

IRISH BEACH WATER DISTRICT

**INDEPENDENT AUDITOR'S REPORT
and
FINANCIAL STATEMENTS**

SEPTEMBER 30, 2013

Rick Bowers, CPA
A Professional Corporation

IRISH BEACH WATER DISTRICT

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Certified Public Accountant
Personal Financial Specialist
Certified Management Accountant

Independent Auditor's Report

Board of Directors
Irish Beach Water District
Manchester, CA

Report on the Financial Statements

I have audited the accompanying financial statements of the Irish Beach Water District as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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, 2013, and the respective 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

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a required part of the basic financial statements, is supplementary information 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. My opinion on the basic financial statements is not affected by this missing information.

A handwritten signature in black ink, appearing to read "Rick Bowers". The signature is written in a cursive, flowing style.

Rick Bowers, CPA
June 18, 2014

IRISH BEACH WATER DISTRICT
STATEMENT OF NET POSITION
September 30, 2013

ASSETS

Current Assets

Cash and Cash Equivalents	\$ 51,843
Accounts Receivable	24,320
Assessments Receivable	3,251
Prepaid Insurance	4,491

Total Current Assets 83,905

Restricted Assets

Cash and Cash Equivalents	315,830
Loan Fees - Net of Amortization	1,313

Capital Assets

Property, Plant and Equipment - Net of Accumulated Depreciation	665,715
Projects in Progress	<u>107,735</u>

Total Net Capital Assets 773,450

TOTAL ASSETS 1,174,498

LIABILITIES

Current Liabilities

Accounts Payable	1,973
Accrued Payroll Taxes	2,604
Payable From Restricted Assets:	
Current Portion Long Term Debt	8,589
Accrued Interest	646

Total Current Liabilities 13,812

Long-Term Liabilities

Deferred Revenue - Water Source Development	197,915
Long Term Debt - Net of Current Portion	<u>27,820</u>

Total Long Term Liabilities 225,735

TOTAL LIABILITIES 239,547

NET POSITION

Net Investment in Capital Assets	736,395
Restricted for Capital Projects	117,915
Unrestricted	<u>80,641</u>

TOTAL NET POSITION \$ 934,951

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, 2013

Operating Revenues	
Water Usage	\$ 35,068
Water Availability	157,823
Other Income	<u>2,201</u>
Total Operating Revenues	<u>195,092</u>
Operating Expenses	
Source of Supply	8,999
Transmission and Distribution	23,058
Water Treatment	31,497
Customer Accounts	18,702
General and Administrative	112,824
Depreciation	<u>21,000</u>
Total Operating Expenses	<u>216,080</u>
Operating Income (Loss)	<u>(20,988)</u>
Non-Operating Revenues (Expenses)	
Debt Service Assessments	7,018
Refunds and Reimbursements	2,714
Facility Lease	750
Investment Income	168
Interest Expense	(3,888)
County Collection Fees	(2,030)
Loan Fees Amortization	<u>(658)</u>
Total Non-Operating Revenues (Expenses)	<u>4,074</u>
Capital Contributions Assessment	<u>56,845</u>
Change in Net Position	39,931
Net Position - Beginning of Year	892,160
Prior Period Adjustment	<u>2,860</u>
Net Position - End of Year	<u><u>\$ 934,951</u></u>

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, 2013

Cash Flows from Operating Activities	
Cash Received from Customers	\$ 196,215
Payments to Suppliers	(109,770)
Payments to Employees	<u>(90,522)</u>
Net Cash Used by Operating Activities	<u>(4,077)</u>
Cash Flows from Capital and Related Financing Activities	
Debt Service Assessments	7,018
Capital Contribution Assessments	93,783
Acquisition of Capital Assets	(236,672)
Principal Paid on Long Term Debt	(7,104)
Interest Paid on Long Term Debt	(3,138)
Prior Period Adjustment	<u>(5,409)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(151,522)</u>
Cash Flows from Investing Activities	
Investment Income	<u>168</u>
Net Decrease in Cash and Cash Equivalents	(155,431)
Cash and Cash Equivalents - Beginning of Year	<u>523,104</u>
Cash and Cash Equivalents - End of Year	<u><u>\$ 367,673</u></u>
Components of Cash and Cash Equivalents	
Cash in Checking Accounts	\$ 51,843
Restricted Cash and Cash Equivalents:	
Capital Asset Assessments - Savings	97,521
Money Market	<u>218,309</u>
Total Cash and Cash Equivalents	<u><u>\$ 367,673</u></u>
Reconciliation of Change in Net Position to Net Cash Used by Operating Activities	
Operating Income (Loss)	\$ (20,988)
Depreciation and Amortization	21,658
Miscellaneous Revenues	3,464
Miscellaneous Expenses	(2,481)
Prior Period Adjustment	2,549
Net Changes in Assets and Liabilities:	
Accounts Receivable	(598)
Assessments Receivable	(1,743)
Prepaid Insurance	(910)
Accounts Payable	(5,625)
Accrued Payroll Taxes	<u>597</u>
Net Cash Used by Operating Activities	<u><u>\$ (4,077)</u></u>

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

**IRISH BEACH WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
September 30, 2013**

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, 2013**

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 or 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 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, 2013**

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, 2013

The county charges a 2% collection fee for this service. The assessments for general capital improvements or replacements and debt service are recognized as revenue when levied. Amounts assessed for special projects are 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.

I. 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.

NOTE 2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consists of the following at September 30, 2013:

Checking Accounts - JP Morgan Chase	\$ 13,192
Redwood Credit Union	38,651
Savings Account - Redwood Credit Union	97,521
Money Market - Edward Jones	<u>218,309</u>
 Total	 <u>\$ 367,673</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.

NOTE 3. CAPITAL ASSETS

Following is a summary of changes to capital assets for the fiscal year ended September 30, 2013:

	Beginning Balance	Additions	Deletions	Ending Balance
Improvements and Infrastructure	\$ 945,090	\$ 251,629	\$ -	\$ 1,196,719
Equipment	8,419			8,419
Office Equipment	<u>13,789</u>			<u>13,789</u>
Totals	<u>\$ 967,298</u>	<u>\$ 251,629</u>	<u>\$ -</u>	<u>\$ 1,218,927</u>

IRISH BEACH WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
September 30, 2013

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Property, Plant and Equipment	\$ 967,298	\$ 251,629	\$ -	\$ 1,218,927
Accumulated Depreciation	<u>(532,212)</u>	<u>(21,000)</u>		<u>(553,212)</u>
Total Net Capital Assets	\$ <u>435,086</u>			\$ <u>665,715</u>
Projects in Progress	\$ <u>122,692</u>	\$ <u>236,672</u>	\$ <u>251,629</u>	\$ <u>107,735</u>

Work in progress consists of tank projects and well that are under litigation.

NOTE 4. LONG-TERM DEBT

Long-term debt at September 30, 2013 consists of the following:

Safe Drinking Water loan through the California Statewide Communities Development Authority, secured by a pledge of water revenues. The loan was refinanced with WestAmerica Bank on November 1, 2003. The note is payable in semi-annual installments in May and November at \$5,106, which includes interest at 4.75%.

Future minimum principal and interest payments on long-term debt are as follows, for the fiscal year ended:

	<u>Principal</u>	<u>Interest</u>
September 30, 2014	\$ 8,589	\$ 1,623
2015	8,999	1,213
2016	9,431	781
2017	<u>9,390</u>	<u>329</u>
Total	36,409	\$ <u>3,946</u>
Less: Current Portion	<u>8,589</u>	
Long-Term Debt	\$ <u>27,820</u>	

NOTE 5. 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.

IRISH BEACH WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
September 30, 2013

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 appears the revocation will stand.

In November 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 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. Amounts are being accrued as deferred revenue.

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. To date the District has spent over \$273,000 in legal fees on these issues. The ultimate outcome of this litigation cannot presently be determined. Accordingly, adjustments, if any, that might result from the resolution of this matter have not been reflected in the financial statements. Management believes that if they are unsuccessful in the defense of these suits, any potential loss could be in the range of an additional \$50,000 to \$300,000.

NOTE 6. PRIOR PERIOD ADJUSTMENT

The net prior period adjustment of \$2,860 represent an adjustment to long-term debt beginning principal balance of \$5,409, offset by a write off of old outstanding deposits on the bank reconciliation of \$2,549.