



IRISH BEACH WATER DISTRICT
AUDITED FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

IRISH BEACH WATER DISTRICT
AUDITED FINANCIAL STATEMENTS

TABLE OF CONTENTS

GENERAL INFORMATION	1
MANAGEMENT DISCUSSION AND ANALYSIS	2
AUDITOR'S REPORT.....	6
STATEMENT OF NET ASSETS.....	7
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS.....	8
STATEMENT OF CASH FLOWS.....	9
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS – ACTUAL VS. BUDGET	10
NOTES TO THE FINANCIAL STATEMENTS.....	11
AUDITOR'S COMMUNICATION OF REPORTABLE CONDITIONS TO MANAGEMENT AND OTHER COMMENTS AND RECOMMENDATIONS	15

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

707.882.2892

SEPTEMBER 30, 2009

BOARD OF DIRECTORS

Steve Whitaker – Board President

Judy Murray – Treasurer

Donald Jassowski

Don Harley

Kathy Poling

Charles Acker – Operations Manager
Annette Fromwiller – Office Manager

IRISH BEACH WATER DISTRICT 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, 2009. Please read it in conjunction with the Financial Statements, which follow this section.

FINANICAL HIGHLIGHTS

- The District's net assets increased by 8%.
- Operating revenues increased by 6%.
- Operating expenses, before depreciation, increased by 22%.

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, to where was the 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 \$53,828. The District has invested in a more diversified portfolio through Edward Jones. Income from investments has decreased as a result of the current economic conditions. While the unrealized values for these investments dropped slightly during the year overall investment income, including this decrease, was over \$11,000. See Notes to the Financial Statements Note E.

LONG TERM DEBT

At year end the District had long-term debt of \$70,738 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 2.26. Standard bond covenants require that the debt coverage ratio must be greater than 1.10.

BUDGETARY HIGHLIGHTS

The final 2008-2009 operating revenues were 103% of the 2009 budget.

The final 2008-2009 expenses were 112% of budgeted. Water treatment and testing increased approximately \$2,000.00. Transmission and distribution expenses for labor and equipment increased approximately \$13,000.00. Customer accounts expenses for labor increased approximately \$10,000.00. General and administrative expenses for labor and equipment increased approximately \$5,000.00.

The greatest variance in non-operating areas was in investment income which was budgeted at \$17,616 with actual earnings at \$11,162.

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

Water rates are based on operating expenditures and may change from year to year. There was an increase of \$0.02 for the 2008-2009 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 2.7%. Therefore, the District may increase 3% using 0.3% of carryover from prior years leaving 5.97%. 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. However, on March 11, 2009 the permit to extract water from Mallo Pass Creek was revoked by the State Water Resources Control Board because of the failure to develop this water source in a timely manner. The Board of Directors has agreed that the funds for the development of Mallo Pass should be transferred to a new Water Source Development and the necessary legal steps required to accomplish this are currently being taken.

The Irish Beach subdivision, as currently planned, is expected to have approximately 459 water service connections when full build-out is completed.

The current rate of residence construction is zero; however, the long term average is on the order 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 (Well #9) located east of the main subdivision; and (3) the Lower Diversion on Irish Gulch.

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. In addition, Well #9 provides 12 gallons per minute, thus the total water currently available is 70 gallons per minute. If our conveyance and process losses can be kept at 10%, our supply of 70 gallons per minute is sufficient to serve 305 homes at 300 gallons per day per hookup.

Well Sites:

With our current well (Well #9) showing signs of diminished capacity, and with the loss of our permit for water from Mallo Pass Creek, the District is faced with the need for additional well water. A new well (T5) has been drilled; however, the water rights associated with this well have been disputed by one of the developers. The lawsuit is expected to last two to three years.

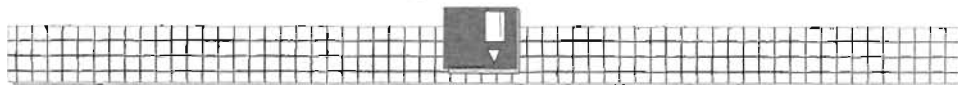
Tank Replacement Project:

David Wood, a geologist, was consulted regarding the ground stability of the sites of Tank #1 and Tank #3. Mr. Woods suggested a reduction in size of both tanks that would alleviate the seismic concerns along with erosion controls. A geological study has been completed for the site occupied by Tank #3, and plans have been made for modifying the site and constructing a new foundation. The new tank should be installed before the end of 2010. Tank #3 is a key element in the distribution system since it supplies water to the eastern side of the subdivision. The western side of the subdivision is supplied via Tank #1 that is scheduled to be replaced in the new future. Availability of funds for the installation of a new Tank #1 will depend on the expense associated with the lawsuit associated with the T5 well.

Safety:

The IBWD Safety Committee consists of the President of the Board, Stephen Whitaker, and all the members of the staff. Meetings are held once a month on the third Tuesday of each month, and each member of the staff takes his or her turn as the discussion leader. The District is insured through the SDRMA that supplies written material that forms the basis for each safety meeting.

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

The Board of Directors of the
Irish Beach Water District

Indeopendent 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, 2009 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, 2009, an 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 June 11, 2010 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. Boise

June 11, 2010
Fort Bragg, California

IRISH BEACH WATER DISTRICT
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2009

ASSETS

Current Assets:

Cash and cash equivalents	\$ 54,538	
Accounts receivable	21,267	
Assessments receivable	2,012	
Total current assets	\$ 77,817	

Prepaid expenses & deposits		9,483
Loan fees, net of amortization		3,945
Property & equipment, net of depreciation		381,425
Investments - unrestricted		84,953

Restricted Assets

Cash and cash equivalents	108,389	
Investments	339,063	

Total restricted cash and investments 447,452

TOTAL ASSETS \$ 1,005,075

LIABILITIES AND NET ASSETS

Current Liabilities (Payable from Unrestricted Current Assets):

Accounts payable	\$ -	
Passthrough due RCFPD	\$ 33,136	
Accrued payroll liabilities	2,737	
Total Current Liabilities (Payable from Unrestricted Current Assets)	\$ 35,873	

Current Liabilities (Payable from Restricted Assets)

Accrued interest on long-term debt	-	
Current portion long-term debt	-	
Total Current Liabilities (Payable from Restricted Assets)	-	

Long-Term Liabilities

Deferred revenue-Water Source Development	129,848	
Note payable, net of current portion	70,738	
Total Long-term Liabilities	200,586	
Total Liabilities	\$ 236,459	

Net Assets

Investment in capital assets	310,687	
Restricted for capital projects	309,968	
Unrestricted	147,961	
Total Net Assets	768,616	

TOTAL LIABILITIES AND NET ASSETS \$ 1,005,075

IRISH BEACH WATER DISTRICT
STATEMENT OF CASH FLOWS
YEAR ENDED SEPTEMBER 30, 2009

Cash Flows from Operating Activities		
Cash received from customers	\$ 171,566	
Cash payments to suppliers for operations	(35,797)	
Cash payments for general & administrative expense	<u>(107,167)</u>	
		\$ 28,602
Cash Flows from Capital and Related Financing Activities		
Acquisition of fixed assets	(32,332)	
Repayment of note payable	(12,927)	
Capital assessment contributions, net of fees	60,785	
Interest payments	<u>(7,497)</u>	
		8,029
Cash Flows from Noncapital Financing Activities		
Loan assessments	<u>6,487</u>	
		6,487
Cash Flows from Investing Activities		
Interest & dividends received	20,311	
Redemp/reinvest/reclass	<u>(25,402)</u>	
		<u>(5,091)</u>
Net Inceas (Decrease) in Cash and Cash Equivalents		38,027
Cash and Cash Equivalents, October 1		<u>124,900</u>
Cash and Cash Equivalents, September 30		<u><u>\$ 162,927</u></u>

IRISH BEACH WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS
ACTUAL VS. BUDGET
YEAR ENDED SEPTEMBER 30, 2009

	Actual	Budget	Variance
Operating Revenues			
Usage	\$ 28,066	\$ 23,880	\$ 4,186
Availability	143,713	144,636	(923)
Other income	2,060	450	1,610
Total Operating Revenues	<u>173,839</u>	<u>168,966</u>	<u>4,873</u>
Operating Expenses			
Source of Supply	6,291	4,656	1,635
Treatment	26,215	30,564	(4,349)
Transmission & Distribution	29,681	17,316	12,365
Accounts	17,005	8,442	8,563
General & administrative	88,339	88,785	(446)
Other	1,823	1,500	323
Total Operating Expenses	<u>169,354</u>	<u>151,263</u>	<u>18,091</u>
Income from Operations before Depreciation	4,485	17,703	(13,218)
Depreciation	<u>19,840</u>	<u>-</u>	<u>19,840</u>
Operating Income	<u>(15,355)</u>	<u>17,703</u>	<u>(33,058)</u>
Non-Operating Revenues (Expenses)			
Reimbursements	-	-	-
Debt service assessments	6,487	6,610	(123)
County collection fees	(1,479)	(1,856)	(377)
Investment income	11,162	17,616	(6,454)
Interest expense	(5,676)	(3,574)	(2,102)
Loan fee amortization	(658)	-	(658)
Facility lease	2,625	-	2,625
Non-Operating Revenues, Net	<u>12,461</u>	<u>18,796</u>	<u>(6,335)</u>
Income Before Contributions and Adjustments	(2,894)	36,499	(39,393)
Assessment Contributions	62,264	87,483	(25,219)
Reserve & capital expenses	-	(11,965)	11,965
Unexpended Restricted Assessments	<u>-</u>	<u>-</u>	<u>-</u>
Change in Net Assets	59,370	112,017	(52,647)
Total Net Assets, October 1	714,788	714,788	-
Prior period adjustments	(5,542)	-	(5,542)
Total Net Assets, September 30	<u>\$ 768,616</u>	<u>\$ 826,805</u>	<u>\$(58,189)</u>

IRISH BEACH WATER DISTRICT
Notes to Financial Statements
September 30, 2009

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 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, 2009 are as follows:

	System-wide Capital Improvements	Mallo Pass/ Water Source Development	Capital Replacements	Total
Beginning Balances	\$146,389	\$ 134,621	\$ 106,407	\$ 387,417
Increases:				
Assessments	33,367	25,722	26,561	85,650
Investment income	5,204	(4,278)	5,342	6,268
Decreases:				
Transfers for capital imp.	-	(22,656)	(9,228)	(31,884)
Ending Balances	\$184,960	\$ 133,409	\$ 129,082	\$ 447,451

D. PROPERTY, PLANT AND EQUIPMENT

Beginning balance	\$ 781,399
Additions	35,402
Retirements	<u>0</u>
Total cost	816,801
Less accumulated depreciation	<u>(435,376)</u>
Total net book value	<u>\$ 381,425</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, 2009, the unrealized portion of the District's investment return was a loss of \$6,015.

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. During the current year the District made 2 extra payments, which will accelerate the payoff to 2017.

G. COMMITMENTS AND CONTINGENCIES

Mallo Pass Project

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

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@mcgn.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, 2009, 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. The payroll tax reporting, recording and document preparation seem to have some problems. The files contain several versions of the same reports and it's difficult to tell exactly which was filed. There appear to be manual calculations done for payments that are automatically created by the program. This appears to have resulted in a large overpayment to the state. There also seems to be a misunderstanding of how the computer program records the payroll expenses and liabilities, which resulted in a nearly doubling of the payroll tax expense.
2. While it is correct that expenses should be matched with the month to which they relate, it is not proper to back-date the expenditure to reflect this. The correct method is to enter a bill in the correct month and then date the check when actually written. Any bills unpaid at the end of any given month should be included in Accounts Payable. It appears that you have abandoned the use of the payables system altogether. There were many checks that had notations about the date having been changed in the computer. While this may serve to put the expense in the correct month, it misstates your cash balance at that point in time. It also makes it more difficult to trace a problem. If a vendor calls you and says "where's my check" and you look in your computer you could be off as much as a week, in some cases I noted, as to when that was sent.
3. On the flip side of the payments issue is that of dating your billing entry. It appears that you enter the billings that you send your customers every other month. In 2008-09 you were dating this entry when you entered it which resulted in your charges for September and October of 2009 not being recorded until November 2009. The entry for September should be dated in September, as the service has been provided and is collectible. Each of these entries should be dated in the month incurred. That way your snapshot at any point in time will be more correct.

4. Regarding bank reconciliations, I noted two conditions that should be addressed. The first is that the balance arrived at should be checked against the balance sheet or trial balance to make sure they match. Yours does not. There are also some very old outstanding transactions on your reconciliation that need to be looked into and adjusted off. While neither of these items results in a large difference right now, it reflects on the required diligence to the detail of operations that needs to be present in an organization as small as yours.
5. Each calendar year you are required to issue forms 1099-Misc to any unincorporated individual or entity which provides services in excess of \$600. This was not done for the 2009 calendar year.
6. When recording adjustments to your investments accounts, or any account, the entry should be dated in the month affected. For example, the date for your adjustment of the Edward Jones accounts for the statements dated September 30th was sometime in October. This leads to a misstatement of your balances at September 30th.
7. All expenses that relate to a specific capital project should be coded to that project. Even legal and other professional fees, if they relate directly to a project should become part of the cost of that project. Subsidiary ledgers or accounts should be maintained to accumulate the total cost of any project to its completion. If incomplete at the end of a year, the balance gets transferred to projects in process with a well identified memo. If the project is complete then the entire accumulated cost gets moved to a fixed asset account to be depreciated.

The following comments, while not considered to be reportable conditions, are worth mentioning as they may help improve the efficiency and effectiveness of District in its overall internal controls and financial reporting.

1. Care should be taken to include adequate backup documentation for expenses, especially those that are reimbursements to board members or employees. You should also be sure that the correct receipt is attached to the corresponding check stub.
2. There was a transfer from the Mallo Pass investment account in November 2008 that may have been made in error. Ordinarily, funds aren't transferred from restricted accounts until they are to be spent or to reimburse the operating account if already paid from there. The transfer should relate directly to a list of expenses incurred for that purpose. 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. Part of this comment is continued from last year
3. Given the revocation of the Mallo Pass permit, all accounts and references to that project should be renamed Water Source Development.
4. Prepaid insurance was correctly entered into that asset account, but monthly entries to show the expense were not made. The resulted in an overstatement of the asset and an understatement of the expense for the year.
5. When using templates to prepare documents for board approval care should be taken to be sure that all dates and references have been updated. I noticed this on the budget worksheets compared to the budget resolution. I may have misunderstood it, but it didn't seem to be consistent when I was reading it.
6. Take advantage of the capabilities of the program. The vacation accruals can be adjusted in the system so that you don't have to do a manual handwritten statement on each stub.

7. One way to avoid many of these concerns is to periodically check each of your balance sheet accounts against any backup information you may have to support the number on the statement. That will alert you to potential problems.
8. 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 remains actively involved in the oversight of District operations. This is a continuing comment.

I would like to thank Annette Fromwiller and Judy Murray for their assistance and timely responses to my queries.

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.



June 11, 2010