

IRISH BEACH WATER DISTRICT

FINANCIAL STATEMENTS

and

REQUIRED SUPPLEMENTARY INFORMATION

Year Ended September 30, 2017

Rick Bowers, CPA
A Professional Corporation

IRISH BEACH WATER DISTRICT

TABLE OF CONTENTS

September 30, 2017

	<u>Page Number</u>
Independent Auditor's Report.....	1 - 1a
Management Discussion and Analysis.....	mda
Financial Statements:	
Statement of Net Position.....	2
Statement of Revenues, Expenses, and Changes in Net Position.....	3
Statement of Cash Flows.....	4
Notes to Financial Statements.....	5 - 11



RICK BOWERS, CPA, PFS, CMA
A Professional Corporation
730 S. Dora Street
Ukiah, CA 95482

office (707) 468-9210
fax (707) 468-1260
email rbcpacorp@yahoo.com

Certified Public Accountant
Personal Financial Specialist
Certified Management Accountant

Independent Auditor's Report

Board of Directors
Irish Beach Water District
Manchester, CA

Report on Financial Statements

I have audited the accompanying financial statements of the Irish Beach Water District as of and for the year ended September 30, 2017, 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

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. 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 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 District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Irish Beach Water District as of September 30, 2017, 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 management's discussion and analysis on pages mda 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. I 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 I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

A handwritten signature in blue ink, appearing to read "Rick Bowers".

Rick Bowers, CPA
Ukiah, California
August 23, 2019

IRISH BEACH WATER DISTRICT

AUDIT REPORT SEPTEMBER 30, 2017

MANAGEMENT DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis (MD&A) provides a narrative overview and analysis of the financial performance of the Irish Beach Water District during the fiscal year ended September 30, 2017. Please read this analysis in conjunction with the District's Basic Financial Statements and accompanying Notes immediately following this section.

Overview of the Financial Statements

The District operates under California Irrigation District Law as a utility enterprise. As such, the District presents its financial statements using the economic resources measurement focus and the full accrual basis of accounting, similar to methods used by private sector companies. These financial statements are designed to provide readers with a broad overview of the finances and also present changes in cash balances, and information about both short-term and long-term activities of the District. There are three required components to these statements: the MD&A, the Financial Statements, and the Notes to the Financial Statements. As an enterprise fund, the District's Financial Statements include four components.

- 1) **Statements of Net Position** present information on all of the District's assets and liabilities with the difference between the two reported as net position. The Statements of Net Position provide the basis for evaluating the capital structure of the District and assessing its liquidity and financial flexibility. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. Net position is displayed in three categories: Net investment in Capital Assets, Restricted for Capital Projects, and Unrestricted.
- 2) **Statements of Revenues, Expenses, and Changes in Net Position** present information which show how the District's net position changed during the year. All of the current year's revenues and expenses are recorded on an accrual basis, meaning when the underlying transaction occurs regardless of the timing of the related cash flows. These statements measure the success of the District's operations over the past year and determine whether the District has recovered its costs through water sales (usage charges on water bills and contract water sales), user fees (availability charges on water bills), and other charges.
- 3) **Statements of cash flows** provide information regarding the District's cash receipts and cash disbursements during the year. These statements report cash activity in three categories: Operating; Capital and Related Financing Activities; and Investing. These statements differ from the Statements of Revenues, Expenses, and Changes in Net Position in that they account only for transactions that result from cash receipts and cash disbursements. As in the past, the Statements of Cash Flows continue to reconcile the reasons why cash from operating activities differ from operating income.

IRISH BEACH WATER DISTRICT YEAR ENDING SEPTEMBER 30, 2017

- 4) Notes to the Basic Financial Statements provide a description of the accounting policies used to prepare the financial statements and present material disclosures required by generally accepted accounting principles that are not otherwise present in the financial statements. The Notes are located immediately following the Financial Statements.

Financial Highlights

During the year ended September 30, 2017, the District's operating income was a net loss of - \$18,462. This operating net loss is \$24,339 less than the prior year's operating income of \$5,877. The difference is the result of operating expenses increasing by \$8,114 and the decrease in operating revenues of \$16,225.

Financial Analysis of the District

Statements of Net Position – The District's net position grew between fiscal years 2015-2016 and 2016-2017, increasing from \$1,101,416 to \$1,155,268, respectively. The change can be seen in the condensed Statement of Net Position below as a \$53,852 Increase in net position. Current assets increased by \$33,315. Restricted assets decreased \$82,147 which is the current year receipts of capital improvement assessments of \$64,437 less the reimbursement of expenditures to operating asset accounts. Change in total liabilities was a decrease of \$32,703;

Condensed Statements of Net Position

	2017	2016	Difference
Current and Other Assets	\$ 704,943	\$ 671,428	\$ 33,315
Capital assets	<u>810,294</u>	<u>822,660</u>	<u>-12,366</u>
Total Assets	<u>1,515,237</u>	<u>1,494,088</u>	<u>21,149</u>
Other liabilities: Current & Def Rev	359,969	392,672	-32,703
Total liabilities	<u>359,969</u>	<u>392,672</u>	<u>-32,703</u>
Net investment in capital assets	810,294	813,093	-2,799
Restricted	211,415	293,562	-82,147
Unrestricted	<u>133,559</u>	<u>(5,239)</u>	<u>138,798</u>
Total net position	<u>\$1,155,268</u>	<u>\$1,101,416</u>	<u>\$ 53,852</u>

IRISH BEACH WATER DISTRICT YEAR ENDING SEPTEMBER 30, 2017

Changes in Revenues, Expenses, and Net Position – The District’s income before capital improvement assessments decreased \$22,044 due to increase in total expenses of \$6,795 plus decrease in total revenues of \$15,249. The change in net position that resulted can be seen in the table below, which summarizes the Statement of Revenues, Expenses, and Changes in Net Position.

Condensed Statements of Revenues, Expenses, and Net Position

	2017	2016	Difference
Operating Revenues:			
Water Usage	\$ 33,671	\$ 40,638	\$(6,967)
Water Availability	156,749	159,842	(3,093)
Late Fees	2,722	2,727	(5)
Other Income	<u>450</u>	<u>6,610</u>	<u>(6,160)</u>
Total Operating Revenues	<u>193,592</u>	<u>209,817</u>	<u>(16,225)</u>
Non-Operating Revenues	<u>9,957</u>	<u>8,981</u>	<u>976</u>
Total Revenues	<u>203,549</u>	<u>218,798</u>	<u>(15,249)</u>
Operating Expenses	212,054	203,940	8,114
Non-Operating Expenses	<u>2,080</u>	<u>3,399</u>	<u>(1,319)</u>
Total Expenses	<u>214,134</u>	<u>207,339</u>	<u>6,795</u>
Income (loss) before Contributions	<u>(10,585)</u>	<u>11,459</u>	<u>(22,044)</u>
Capital Contribution Assessments	<u>64,437</u>	<u>62,411</u>	<u>2,026</u>
Change in Net Position	<u>53,852</u>	<u>73,870</u>	<u>(20,018)</u>

IRISH BEACH WATER DISTRICT YEAR ENDING SEPTEMBER 30, 2017

Economic Factors and Prospective Information

The District's Board of Directors has been very responsive to changes in economic factors and has increased rates as necessary to ensure that the District's costs continue to be covered by revenues. Following is a table of approved rates for the last four years. 17-18 is last year for collections of prop 218 assessments. The Court ordered the Mallo Pass portion of the assessment discontinued in 16-17.

	13-14	14-15	15-16	16-17	17-18
Assessments	\$228.92	\$235.36	\$242.03	\$157.90	\$-0-
Availability Charge	66.49/200	\$66.49/200	\$66.49/200	\$66.49/202	\$66.49/202
Usage Charge	\$0.46/100g	\$0.49/100g	\$0.51/100g	\$0.51/100g	\$0.51/100g

There are 202 property owners connected to the system who pay all three charges, and 257 additional property owners that only pay the assessment charges.

Availability and Usage rates are based on operating budget approved each year, and may change from year to year. The District, by special election, is authorized to impose a special assessment for capital improvement to the water system. The assessment is levied annually and collected by Mendocino County Treasurer by placing these assessments on the property tax bills at a cost of 2%. The 2% charge which is approximately \$2,000 is recognized as an operating expenditure. Use of the funds are restricted based upon criteria as detailed by the Bartle & Wells Engineered Assessment report dated 2002. The assessment is adjusted for inflation annually but restricted to a maximum 3%. The funds are restricted for 1) Alternate Water Development, 2) replacement of Greater than 40 Year Capital items, 3) System Wide Capital Projects as detailed in the Engineer's Report, and 4) two-thirds of the safe drinking water loan repayment.

The Irish Beach Water District has three developed sources of water: 1) The Upper Diversion on Irish Gulch, 2) the well (Well #9) located east of the main subdivision; and 3) the Lower Diversion on Irish Gulch. Two new wells were drilled in 2008. One was drilled by agreement on a parcel owned by Gordon and Sandra Moores near Tank 2. This well has not been connected to the system because of the current law suit by Wm. Moores preventing the utility connection to that well. A second well was drilled on a deeded easement granted to the District for a well and a water tank (Tank5) in the Unit 9 area. The longtime existing Unit 9 well is on that same easement. The Unit 9 well has been diminishing in production volume. The two new wells were envisioned as a way to provide water to existing parcels and future homes yet to be built. (Ground water can be held in future reserve where surface water cannot.)

The new T5 Well was tested for recovery rate, water quality, and was licensed for use by the State Department of Public Health. More than a year went by before the Wm. Moores' lawsuit was filed in 2009 against the District regarding liability for inverse condemnation for the drilling of the T5 Well. In a decision dated June 20, 2012, the Court ruled against the District. The trial for inverse condemnation was held August 18, 2014, where the District was found liable for \$401,000 in damages and \$734,000 in attorney fees and costs. The District is appealing.

In the spring of 2016 the second and third phase of this trial was held to invalidate certain prop 218 assessments, seek damages for road maintenance and an alleged breach of a 2002 settlement agreement. This phase II and III of the trial resulted in an award against the district of \$133,649 and ordered various refunds of the Districts Prop 218 assessment funds including the total Mallo Pass funds collected. The

IRISH BEACH WATER DISTRICT YEAR ENDING SEPTEMBER 30, 2017

district appealed the phase II and III judgements and expect this action to be heard in fall 2019. All actions have been stayed pending the appeal.

Well Moratorium – The District continues to enforce a new well drilling moratorium. However, two requests for exemption have recently been approved in the acreage parcels known as the Nichols Ranch.

Projects in Process – The upper diversion pipe scheduled to be replaced was completed August 2016 for a total of \$21,055 from Systemwide Capital Projects Fund. Tank 2 is on the list for replacement. Finding and repairing leaks in the distribution system is a constant challenge due to the age and inferior quality of the work and materials when originally built. Currently in progress is project to replace over a mile of pipe on the O’Rorey’s Roost Road loop. Completion of the project was December 2016 for total of \$127,776. Funding for this project was the greater than 40 year equipment replacement reserve. After the final collections for this restricted fund, the balance for future replacement projects is \$194,713. With an estimate of \$100 per foot, this would fund the replacement of less than 200 feet of pipe. This assessment was intended for collection to replenish the reserve as it was used. The lower court ruled that the assessment had a 15 year collection period like the other components and thus must end.

Contacting the District’s Management

This financial report is designed to provide our citizens, rate payers, and creditors with a general overview of the District’s finances and to demonstrate the District’s accountability for the financial resources it manages. If you have questions about this report or need additional information, please contact the District or our Certified Public Accountant.

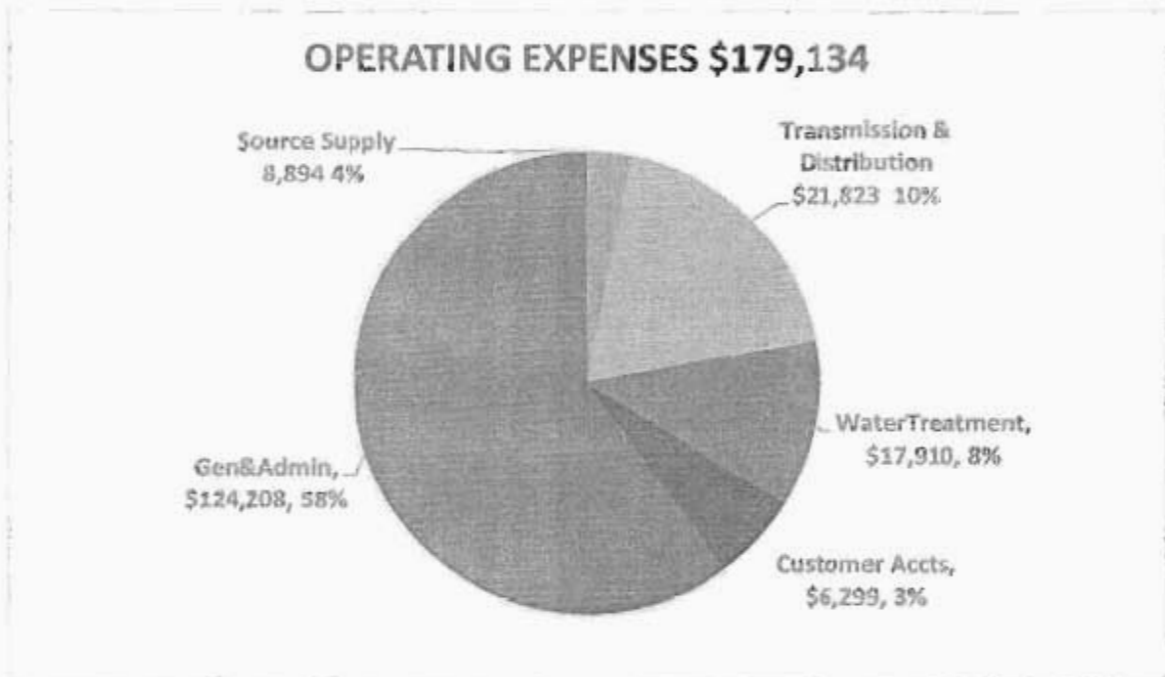
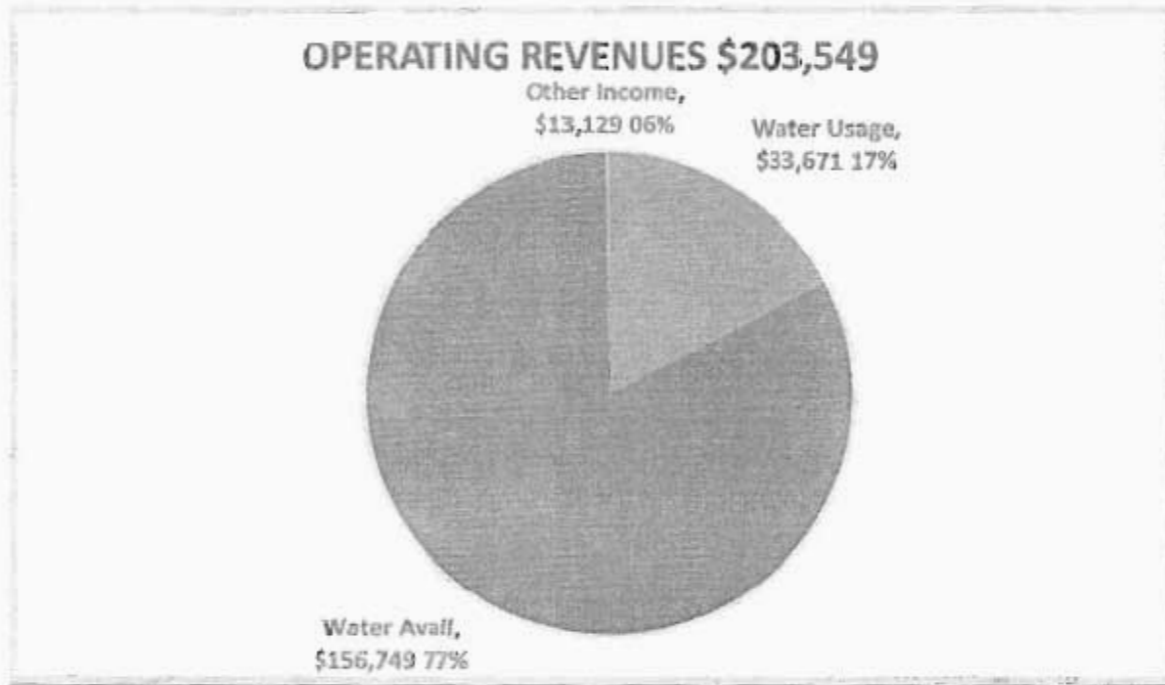
Irish Beach Water District
P O Box 67
15401 Forest View Rd
Manchester, Ca 95459

Charles Acker
General Manager
cacker@mcn.org
707-882-2892

Judy Murray
Treasurer
jmurray@mcn.org
ibwd@mcn.org

Rick Bowers, CPA
730 S. Dora Street
Ukiah, Ca 95482
rbcpacorp@yahoo.com

IRISH BEACH WATER DISTRICT YEAR ENDING SEPTEMBER 30, 2017



DOES NOT INCLUDE DEPRECIATION OF \$35,000

IRISH BEACH WATER DISTRICT
STATEMENT OF NET POSITION
September 30, 2017

ASSETS

Current Assets

Cash and Cash Equivalents	\$ 140,274
Accounts Receivable	28,017
Assessments Receivable	3,970
Prepaid Insurance	7,662

Total Current Assets 179,923

Restricted Assets

Cash and Cash Equivalents	<u>525,020</u>
---------------------------	----------------

Capital Assets

Property, Plant and Equipment - Net of Accumulated Depreciation	<u>810,294</u>
--	----------------

TOTAL ASSETS 1,515,237

LIABILITIES

Current Liabilities

Accounts Payable	9,075
Accrued Payroll and Taxes	9,581
Due to Redwood Coast Fire	27,708

Total Current Liabilities 46,364

Long-Term Liabilities

Deferred Revenue - Water Source Development	<u>313,605</u>
---	----------------

TOTAL LIABILITIES 359,969

NET POSITION

Net Investment in Capital Assets	810,294
Restricted for Capital Projects	211,415
Unrestricted	<u>133,559</u>

TOTAL NET POSITION \$ 1,155,268

The accompanying notes are an integral part of these financial statements.

IRISH BEACH WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET POSITION
For The Year Ended September 30, 2017

Operating Revenues	
Water Usage	\$ 33,671
Water Availability	156,749
Late Fees	2,722
Other Income	450
	<hr/>
Total Operating Revenues	193,592
Operating Expenses	
Source of Supply	8,894
Transmission and Distribution	21,823
Water Treatment	17,910
Customer Accounts	6,299
General and Administrative	122,128
Depreciation	35,000
	<hr/>
Total Operating Expenses	212,054
Operating Income (Loss)	(18,462)
Non-Operating Revenues (Expenses)	
Debt Service Assessments	6,460
Investment Income	3,497
Interest Expense	(643)
County Collection Fees	(1,437)
	<hr/>
Total Non-Operating Revenues (Expenses)	7,877
Capital Contributions Assessment	64,437
	<hr/>
Change in Net Position	53,852
Net Position - Beginning of Year	1,101,416
	<hr/>
Net Position - End of Year	\$ 1,155,268
	<hr/> <hr/>

The accompanying notes are an integral part of these financial statements.

IRISH BEACH WATER DISTRICT
STATEMENT OF CASH FLOWS
For The Year Ended September 30, 2017

Cash Flows from Operating Activities	
Cash Received from Customers	\$ 189,608
Payments to Suppliers	(86,840)
Payments for Employees and Taxes	<u>(93,797)</u>
Net Cash Provided by Operating Activities	<u>8,971</u>
Cash Flows from Capital and Related Financing Activities	
Debt Service Assessments	6,460
Capital Contribution Assessments	64,437
Redwood Coast Fire Net Collections	954
County Collection Fees	(1,437)
Capital Asset Expenditures	(36,740)
Principal Paid on Long Term Debt	(9,391)
Interest Paid on Long Term Debt	<u>(819)</u>
Net Cash Provided by Capital and Related Financing Activities	<u>23,464</u>
Cash Flows from Investing Activities	
Investment Income	<u>3,497</u>
Net Increase in Cash and Cash Equivalents	35,932
Cash and Cash Equivalents - Beginning of Year	<u>629,362</u>
Cash and Cash Equivalents - End of Year	<u><u>\$ 665,294</u></u>
Components of Cash and Cash Equivalents	
Cash in Checking and Savings	\$ 140,274
Restricted Cash and Cash Equivalents:	
Capital Asset Assessments - Savings	162,281
County Treasury	<u>362,739</u>
Total Cash and Cash Equivalents	<u><u>\$ 665,294</u></u>
Reconciliation of Change in Net Position to Net Cash Provided by Operating Activities	
Operating Income (Loss)	\$ (18,462)
Depreciation and Amortization	35,000
Net Changes in Assets and Liabilities:	
Accounts Receivable	(943)
Assessments Receivable	(3,041)
Legal Fees Advancement	7,500
Prepaid Insurance	(1,099)
Accounts Payable	(314)
Accrued Payroll and Taxes	<u>(9,670)</u>
Net Cash Provided by Operating Activities	<u><u>\$ 8,971</u></u>

The accompanying notes are an integral part of these financial statements.

IRISH BEACH WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
September 30, 2017

The Irish Beach Water District (the District) was formed in 1967 under the provisions of the Water Code of the State of California for the purpose of providing water to properties within the District, which include the subdivision known as Irish Beach along the southern Mendocino County coast line.

Fire protection services were added by legislation in 1978 but were subsequently taken over by the Redwood Coast Fire Protection District as part of an annexation of that department. The fire department is not a component unit of the District.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Reporting Entity

Criteria used in determining the scope of the reporting entity includes financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters. The reporting entity consists of the District as the primary, and sole, reporting entity.

b. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The financial statements of the District are prepared in conformity with accounting principles generally accepted in the United States of America, as defined by the Government Accounting Standards Board (GASB), the independent and ultimate authoritative accounting and financial reporting standard-setting body for state and local governments. The District's reporting entity applies all relevant 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.

The District is accounted for as an enterprise fund (proprietary fund type). A fund is an accounting entity with a self-balancing set of accounts established to record the financial position and results of operations of a specific governmental activity. Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The activities of enterprise funds closely resemble those of ongoing businesses in which the purpose is to conserve and add to basic resources while meeting operating expenses from current revenues. Enterprise funds account for operations that provide services on a continuous basis and are substantially financed by revenues derived from user charges.

IRISH BEACH WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
September 30, 2017

The District distinguishes operating revenues and expenses from non-operating items. Operating revenues include revenues derived from services for usage and availability of water, and related activities. Operating expenses include all expenses applicable to the furnishing of these activities. Non-operating revenues and expenses include revenues and expenses not associated with the District's normal business of providing water services. Capital contribution assessments are reported separately in the Statement of Revenues, Expenses and Changes in Net Position.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

c. Budgetary Accounting

An annual budget is adopted by the Board of Directors each fiscal year. The budget may be revised during the year to reflect unanticipated revenues or expenses. The budget is used for operating management and internal accounting control purposes, and is prepared on the modified cash basis of accounting.

d. Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits and with the county treasury, as well as short-term highly liquid investments with maturities of three months or less. State statutes authorize the District to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, and repurchase agreements.

e. Accounts Receivable

Accounts receivable represent amounts due for water services. All amounts are considered to be collectible, and no allowance for doubtful accounts has been recorded. Liens are placed on properties with outstanding balances. If accounts receivable do result in losses they are recognized when the amounts become determinable.

f. Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond the fiscal year-end are recorded as prepaid assets.

g. Restricted Assets

Assessments for capital improvements are considered restricted because their use is limited to future developments within the water system.

IRISH BEACH WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
September 30, 2017

h. Capital Assets

Capital assets are recorded at cost. Major improvements and additions are charged to the related capital asset accounts. Improvements and additions which do not significantly improve or extend the life of the asset are charged against earnings in the period incurred. Donated capital assets are recorded at their estimated fair market value on the date received.

i. Depreciation

Depreciation is charged to expense for all capital assets; except land, right of ways, and any projects in progress. Projects in progress are considered depreciable upon completion of the related project.

Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets. The estimated useful lives are as follows:

Improvements and Infrastructure	20 - 40 years
Equipment and Vehicles	5 - 15 years
Office Equipment and Furniture	5 - 10 years

j. Net Position

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

Net Investment in Capital Assets – This represents the District's total investment in capital assets, net of outstanding debt obligations related to those capital assets.

Restricted Net Position – Restricted net position represents resources which are legally or contractually obligated to be spent in accordance with restrictions imposed by external third parties.

Unrestricted Net Position – Unrestricted net position represents resources available for transactions relating to the general operations of the District, and may be used at the discretion of the governing board to meet current expenses for any purpose.

k. Water System Special Assessments

Section 37203 of the *California Water Code*, by special election, allows a California Water District to impose special assessments that are levied and collected by the county for capital improvements, future development of the water system, and debt service.

IRISH BEACH WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
September 30, 2017

The county charged a 2% collection fee for this service. The assessments for general capital improvements or replacements are recognized as revenue when levied. Amounts assessed for special projects were recorded as deferred revenue and recognized upon completion of the project. By resolution of the Board of Directors, the capital contributions assessment cannot increase by more than 3% each year and will cease when the amount collected reaches 10% of the replacement value of the assets with estimated lives greater than 40 years.

l. Measurement Uncertainty

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

m. Subsequent Events

Management has evaluated subsequent events through August 23, 2019, which is the date the financial statements were available to be issued. No material subsequent events have occurred since September 30, 2017 that would require recognition or disclosure in the financial statements.

NOTE 2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following at September 30, 2017:

Checking Accounts - JP Morgan Chase	\$ 9,065
Redwood Credit Union	131,209
Money Market - Redwood Credit Union	162,281
County Treasury - Mendocino County	<u>362,739</u>
Total	<u>\$ 665,294</u>

District deposits are fully insured or collateralized with securities held by the District or its agent in the District's name. The *California Government Code* requires California banks and savings and loan associations to secure local agency deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of a local agency's deposits.

**IRISH BEACH WATER DISTRICT
 NOTES TO FINANCIAL STATEMENTS (Continued)
 September 30, 2017**

NOTE 3. CAPITAL ASSETS

Following is a summary of changes to capital assets for the fiscal year ended September 30, 2017:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Improvements and Infrastructure	\$ 1,330,866	\$ 127,776	\$ -	\$ 1,458,641
Equipment	34,249			34,249
Office Equipment	<u>13,789</u>			<u>13,789</u>
Totals	<u>\$ 1,378,904</u>	<u>\$ 127,776</u>	<u>\$ -</u>	<u>\$ 1,506,680</u>

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Property, Plant and Equipment	\$ 1,378,904	\$ 127,776	\$ -	\$ 1,506,680
Accumulated Depreciation	<u>(661,386)</u>	<u>(35,000)</u>		<u>(696,386)</u>
Total Net Capital Assets	<u>\$ 717,518</u>			<u>\$ 810,294</u>

Projects in Progress	<u>\$ 105,143</u>	<u>\$ 22,633</u>	<u>\$ 127,776</u>	<u>\$ - 0 -</u>
----------------------	-------------------	------------------	-------------------	-----------------

NOTE 4. DEFERRED REVENUE

The Deferred Revenue – Water Source Development account with a balance of \$313,065 represents assessments through September 30, 2016. Amounts have not changed in the current fiscal year. The Court ordered a stop to collection of assessments for future water development. It is anticipated that when any appeals are final, the full amount of the water development funds will be returned to the property owners. See below for continued discussion.

NOTE 5. COMMITMENTS AND CONTINGENCIES

Alternate Water Source Development and Litigation

The District had a permit from the State Water Resources Control Board (SWRCB) to divert surface water from Mallo Pass Creek. The permit was originally issued to an individual in 1974 and was assigned to the District by that individual in 1988.

The permit was issued with a requirement that the project be completed within a specified period of time, to which several extensions had been granted by the SWRCB. Due to litigation and other factors the project was not completed, and the SWRCB has denied any additional extensions and revoked the permit. The District retained legal counsel for this issue, and, after numerous appeals and discussions, it was determined that the revocation will stand.

**IRISH BEACH WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
September 30, 2017**

In November of 2008 the District passed a resolution officially abandoning the project. It was determined by the District that the funds originally accumulated for this project could be held as restricted for other water source developments. This contention was challenged in a legal suit filed in 2009. A landowner in the District brought this action among numerous causes of action, and included the District's four Proposition 218 Assessments.

Proposition 218, which was approved by the voters in November 1996, and amended Article 13 of the State Constitution, regulates the District's ability to impose, increase, and extend taxes, assessments, and fees. New, increased, or extended taxes, assessments, and fees are subject to the provisions of Proposition 218. This decision was upheld and broadly interpreted to include water rates and charges in the recent court decision of *Bighorn-Desert View Water Agency vs. Virgil* which states "an agency may not adopt a rate increase if written protests against the proposed fee or charge are presented by a majority" of the affected property owners. In addition, the District's ability to finance the services for which the taxes, assessments, and fees are imposed in the future may be impaired. However, management believes it will be able to maintain its current level of service.

The Court found that the District's Mallo Pass / Alternative Water Supply Assessment ended in 2009 when the Mallo Pass permit was rescinded. The entire fund was ordered by the Court to be refunded to all landowners in the District. The District is appealing the judgement, but anticipates returning the full funding. Total legal expenses paid out of the Mallo Pass / Alternative Water Supply Assessment of \$80,810 that were not allowed by the court ruling have been paid back out of operating cash.

Continued Litigation

In addition to the above, additional combined actions by the same plaintiff have been brought against the District for (1) inverse condemnation, (2) various allegations surrounding alleged violations of a 2002 settlement agreement and (3) deficiencies in the District's share of road maintenance fees. On August 18, 2014, the trial for inverse condemnation was held and the District was found liable for \$401,000 in damages. The District has appealed, and the Plaintiffs are currently seeking approximately \$734,000 in attorney's fees and costs. The District presently believes there is a good likelihood of prevailing on appeal.

The third phase of this trial was completed in 2016. In this third phase of trial, Plaintiffs alleged the invalidity of certain of the District's assessments, seek damages for alleged road maintenance issues, and allege the District breached a 2002 Settlement Agreement between the parties. The trial resulted in an award of breach of contract against the District for \$133,649. The Court also ordered various refunds of the District's Proposition 218 assessment funds totaling an amount greater than \$2,000 in the aggregate. This judgement has also been appealed.

IRISH BEACH WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
September 30, 2017

To date the District has spent over \$400,000 in legal fees on these issues. Approximately \$25,000 was paid in the current fiscal year. The ultimate outcome of this litigation cannot presently be determined. Judgements are being appealed. Accordingly, adjustments, if any, that might result from the resolution of this matter have not been reflected in the financial statements.