cost on a first-in, first-out basis. Expenditures are recorded when inventory items are used. The inventory consists of materials and supplies for maintenance of the District's water system.

(G) Prepaid Expense.

The District's prepaid expense consists in all material respects of prepaid insurance.

(H) Capital Assets.

The District's capital assets include plant and equipment, which are recorded at historical cost. Improvements completed by the original developer are donated to the District without cost and are recorded at their fair market value.

The District's policy is to capitalize all assets with a useful life of more than a year which cost in excess of \$1,500. The District uses the straight-line method of computing depreciation. Estimated useful lives of the District's assets are determined based on the length of time the asset class is expected to provide service to the District and are as follows:

Transmission and Distribution	35 years
Buildings	35 years
Equipment	5 to 15 years

Maintenance and repairs are expensed as incurred. Significant renewals or betterments are capitalized and depreciated over their estimated useful lives. Costs incurred prior to completion for major improvements or construction of capital assets are accumulated in construction in progress. Once they are ready for use, assets previously recorded in construction in progress are transferred to the appropriate capital asset category.

COTTONWOOD WATER DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2013

Note 1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

(L) Compensated Absences

The District's employees earn vacation in varying amounts depending on length of service. Upon separation from the District, employees are entitled to full payment for accrued vacation but not for sick leave. The District records its obligations for vacation when earned based on current rates of pay at the time. The classification of the liability as current is based on experience and known conditions impacting use in the subsequent fiscal year.

(M) Restricted and Unrestricted Resources.

When both restricted and unrestricted resources are available for use, the District uses restricted resources first, and then unrestricted resources as needed.

(N) Use of Estimates.

The preparation of basic financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts and disclosures. Actual results could differ from those estimates.

Note 2. CASH AND INVESTMENTS

Cash and investments as of June 30, 2013 are reported in the accompanying financial statements in the classifications set forth below.

	Unrestricted	Restricted	Total
Cash on hand and in checking accounts	\$ 58,806	\$ 39,464	\$ 98,270
Cash in "LAIF" investment account	107,061	371,635	478,696
Total	<u>\$ 165,867</u>	<u>\$ 411,099</u>	<u>\$ 576,966</u>

(A) Deposits

At June 30, 2013, the recorded amount of the District's deposits is shown above; and the bank balance was \$124,813. This bank balance is entirely covered by the Federal Deposit Insurance Corporation (FDIC), which has a limit of \$250,000. If there was a remaining balance, it would be covered by the multiple financial institution collateral pool that insures public deposits.

COTTONWOOD WATER DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2013

Note 2. CASH AND INVESTMENTS (continued)

(B) Investments.

Local Agency Investment Fund. The District maintains an investment in the State of California Local Agency Investment Fund (LAIF). LAIF is part of the Pooled Money Investment Account (PMIA), an investment pool consisting of funds held by the state in addition to those deposited in LAIF. All PMIA funds are managed by the Investment Division of the State Treasurer's Office. This fund is not registered with the Securities and Exchange Commission as an investment company, but is required to invest according to California Government Code. Participants in the pool include voluntary and involuntary participants, such as special districts and school districts for which there are legal provisions regarding their investments. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute. LAIF is not rated by any major investment rating agency.

At June 30, 2013, the District's investment position in LAIF was \$478,696 which approximates fair value and is the same as the value of the pool shares which is determined on an amortized cost basis. LAIF is the only investment reported on an amortized cost basis because the amount available for withdrawal is determined on this basis. The total amount invested by all public agencies in PMIA on that day was \$58.8 billion. Of that amount, 1.88% is invested in structured notes and medium-term, asset-backed securities, and 0.08% is invested in short-term, asset-backed commercial paper, with the remaining 98.04% invested in other non-derivative financial products.

COTTONWOOD WATER DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2013

Note 2. CASH AND INVESTMENTS (continued)

Under the California Government Code, the District may only invest its funds in the following investment types:

Investment	Maximum % of Portfolio
U.S. Treasury Obligations	None.
U.S. Agency Obligations	None.
State and Local Government Bonds	None.
Bankers' Acceptances	None.
Commercial Paper	30%
Negotiable Certificates of Deposit/CD Placement Service	30%
Repurchase Agreements	None.
Reverse Repurchase Agreements and Loans of Securities	10%
Medium-Term Notes	30%
Mutual Funds and Money Market Mutual Funds	20%
Collateralized Bank Deposits	None.
Mortgage Pass-Through Securities	20%
Bank Time Deposits	None.
County Pooled Investment Funds	None.
Joint Powers Authority Investment Pools	None.
Local Agency Investment Fund (LAIF)	None.
Negotiable Order of Withdrawal (NOW)	5%

The District does not have a formal written investment policy but in practice invests only in the State Treasurer's Local Agency Investment Fund described above.

COTTONWOOD WATER DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2013

Note 3. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2013 is summarized below:

	Year ended June 30, 2012	Additions	Reductions	Transfers & Adjustments	Year ended June 30, 2013
Capital assets, non-depreciable:					
Land	\$ 17,589	\$ -	\$ -	\$ -	\$ 17,589
Annexation costs	20,488			-	20,488
Meters not in service	19,662	-	-	(19,662)	-
Total capital assets, non-depreciable	<u>57,739</u>	-	-	<u>(19,662)</u>	<u>38,077</u>
Capital assets, depreciable:					
Transmission and distribution	1,742,283	-	-	19,662	1,761,945
Building	59,221	-	-	-	59,221
Equipment	160,116	-	-	-	160,116
Total capital assets, depreciable	<u>1,961,620</u>	-	-	<u>19,662</u>	<u>1,981,282</u>
Total Capital Assets	2,019,359	-	-	-	2,019,359
Less accumulated depreciation	<u>(838,594)</u>	<u>(65,710)</u>	-	-	<u>(904,304)</u>
Total Capital Assets, Net	<u>\$ 1,180,765</u>	<u>\$ (65,710)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,115,055</u>

Note 4. ACCOUNTS RECEIVABLE – UTILITY CUSTOMERS

Charges for water services including hookup and administration charges are set by the Board of Directors. Service is discontinued if accounts become delinquent. Because the District holds deposits for new customers, amounts written off are immaterial each year and no allowance for bad debts is necessary.

Note 5. LONG-TERM LIABILITIES

Long-term liabilities at June 30, 2013, consisted of the following:

	Balance June 30, 2012	Additions	Deletions	Balance June 30, 2013	Amounts Due Within One Year
Deposits from customers	<u>\$ 20,180</u>	<u>\$ 6,756</u>	<u>\$ (5,495)</u>	<u>\$ 21,441</u>	<u>\$ 6,000</u>

COTTONWOOD WATER DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2013

Note 6. RISK MANAGEMENT/INSURANCE JOINT VENTURE

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, natural disasters, and delivery of water. These risks are addressed through the District's membership in the Association of California Water Agencies - Joint Powers Insurance Authority (JPIA). The purpose of the JPIA is to arrange and administer programs for the pooling of self-insured losses, to purchase excess insurance, or reinsurance, and to arrange for group-purchased insurance for property and other coverages. The JPIA's members have pooled funds in order to be self-insured for general liability, property, pollution liability and workers' compensation. Each Member district pays a premium commensurate with the level of coverage requested, and share surpluses and deficit proportionate to their participation.

The District has had no settlements that exceeded its insurance coverage in any of the last three years. Complete audited financial statements of the JPIA can be obtained online at www.acwajpia.com.

Note 7. PENSION PLAN.

(1) Plan Description

The District contributes to the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer defined benefit pension plan. The District's plan is part of the "Miscellaneous 2% at Risk Pool" within the CalPERS system. All full-time District employees who have been employed for over six months are eligible to participate in CalPERS. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. A menu of benefit provisions as well as other requirements is established by State statutes within the Public Employee's Retirement Law. The District selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through the approval of the District's Board of Directors. Benefits include a periodic pension payment upon retirement. CalPERS issues a separate comprehensive annual report. Copies of CalPERS' annual financial report may be obtained from its Executive Office, 400 P Street, Sacramento, CA 95814 or online at <http://www.calpers.ca.gov/index.jsp?bc=/investments/reports/home.xml>.

COTTONWOOD WATER DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2013

Note 7. PENSION PLAN (continued)

(2) Funding Policy

Active plan members are required to contribute 7 percent of their annual covered salary; however, the District pays 60 percent of this 7 percent on behalf of employees as a fringe benefit. Further, the District is required to contribute the actuarially determined remaining amount necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate was 8.588% for fiscal year 2012-2013, 8.466% for fiscal year 2011-2012, and 7.512% for fiscal year 2010-2011. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS based on periodic actuarial valuations.

(3) Annual Pension Cost and Net Pension Obligation

The District's annual pension cost and net pension obligation (asset) for its CalPERS retirement plan for fiscal year 2013 and the two preceding fiscal years are presented below:

	June 30,		
	2013	2012	2011
Annual required contribution	\$ 14,796	\$ 14,835	\$ 13,155
Interest on net pension obligation (asset)	--	--	--
Adjust to annual required contribution	--	--	--
Annual pension cost	14,796	14,835	13,155
Contributions made	(14,796)	(14,835)	(13,155)
Increase (decrease) in net pension obligation (asset)	--	--	--
Net pension obligation (asset), beginning of year	--	--	--
Net pension obligation (asset), end of year	\$ --	\$ --	\$ --

For fiscal year 2013, the District's annual pension cost was \$14,796 and was equal to the contribution actually made. This annual pension cost includes \$4,859 (60 percent) of the employee share which the District pays on the employees' behalf. The required contribution was based on CalPERS's June 30, 2011 actuarial valuation with the contributions determined as a percent of pay. Valuations as of later dates were performed to determine contribution rates for subsequent fiscal years.

COTTONWOOD WATER DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2013

Note 7. PENSION PLAN (continued)

A summary of the principal assumptions and methods used to determine the contractually required contributions is as follows:

Valuation Date	June 30, 2010
Actuarial Cost Method	Entry age normal cost method
Amortization Method	Level percent of payroll
Average Remaining Period	7 Years as of the valuation date
Asset Valuation Method	15 Year smoothed market
Actuarial Assumptions	
Investment Rate of Return	7.75% (net of administrative expenses)
Projected Salary Increases	3.55% to 14.45% depending on age, service and type of employment
Inflation	3.00%
Payroll Growth	3.25%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of 0.25%.

Three-Year Trend Information for CalPERS

<u>Year ended June 30,</u>	<u>Cost (APC)</u>	<u>APC Contributed</u>	<u>APC Contributed</u>
2011	13,155	13,155	100%
2012	14,835	14,835	100%
2013	14,796	14,796	100%

(4) Funded Status and Funding Progress

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the basic financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

COTTONWOOD WATER DISTRICT

Notes to the Basic Financial Statements For the Year Ended June 30, 2013

Note 8. RESTRICTED AND UNRESTRICTED NET POSITION.

The District's net position that is not invested in capital assets is divided between restricted and unrestricted portions. Restricted net position consists of the expansion fees received, which can only be used towards costs to expand the facilities. All amounts are restricted by the enabling legislation that established the fees. When restricted funds are used for construction of eligible fixed assets, restricted and unrestricted net position is adjusted accordingly.

Note 9. DEFERRED COMPENSATION AND SAVINGS PLANS.

The District adopted a "Cafeteria Plan" for their employees, which allows them to use pre-taxes salary for their share of medical coverage and other benefits. This plan is administered by a third party.

The District offers eligible employees the option of contributing a portion of their salary to a deferred compensation plan established in accordance with Section 457 of the Internal Revenue Code. Employee contributions made to this plan are generally held until the termination, retirement, or death of the employee and are usually not taxable to the employee until they are paid or made available to the employee. The plan is administered by a third party.

The District has no liability for any losses sustained by employees through these plans.

Note 10. SUBSEQUENT EVENTS

After June 30, 2013, the District began Phase II of its project to replace all of the meters in the water system with new automated meters that can be read electronically using a handheld device. Over \$120,000 had been expended on Phase II as of January 31, 2014.

REQUIRED SUPPLEMENTARY INFORMATION

COTTONWOOD WATER DISTRICT

Required Supplementary Information—Unaudited
For the Year Ended June 30, 2013

Funding Progress of Pension Plan

The District participates with multiple employers in a pooled pension plan with CalPERS. The information below reflects the funding status of the plan as a whole, as the information is not available for individual members. The following information reflects the most recent actuarial valuations from CalPERS:

Actuarial Valuation Date	Entry Age Normal Accrued Liability	Actuarial Asset Value	Unfunded Liability/ (Excess Assets)	Funded Ratio	Annual Covered Payroll	Unfunded Actuarial Liability/ (Excess Assets) as Percentage of Covered Payroll
6/30/2010	624,423,437	594,492,164	29,931,273	95.2%	186,777,830	16.0%
6/30/2011	682,375,804	639,237,247	43,138,557	93.7%	193,877,169	22.3%
6/30/2012	736,231,913	701,224,211	35,007,702	95.3%	208,517,122	16.8%

Prior to the June 30, 2011 valuation date, funding status information for the District's separate portion of the multiple-employer, pooled pension plan was not available. However, the information became available for June 30, 2011 and is presented below:

**Schedule of Funding Progress for the District's Separate Portion of the
Miscellaneous Plan Pool Administered by CalPERS**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/2011	\$ 274,539	\$ 302,046	\$ 27,507	90.9%	\$ 114,037	24.1%

A summary of the principal assumptions and methods used to determine the funding progress data presented above for the most recent valuation date is below:

Valuation Date	June 30, 2012
Actuarial Cost Method	Entry age normal cost method
Amortization Method	Level percent of payroll
Average Remaining Period	9 Years as of the valuation date
Asset Valuation Method	15 Year smoothed market
Actuarial Assumptions	
Investment Rate of Return	7.50% (net of administrative expenses)
Projected Salary Increases	3.30% to 14.20% depending on age, service and type of employment
Inflation	2.75%
Payroll Growth	3.00%

COTTONWOOD WATER DISTRICT

Required Supplementary Information—Unaudited
For the Year Ended June 30, 2013

Individual Salary Growth

A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%.

OTHER REPORTS

COLLINS ACCOUNTANCY COMPANY

620 THIRD STREET, SUITE 120
POST OFFICE BOX 426
LINCOLN, CALIFORNIA 95648-0426
TELEPHONE: (916) 626-4984

CRAIG D. COLLINS, CPA
LINDA FOSTER, CPA, MS TAX
WEBSITE: [HTTP://WWW.COLLINSACCT.COM/](http://www.collinsacct.com/)

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*

Independent Auditor's Report

The Honorable Board of Directors of the
Cottonwood Water District
Cottonwood, California

We have audited, in accordance with the 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 basic financial statements of Cottonwood Water District (the "District") as of and for the year ended June 30, 2013, and the related notes to the financial statements, and have issued our report thereon dated April 9, 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 entity'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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control

that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Responses as item 2013-1 that we consider to be a material weakness.

Compliance and Other Matters

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

District's Response to Findings

The District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. 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 result of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Collins Accountancy Company
Lincoln, California
April 9, 2014

COTTONWOOD WATER DISTRICT

Schedule of Findings and Responses
For the Year Ended June 30, 2013

Finding 2013-1: Expenditure Accruals

Criteria

Generally Accepted Accounting Principles (GAAP) state that expenses incurred must be matched with the revenues that were earned during the fiscal year.

Condition

Although there were few invoices paid in 2013-2014 that met the criteria for being recorded as expenses in 2012-2013, our audit did indentify an immaterial amount that was related to 2012-2013 but not posted as an expense until 2013-2014.

Cause

The bill requiring accrual to the prior year was actually split between the prior year and the current year, making the accrual process more complex.

Effect or Potential Effect

Without correct posting of expense accruals, the financial statements could be misstated.

Recommendation

We recommend that when inputting these into QuickBooks, the date for the bill be on or before June 30 and the date for the corresponding check payment be after June 30, which will result in the proper accounting treatment. We recommend two separate bills be entered into QuickBooks in the event that significant bills are split between two fiscal years.

Views of Responsible Officials and Planned Corrective Actions

We will review this procedure with the closing of our next fiscal year.