

IRISH BEACH WATER DISTRICT
AUDITED FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

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AUDITED FINANCIAL STATEMENTS

TABLE OF CONTENTS

GENERAL INFORMATION1

MANAGEMENT DISCUSSION AND ANALYSIS2

AUDITOR’S REPORT.....7

STATEMENT OF NET ASSETS.....8

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS.....9

STATEMENT OF CASH FLOWS.....10

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS - ACTUAL VS. BUDGET11

NOTES TO THE FINANCIAL STATEMENTS.....12

AUDITOR’S COMMUNICATION OF REPORTABLE
CONDITIONS TO MANAGEMENT AND OTHER
COMMENTS AND RECOMMENDATIONS16

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

707.882.2892

SEPTEMBER 30, 2010

BOARD OF DIRECTORS

Steve Whitaker – Board President

Judy Murray – Treasurer

Donald Jassowski

Don Harley

Kathy Poling

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

MANAGEMENT DISCUSSION AND ANALYSIS

This Section of the District's annual financial report presents our analysis of the District's financial performance during the Fiscal Year the ended September 30, 2010. Please read it in conjunction with the Financial Statements, which follow this section.

FINANICAL HIGHLIGHTS

- The District's net assets increased by 6%.
- Operating revenues decreased by 1%.
- Operating expenses increased by 54%.

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 \$45,623. The District has invested in a more diversified portfolio through a national investment firm. Income from investments has increased commensurate with market conditions. Combined realized and unrealized income from investments this year was approximately \$46,600. See Notes to the Financial Statements Note E.

LONG TERM DEBT

At year end the District had long-term debt of \$60,214 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 2009-2010 operating revenues were 101% of the 2010 budget. Revenue from water usage declined approximately \$2,000 (8%) even though we increased usage rates \$0.04 per 100 gallons. Decline could be due to conservation and decline in vacation rental occupancy.

The final 2009-2010 operating expenses were 169% of budgeted. Source of Supply increased \$2,300. Water treatment and testing decreased \$10,700. Transmission and distribution expenses decreased approximately \$3,300. Customer accounts expenses remained at \$17,000. General and administrative expenses increased approximately \$110,000.00 due to increased legal fees.

This year transfers for \$34,131 from Operation Reserve for legal fees; \$2,000 from Less than 40 year capital replacement; \$28,548 from Greater than 40 year for Tank 3; \$38,764 from System Wide also for Tank 3; and \$50,000 from Alternate Water Development for legal fees.

The greatest variance in non-operating areas was in investment income which was budgeted at \$3,856 with actual realized earnings at \$7,928.

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>	<u>09-10</u>
Assessments:	\$188.88	\$194.12	\$199.43	\$204.99	\$210.68
Availability Charge:	\$56.84/186	\$56.84/189	\$56.84/195	\$61.49/196	\$61.49/198
Usage Charge:	\$0.31/100	\$0.31/100	\$0.31/100	\$0.33/100	\$0.37/100

Water rates are based on operating expenditures and may change from year to year. There was an increase of \$0.04 for the 2009-2010 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 5.67%. Therefore, the District may increase 3% and carryover 2.67% adding to 5.97% from prior years leaving 8.64% going forward. The funds are restricted for 1) Mallo Pass water diversion project (which is discussed further under the Other Non-Economic Factors portion of this analysis and in Note G of Notes to Financial Statements), 2) replacement of Greater than 40 Year Capital Items, 3) system wide projects as detailed in the Engineer's Report, and 4) two-thirds of the loan repayment.

OTHER NON-ECONOMIC FACTORS

Mallo Pass Project

For many years the Mallo Pass Project was a key part of the plan for providing water for new hookups in Irish Beach. 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 transferred the Mallo Pass funds to a new water development fund now called The Alternate Water Development Fund (AWDF). This transfer has resulted in legal challenges and is the center of ongoing litigation and the aforementioned increase in legal fees. This matter is discussed further in Note G.

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 was completed for the site occupied by Tank #3, and the site

has been modified and a new foundation has been constructed. The new tank should be installed before the end of 2011. The budget for this project is \$150,000 and funds will be transferred from System Wide Capital Improvement Reserve. 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 near 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 the month. The District is insured through the SDRMA that supplies written material that forms the basis for each safety meeting.

Wendy S. Boise, CPA



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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, 2010 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, 2010, 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.

The Management's Discussion and Analysis on page 3 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

Wendy S. Boise

August 31, 2011
Fort Bragg, California

IRISH BEACH WATER DISTRICT
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2010

ASSETS

Current Assets:

Cash and cash equivalents	\$ 31,047		
Accounts receivable	19,184		
Assessments receivable	<u>2,796</u>		
Total current assets		\$	53,027

Prepaid expenses & deposits			3,581
Loan fees, net of amortization			3,287
Property & equipment, net of depreciation			506,104
Investments - unrestricted			84,796

Restricted Assets

Cash and cash equivalents	10,020		
Investments	<u>376,072</u>		
Total restricted cash and investments			<u>386,092</u>

TOTAL ASSETS			<u>\$ 1,036,887</u>
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LIABILITIES AND NET ASSETS

Current Liabilities (Payable from Unrestricted Current Assets):

Accounts payable	\$ 46,421		
Passthrough due RCFPD	-		
Accrued payroll liabilities	<u>2,737</u>		
Total Current Liabilities (Payable from Unrestricted Current Assets)		\$	49,158

Current Liabilities (Payable from Restricted Assets)

Accrued interest on long-term debt	-		
Current portion long-term debt	<u>7,439</u>		
Total Current Liabilities (Payable from Restricted Assets)			7,439

Long-Term Liabilities

Deferred revenue-Water Source Development	113,276		
Note payable, net of current portion	<u>52,775</u>		
Total Long-term Liabilities			<u>166,051</u>
Total Liabilities		\$	222,648

Net Assets

Investment in capital assets	445,890		
Restricted for capital projects	272,816		
Unrestricted	<u>95,533</u>		
Total Net Assets			<u>814,239</u>

TOTAL LIABILITIES AND NET ASSETS			<u>\$ 1,036,887</u>
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IRISH BEACH WATER DISTRICT
STATEMENT OF CASH FLOWS
YEAR ENDED SEPTEMBER 30, 2010

Cash Flows from Operating Activities		
Cash received from customers	\$ 175,504	
Cash payments to suppliers for operations	(62,346)	
Cash payments for general & administrative expense	<u>(176,237)</u>	
		\$ (63,079)
Cash Flows from Capital and Related Financing Activities		
Acquisition of fixed assets	(144,568)	
Repayment of note payable	(10,523)	
Capital assessment contributions, net of fees	84,823	
Interest payments	<u>(4,794)</u>	
		(75,062)
Cash Flows from Noncapital Financing Activities		
Loan assessments	<u>6,605</u>	
		6,605
Cash Flows from Investing Activities		
Interest & dividends received	23,201	
Redemp/reinvest/reclass	<u>(13,525)</u>	
		<u>9,676</u>
Net Inceas (Decrease) in Cash and Cash Equivalents		(121,860)
Cash and Cash Equivalents, October 1		<u>162,927</u>
Cash and Cash Equivalents, September 30		<u><u>\$ 41,067</u></u>

IRISH BEACH WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS
ACTUAL VS. BUDGET
YEAR ENDED SEPTEMBER 30, 2010

	Actual	Budget	Variance
Operating Revenues			
Usage	\$ 23,841	\$ 25,885	\$ (2,044)
Availability	143,752	144,636	(884)
Other income	4,328	450	3,878
Total Operating Revenues	<u>171,921</u>	<u>170,971</u>	<u>950</u>
Operating Expenses			
Source of Supply	7,091	4,788	2,303
Treatment	22,585	33,273	(10,688)
Transmission & Distribution	12,559	15,846	(3,287)
Accounts	17,409	10,219	7,190
General & administrative	199,213	89,445	109,768
Other	2,702	1,500	1,202
Total Operating Expenses	<u>261,559</u>	<u>155,071</u>	<u>106,488</u>
Income from Operations before Depreciation	(89,638)	15,900	(105,538)
Depreciation	<u>19,889</u>	<u>19,840</u>	<u>49</u>
Operating Income	<u>(109,527)</u>	<u>(3,940)</u>	<u>(105,587)</u>
Non-Operating Revenues (Expenses)			
Reimbursements	670	-	670
Debt service assessments	6,605	6,609	(4)
County collection fees	(1,874)	(1,856)	
Investment income	46,685	17,623	29,062
Interest expense	(4,794)	(3,593)	(1,201)
Loan fee amortization	(658)	(658)	-
Facility lease	1,500	-	1,500
Non-Operating Revenues, Net	<u>48,134</u>	<u>18,125</u>	<u>30,009</u>
Income Before Contributions and Adjustments	(61,393)	14,185	(75,578)
Assessment Contributions	87,481	90,092	(2,611)
Reserve & capital expenses		-	
Unexpended Restricted Assessments	<u>16,572</u>	<u>-</u>	<u>16,572</u>
Change in Net Assets	42,660	104,277	(61,617)
Total Net Assets, October 1	768,616	768,616	-
Prior period adjustments	2,963		2,963
Total Net Assets, September 30	<u>\$ 814,239</u>	<u>\$ 872,893</u>	<u>\$ (58,654)</u>

The accompanying notes are an integral part of these financial statements

IRISH BEACH WATER DISTRICT
Notes to Financial Statements
September 30, 2010

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, 2010 are as follows:

	System-wide Capital Improvements	Mallo Pass/ Water Source Development	Capital Replacements	Total
Beginning Balances	\$184,960	\$ 133,410	\$ 129,082	\$ 447,451
Increases:				
Assessments	32,902	33,984	20,595	87,481
Investment income	15,392	11,792	11,573	38,757
Decreases:				
Transfers for related use	(84,075)	(65,910)	(37,613)	(219,482)
Ending Balances	\$149,179	\$ 113,276	\$ 123,637	\$386,092

D. PROPERTY, PLANT AND EQUIPMENT

Beginning balance	\$ 816,801
Additions	138,387
Retirements	<u>0</u>
Total cost	955,188
Less accumulated depreciation	<u>(489,084)</u>
Total net book value	<u>\$ 506,104</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, 2010, the unrealized portion of the District's investment return was a gain of \$23,484.

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 1 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. 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 \$100,000 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 \$200,000 to \$400,000 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 similar to those of the 2009-10 year, 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, 2010, 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. All balance sheet accounts should be reconciled periodically and anomalies should be investigated. Your cash balance at September 30 was very negative as was the balance in accounts payable. If something like that is observed then it should be investigated and corrected.
2. Care needs to be taken when adjusting any prior period to be sure that the adjustment is dated either in the period affected or, if financial information has already been issued, when the need for the adjustment has been identified. This is a determination that needs to be made on a case by case basis. If adjustments are made going back to the period affected then all of the supporting documentation should indicate the adjustment and any financial information distributed should be re-issued.

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

1. It appears that progress is being made in the organization and completeness of the financial records. Most of my comments from last year are being implemented and it made the review of your financial information considerably easier.
2. Additional attention still needs to be given to make sure that the supporting documentation for balances in the financial records matches the balances. The checking account was nicely reconciled, but then adjustments were made to subsequent payments which placed them into the reconciled period making the data not match the supporting documentation. The reviewer of any supporting documentation should check to see that the information matches.
3. Given the size of your organization and the unfortunate 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 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.

A handwritten signature in black ink, appearing to read "Wendy L. Bani". The signature is written in a cursive style with a large initial 'W'.

August 31, 2011