



IRISH BEACH WATER DISTRICT
AUDITED FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

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

707.882.2892

SEPTEMBER 30, 2007

BOARD OF DIRECTORS

Steve Whitaker – Board President

Judy Murray – Treasurer

Donald Jassowski

Russell Pasqualetti

Kathy Poling

Charles Acker – Operations Manager

Dorothy Cong – 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 the ended September 30, 2007. Please read it in conjunction with the Financial Statements, which follow this section.

FINANICAL HIGHLIGHTS

- The District's net assets increased by 31%.
- Operating revenues increased by 4%.
- Operating expenses increased by 7%.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis are intended to serve as an introduction to the Mendocino City Community Services 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 report 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 its activities. 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 \$155,331. The District has invested in a more diversified portfolio through Edward R. Jones. Income from investments has been increased and is maintained at a reasonable level. As a result of this change, investment income increased by over \$30,000 of which approximately \$18,000 of the increase was due to unrealized gains in market value.

LONG TERM DEBT

At year end the District had long-term debt of \$89,688 in the form of a general obligation bond. Details of this bond, including future payments due, can be found in Note IV 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 2.74. Standard bond covenants require that the debt coverage ratio must be greater than 1.10.

BUDGETARY HIGHLIGHTS

The final 2006-2007 operating revenues were 105% of the 2007 budget, and the final 2006-2007 expenses were 96% of budgeted. The greatest variance in non-operating areas was in investment income which was budgeted at \$13,760 with actual realized earnings at \$24,080.

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:

	04-05	05-06	06-07	07-08
Assessments:	\$183.62	\$188.88	\$194.12	\$194.42
Availability Charge:	48.52/183	56.84 /186	56.84/189	56.84/194
Usage Charge:	.30 /100gal	.31/100	.31/100	.31/100

Water rates are based on operating expenditures and may change. There was no increase for the 2007-2008 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 2.8%. Therefore, District may increase 3% using 0.2% of carryover from prior years leaving 6.27%. 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

The Irish Beach subdivision, as currently planned, is expected to have approximately 502 water service connections when full build-out is completed. The current rate of residence construction is an average of 5 per year.

The Irish Beach Water District has three developed sources of water; (1) The Upper Diversion on Irish Gulch; (2) the well located east of the main subdivision; and (3) the Lower Diversion on Irish Gulch. Flows from these three sources are sufficient, in the absence of drought conditions, to supply water for 297 connections. At this time there are 195 connections.

In addition to the three developed sources of water, the District has an undeveloped source on Mallo Pass Creek. This has been held in reserve as a permit since 1974 when it was first obtained. Water from Mallo Pass Creek would provide for an additional 205 connections that are expected at complete build out of the Irish Beach subdivision.

However, on September 28, 2007 the District received a Notice of Proposed Revocation from the State Water Quality Control Board for our permit to divert water from Mallo Pass Creek. The proposed revocation is based on the fact that no water from Mallo Pass Creek has been put to beneficial use since the permit was issued.

The Board of Directors of the Irish Beach Water District has appealed the revocation and requested a hearing before the SWRCB. If the District is not able to overturn the revocation of the permit for water from Mallo Pass Creek, the District will increase efforts to locate alternate groundwater sources.

Irish Creek Diversion:

The District currently receives water from Irish Creek through an upper diversion and a lower diversion. On November 5, 2002, measurements at the upper and lower diversions on Irish Creek determined that the total flow rate available to the District was 58 gallons per minute. A recent development with regard to a permit request for an additional diversion site from Irish Creek was denied by the SWRCB. The District will petition for reconsideration of this request for extension of time for Irish Gulch Permit 15580. In addition, the District currently has access to a well with a capacity of 15 gallons per minute. (See Well Sites below) Since the State of California requires that 300 gallons per day be available for each hookup, our current water supply is equivalent to at least 326 homes. The fact that our average usage is approximately 150 gallons per day per hookup provides us with a cushion at this time.

Well Sites:

With our current well showing signs of diminished capacity and thus the need for maintenance, a search for new well sites continues this year. The District has an easement and if we drill within the easement there is no need for any special permission. However, if the District finds it must drill outside the easement, negotiations would be necessary for an additional easement.

Tank Replacement Project:

David Wood, a geologist, was consulted regarding the ground stability of the sites of tanks one and three. Mr. Woods suggested a reduction in size of both tanks that would alleviate the geologic concerns along with erosion controls. Replacing of these two tanks will result in loss of storage which will need to be increased at another site. A new tank #6 is under consideration.

Safety:

In October 2003 the District was the subject of a Special District Risk Management Authority (SDRMA) On-Site Program Review and Hazard Identification Survey. The District is insured through SDRMA. Although no catastrophic safety hazards were identified, the District was presented with a long list of concerns that have been addressed.

Annexation Update:

Application for reorganization of the Redwood Coast Fire Protection District (RCFPD) and the Irish Beach Water District (IBWD) was completed April 24, 2007. Final agreements pertaining to the lease of the firehouse have been completed. Items addressed include length of lease for five years with a five year option, amount of lease, and use of firehouse for meetings.

The Irish Beach Water District no longer contracts with RCFPD for emergency services at the rate of \$1,400 per month. Irish Beach property owners will have to pay the previously authorized taxes imposed by the RCFPD on the taxpayers of their District. This tax amounts to \$20 minimum per vacant lot and \$37.50 maximum per year. Homeowners would pay \$80 minimum and \$150 maximum per year.

Wendy S. Boise, CPA



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The Board of Directors of the
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, 2007 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 and the standards applicable to financial audits contained in Governmental Auditing Standards issued by the Comptroller General of the United States. 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 basic financial statements referred to above, present fairly, in all material respects, the financial position of the Irish Beach Water District as of September 30, 2007, and 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.

In accordance with Governmental Auditing Standards, I have also issued a report dated January 10, 2008 on my consideration of the District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be read in conjunction with this report in considering the results of my audit.

My audit was performed for the purpose of forming an opinion on the basic financial statements of the District taken as a whole. The information identified in the accompanying table of contents as *Management's Discussion and Analysis* is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures to this information, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information, but I did not audit this information and I express no opinion on it.

Wendy S. Boice

January 10, 2008
Fort Bragg, California

IRISH BEACH WATER DISTRICT
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2007

ASSETS

Current Assets:

Cash and cash equivalents	\$ 101,914		
Accounts receivable	17,906		
Assessments receivable	-		
Total current assets		\$	119,820
Prepaid expenses & deposits			4,605
Loan fees, net of amortization			5,261
Property & equipment, net of depreciation			326,327
Investments - unrestricted			58,829
Restricted Assets			
Cash and cash equivalents	35,120		
Investments	319,296		
Total restricted cash and investments			354,416
TOTAL ASSETS			\$ 869,258

LIABILITIES AND NET ASSETS

Current Liabilities (Payable from Unrestricted Current Assets):

Accounts payable	\$ 151		
Accrued payroll liabilities	638		
Total Current Liabilities (Payable from Unrestricted Current Assets)		\$	789

Current Liabilities (Payable from Restricted Assets)

Accrued interest on long-term debt	1,538		
Current portion long-term debt	6,023		
Total Current Liabilities (Payable from Restricted Assets)			7,561

Long-Term Liabilities

Deferred revenue-Mallo Pass	122,003		
Note payable, net of current portion	83,665		
Total Long-term Liabilities			205,668
Total Liabilities		\$	214,018

Net Assets

Investment in capital assets	236,639		
Restricted for capital projects	224,777		
Unrestricted	193,824		
Total Net Assets			655,240

TOTAL LIABILITIES AND NET ASSETS			\$ 869,258
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IRISH BEACH WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED SEPTEMBER 30, 2007

Operating Revenues		
Usage	\$ 25,638	
Availability	130,277	
Other water services	1,770	
Total Operating Revenues	<u> </u>	\$ 157,685
Operating Expenses		
Source of Supply	3,782	
Treatment	24,615	
Transmission & Distribution	29,298	
Accounts	6,210	
General & administrative	60,542	
Other	2,593	
Total Operating Expenses	<u> </u>	<u>127,040</u>
Income from Operations before Depreciation		30,645
Depreciation		<u>16,712</u>
Operating Income		13,933
Non-Operating Revenues (Expenses)		
Reimbursements	155	
Debt service assessments	6,611	
County collection fees	(1,761)	
Investment income	48,815	
Interest expense	(3,737)	
Loan fee amortization	(658)	
Facility lease	1,397	
Non-Operating Revenues, Net	<u> </u>	<u>50,822</u>
Income Before Contributions and Adjustments		64,755
Capital assessment contributions		82,490
Expended previously deferred		<u>7,936</u>
Change in Net Assets		155,181
Total Net Assets, October 1		499,909
Prior period adjustment		150
Total Net Assets, September 30		<u><u>\$ 655,240</u></u>

IRISH BEACH WATER DISTRICT
STATEMENT OF CASH FLOWS
YEAR ENDED SEPTEMBER 30, 2007

Cash Flows from Operating Activities		
Cash received from customers	\$ 157,851	
Cash payments to suppliers for operations	(57,875)	
Cash payments for general & administrative expense	<u>(69,345)</u>	
		\$ 30,631
Cash Flows from Capital and Related Financing Activities		
Acquisition of fixed assets	(82,323)	
Repayment of note payable	(2,907)	
Capital assessment contributions, net of fees	80,729	
Interest payments	<u>(2,199)</u>	
		(6,700)
Cash Flows from Noncapital Financing Activities		
Loan assessments	<u>6,611</u>	
		6,611
Cash Flows from Investing Activities		
Interest & dividends received	24,736	
Redemptions & reclassifications	<u>(52,070)</u>	
		<u>(27,334)</u>
Net Increase in Cash and Cash Equivalents		3,208
Cash and Cash Equivalents, October 1		<u>133,826</u>
Cash and Cash Equivalents, September 30		<u><u>\$ 137,034</u></u>

IRISH BEACH WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS
ACTUAL VS. BUDGET
YEAR ENDED SEPTEMBER 30, 2007

	Actual	Budget	Variance
Operating Revenues			
Usage	\$ 25,638	\$ 20,818	\$ 4,820
Availability	130,277	128,845	1,432
Other income	1,770	450	1,320
Total Operating Revenues	<u>157,685</u>	<u>150,113</u>	<u>7,572</u>
Operating Expenses			
Source of Supply	3,782	3,620	162
Treatment	24,615	35,022	(10,407)
Transmission & Distribution	29,298	15,007	14,291
Accounts	6,210	8,620	(2,410)
General & administrative	60,542	68,356	(7,814)
Other	2,593	1,500	1,093
Total Operating Expenses	<u>127,040</u>	<u>132,125</u>	<u>(5,085)</u>
			-
Income from Operations before Depreciation	30,645	17,988	12,657
			-
Depreciation	<u>16,712</u>	<u>19,161</u>	<u>(2,449)</u>
			-
Operating Income	<u>13,933</u>	<u>(1,173)</u>	<u>15,106</u>
			-
Non-Operating Revenues (Expenses)			-
Reimbursements	155	-	155
Debt service assessments	6,611	6,609	2
County collection fees	(1,761)	(1,760)	
Investment income	48,815	13,760	35,055
Interest expense	(3,737)	(4,466)	729
Loan fee amortization	(658)		(658)
Facility lease	1,397	1,362	35
Non-Operating Revenues, Net	<u>50,822</u>	<u>15,505</u>	<u>35,317</u>
			0
Income Before Contributions and Adjustments	64,755	14,332	50,423
			0
Assessment Contributions	82,490	82,487	3
Unexpended Restricted Assessments	<u>7,936</u>	<u>(14,694)</u>	<u>22,630</u>
			-
Change in Net Assets	155,181	82,125	73,056
			-
Total Net Assets, October 1	499,909	499,909	-
Prior period adjustments	150		150
Total Net Assets, September 30	<u>\$ 655,240</u>	<u>\$ 582,034</u>	<u>\$ 73,206</u>

IRISH BEACH WATER DISTRICT
Notes to Financial Statements
September 30, 2007

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 augment the earnings in restricted and operating reserves, the District moved its liquid reserves from lower earning savings accounts into individual accounts (which are based on the restricted or reserve purpose) held by an investment representative through Edward Jones. The investments consist of insured certificates of deposit, AAA rated bonds and highly rated publicly traded mutual funds. The District has established an investment policy that considers, among other things, their cash flow needs and acceptable level of risk.

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 discussed in note A-7, only the Mallo Pass Water Source assessment is specifically restricted enough to warrant being shown as deferred revenue. Balances and activity for the restricted funds as of, and for the year ended, September 30, 2007 are as follows:

	System-wide Capital Improvements	Mallo Pass Water Source Development	Capital Replacements	Total
Beginning Balances	\$ 98,888	\$ 129,938	\$ 69,830	\$ 298,565
Increases:				
Assessments	31,034	32,050	19,406	82,490
Investment income	10,749	22,298	6,684	39,731
Decreases:				
Transfers for capital imp.	(11,754)	(62,284)		(74,038)
Ending Balances	\$128,917	\$ 122,003	\$ 95,920	\$ 346,748

D. PROPERTY, PLANT AND EQUIPMENT

Beginning balance	\$ 675,121
Additions	82,323
Retirements	<u>0</u>
Total cost	757,444
Less accumulated depreciation	<u>(431,117)</u>
Total net book value	<u>\$ 326,327</u>

E. INVESTMENTS AND INVESTMENT INCOME

As discussed in Note B, the District has diversified how it holds restricted and reserve funds. Previously, the District's investment income consisted solely of interest earned, but now includes interest, dividends capital gain distributions on mutual funds, and unrealized changes in market value. For the year ended September 30, 2007, the unrealized portion of the District's investment return was \$20,919.

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 the current year refinancing, the District continues to make annual payments of \$10,212 as per the higher 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

Mallo Pass Project

The District has 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 have been granted by the SWRCB. Due to litigation and other factors, the project is not yet complete, and the SWRCB has denied an additional extension and is threatening to revoke the permit.

The District has retained legal counsel for this issue and, while the matter is underway, it is still too early in the process to make a determination as to the probable outcome. It is estimated that additional legal costs, depending on whether litigation results, could range from \$25,000 to \$50,000. An unfavorable outcome could also result in the monies collected for the project from parcel owners might have to be repaid. As these funds have always been maintained and recorded separately, the amount is readily determinable and can be found in NOTE B – Restricted Funds.

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, 2007, 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 neither material weaknesses nor reportable conditions as defined by the American Institute of Certified Public Accountants. I believe, however that these comments are worth mentioning as they may help improve the efficiency and effectiveness of District in its overall internal controls and financial reporting.

1. Payments for the principal portion of the Safe Drinking Water Loan should be posted to the actual loan account (acct 211.10) rather than the long-term debt offset account (acct 223.10).
2. The expenses for restricted Mallo Pass project are properly being offset by transfers from the restricted accounts to the general operating account. There also needs to be an adjustment, at least at year end, to the deferred revenue account offset by an entry into the Equity Available (Unrestricted Net Assets) account. It would also be useful to users

of the financial statements to show the revenue transfer as a separate expense offset. As it stands now, the expense accounts are just zeroed out and it is difficult to ascertain what activity occurred during the year.

3. Given the tenuous nature of the Mallo Pass project, the District may wish to re-evaluate its investment policy concerning those particular funds so that there is no concern about maintaining liquidity should the outcome be unfavorable. This comment is continued from last year.
4. In any public organization, but especially in one as small as the Irish Beach Water District, it is impossible to fully implement a perfect system of internal controls that includes a complete segregation of duties. Therefore, it is imperative that the Board remain actively involved in the oversight of District operations.

I would like to thank Dorothy Cong and Judy Murray for their continued assistance. I would also like to acknowledge Dorothy for her years of diligent work on behalf of the District. I understand that she is retiring soon and wish her well. I have enjoyed working with her and appreciate her attention to detail.

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.

Wesley S. Baine

January 10, 2008