

ORLAND-ARTOIS WATER DISTRICT

**FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
for the year ended December 31, 2015**

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Robert W. Johnson
an accountancy corporation

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Orland-Artois Water District
Orland, California

Report on the Financial Statements

We have audited the accompanying financial statements of Orland-Artois Water District, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Orland-Artois Water District as of December 31, 2015, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America, as well as the accounting systems prescribed by the State Controller's Office and State Regulations governing Special Districts.

Other-Matters

Required Supplementary Information

The Management's Discussion and Analysis is not a required part of the financial statements but is supplemental information required by the Government Auditing Standards Board. Management has elected to omit the Management's Discussion and Analysis.

Other Information

The supplemental 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 Orland-Artois Water 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 17, 2016, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Robert W. Johnson, An Accountancy Corporation

Citrus Heights, California
March 17, 2016

ORLAND-ARTOIS WATER DISTRICT
STATEMENT OF NET POSITION
December 31, 2015

ASSETS

Current assets:

Cash and investments (Note 3)	\$ 2,595,067
Accounts receivable	59,612
Prepays	<u>73,454</u>

Total current assets 2,728,133

Capital assets (Notes 4 and 5):	\$25,474,111	
Less, accumulated depreciation	<u>8,109,180</u>	
		<u>17,364,931</u>
		<u>\$20,093,064</u>

See notes to financial statements

LIABILITIES AND NET POSITION (DEFICIENCY)

Current liabilities:

Current portion of long-term debt (Note 5)	\$ 578,188
Customer prepayments	138,922
Accounts payable	6,280
Compensated absences	<u>13,962</u>

Total current liabilities	737,352
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Long-term debt, net of current portion (Note 5)	<u>20,523,776</u>
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Total liabilities	21,261,128
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Net position (deficiency):

Net investment in capital assets	\$7,535,726	
Restricted	-	
Unrestricted	<u>(8,703,790)</u>	<u>(1,168,064)</u>
		<u>\$20,093,064</u>

ORLAND-ARTOIS WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
for the year ended December 31, 2015

Operating revenues:		
Water sales		\$ 2,069,935
Warren Act water sales		88,900
Operations charge		753,608
Assessments		749,667
Other		<u>47,695</u>
Total operating revenues		3,709,805
Operating expenses:		
Source of supply	\$ 1,658,786	
Transmission and distribution	543,174	
Administrative	273,454	
Depreciation	<u>359,817</u>	
Total operating expenses		<u>2,835,231</u>
Operating income		874,574
Non-operating income (expense):		
Interest income	9,169	
Rental income	720	
Bureau construction relief	84,347	
Sites Reservoir Project expense (Note 10)	<u>(190,317)</u>	
		<u>(96,081)</u>
Income before contributions		778,493
Capital contributions		<u>-</u>
Change in net position		778,493
Total net position:		
Beginning (deficit)		<u>(1,946,557)</u>
Ending (deficit)		<u>\$(1,168,064)</u>

See notes to financial statements

ORLAND-ARTOIS WATER DISTRICT
STATEMENT OF CASH FLOWS
for the year ended December 31, 2015

Cash flows from operating activities:		
Receipts from customers		\$ 3,689,988
Payments to suppliers		(2,191,774)
Payments to employees		<u>(222,848)</u>
Net cash provided by operating activities		1,275,366
Cash flows from noncapital financing activities:		
Rental income		720
Cash flows from capital and related financing activities:		
Capital expenditures	\$(17,498)	
Principal reduction on capital debt	(662,535)	
Bureau construction relief	84,347	
Site Reservoir Project	<u>(190,317)</u>	
		(786,003)
Cash flows from investing activities:		
Interest income		<u>9,169</u>
Net increase in cash and cash equivalents		499,252
Cash and cash equivalents:		
Beginning of year		<u>2,095,815</u>
End of year		<u>\$ 2,595,067</u>

See notes to financial statements

ORLAND-ARTOIS WATER DISTRICT
STATEMENT OF CASH FLOWS, continued
for the year ended December 31, 2015

Reconciliation of operating income (loss) to
net cash provided by operating activities:

Operating income (loss)		\$ 874,574
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Adjustments to reconcile operating income (loss)
to net cash provided by operating activities:

Depreciation expense	\$ 359,817	
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Changes in operating assets and liabilities:

Receivables	(19,817)	
Prepays	(4,232)	
Accounts payable	(141)	
Compensated absences	260	
Customer prepayments	<u>64,905</u>	

Total adjustments		<u>400,792</u>
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Net cash provided by operating activities		<u>\$1,275,366</u>
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See notes to financial statements

ORLAND-ARTOIS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS

1. Organization:

Orland-Artois Water District (the "District") was formed in 1953 and started water deliveries in 1977. The District currently consists of 29,918 acres located in Glenn County in the Sacramento Valley; the District has 5 diversions off of the Tehama Colusa Canal and delivers water using 110 miles of underground pipeline with about 300 metered deliveries. The District has a contract with the USBR for 53,000 acre-feet of irrigation water annually. The District is governed by a Board of Directors which is elected by the landowners.

2. Summary of Significant Accounting Policies:

The basic financial statements of Orland-Artois Water District have been prepared in conformity with generally accepted accounting principles as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

Fund Accounting

The District is an enterprise fund. All operations are accounted for as an enterprise fund.

Enterprise Fund – The enterprise fund is used to account for water operations that are financed and operated in a manner similar to private business enterprises. The intent of the District is that the costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges.

Basis of Accounting

The basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied.

The District's books and accounts are based upon the Uniform System of Accounts for Public Utilities as prescribed by the Division of Local Government Fiscal Affairs of the State of California. The records are maintained and the accompanying financial statements are presented on the accrual basis of accounting.

ORLAND-ARTOIS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued

2. Summary of Significant Accounting Policies, continued:

Depreciation and Amortization

Capital assets are recorded on the basis of purchase cost. Assets acquired by contribution are recorded at estimated cost or fair market value at the date of acquisition.

Depreciation is calculated by the straight-line method over the estimated useful lives of the respective assets.

Statement of Cash Flows

All highly liquid investments with a maturity of three months or less when purchased, are considered to be cash equivalents. The investment with the State Treasurer's Local Agency Investment Fund (LAIF) is also considered to be the equivalent of cash.

Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as a current liability. Sick pay is not vested.

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.

ORLAND-ARTOIS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued

2. Summary of Significant Accounting Policies, continued:

Budget and Budgetary Accounting

The Board of Directors annually adopts an operating budget. The operating budgets are prepared on the accrual basis to match the operating statements.

Investments

Investments consist of LAIF (State of California pooled investment fund) and money market savings accounts. Investments are stated at cost which approximates market. Such investments are within the State statutes and the District's investment policy.

3. Cash and Investments:

At year-end the carrying amount of the District's cash deposits was \$2,347,925 and the bank balance was \$2,363,394. The bank balance was covered by Federal depository insurance; and was covered by collateral held in the pledging banks' trust department as mandated by state law.

	Balance December 31, <u>2015</u>
Petty cash	\$ 402
Checking	94,219
Money market (3)	<u>2,253,304</u>
	<u>\$2,347,925</u>

ORLAND-ARTOIS WATER DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued

3. Cash and Investments, continued:

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 Amount</u>	<u>Market Value</u>
Balance, December 31, 2015		
Local Agency Investment Fund	\$ <u>247,142</u>	\$ <u>247,142</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.

ORLAND-ARTOIS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued

4. Capital Assets:

Changes in capital assets for the year ended December 31, 2015 are as follows:

	<u>Balance</u> <u>12-31-14</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12-31-15</u>
Distribution system	\$23,705,915	\$ -	\$ -	\$23,705,915
District distribution	358,769	-	-	358,769
Building improvements	136,101	-	-	136,101
Machinery	58,710	-	-	58,710
Furniture	29,782	-	-	29,782
Wells	1,044,870	17,498	-	1,062,368
Vehicles	114,991	-	-	114,991
Office equipment	<u>7,475</u>	<u>-</u>	<u>-</u>	<u>7,475</u>
	<u>\$25,456,613</u>	<u>\$ 17,498</u>	<u>\$ -</u>	<u>\$25,474,111</u>

5. Long-term Debt:

Long-term debt activities for the year ended December 31, 2015 are as follows:

	<u>Balance</u> <u>12-31-14</u>	<u>Decrease</u>	<u>Increase</u>	<u>Balance</u> <u>12-31-15</u>	<u>Current</u> <u>Portion</u>
Bureau –					
Distribution	\$10,407,393	\$ 578,188	\$ -	\$ 9,829,205	\$ 578,188
Bureau –					
Service Contract	<u>11,357,106</u>	<u>84,347</u>	<u>-</u>	<u>11,272,759</u>	<u>-</u>
	<u>\$21,764,499</u>	<u>\$ 662,535</u>	<u>\$ -</u>	<u>\$21,101,964</u>	<u>\$ 578,188</u>

ORLAND-ARTOIS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued

5. Long-term Debt, continued:

Contract 9d Loan with the United States Bureau of Reclamation

On February 26, 1976, the District entered into a contract with the United States Government for the construction of a distribution system. The original loan amount was \$23,127,537. Payments on the loan began in February 1993 and are due in two equal installments of \$289,094 per year. The last payment is scheduled for August 2032. The loan bears no interest. The District charges a repayment assessment to landowners that are using the system, equal to the debt service payment. In accordance with Article 17 of the Contract, title to the distribution system shall be, and remain in, the name of the United States until otherwise provided for by Congress, notwithstanding the fact of full repayment of the obligation. The intangible right to use Central Valley Project water supply system is included with capital assets in accordance with Governmental Accounting Standards Board Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*.

Contract 9e Water Service Contract – Central Valley Project Water Supply System

The Reclamation Act of 1939 provided for the construction of multiple purpose irrigation projects and the construction costs would be shared among the various beneficiaries that provided irrigation. The construction cost allocated to the Orland-Artois Water District totaled \$21,539,728. The costs allocated change by year based on the services provided to the District. Irrigators are responsible for repaying their allocated share of the project's construction costs as limited by a determination of their ability to pay. As of September 30, 2013, the U.S. Bureau of Reclamation determined, based on an ability to pay study for the District's eligibility for full relief from payment of the construction costs be continued. Payments of the cost of construction in the amount of \$11,272,759 at December 31, 2015 are to be made through future deliveries of water through 2030. No interest is being charged on this liability.

ORLAND-ARTOIS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued

5. Long-term Debt, continued:

These loans mature as follows:

December 31,	
2016	\$ 578,188
2017	578,188
2018	578,188
2019	578,188
2020	578,188
2021-2025	2,890,940
2026-2030	14,163,699
2031-2032	<u>1,156,385</u>
	<u>\$21,101,964</u>

6. Pension Plan:

On December 19, 1984, the District established a deferred compensation plan. The plan is a single-employer Simplified Employee Pension (SEP) plan with the assets held in trust by New York Life. The Plan is administered by the management of the District and the provisions of the plan can be changed and amended by the Board of Directors of the District. All full-time salaried employees are eligible to participate in the plan after completing three years of service with the District.

The District pays 100% of the contribution, based on an annual percentage of 7% of the employee's wage. Participant's accounts are credited with the employer contributions. The amount the District contributes each year on behalf of the participating employee is established by the Board of Directors. Investment earnings and losses as well as administrative expenses are also charged to the participant accounts. Allocations are based on participant's earnings and losses of chosen investments or account balances. Employees are vested in the plan upon entrance into the plan. The amount of the contribution for 2015 was \$13,240.

ORLAND-ARTOIS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued

7. Revenue Recognition:

For the 2015 water year the District purchased water under contract for our water users. The water was purchased from settlement contractors and its use was defined under settlement contractor's rules. These rules allow that the water cannot be used after October 31st. If the water is not used by that date it is lost. In September Reclamation extended this end date to November 30th. After that date any of this type of water showed as credits on the water user's account. The District adjusted these accounts to a zero balance and the revenue was moved to the Forfeited Customer Water Account. The contract specified that after December 31st the costs of this water would be reviewed and any adjustments would be made to reflect the actual cost of the water. This was done and no credits were issued.

For FY 2016 the Board has implemented a new Sites Charge of \$7.20 per assessed acre. The Sites Charge was added to the Operations Charge (previously "Base Charge") and will be in effect for 5 years. For 2016 the Board has approved that the \$5.00 O&M charge that has been collected in the Assessment invoice be moved to the Operations Charge. The O&M portion of the Operations Charge has not been otherwise increased. The Board has approved the Operations Charge for 5 more years. If necessary the District will use reserves to continue to operate under severe drought conditions.

8. Subsequent Events:

Management has evaluated subsequent events through March 17, 2016, the date these December 31, 2015 financial statements were available to be issued.

9. 2016 Dry Year Outlook:

Due to the record dry conditions in California from 2013 through 2015, the District has received zero allocations in 2014 and 2015. While reservoir levels are better than the previous 2 years, they have not raised enough for Reclamation to announce an allocation of irrigation water for the 2016 water year for water service contractors. For 2016, if the District has an allocation below 75%, all water will be pre-paid for by the water users and once purchased there will be no refunds.

ORLAND-ARTOIS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued

10. Sites Reservoir Project:

In 2010 local water agencies and counties united to create Sites Joint Powers Authority (the "JPA") to pursue development and construction of the Sites Reservoir Project. The Project would be located 10 miles west of the town of Maxwell in Colusa County. The reservoir would hold approximately 1.2 million to 1.8 million acre-feet.

The JPA board has begun collecting funds to provide a staff, settle governance issues, prepare grant applications, develop environmental documents and seek Prop 1 funding. The JPA has developed a budget to cover these costs for the next 3 years. These costs are approximately \$60 per acre-foot. These funds are necessary up front funding, but must be considered "at risk" as there is no guarantee that the project will move past the submission of Prop 1 funding application. This is a critical time for the project, because without these funds, the JPA will not be able to move forward on the project.

Due to the continued drought conditions and the second year of zero allocation and the potential of reduction of surface and groundwater supply due to regulations, the Orland-Artois Water District has been supportive of the Sites Reservoir Project. The District has stated an interest in 20,000 acre-feet of water in the Sites Project which is an estimate of potential demand.

Site Reservoir expense for 2015 consists of:

Sites Investor Group contribution	\$ 40,000
Sites Power Authority	133,000
Sites Legal	15,276
Outreach & Travel	<u>2,041</u>
	<u>\$190,317</u>

SUPPLEMENTAL INFORMATION

ORLAND-ARTOIS WATER DISTRICT
PRINCIPAL OFFICIALS
December 31, 2015

BOARD OF DIRECTORS

Mike Vereschagin	President
Ernest Pieper	Vice President
John Erickson	
James Jones	
Charles Schonauer	

OPERATIONS

Emil Cavagnolo	General Manager
Chris Drouillard	Water Superintendent
Karen Osborn	Office Secretary



Robert W. Johnson
an accountancy corporation

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**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

To the Board of Directors
Orland-Artois Water District
Orland, 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 and the State Controller's Minimum Audit Requirements for California Special Districts, the financial statements of Orland-Artois Water District as of and for the year ended December 31, 2015, and the related notes to the financial statements, and have issued our report thereon dated March 17, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Orland-Artois Water 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 opinion 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 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

We noted certain other minor matters that we reported to management of the Orland-Artois Water District in a separate letter dated March 17, 2016.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Robert W. Johnson, An Accountant Corporation

Citrus Heights, California
March 17, 2016

ORLAND-ARTOIS WATER DISTRICT

**REPORT ON ACCOUNTING CONTROLS
AND PROCEDURES**

December 31, 2015



Robert W. Johnson
an accountancy corporation

6234 Birdcage Street, Citrus Heights, California 95610 | robertwjohncpagroup@gmail.com | 916.723.2555
www.bob-johnson-cpa.com

March 17, 2016

To the Board of Directors
Orland-Artois Water District
Orland, California

We have audited the financial statements of Orland-Artois Water District as of and for the year ended December 31, 2015. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States and the State Controller's Minimum Audit Requirements for California Special Districts.

In planning and performing our audit of the financial statements of Orland-Artois Water District as of and for the year ended December 31, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered Orland-Artois Water District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures but not for the purpose of expressing our opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we have enclosed other recommendations for your consideration.

This communication is intended solely for the information and use of management and Board of Directors and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Robert W. Johnson, An Accountancy Corporation

Robert W. Johnson, An Accountancy Corporation

1. Operating Results:

	<u>Year Ended</u>		
	<u>December 31,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>	<u>Favorable/</u> <u>(Unfavorable)</u>
Operating revenues	\$3,709,805	\$3,662,760	\$ 47,045
Operating expenses	<u>2,835,231</u>	<u>3,802,919</u>	<u>967,688</u>
Operating income (loss)	874,574	(140,159)	1,014,733
Other revenue (expense)	(96,081)	602,902	(698,983)
Capital contributions – capital grant	<u>-</u>	<u>-</u>	<u>-</u>
Net income (loss)	<u>\$ 778,493</u>	<u>\$ 462,743</u>	<u>\$ 315,750</u>
Operating cash	<u>\$2,595,067</u>	<u>\$2,095,815</u>	<u>\$ 499,252</u>

Observations:

	<u>2015</u>	<u>2014</u>	<u>Favorable</u>
Operating revenues	\$3,709,805	\$3,662,760	
Source of supply	<u>1,658,786</u>	<u>2,560,581</u>	
Gross profit -			
Water	<u>\$2,051,019</u>	<u>\$1,102,179</u>	<u>\$ 948,840</u>
Cash	\$2,595,067	\$2,095,815	
Customer prepay	<u>138,922</u>	<u>74,017</u>	
Net	<u>\$2,456,145</u>	<u>\$2,021,798</u>	<u>\$ 434,347</u>

2. Prior Year Recommendations:

(a) Accounting System:

Follow-up – District replaced CUSI billing system with Quickbooks on 1-1-16.

(b) Budget Format:

Recommendation – set up statement of income to compare “budget” and “actual” revenues and expenses.

Follow-up – completed.

(c) Salary Reduction Plan:

Recommendation – many water districts maintain a Sec. 457 deferred compensation plan which permits employees to defer part of their current salary to a future period when they retire. There is no cost to the district other than the decision to pick up any administrative cost.

Follow-up – was considered; alternate IRA plan was adopted.

(d) Basis of Financial Reporting:

Recommendation – convert monthly reporting to “pure net income” reporting; prepare separate schedule to convert net income to cash flow results.

Follow-up – current format will be maintained.

3. Vendor Invoices:

Observation – General Manager currently examines vendor invoices and initials to indicate his approval for payment.

Recommendation – consider use of a stamp to cancel invoices and provide following:

Approval	_____
Account dist'n	_____
Date paid	_____
Check #	_____

4. Quickbooks:

Observation – if an earlier year is entered by mistake, program will carry back data and throw off current year accounting.

Recommendation – Quickbooks has a lockout feature to prevent carry back.