

IRISH BEACH WATER DISTRICT

FINANCIAL STATEMENTS

and

REQUIRED SUPPLEMENTARY INFORMATION

Years Ended September 30, 2021 and 2020

Rick Bowers, CPA
A Professional Corporation

IRISH BEACH WATER DISTRICT

TABLE OF CONTENTS

September 30, 2021 and 2020

	<u>Page Number</u>
Independent Auditor's Report.....	1 - 1a
Management Discussion and Analysis.....	mda
Financial Statements:	
Statements of Net Position.....	2
Statements of Revenues, Expenses, and Changes in Net Position.....	3
Statements of Cash Flows.....	4
Notes to Financial Statements.....	5 - 10



RICK BOWERS, CPA, PFS, CMA
A Professional Corporation
807 S. Dora Street
Ukiah, CA 95482

office (707) 468-9210
fax (707) 463-6633
email rbcpacorp@yahoo.com

Independent Auditor's Report

Certified Public Accountant
Personal Financial Specialist
Certified Management Accountant

Board of Directors
Irish Beach Water District
Manchester, CA

Report on the Audit of the Financial Statements

Opinion

I have audited the accompanying financial statements of the Irish Beach Water District (the District) as of and for the years ended September 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the business-type activities of the Irish Beach Water District as of September 30, 2021 and 2020, and the changes in financial position and cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America

Basis for Opinion

I conducted my audits in accordance with auditing standards generally accepted in the United States of America (GAAS). My responsibility under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am required to be independent of the District and to meet my other ethical responsibilities, in accordance with relevant ethical requirements relating to my audits. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months after the date that financial statements are issued, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentation, or the override of internal control. Misstatements are considered material if, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing audits in accordance with GAAS, I:

- Exercise professional judgement and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audits in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in my judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

I am required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits, significant audit findings, and certain internal control-related matters that I identified during the audits.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages mda be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.



Rick Bowers, CPA
Ukiah, California
January 23, 2023

IRISH BEACH WATER DISTRICT YEAR ENDING SEPTEMBER 30, 2021 and 2020

IRISH BEACH WATER DISTRICT

AUDIT REPORT SEPTEMBER 30, 2021 and 2020

MANAGEMENT DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis (MD&A) provides a narrative overview and analysis of the financial performance of the Irish Beach Water District during the fiscal year ended September 30, 2021 and 2020. Please read this analysis in conjunction with the District's Basic Financial Statements and accompanying Notes immediately following this section.

Overview of the Financial Statements

The District operates under California Irrigation District Law as a utility enterprise. As such, the District presents its financial statements using the economic resources measurement focus and the full accrual basis of accounting, similar to methods used by private sector companies. These financial statements are designed to provide readers with a broad overview of the finances and also present changes in cash balances, and information about both short-term and long-term activities of the District. There are three required components to these statements: the MD&A, the Financial Statements, and the Notes to the Financial Statements. As an enterprise fund, the District's Financial Statements include four components.

- 1) **Statements of Net Position** present information on all of the District's assets and liabilities with the difference between the two reported as net position. The Statements of Net Position provide the basis for evaluating the capital structure of the District and assessing its liquidity and financial flexibility. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. Net position is displayed in three categories: Net investment in Capital Assets, Restricted for Capital Projects, and Unrestricted.
- 2) **Statements of Revenues, Expenses, and Changes in Net Position** present information which show how the District's net position changed during the year. All of the current year's revenues and expenses are recorded on an accrual basis, meaning when the underlying transaction occurs regardless of the timing of the related cash flows. These statements measure the success of the District's operations over the past year and determine whether the District has recovered its costs through water sales (usage charges on water bills and contract water sales), user fees (availability charges on water bills), and other charges.
- 3) **Statements of cash flows** provide information regarding the District's cash receipts and cash disbursements during the year. These statements report cash activity in three categories: Operating; Capital and Related Financing Activities; and Investing. These statements differ from the Statements of Revenues, Expenses, and Changes in Net Position in that they account only for transactions that result from cash receipts and cash disbursements. As in the past, the Statements of Cash Flows continue to reconcile the reasons why cash from operating activities differ from operating income.
- 4) **Notes to the Basic Financial Statements** provide a description of the accounting policies used to prepare the financial statements and present material disclosures required by generally accepted accounting principles that are not otherwise present in the financial statements. The Notes are located immediately following the Financial Statements.

IRISH BEACH WATER DISTRICT YEAR ENDING SEPTEMBER 30, 2021 and 2020

Financial Highlights

During the year ended September 30, 2021 and 2020, the District's operating income was a net loss of \$-15,915 and \$-1,965 respectively. However, these net losses are greatly reduced from prior years showing the Board's actions of increasing user fees. Occurrence of leaks and repairs to our aging water system continue. Water district board asked voters for another Prop 218 Capital Projects Assessment which would be to all 459 home and lot owners to begin in F/Y 21-22. However the measure failed by a narrow margin. Another prop 218 capital project assessment is planned for F/Y 22-23. This time with special benefit assessment to the 207 developed lots. The increase of revenue from availability charges and user charges reflect continued rate increases as reflected in chart on page 4.

Financial Analysis of the District

Statements of Net Position – The District's net position decreased between fiscal years 2018-2019 and 2020-2021, decreasing from \$953,263 to \$935,383. The change can be seen in the condensed Statement of Net Position below as a \$-17,880 decrease in net position. There was decrease in capital assets of \$-29,112 which can be explained by approximately \$70,000 depreciation expense offset by the \$40,000 Alta Mesa increase. Current assets increased by \$22,178. Restricted assets decreased \$33,428 which is the due to expenditure of replacement reserve funds. Change in current liabilities was increase of \$10,946; this amount is an increase to a non-operating payable.

Condensed Statements of Net Position

	2021	2020	2019	Difference
				2021-2019
Current and Other Assets	\$722,728	\$ 692,659	\$ 700,550	\$ 22,178
Capital assets	<u>709,349</u>	<u>704,137</u>	<u>738,461</u>	<u>-29,112</u>
Total Assets	<u>1,432,077</u>	<u>1,396,796</u>	<u>1,439,011</u>	<u>-6,934</u>
Other liabilities: Current & Def Rev	496,694	445,498	485,748	10,946
Debt outstanding Net of Current	<u>0</u>	<u>0</u>	<u>-0-</u>	<u>0</u>
Total liabilities	<u>496,694</u>	<u>445,498</u>	<u>485,748</u>	<u>10,946</u>
Net investment in capital assets	709,349	704,137	738,461	-29,112
Restricted	276,469	309,759	309,897	-33,428
Unrestricted	<u>(50,435)</u>	<u>(62,598)</u>	<u>(95,095)</u>	<u>44,660</u>
Total net position	\$ <u>935,383</u>	\$ <u>951,298</u>	\$ <u>953,263</u>	<u>- 17,880</u>

IRISH BEACH WATER DISTRICT YEAR ENDING SEPTEMBER 30, 2021 and 2020

Changes in Revenues, Expenses, and Net Position – The District's income before capital improvement assessments increased \$68,140 due to decrease in total expenses of \$12,854 plus an increase in total revenues of \$55,286.

The change in net position that resulted can be seen in the table below, which summarizes the Statement of Revenues, Expenses, and Changes in Net Position.

Condensed Statements of Revenues, Expenses, and Net Position

	2021	2020	2019	Difference	
				2021-2019	Operating
Revenues:					
Water Usage	\$ 52,479	\$44,709	\$ 33,588	\$ 18,891	
Water Availability	206,127	188,694	168,924	37,203	
Late Fees	3,620	2,310	1,478	2,142	
Other Income	<u>500</u>	<u>400</u>	<u>1,877</u>	<u>-1,377</u>	
Total Operating Revenues	<u>262,726</u>	<u>236,113</u>	<u>205,867</u>	<u>56,859</u>	
Non-Operating Revenues	<u>6,810</u>	<u>6,942</u>	<u>8,383</u>	<u>-1,573</u>	
Total Revenues	<u>269,536</u>	<u>243,055</u>	<u>214,250</u>	<u>55,286</u>	
Operating Expenses	281,887	242,604	297,802	-15915	
Non-Operating Expenses	<u>3,564</u>	<u>2,416</u>	<u>503</u>	<u>-3,061</u>	
Total Expenses	<u>285,451</u>	<u>245,020</u>	<u>298,305</u>	<u>-12,854</u>	
Income (loss) before Contributions	<u>(15,915)</u>	<u>(1,965)</u>	<u>(84,055)</u>	<u>68,140</u>	
Capital Contribution Assessments	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	
Change in Net Position	<u>(15,915)</u>	<u>(1,965)</u>	<u>(84,055)</u>	<u>68,140</u>	

IRISH BEACH WATER DISTRICT YEAR ENDING SEPTEMBER 30, 2021 and 2020

Economic Factors and Prospective Information

The District's Board of Directors has increased rates as necessary to ensure that the District's costs be covered by revenues. Following is a table of approved rates for the last seven years. 17-18 is last year for collections of prop 218 assessments. The Court ordered the Mallo Pass portion of the assessment discontinued in 16-17. The increase in availability charges in November of 2021 was for the purpose, in part, of building an unrestricted Board Reserve for unfunded capital improvements and contingencies.

	15-16	16-17	17-18	18-19	19-20
Assessments	\$242.03	\$157.90	\$-0-	0	0
Availability Charge	\$66.49/200	\$66.49/202	\$66.49/202	\$73.14/202	\$78.87/202
Usage Charge	\$0.51/100g	\$0.51/100g	\$0.51/100g	\$0.57/100gal	\$0.58/100gal
	20-21	21-22			
Assessments	0	0			
Availability Charge	\$85.50/202	\$108.56/207			
Usage Charge	\$0.65/100g	\$0.67/100g			

There are 207 property owners connected to the system who pay all three charges, and 252 additional property owners that only pay the assessment charges.

Availability and Usage rates are based on operating budgets approved each year, and may change from year to year. The District, by special election, was authorized to impose a special assessment for capital improvement to the water system. The assessment was levied annually and collected by Mendocino County Treasurer by placing these assessments on the property tax bills at a cost of 2%. Unfortunately the 2002 assessment ended in F/Y 16/17 and voters have not approved a new capital projects assessment.

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. Two new wells were drilled in 2008. One was drilled by agreement on a parcel owned by Gordon and Sandra Moores near Tank 2. This well has not been connected to the system because of the current law suit by Wm. Moores preventing the utility connection to that well. A second well was drilled on a deeded easement granted to the District for a well and a water tank (Tank5) in the Unit 9 area. The longtime existing Unit 9 well is on that same easement. The Unit 9 well has been diminishing in production volume. The two new wells were envisioned as a way to provide water to existing parcels and future homes yet to be built. (Ground water can be held in future reserve where surface water cannot.)

The new T5 Well was tested for recovery rate, water quality, and was licensed for use by the State Department of Public Health. More than a year went by before the Wm. Moores' lawsuit was filed in 2009 against the District regarding liability for inverse condemnation for the drilling of the T5 Well. In a decision dated June 20, 2012, the Court ruled against the District. The trial for inverse condemnation was held August 18, 2014, where the District was found liable for \$401,000 in trespass damages and \$734,000 in attorney fees and costs. The District's appeal in Feb 2021 in the California Supreme Court in San Francisco reversed these lower court's findings and ordered the case back to the local court in October of 2023 to determine an inverse condemnation current value for the small plot of land where the well was drilled. This finding is expected to be less than \$25,000.

IRISH BEACH WATER DISTRICT YEAR ENDING SEPTEMBER 30, 2021 and 2020

In the spring of 2016 the second and third phase of this trial was held to invalidate certain prop 218 assessments, seek damages for road maintenance and an alleged breach of a 2002 settlement agreement. This phase II and III of the trial resulted in an award against the district for a return of dis-allowed expenditures of \$133,649 and ordered various refunds of the District's Prop 218 assessment funds to the voters including the total Mallo Pass funds collected of \$400,000+. All actions have been stayed pending the local court findings in October 2023 .

Well Moratorium — The District continues to enforce a new well drilling moratorium. However, exemptions from the moratorium are considered on case by case basis by board of directors.

Projects in Process — Previous projects include the upper diversion pipe replacement which was completed August 2016 for a total of \$21,055 from Systemwide Capital Projects Fund. Finding and repairing leaks in the distribution system is a constant challenge due to the age and inferior quality of the work and materials when originally built. A project to replace over a mile of pipe on the O'Rorey's Roost Road loop was completed December 2016 for total of \$127,776. Funding for this project was the greater than 40 year equipment replacement reserve. After the final collections for this restricted fund, the balance for future replacement projects is \$195,130. In 2021 a section of road and pipe on Alta Mesa was replaced for \$40,101 leaving approximately \$155,000. This assessment was intended for collection to replenish the reserve as it was used. The lower court ruled that the assessment had a 15 year collection period like the other components and thus must end.

POST AUDIT UPDATE: District received \$400,000 grant from State Department of Water Resources for tank restoration and well activation in June 2022.

Contacting the District's Management

This financial report is designed to provide our citizens, rate payers, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the financial resources it manages. If you have questions about this report or need additional information, please contact the District or our Certified Public Accountant.

Irish Beach Water District
P O Box 67
15401 Forest View Rd
Manchester, Ca 95459

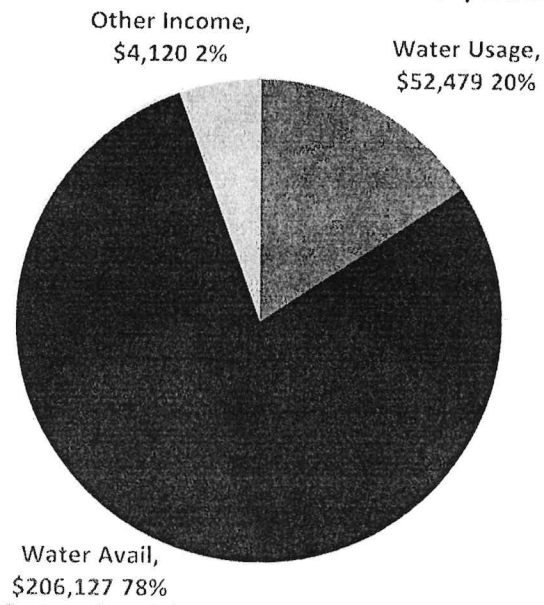
Charles Acker
General Manager
cacker@mcn.org
707-882-2892

Judy Murray
Treasurer
jmurray@mcn.org
ibwd@mcn.org

Rick Bowers, CPA
807 S. Dora Street
Ukiah, Ca 95482
rbcpacorp@yahoo.com

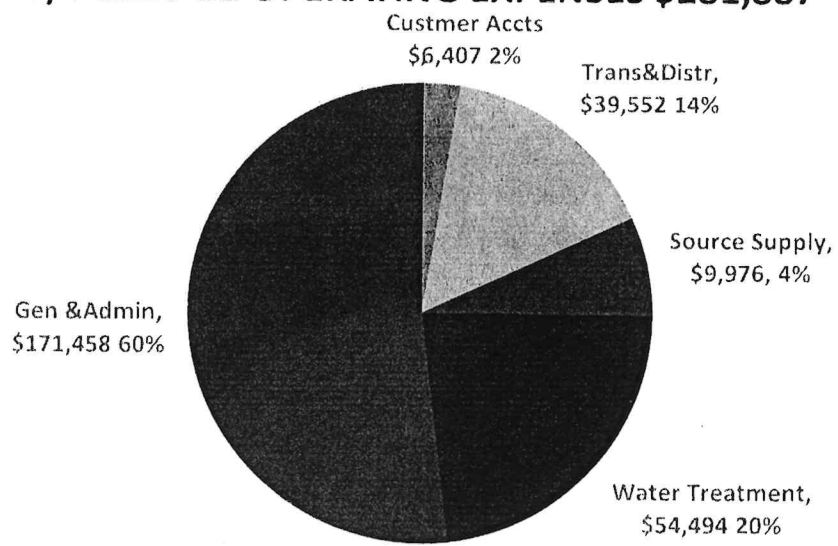
IRISH BEACH WATER DISTRICT YEAR ENDING SEPTEMBER 30, 2021 and 2020

F/Y 20-21 OPERATING REVENUES \$262,726



IRISH BEACH WATER DISTRICT YEAR ENDING SEPTEMBER 30, 2021 and 2020

F/Y 2020-21 OPERATING EXPENSES \$281,887



IRISH BEACH WATER DISTRICT
STATEMENTS OF NET POSITION
September 30, 2021 and 2020

<u>ASSETS</u>	<u>2021</u>	<u>2020</u>
Current Assets		
Cash and Cash Equivalents	\$ 80,856	\$ 20,682
Accounts Receivable	41,743	38,436
Prepaid Insurance	10,055	10,177
Total Current Assets	132,654	69,295
Restricted Assets		
Cash and Cash Equivalents	466,913	503,364
Interest Receivable	761	
Due From Operations	122,400	120,000
Total Restricted Assets	590,074	623,364
Capital Assets		
Property, Plant and Equipment - Net of Accumulated Depreciation	709,349	704,137
TOTAL ASSETS	1,432,077	1,396,796
<u>LIABILITIES</u>		
Current Liabilities		
Accounts Payable	4,265	855
Accrued Payroll and Taxes	11,735	8,958
Due to Restricted Assets	122,400	120,000
Due to Redwood Coast Fire	44,689	2,080
Total Current Liabilities	183,089	131,893
Long-Term Liabilities		
Deferred Revenue - Water Source Dev.	313,605	313,605
TOTAL LIABILITIES	496,694	445,498
<u>NET POSITION</u>		
Net Investment in Capital Assets	709,349	704,137
Restricted for Capital Projects	276,469	309,759
Unrestricted Deficit	(50,435)	(62,598)
TOTAL NET POSITION	\$ 935,383	\$ 951,298

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

IRISH BEACH WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES
IN NET POSITION
For The Years Ended September 30, 2021 and 2020

	2021	2020
Operating Revenues		
Water Usage	\$ 52,479	\$ 44,709
Water Availability	206,127	188,694
Late Fees	3,620	2,310
Other Income	500	400
Total Operating Revenues	<u>262,726</u>	<u>236,113</u>
Operating Expenses		
Source of Supply	9,976	15,251
Transmission and Distribution	39,552	30,532
Water Treatment	54,494	23,692
Customer Accounts	6,407	15,209
General and Administrative	105,171	59,331
Legal Fees	31,399	64,264
Depreciation	34,888	34,325
Total Operating Expenses	<u>281,887</u>	<u>242,604</u>
Operating Income (Loss)	<u>(19,161)</u>	<u>(6,491)</u>
Non-Operating Revenues (Expenses)		
Investment Earnings	6,810	6,942
Interest Expense	(2,407)	(1,662)
Other Expense	(1,157)	(754)
Total Non-Operating Revenues (Expenses)	<u>3,246</u>	<u>4,526</u>
Change in Net Position	(15,915)	(1,965)
Net Position - Beginning of Year	<u>951,298</u>	<u>953,263</u>
Net Position - End of Year	<u><u>\$ 935,383</u></u>	<u><u>\$ 951,298</u></u>

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

IRISH BEACH WATER DISTRICT
STATEMENTS OF CASH FLOWS
For The Years Ended September 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash Flows from Operating Activities		
Cash Received from Customers	\$ 259,419	\$ 233,416
Payments to Suppliers	(110,836)	(264,648)
Payments for Employees and Taxes	(87,245)	(80,970)
Net Cash Provided (Used) by Operating Activities	<u>61,338</u>	<u>(112,202)</u>
Cash Flows from Capital and Related Financing Activities		
Capital Expenditures	(40,101)	
Interest Expense	(2,407)	(1,662)
Other Expense	(1,157)	(754)
Net Cash Used by Capital and Related Financing Activities	<u>(43,665)</u>	<u>(2,416)</u>
Cash Flows from Investing Activities		
Investment Income	6,050	8,688
Net Increase (Decrease) in Cash and C.E.	23,723	(105,930)
Cash and Cash Equivalents - Beginning	524,046	629,976
Cash and Cash Equivalents - End of Year	<u>\$ 547,769</u>	<u>\$ 524,046</u>
Components of Cash and Cash Equivalents		
Cash in Checking and Savings	\$ 80,856	\$ 20,682
Restricted Cash and Cash Equivalents:		
Capital Asset Assessments -		
Redwood Credit Union	466,913	503,364
Mendocino County		
Total Cash and Cash Equivalents	<u>\$ 547,769</u>	<u>\$ 524,046</u>
Reconciliation of Operating Loss to Net Cash Provided (Used) by Operating Activities		
Operating Income (Loss)	\$ (19,161)	\$ (6,491)
Depreciation and Amortization	34,888	34,325
Net Changes in Assets and Liabilities:		
Accounts Receivable	(3,307)	(2,697)
Prepaid Insurance	122	(2,089)
Accounts Payable	3,410	(5,575)
Accrued Payroll and Taxes	2,777	(1,255)
Accrued Legal Fees		(89,778)
Due to Redwood Coast Fire	42,609	(38,642)
Net Cash Provided (Used) by Operating Activities	<u>\$ 61,338</u>	<u>\$(112,202)</u>

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

IRISH BEACH WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
September 30, 2021 and 2020

The Irish Beach Water District (the District) was formed in 1967 under the provisions of the Water Code of the State of California for the purpose of providing water to properties within the District, which include the subdivision known as Irish Beach along the southern Mendocino County coast line.

Fire protection services were added by legislation in 1978 but were subsequently taken over by the Redwood Coast Fire Protection District as part of an annexation of that department. The fire department is not a component unit of the District.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Reporting Entity

Criteria used in determining the scope of the reporting entity includes financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters. The reporting entity consists of the District as the primary, and sole, reporting entity.

b. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The financial statements of the District are prepared in conformity with accounting principles generally accepted in the United States of America, as defined by the Government Accounting Standards Board (GASB), the independent and ultimate authoritative accounting and financial reporting standard-setting body for state and local governments. The District's reporting entity applies all relevant GASB pronouncements. Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.

The District is accounted for as an enterprise fund (proprietary fund type). A fund is an accounting entity with a self-balancing set of accounts established to record the financial position and results of operations of a specific governmental activity. Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The activities of enterprise funds closely resemble those of ongoing businesses in which the purpose is to conserve and add to basic resources while meeting operating expenses from current revenues. Enterprise funds account for operations that provide services on a continuous basis and are substantially financed by revenues derived from user charges.

IRISH BEACH WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
September 30, 2021 and 2020

The District distinguishes operating revenues and expenses from non-operating items. Operating revenues include revenues derived from services for usage and availability of water, and related activities. Operating expenses include all expenses applicable to the furnishing of these activities. Non-operating revenues and expenses include revenues and expenses not associated with the District's normal business of providing water services.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

c. Budgetary Accounting

An annual budget is adopted by the Board of Directors each fiscal year. The budget may be revised during the year to reflect unanticipated revenues or expenses. The budget is used for operating management and internal accounting control purposes, and is prepared on the modified cash basis of accounting.

d. Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits and with the county treasury, as well as short-term highly liquid investments with maturities of three months or less. State statutes authorize the District to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, and repurchase agreements.

e. Accounts Receivable

Accounts receivable represent amounts due for water services. All amounts are considered to be collectible, and no allowance for doubtful accounts has been recorded. Liens are placed on properties with outstanding balances. If accounts receivable do result in losses they are recognized when the amounts become determinable.

f. Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond the fiscal year-end are recorded as prepaid assets.

g. Restricted Assets

Assessments for capital improvements are considered restricted because their use is limited to future developments within the water system.

IRISH BEACH WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
September 30, 2021 and 2020

h. Capital Assets

Capital assets are recorded at cost. Major improvements and additions are charged to the related capital asset accounts. Improvements and additions which do not significantly improve or extend the life of the asset are charged against earnings in the period incurred. Donated capital assets are recorded at their estimated fair market value on the date received.

i. Depreciation

Depreciation is charged to expense for all capital assets; except land, right of ways, and any projects in progress. Projects in progress are considered depreciable upon completion of the related project.

Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets. The estimated useful lives are as follows:

Improvements and Infrastructure	20 - 40 years
Equipment and Vehicles	5 - 15 years
Office Equipment and Furniture	5 - 10 years

j. Net Position

Net position represents the difference between assets and liabilities. The District's net position is classified as follows:

Net Investment in Capital Assets – This represents the District's total investment in capital assets, net of accumulated depreciation, and reduced by any outstanding debt obligations related to those capital assets.

Restricted Net Position – Restricted net position represents resources which are legally or contractually obligated to be spent in accordance with restrictions imposed by external third parties.

Unrestricted Net Position – Unrestricted net position represents the net amount of assets and liabilities that is not included in the determination of the net investment in capital assets or restricted components of net position. Prepaid insurance is considered a non-spendable net position.

k. Measurement Uncertainty

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

IRISH BEACH WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
September 30, 2021 and 2020

I. Subsequent Events

Management has evaluated subsequent events through January 23, 2023, which is the date the financial statements were available to be issued. No material subsequent events have occurred since September 30, 2021 that would require recognition or disclosure in the financial statements.

NOTE 2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following at September 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Checking Accounts	\$ 80,856	\$ 20,682
Restricted:		
Money Market	35,448	75,161
County Treasury	<u>431,465</u>	<u>428,203</u>
	<u>466,857</u>	<u>503,364</u>
 Total	 <u>\$ 547,769</u>	 <u>\$ 524,046</u>

District deposits are fully insured or collateralized with securities held by the District or its agent in the District's name. The *California Government Code* requires California banks and savings and loan associations to secure local agency deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of a local agency's deposits.

NOTE 3. CAPITAL ASSETS

Following is a summary of changes in capital assets for the year ended September 30, 2021:

	Beginning <u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	Ending <u>Balance</u>
Improvements and Infrastructure	\$ 1,458,641	\$ 40,101	\$ -	\$ 1,498,742
Equipment	34,249			34,249
Office Equipment	<u>13,789</u>			<u>13,789</u>
Totals	1,506,679	\$ 40,101	\$ _____	1,546,780
Less: Accumulated Depreciation	<u>802,542</u>	<u>34,888</u>		<u>837,431</u>
Net Capital Assets	<u>\$ 704,137</u>			<u>\$ 709,349</u>

Depreciation expense for the year ended September 30, 2020 was \$34,325.

IRISH BEACH WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
September 30, 2021 and 2020

NOTE 4. DEFERRED REVENUE

The Deferred Revenue – Water Source Development account with a balance of \$313,605 represents assessments through September 30, 2016. The Court ordered a stop to collection of assessments for future water development. It is anticipated that when any appeals are final, the full amount of the water development funds will be returned to the property owners. See below for continued discussion.

NOTE 5. COMMITMENTS AND CONTINGENCIES

Alternate Water Source Development and Litigation

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 completed, and the SWRCB has denied any additional extensions and revoked the permit. The District retained legal counsel for this issue, and, after numerous appeals and discussions, it was determined that the revocation will stand, in large part because the District cannot control rate of development needed to support the project.

In November of 2008 the District passed a resolution officially abandoning the project. It was determined by the District that the funds originally accumulated for this project could be held as restricted for other water source developments. This contention was challenged in a legal suit filed in 2009. A landowner in the District brought this action among numerous causes of action, and included the District's four Proposition 218 Assessments.

Proposition 218, which was approved by the voters in November 1996, and amended Article 13 of the State Constitution, regulates the District's ability to impose, increase, and extend taxes, assessments, and fees. New, increased, or extended taxes, assessments, and fees are subject to the provisions of Proposition 218. This decision was upheld and broadly interpreted to include water rates and charges in the recent court decision of *Bighorn-Desert View Water Agency vs. Virjil* which states "an agency may not adopt a rate increase if written protests against the proposed fee or charge are presented by a majority" of the affected property owners. In addition, the District's ability to finance the services for which the taxes, assessments, and fees are imposed in the future may be impaired. However, management believes it will be able to maintain its current level of service due to slow development rate.

IRISH BEACH WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
September 30, 2021 and 2020

The Court found that the District's Mallo Pass / Alternative Water Supply Assessment ended in 2009 when the Mallo Pass permit was rescinded. The entire fund was ordered by the Court to be refunded to all landowners in the District. The District is appealing the judgement, but anticipates returning the full funding. Total legal expenses paid out of the Mallo Pass / Alternative Water Supply Assessment of \$80,810 that were not allowed by the court ruling were paid back out of operating cash.

Continued Litigation

In addition to the above, additional combined actions by the same plaintiff have been brought against the District for (1) inverse condemnation, (2) various allegations surrounding alleged violations of a 2002 settlement agreement and (3) deficiencies in the District's share of road maintenance fees. On August 18, 2014, the trial for inverse condemnation was held and the District was found liable for \$401,000 in damages. The District has appealed, and the Plaintiffs are currently seeking approximately \$734,000 in attorney's fees and costs. The District presently believes there is a good likelihood of prevailing on appeal.

The third phase of this trial was completed in 2016. In this third phase of trial, Plaintiffs alleged the invalidity of certain of the District's assessments, seek damages for alleged road maintenance issues, and allege the District breached a 2002 Settlement Agreement between the parties. The trial resulted in an award of breach of contract against the District for \$133,649. The Court also ordered various refunds of the District's Proposition 218 assessment funds totaling an amount greater than \$2,000 in the aggregate. This judgement has also been appealed.

To date the District has spent and accrued over \$695,000 in legal fees on these and other issues. Legal fees to the District for the years ended September 30, 2021 and 2020 were \$31,399 and 64,264, respectively. The ultimate outcome of this litigation cannot presently be determined. Judgements are being appealed. Accordingly, adjustments, if any, that might result from the resolution of these matters have not been reflected in these financial statements.

NOTE 6. COVID-19

In March 2020, the World Health Organization declared the outbreak of the novel coronavirus, COVID-19, a pandemic. The spread of COVID-19, and the resulting work and travel restrictions, have not negatively impacted the District from its primary business of supplying water to local residences and businesses within its jurisdiction.