



IRISH BEACH WATER DISTRICT
AUDITED FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

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**IRISH BEACH WATER DISTRICT
P.O. BOX 67
MANCHESTER, CA 95459**

707.882.2892

SEPTEMBER 30, 2011

BOARD OF DIRECTORS

Steve Whitaker – Board President

Judy Murray – Treasurer

Donald Jassowski

Don Harley

Kathy Poling

**Charles Acker – Operations Manager
Annette Fromwiller – Office Manager**

MANAGEMENT DISCUSSION AND ANALYSIS

This Section of the annual financial report of Irish Beach Water District (the District) presents our analysis of the District's financial performance during the Fiscal Year the ended September 30, 2011. Please read it in conjunction with the Financial Statements, which follow this section.

FINANICAL HIGHLIGHTS

- The District's net assets increased by 7%.
- Operating revenues decreased by 1%.
- Operating expenses decreased by 16%.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis are intended to serve as an introduction to the Irish Beach Water District's basic financial statements. The District's basic financial statements comprise two components: Financial Statements and Notes to the Financial Statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

BASIC FINANCIAL STATEMENTS

The financial Statements of the District provide information about the District using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about the activities of the District. The Statement of Net Assets includes all of the District's assets and liabilities and provides information about the nature and amounts of investment in resources (assets) and the obligations to District creditors (liabilities). It also provides the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Assets. This statement measures the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through user fees and other charges.

The final required Financial Statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the District's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations and investments. It also provides answers to such questions as where did cash come from, where was cash dispersed, and what was the change in cash balances during the reporting period.

The District also includes a Statement of Revenues, Expenses and Changes in Net Assets, Actual vs. Budget. This report demonstrates the District's ability to estimate and respond to unforeseeable events.

FINANCIAL ANALYSIS OF THE DISTRICT

One of the most important questions answered by the financial analysis of the District is "Is the District better off as a result of the year's activities?" While the change in net assets is one indicator of financial health, other factors need to be considered such as changes in economic factors and government legislation.

NET ASSETS

As indicated earlier the net assets of the District increased by \$53,636. The District has divested itself from investments other than those which could be categorized as cash and equivalents. A combination of this shift and continuing economic conditions means that we expect lower investment return but, also, lower risk. Income from investments this year was approximately \$23,000. See Notes to the Financial Statements Note E.

LONG TERM DEBT

At year end the District had long-term debt of \$56,538 in the form of a general obligation bond. Details of this bond, including future payments due, can be found in Note F of the Notes to Financial Statements.

One area that demonstrates a District's financial strength and future borrowing capability is seen in its debt coverage ratio, which currently is at 3.51. Standard bond covenants require that the debt coverage ratio must be greater than 1.10.

BUDGETARY HIGHLIGHTS

The final 2010-2011 operating revenues were 98% of the 2011 budget. Revenue from water usage declined approximately \$4,000.00 (15%) even though we increased usage rates \$0.02 per 100 gallons. Decline could be due to conservation, decline in vacation rental occupancy, and greater than average rainfall.

The final 2010-2011 operating expenses were 130% of budgeted. Source of Supply decreased \$1,385. Water treatment and testing decreased \$14,664. Transmission and distribution expenses decreased \$5,949.00. Customer accounts expenses decreased \$1,867. However, general and administrative expenses increased approximately \$73,177 due to increased legal fees. (decreases \$23,865 increases \$73,177 = increases \$50,257)

The greatest variance in non-operating areas was in investment income which was budgeted at \$17,562 with actual earnings at \$22,976

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. During the most recent year the Board approved the following rate changes.

	<u>05-06</u>	<u>06-07</u>	<u>07-08</u>	<u>08-09</u>
Assessments:	\$188.88	\$194.12	\$199.43	\$204.99
Availability Charge:	\$56.84/186	\$56.84/189	\$56.84/195	\$61.49/196
Usage Charge:	\$0.31/100	\$0.31/100	\$0.31/100	\$0.33/100
	<u>09-10</u>	<u>10-11</u>		
Assessments	\$210.68	\$216.60		
Availability charge	\$61.49/198	\$61.49/198		
Usage charge	\$0.37/100	\$0.39/100		

Water rates are based on operating expenditures and may change from year to year. There was an increase of \$0.02 for the 2010-2011 fiscal year.

The District, by special election, is authorized to impose a special tax for capital improvement to the water system. The tax 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 less than \$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 based upon the inflation factor reflected in the January Engineering News Record Construction Cost Index (20 cities average). The District is restricted to a maximum 3%, but the actual increase in the inflation factor this year was 1.3%. Therefore, the District may use a carryover 1.7% from prior years carryover of 8.64% leaving 6.94% going forward. The funds are restricted for 1) Mallo Pass water diversion project (which is discussed further under the Other Non-Economic Factors portion of this analysis and in Note G of Notes to Financial Statements), 2) replacement of Greater than 40 Year Capital Items, 3) system wide projects as detailed in the Engineer's Report, and 4) two-thirds of the loan repayment.

OTHER NON-ECONOMIC FACTORS

Mallo Pass Project

For many years the Mallo Pass Project was a key part of the plan for providing water for new hookups in Irish Beach. There was a permit held by the District to divert water from Mallo Pass Creek. A water development assessment was passed by the land owners of Irish Beach Water District to fund the development of water from Mallo Pass.

The Mallo Pass water rights permit was not renewed by the State Water Resources Control Board in 2007 because the water could not be put to "beneficial use." The water could not be put to "beneficial use" because not enough housing units have been built within the District to use the water from Mallo Pass Creek. The State does not allow surface water sources to be held in reserve for future potential uses. The permit had to be relinquished. The District can file for a new permit with the State Board; however, such a new permit could be a potentially time consuming and expensive process due to new regulations on diversions of water from streams along the North Coast.

The Board of Directors transferred the Mallo Pass funds to a new water development fund now called The Alternate Water Development Fund (AWDF).

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.

Well Sites:

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 lawsuit 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 (Tank 5) 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 in the past years. 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 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 against the District. The T5 Well is not as high in production as originally thought; however, as a single source it has the capacity to provide water to the entire system in all but the highest use periods. A well

like this is rare and it is not necessarily a given that it could be simply moved elsewhere. Further, the groundwater basin is fairly well understood and the quality of water is very good.

Tank Replacement Project:

Tank #3 (80,000 gallons) is a key element in the distribution system since it supplies water to the eastern side of the subdivision. The project to replace this tank has been completed. The budget for this project was \$150,000 and funds were transferred from System Wide Capital Improvement Reserve. The western side of the subdivision is supplied via Tank #1. This large 210,000 gallon Tank is scheduled to be replaced.

Other work completed includes: The lower Diversion at Irish Gulch was put online; numerous fire hydrants were added; water treatment modifications were made; a transfer station was rebuilt; a pressure reducing station was installed; the Upper Diversion pipe is scheduled for replacement, and more.

The Legal Defense

A legal firm was contracted by the district to defend against the complex lawsuit brought by Wm. Moores in November 2009. Despite the lack of merit of any lawsuit, the defending party must answer. This can get quite expensive and it takes time and research to find the most effective defense. Recently, another attorney was hired with a long history in water rights issues and who has represented the District on water issues since 2006. Abandoning the well now does not stop the lawsuit. There is another new well (Tank 2 Well), tested and ready to use but it is also blocked by the same lawsuit as explained above.

Prop 218 Ballot Measure

The Prop 218 ballot measure in May 2011 failed to pass. This measure would have provided additional support for the long term maintenance of our system, provided specific support for the expansion of the system to provide for future water needs, and provided support for the legal costs associated with the development of wells. This measure would have increased the current assessment charge to all parcel owners by \$75 a year. With the failure of this measure, the District will need to consider other options. Another prop 218 ballot measure may be considered. Increases to the District water user's availability charge will also be considered. However, this availability charge would only be paid by current water users rather than all parcel owners.

There are three categories of charges associated with property ownership within the District. Usage charges, availability charges, and assessment charges. There are 198 property owners connected to the system who pay all three charges, and 260 additional property owners that only pay the assessment charges.

Wendy S. Boise, CPA



P.O. Box 2898 ♦ 325 E. Redwood ♦ Fort Bragg, CA 95437
Phone 707-964-0105 ♦ Fax 707-964-3706 ♦ Email wboise@mcn.org

Board of Directors and Management
Irish Beach Water District

Independent Auditor's Report

I have audited the accompanying basic financial statements of the Irish Beach Water District (the District) as of and for the year ended September 30, 2011 as listed in the Table of Contents. These financial statements are the responsibility of the District's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of the Irish Beach Water District as of September 30, 2011, its changes in financial position, and its cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 2 through 6 and page 11, respectively, 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 them 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 supplemental 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 my 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.

July 3, 2012
Fort Bragg, California

IRISH BEACH WATER DISTRICT
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2011

ASSETS

Current Assets:

Cash and cash equivalents	\$ 93,118
Accounts receivable	15,633
Assessments receivable	<u>2,522</u>

Total current assets \$ 111,273

Prepaid expenses & deposits	3,581
Loan fees, net of amortization	2,629
Property & equipment, net of depreciation	546,733
Investments - unrestricted	-

Restricted Assets

Cash and cash equivalents	389,712
Investments	<u>-</u>

Total restricted cash and investments 389,712

TOTAL ASSETS \$ 1,053,928

LIABILITIES AND NET ASSETS

Current Liabilities (Payable from Unrestricted Current Assets):

Accounts payable	\$ 420
Accrued payroll liabilities	<u>2,300</u>

Total Current Liabilities (Payable from Unrestricted Current Assets) \$ 2,720

Current Liabilities (Payable from Restricted Assets)

Accrued interest on long-term debt	1,343
Current portion long-term debt	<u>7,616</u>

Total Current Liabilities (Payable from Restricted Assets) 8,959

Long-Term Liabilities

Deferred revenue-Water Source Development	125,452
Note payable, net of current portion	<u>48,922</u>

Total Long-term Liabilities 174,374

Total Liabilities \$ 186,053

Net Assets

Investment in capital assets	490,195
Restricted for capital projects	264,260
Unrestricted	<u>113,420</u>

Total Net Assets 867,875

TOTAL LIABILITIES AND NET ASSETS \$ 1,053,928

IRISH BEACH WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED SEPTEMBER 30, 2011

Operating Revenues		
Usage	\$ 23,243	
Availability	145,980	
Other water services	1,339	
Total Operating Revenues	<u> </u>	\$ 170,562
Operating Expenses		
Source of Supply	7,298	
Treatment	19,013	
Transmission & Distribution	11,718	
Accounts	12,505	
General & administrative	165,647	
Other	2,444	
Total Operating Expenses	<u> </u>	218,625
Income from Operations before Depreciation		(48,063)
Depreciation		<u>21,564</u>
Operating Income		(69,627)
Non-Operating Revenues (Expenses)		
Refunds & reimbursements	420	
Debt service assessments	6,788	
County collection fees	(2,121)	
Investment income	22,976	
Interest expense	(2,772)	
Loan fee amortization	(658)	
Facility lease	1,500	
Non-Operating Revenues, Net	<u> </u>	26,133
Income Before Contributions and Adjustments		(43,494)
Capital assessment contributions		89,914
Expended previously deferred		<u>4,466</u>
Change in Net Assets		50,886
Total Net Assets, October 1		814,239
Prior period adjustment		<u>2,750</u>
Total Net Assets, September 30		<u><u>\$ 867,875</u></u>

IRISH BEACH WATER DISTRICT
STATEMENT OF CASH FLOWS
YEAR ENDED SEPTEMBER 30, 2011

Cash Flows from Operating Activities		
Cash received from customers	\$ 175,887	
Cash payments to suppliers for operations	(98,979)	
Cash payments for general & administrative expense	<u>(166,084)</u>	
		\$ (89,176)
Cash Flows from Capital and Related Financing Activities		
Acquisition of fixed assets	(45,633)	
Repayment of note payable	(3,676)	
Capital assessment contributions, net of fees	87,793	
Interest payments	<u>(1,430)</u>	
		37,054
Cash Flows from Noncapital Financing Activities		
Loan assessments	<u>6,788</u>	
		6,788
Cash Flows from Investing Activities		
Interest & dividends received	15,123	
Redemp/reinvest/reclass	<u>471,975</u>	
		<u>487,098</u>
Net Inceas (Decrease) in Cash and Cash Equivalents		441,764
Cash and Cash Equivalents, October 1		<u>41,067</u>
Cash and Cash Equivalents, September 30		<u><u>\$ 482,831</u></u>

IRISH BEACH WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS
ACTUAL VS. BUDGET
YEAR ENDED SEPTEMBER 30, 2011

	Actual	Budget	Variance
Operating Revenues			
Usage	\$ 23,243	\$ 27,281	\$ (4,038)
Availability	145,980	146,100	(120)
Other income	1,339	450	889
Total Operating Revenues	<u>170,562</u>	<u>173,831</u>	<u>(3,269)</u>
Operating Expenses			
Source of Supply	7,298	8,682	(1,384)
Treatment	19,013	33,677	(14,664)
Transmission & Distribution	11,718	17,667	(5,949)
Accounts	12,505	14,372	(1,867)
General & administrative	165,647	92,470	73,177
Other	2,444	1,500	944
Total Operating Expenses	<u>218,625</u>	<u>168,368</u>	<u>50,257</u>
Income from Operations before Depreciation	(48,063)	5,463	(53,526)
Depreciation	<u>21,564</u>	<u>-</u>	<u>21,564</u>
Operating Income	<u>(69,627)</u>	<u>5,463</u>	<u>(75,090)</u>
Non-Operating Revenues (Expenses)			
Reimbursements	420	-	420
Debt service assessments	6,788	6,605	183
County collection fees	(2,121)	(1,901)	
Investment income	22,976	17,562	5,414
Interest expense	(2,772)	(3,472)	700
Loan fee amortization	(658)	-	(658)
Facility lease	1,500	1,500	-
Non-Operating Revenues, Net	<u>26,133</u>	<u>20,294</u>	<u>5,839</u>
Income Before Contributions and Adjustments	(43,494)	25,757	(69,251)
Assessment Contributions	89,914	90,091	(177)
Reserve & capital expenses		-	
Unexpended Restricted Assessments	<u>4,466</u>	<u>-</u>	<u>4,466</u>
Change in Net Assets	50,886	115,848	(64,962)
Total Net Assets, October 1	814,239	814,239	-
Prior period adjustments	2,750		2,750
Total Net Assets, September 30	<u>\$867,875</u>	<u>\$930,087</u>	<u>\$ (62,212)</u>

IRISH BEACH WATER DISTRICT
Notes to Financial Statements
September 30, 2011

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Reporting entity

The district was formed in 1967 under the provisions of the Water Code for the State of California. Fire protection services were added by legislation in 1978 but have subsequently been taken over by the Redwood Coast Fire Protection District as part of an annexation of that department. As the annexation has now been formally completed, the Fire Department information is no longer treated as a component unit of the District, per GASB Statement No. 39.

The purpose of the District is to provide water to residents and businesses within the District's boundaries which include the subdivision known as Irish Beach, located along the coast in southern Mendocino County.

2. Basic Financial Statements

The basic financial statements (i.e. Statement of Net Assets, the Statement of Revenues Expenses and Changes in Net Assets, and the Statement of Cash Flows) report information on the enterprise activities of the District.

3. Measurement focus, basis of accounting and financial statement presentation

The basic financial statements are prepared using the economic resource measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The District distinguishes 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 water operations. The principal operating revenues of the District are derived from charges to customers for availability and usage of water. Operating expenses include the cost of sales and service, general and administrative expenses and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Capital contributions in the form of assessments are reported separately in the Statement of Revenues, Expenses and Changes in Net Assets.

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

4. Cash and cash equivalents

The District considers all amounts in demand accounts held by financial institutions, investments with initial maturities of 90 days or less, and investments in "liquid CDs" to be cash and cash equivalents.

5. Receivables

Accounts receivable represents amounts owed to the District by customers. Management believes all of the receivables to be collectible therefore no allowance for doubtful accounts has been estimated. Amounts deemed to be uncollectible are expensed when recognized.

6. Property, plant and equipment

Property, plant and equipment are recorded at cost and depreciated using the straight-line method over their estimated useful lives.

7. Assessments

By special election, the District has imposed special assessments for capital improvements to, and future development of the water system. The assessments are levied by the county on the property tax bills. The county charges a 2% collection fee for this service. In accordance with GASB Statement No. 33 the assessments for general capital improvements or replacements are recognized as revenue when levied. Amounts assessed for specific projects are recorded as deferred revenues when levied and recorded as revenue and expense or capital acquisition when expended for the assessed purpose. By resolution of the board the 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.

8. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

B. INVESTMENTS

In an attempt to eliminate risk of loss due to market fluctuations and to comply with regulations surrounding investments, all investments that were subject to such risk were liquidated and transferred to money market equivalent accounts.

C. RESTRICTED FUNDS

The District has established separate investment accounts for special assessments funds and maintains separate ledgers for each segment of the assessment. All these funds are considered to be restricted and not available for general operations. As defined in note A-7, only the Water Source Development assessment, formerly the Mallo Pass Water Source assessment, is specifically restricted enough to warrant being shown as deferred revenue. Balances and activity for all restricted funds as of, and for the year ended, September 30, 2011 are as follows:

	System-wide Capital Improvements	Water Source Development	Capital Replacements	Total
Beginning Balances	\$ 149,179	\$ 113,276	\$ 123,637	\$ 386,092
Increases:				
Assessments & transfers	32,817	34,929	47,204	89,914
Investment income	4,948	6,184	5,052	18,184
Decreases:				
Transfers for related use	(64,455)	(63,058)	-	(136,571)
Ending Balances	\$ 122,489	\$ 91,331	\$ 175,893	\$ 389,713

D. PROPERTY, PLANT AND EQUIPMENT

Beginning balance	\$ 1,011,748
Additions	45,633
Retirements	<u>0</u>
Total cost	1,057,381
Less accumulated depreciation	<u>(510,648)</u>
Total net book value	<u>\$ 546,733</u>

E. INVESTMENTS AND INVESTMENT INCOME

As discussed in Note B, the District has changed how it holds restricted and reserve funds. This transition occurred throughout the year ending September 2011 so some of the investment income for the year then ended includes unrealized gain although these amounts were, ultimately, transitioned to realized as those investments were liquidated into cash equivalent amounts.

F. LONG-TERM DEBT

The District has a Safe Drinking Water loan through the California Statewide Communities Development Authority, secured by a pledge of water revenues. The loan is payable in semi annual principal and interest payments. Interest is amortized at 4.75%. While the required payments were reduced due to prior year refinancing, the District continues to make annual payments of \$10,212 as per the original interest rate schedule. Therefore they should be able to pay off the loan completely in 2018, three years earlier than originally scheduled.

G. COMMITMENTS AND CONTINGENCIES

Alternate Water Source Development

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 yet complete, and the SWRCB has denied an additional extension and revoked the permit.

The District retained legal counsel for this issue and, after numerous appeals and discussions, it appears that the revocation will stand. In November 2008 the District passed a resolution officially abandoning that project. It was determined by the District that the funds originally accumulated for that project could be held as restricted for other water source development. This contention is being challenged in a legal suit. If the court deems that the funds cannot be used for another alternative water source they are subject to return. The amount potentially subject to return is approximately \$200,000, though the District believes this to be unlikely.

Litigation

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. To date the District has spent over \$185,000 and possible future costs, if the District is unsuccessful in its defense of these suits and is required to pay the plaintiff's as well as their own legal costs, could amount to an additional \$50,000 to \$300,000 as a worst case.

The standard for recording contingent liabilities is that they be probable and measurable. While legal fees for the next fiscal year are expected to be significant, potential additional losses meet neither of those thresholds and, therefore, have not been accrued in the financial statements.

Wendy S. Boise, CPA



P.O. Box 2898 ♦ 325 E. Redwood ♦ Fort Bragg, CA 95437
Phone 707-964-0105 ♦ Fax 707-964-3706 ♦ Email wboise@mcn.org

To the Board of Directors and Management
Irish Beach Water District

In planning and performing my audit of the financial statements of the Irish Beach Water District (the District) as of and for the year ended September 30, 2011, I considered its internal control in order to determine my auditing procedures for the purpose of expressing my opinion on the general purpose financial statements and not to provide assurance on the internal control. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with assertions of management and applicable laws.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be considered to be material weaknesses as defined above. I noted no conditions that I believe to be material weaknesses.

Noted during my audit were conditions which I consider to be reportable conditions as defined by the American Institute of Certified Public Accountants.

1. Bank reconciliations do not match the general ledger balances. It's not exactly clear what is causing this though it appears to be a combination of several issues, mostly surrounding the timing and dating of entries. This should be resolved to ensure that the District has accurate information with which to make decisions. This condition hasn't resulted in material misstatement but, if not corrected, could.
2. The accounts payable system, while not causing material misstatement, does not reflect the actual timing of transactions. This may be part of the reconciliation problem and can result in financial information that isn't as accurate as it should be.

The following are comments not related to reportable conditions, but are intended to aid in the overall effectiveness of your financial reporting.

1. Larger transfers from one account to another, regardless of the purpose, should be noted in the minutes either as an action item, where the board approves the transfer, or as a part of the treasurer's report that makes note of the transfer so that it's very clear that these transfers have been made with the Board's knowledge and blessing..
2. The District has been making payments on the WestAmerica loan in excess of the required amount. You should contact the bank to confirm how they are handling the excess and if the accelerated payments are reducing the principal balance or just following the schedule.
3. Given the size of your organization and the continuing state of the economy and the legal issues you are facing, it is more important than ever to have the Board remain closely involved with the oversight of the District.

I would like to thank Annette Fromwiller and Judy Murray for their knowledgeable assistance and rapid responses to my queries, even on holidays.

This report is intended solely for the information and use of the Board of Directors and management of the Irish Beach Water District. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Wendy S. Boer

July 3, 2012