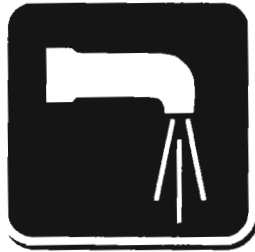


July 13, 2013 Agenda Item:

Accept and file IBWD Audited Financial Statements for fiscal year ending Sept 30, 2012  
Presented by Wendy S. Boise, CPA

1. Management Discussion and Analysis on pages 2 - 6 prepared by Judy Murray, Treasurer, to present supplementary information in addition to the basic financial statements.
2. Independent Auditor's Report on page 7 states "In my opinion, the financial statements, referred to above, present fairly, in all material respects, the financial position of the IBWD as of September 30, 2012." This is an unqualified opinion; in other words, nothing was found to indicate that the books of our district were not accurate.
3. Page 9, Statement of Revenue, Expense and Changes in net assets for year ended Sept 30, 2012, reflects a net income loss of about \$10,000 before depreciation.. Last year this loss was about \$20,000. The difference is due mainly to the decreased legal fees paid. The district has new attorney, Matt Emerick. This year 2012-2013 Special District Risk Management Authority (SDRMA) is paying for litigation costs submitted by our attorney, Matt Emerick. To date the SDRMA has paid over \$30,000. See page 6 of audit for supplementary information on legal defense.
4. Page 13 of the audit, Note B, and Page 14 of the audit, Note E in the Auditor's Notes, explains the change in investment of restricted funds. As a result of liquidating investments to cash and cash equivalent accounts, our investment income decreased from \$23,000 in 2010-2011 to \$20 in 2011-12.
5. Page 16 of the "Management letter" of Audit findings list 1 reportable condition where signature portion of voided checks were not properly destroyed. Audit findings list no reportable material weaknesses. Audit findings list 7 comments to management not related to reportable conditions, but are intended to aid in overall effectiveness of our financial reporting. Staff has corrected or is in process of addressing comments 1 - 5. Comment 6 states "There has been much improvement over the last couple of years in your financial record keeping. Annette has been very conscientious and responsive about the changes that needed to be made." Comment 7, as always, says that the Board must remain closely involved with the oversight of the District.
6. This is the last year of Wendy's contract, and she will no longer perform government audits so her contract cannot be renewed. Therefore, IBWD will request bids from other firms. Hopefully, the cost for this change in contracted auditors will not significantly increase.



IRISH BEACH WATER DISTRICT  
AUDITED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2012

IRISH BEACH WATER DISTRICT  
AUDITED FINANCIAL STATEMENTS

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

**707.882.2892**

**SEPTEMBER 30, 2012**

**BOARD OF DIRECTORS**

**Donald Jassowski – Board President**

**Judy Murray – Treasurer**

**Steven Whitaker**

**Don Harley**

**Kathy Poling**

**Charles Acker – Operations Manager**

**Annette Fromwiller – Office Manager**

## MANAGEMENT DISCUSSION AND ANALYSIS

This Section of the District's annual financial report presents our analysis of the District's financial performance during the Fiscal Year ended September 30, 2012. Please read it in conjunction with the Financial Statements which follow this section.

### FINANICAL HIGHLIGHTS

- The District's net assets increased by 3%.
- Operating revenues increased by 8%.
- Operating expenses decreased by 9%.

### 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 \$24,285. The District has transferred investments from a diversified portfolio through Edward R. Jones to cash investments only. Restricted investments were also decreased by transfers of \$35,000 for capital projects. Income from investments has decreased as a result. Income from investments this year was only \$20. See Notes to the Financial Statements Note E.

## LONG TERM DEBT

At year end the District had long-term debt of \$48,922 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 2011-2012 operating revenues were over budget by \$2,409 101% of the 2012 budget. Revenue from water usage was under budget by \$1,965 (8%). There was no change in usage rates. Contract sales were \$4,283. Total net income was under budget \$9,179 (90%).

The final 2011-2012 operating expenses were over budget by \$5,279 - 107% of the 2012 budget. Source of Supply was under \$729. Water treatment and testing was under \$1,538. Transmission and distribution expenses were over budget by \$7,791. Customer accounts expenses were under \$578. However, general and administrative expenses were over budget \$5,414. Legal expenses of \$50,048 were over budget \$7,551 (118%).

This year transfers: \$20,755 from Operation Reserve; \$10,000 from Less than 40 year capital replacement; -0- from Greater than 40 year; -0- from System Wide; and -0- from Alternate Water Development.

<sup>^</sup>  
\$ 35,000.00

## 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>	<u>11-12</u>	
Assessments	\$210.68	\$216.61	\$222.66	
Availability charge	\$61.49/198	\$61.49/198	<del>\$66.49/199</del>	
Usage charge	\$0.37/100	\$0.39/100	\$0.39/100	

Water rates are based on operating expenditures and may change from year to year. There was a change for the 2011-2012 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 2.3%. Therefore, the District may use a carryover 0.7% from prior years carryover of 6.94% leaving 6.24% going forward. The funds are restricted for 1) Alternate Water Development (Mallo Pass) 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 Irish Beach Water 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 Irish Beach Water 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. At this writing, the Tank #1 project was completed.

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. Preparing for this defense became quite expensive. Recently, another attorney was hired with a long history in water rights issues and who has represented the District on water issues since 2006. Legal costs for the past few years: 2008-09 \$16,202; 2009-10 \$92,021; 2010-11 \$102,690; 2011-12 \$50,048. It is hoped that with our change in counsel that legal costs will remain affordable within our current rate structures.

#### 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  
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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, 2012 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, 2012, 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.

*Wendy S. Boise*

May 31, 2013  
Fort Bragg, California

IRISH BEACH WATER DISTRICT  
STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2012

ASSETS

Current Assets:

Cash and cash equivalents	\$ 84,951	
Accounts receivable	23,722	
Assessments receivable	<u>1,508</u>	
Total current assets		\$ 110,181
Prepaid expenses & deposits		3,581
Loan fees, net of amortization		1,971
Property & equipment, net of depreciation		557,778
Restricted Assets		
Cash and cash equivalents	438,153	
Investments	<u>-</u>	
Total restricted cash and investments		<u>438,153</u>
TOTAL ASSETS		<u>\$ 1,111,664</u>

LIABILITIES AND NET ASSETS

Current Liabilities (Payable from Unrestricted Current Assets):

Accounts payable	\$ 7,598	
Accrued payroll liabilities	<u>2,007</u>	
Total Current Liabilities (Payable from Unrestricted Current Assets)		\$ 9,605

Current Liabilities (Payable from Restricted Assets)

Accrued interest on long-term debt	-	
Current portion long-term debt	<u>7,982</u>	
Total Current Liabilities (Payable from Restricted Assets)		7,982

Long-Term Liabilities

Deferred revenue-Water Source Development	160,977	
Note payable, net of current portion	<u>40,940</u>	
Total Long-term Liabilities		<u>201,917</u>
Total Liabilities		\$ 219,504

Net Assets

Investment in capital assets	508,856	
Restricted for capital projects	277,176	
Unrestricted	<u>106,128</u>	
Total Net Assets		<u>892,160</u>

TOTAL LIABILITIES AND NET ASSETS		<u>\$ 1,111,664</u>
----------------------------------	--	---------------------

IRISH BEACH WATER DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
YEAR ENDED SEPTEMBER 30, 2012

Operating Revenues		
Usage	\$ 28,024	
Availability	155,793	
Other water services	541	
Total Operating Revenues	<u>                    </u>	\$ 184,358
Operating Expenses		
Source of Supply	6,959	
Treatment	32,651	
Transmission & Distribution	25,837	
Accounts	13,000	
General & administrative	118,378	
Other	2,633	
Total Operating Expenses	<u>                    </u>	<u>199,458</u>
Income from Operations before Depreciation		(15,100)
Depreciation		<u>21,564</u>
Operating Income		(36,664)
Non-Operating Revenues (Expenses)		
Refunds & reimbursements	1,927	
Debt service assessments	6,903	
County collection fees	(1,996)	
Investment income	14	
Interest expense	(2,280)	
Loan fee amortization	(658)	
Facility lease	1,125	
Non-Operating Revenues, Net	<u>                    </u>	<u>5,035</u>
Income Before Contributions and Adjustments		(31,629)
Capital assessment contributions		55,914
Expended previously deferred		<u>-</u>
Change in Net Assets		24,285
Total Net Assets, October 1		867,875
Prior period adjustment		-
Total Net Assets, September 30		<u><u>\$ 892,160</u></u>

The accompanying notes are an integral part of these financial statements

IRISH BEACH WATER DISTRICT  
STATEMENT OF CASH FLOWS  
YEAR ENDED SEPTEMBER 30, 2012

Cash Flows from Operating Activities		
Cash received from customers	\$ 176,919	
Cash payments to suppliers for operations	(74,666)	
Cash payments for general & administrative expense	<u>(115,365)</u>	
		\$ (13,112)
Cash Flows from Capital and Related Financing Activities		
Acquisition of fixed assets	(33,776)	
Repayment of note payable	(7,616)	
Capital assessment contributions, net of fees	90,451	
Interest payments	<u>(2,596)</u>	
		46,463
Cash Flows from Noncapital Financing Activities		
Loan assessments	<u>6,903</u>	
		6,903
Cash Flows from Investing Activities		
Interest & dividends received	20	
Redemp/reinvest/reclass	<u>-</u>	
		<u>20</u>
Net Inceas (Decrease) in Cash and Cash Equivalents		40,274
Cash and Cash Equivalents, October 1		<u>482,830</u>
Cash and Cash Equivalents, September 30		<u><u>\$ 523,104</u></u>

IRISH BEACH WATER DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS  
ACTUAL VS. BUDGET  
YEAR ENDED SEPTEMBER 30, 2012

	Actual	Budget	Variance
Operating Revenues			
Usage	\$ 28,024	\$ 25,706	\$ 2,318
Availability	155,793	155,793	-
Other income	541	450	91
Total Operating Revenues	184,358	181,949	2,409
Operating Expenses			
Source of Supply	6,959	7,688	(729)
Treatment	32,651	34,189	(1,538)
Transmission & Distribution	25,837	18,046	7,791
Accounts	13,000	13,578	(578)
General & administrative	118,378	112,964	5,414
Other	2,633	2,000	633
Total Operating Expenses	199,458	188,465	10,993
Income from Operations before Depreciation	(15,100)	(6,516)	(8,584)
Depreciation	21,564	-	21,564
Operating Income	(36,664)	(6,516)	(30,148)
Non-Operating Revenues (Expenses)			
Reimbursements	1,927	-	1,927
Debt service assessments	6,903	6,610	293
County collection fees	(1,996)	(1,910)	(86)
Investment income	14	2,260	(2,246)
Interest expense	(2,280)	(3,974)	1,694
Loan fee amortization	(658)	-	(658)
Facility lease	1,125	1,500	(375)
Non-Operating Revenues, Net	5,035	4,486	549
Income Before Contributions and Adjustments	(31,629)	(2,030)	(29,599)
Assessment Contributions	55,914	56,732	(818)
Reserve & capital expenses	-	-	-
Unexpended Restricted Assessments	-	-	-
Change in Net Assets	24,285	54,702	(30,417)
Total Net Assets, October 1	867,875	867,875	-
Prior period adjustments	-	-	-
Total Net Assets, September 30	<u>\$ 892,160</u>	<u>\$ 922,577</u>	<u>\$ (30,417)</u>

The accompanying notes are an integral part of these financial statements

IRISH BEACH WATER DISTRICT  
Notes to Financial Statements  
September 30, 2012

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, 2012 are as follows:



	System-wide Capital Improvements	Water Source Development	Capital Replacements	Total
Beginning Balances	\$122,489	\$ 91,331	\$ 175,893	\$ 389,713
Increases:				
Assessments & transfers	31,374	32,407	19,639	83,420
Investment income	7	5	8	20
Decreases:				
Transfers for related use	(35,000)	-	-	(35,000)
Ending Balances	\$ 118,870	\$ 123,743	\$ 195,540	\$438,513

#### D. PROPERTY, PLANT AND EQUIPMENT

Beginning balance	\$ 1,057,381
Additions	32,609
Retirements	<u>0</u>
Total cost	1,089,990
Less accumulated depreciation	<u>(532,212)</u>
Total net book value	<u>\$ 558,945</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 2012 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 \$232,000 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**



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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, 2012, 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. Signature portion of voided checks should be destroyed. Especially paychecks. There were a number of paychecks that were included with the voided checks but none of them had been properly cancelled.


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

1. Amounts accumulated in projects in process, when there is more than one project, should be tracked in subsidiary ledgers so that when the project is completed and transferred to fixed assets you have an accurate amount to transfer.
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. This comment is repeated from last year.
3. To avoid confusion, any references to Mallo Pass in your accounts should be changed to the new designation of Alternate Water Development.
4. Fixed assets listings should be reviewed periodically for any items that should be removed due to obsolescence or replacement.
5. You should reconcile the amounts that should be in your restricted accounts periodically to be sure that all amounts received for those purposes have been transferred into the proper accounts.
6. There has been much improvement over the last couple of years in your financial record keeping. Annette has been very conscientious and responsive about the changes that needed to be made.

7. 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. I would also like to thank the entire organization for the relationship we have had for many years. I have truly enjoyed working with you.

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.



May 31, 2013