

**DEVILS LAKE WATER IMPROVEMENT DISTRICT
OREGON**

**FINANCIAL STATEMENTS
and
INDEPENDENT ACCOUNTANT'S REVIEW REPORT**

as of

JUNE 30, 2011

Prepared by
Signe Grimstad
Certified Public Accountant
530 NW 3rd, Suite E
PO Box 1930
Newport, OR 97365

DEVILS LAKE WATER IMPROVEMENT DISTRICT, OREGON

BOARD OF DIRECTORS

<u>Title</u>	<u>Name</u>
Chair	Brian Green 1490 NE Lake Drive Lincoln City, OR 97367
Vice Chair	Joe Barnes 1727 East Devils Lake Road Otis, OR 97368
Secretary/Treasurer	Randy Weldon 1400 NE Lake Drive Lincoln City, OR 97367
Board Member	Jack Strayer 6895 SW Preslynn Drive Portland, OR 97225
Board Member	David Skirvin 490 SW 169 th Place Beaverton, OR 97006

STAFF

District Manager	Paul Robertson PO Box 974 Lincoln City, OR 97367
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DEVILS LAKE WATER IMPROVEMENT DISTRICT, OREGON

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GRIMSTAD & ASSOCIATES

Certified Public Accountants

November 23, 2011

Newport Office:
P.O. Box 1930
530 N.W. 3rd St. Ste E
Newport, OR 97365
(541) 265-5411
Fax (541) 265-9255
info@grimstad-assoc.com

Lincoln City Office:
1349 N.W. 15th Street
Lincoln City, OR 97367
(541) 994-5252
Fax (541) 994-2105

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

Board of Directors
Devils Lake Water Improvement District
PO Box 974
Lincoln City, Oregon 97367

I have reviewed the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Devils Lake Water Improvement District as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. A review includes primarily applying analytical procedures to management's financial data and making inquiries of the management of Devils Lake Water Improvement District. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, I do not express such an opinion.

The management of the Devils Lake Water Improvement District 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 designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

My responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require me to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. I believe that the results of my procedures provide a reasonable basis for my report.

Based on my review, I am not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 2 through 8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. Such information has not been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, but was compiled from information that is the representation of management, without audit or review. Accordingly, I do not express an opinion or any other form of assurance on the supplementary information.

My review was made primarily for the purpose of expressing a conclusion that there are no material modifications that should be made to the financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America. The information included in the accompanying supplemental information, page 21, is presented only for supplementary analysis purposes. Such information has been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, and I am not aware of any material modifications that should be made thereto.


Signe Grimstad
Certified Public Accountant

Members:
AICPA, OSCP & OAIA

**Devils Lake Water Improvement District
Management Discussion and Analysis**

This section is presented by the management of the Devils Lake Water Improvement District. The narrative is intended to assist readers of the financial statements by providing an overview and analysis of the highlights of these statements and a comparison to the previous year's financial statements.

Financial Highlights

The Total Net Assets of the District were \$548,554 as of June 30, 2011. This included cash holdings in the amount of \$482,109 (+2.1% over last year). Also accounted are the taxes owed to the District, credit for prepaid expenses, and the Net Capital Assets within the District, less the few outstanding liabilities the District held at the close of the fiscal year (See Table 1).

The increase in the Total Net Assets can largely be attributed to sound financial planning and management by the District. Revenues in the General Fund again outpaced spending in the previous fiscal year, allowing for savings to be transferred into reserve. Capital Assets did decline marginally (-9.5%), largely due to depreciation, but overall the District again saw appreciable net growth (+2.3%). Notably, this net gain of \$12,450 occurred with significant spending within the reserve fund. A total of \$61,419 were spent in the Improvement Fund (See Table 2). These dollars were used to bolster recently developed programs and their management, namely the Septic Tank Revitalization and the Save our Shorelines (SOS) programs. Additionally, a small grant from the Oregon Department of Environmental Quality was secured and allowed the development of a database for the District's monitoring, past and present.

Table 1. Total Net Asset comparison for two most recent fiscal years.

Net Assets & Balance Sheet as of June 30, 2011	Government Activities FY 2010-2011	Government Activities FY 2009-2010	Difference	% Change
ASSETS				
Cash	\$482,109	\$472,156	\$9,953	2.1%
Taxes Receivable	\$20,541	\$18,886	\$1,655	8.8%
Prepaid expense	\$1,019	\$1,019	\$0	0.0%
Capital Assets, Net	\$46,811	\$51,745	(\$4,934)	-9.5%
Total Assets	\$550,480	\$543,806	\$6,674	1.2%
LIABILITIES				
Accounts Payable	\$0	\$6,596	(\$6,596)	-100.0%
Payroll Taxes Payable	\$1,926	\$1,106	\$820	74.1%
Deferred Revenue	\$0	\$0	\$0	No Change
Total Liabilities	\$1,926	\$7,702	(\$5,776)	-75.0%
Liquidity of Assets				
Invested in Capital Assets	\$46,811	\$51,745	(\$4,934)	-9.5%
Unrestricted Assets	\$501,743	\$484,359	\$17,384	3.6%
*Total Net Assets	\$548,554	\$536,104	\$12,450	2.3%

*Government activities increased the District's net assets by \$12,450 during the fiscal year. This was done while providing the continuation of existing programs including lake level management and water quality monitoring, as well as with the continued expansion of new programs including Septic Tank Revitalization and Save our Shorelines.

Most of the Total Net Assets for the year, \$501,743 are considered liquid and are thus unrestricted. This is an increase of \$17,384 (3.6%) over last year (See Table 1). This percent change continues at least a six year positive growth trend in the Unrestricted Assets of the District. This is also believed to be the first time in the District's history that it has amassed over a half million dollars of unrestricted assets. These funds are available to meet the District's ongoing obligations and future projects which are speculated to be considerable.

Table 2. Summary of Total Net Assets at end of the fiscal year.

Revenue, Expenses & Change in Net Assets ending June 30, 2010	Government Activities FY 2010-2011	Government Activities FY 2009-2010	Change	% Change
<i>Revenue</i>				
Property Taxes (See Auditor's Note 2)	\$189,988	\$189,814	\$174	0.1%
Interest	\$2,468	\$3,147	(\$679)	-21.6%
Miscellaneous	\$14,480	\$0	\$14,480	N/A
<i>Total</i>	\$206,936	\$192,961	\$13,975	7.2%
<i>Expenses</i>				
Watershed Improvements & Operation	\$132,408	\$134,516	(\$2,108)	-1.6%
Improvement Fund	\$61,419	\$28,005	\$33,414	119.3%
Capital Outlay (See Auditor's Note 2)	\$659	\$679	(\$20)	0.0%
<i>Total</i>	\$194,486	\$163,200	\$31,286	19.2%
Net Revenue	\$12,450	\$29,761	(\$17,311)	-58.2%
<i>Total Net Assets</i>				
Beginning FY	\$536,104	\$506,343	\$29,761	5.9%
Ending FY	\$548,554	\$536,104	\$12,450	2.3%

Overview of Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances in a manner similar to a private-sector business and include the Statement of Net Assets and the Statement of Activities.

The Statement of Net Assets and Governmental Fund Balance Sheet presents information on all of the District assets and liabilities, with the difference between the two reported as net assets. Over time increases or decreases in net assets, may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balances presents information showing how the District's Net Assets changed during the most recent fiscal year. Expenditures for operations and capital outlays are summarized as are revenues, primarily those from the property tax levies that support the District, but earnings from investments and revenues from grants

are included as well. The line items of Fund Balance/Net Assets – Beginning of Year and End of Year relate the positional change of individual funds over the course of the year.

The Statement (or Schedule) of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual compares the budgeted amounts appropriated at the beginning of the year, changes made to the budget during the year, and actual expenditures. Revenues, Expenditures, Transfers, and Reserves are presented for each of the funds of the District independently, starting with the General Fund followed by the Special Revenue Fund, which for the District is known as the Improvement Fund.

Notes to financial statements are an integral part of the financial statements. The notes provide explanations of accounting practices used by the District. The notes further provide clarity and detail as to how monies were spent or accumulated through the year by the District.

The Supplemental Section of the report provides a detailed schedule of property tax transactions for the year. The schedule separates the current year's levy from delinquent taxes owed the District. The balance is a rendering of collectable taxes and thus is revenue for the District in the upcoming year.

The Compliance Section of the report holds the comments and disclosures from the auditor as required by state law. Topics covered include Internal Controls, Accounting Records, Deposit Insurance, Debt Law, Budget Compliance, Insurance & Fidelity Bonds, Public Contracts, Outside Funding, Investments, and Warrants.

State of the District

Devils Lake Water Improvement District's assets exceeded liabilities by \$548,554 at the close of the fiscal year. Of that amount, \$501,743 were considered unrestricted assets with the difference tied up in capital investments. Of the unrestricted assets most are held in a Special Reserve Fund called the Improvement Fund, which as of June 30, 2011 had a \$334,072 balance. The remaining funds are spread between the General Fund and the Unappropriated Ending Fund Balance.

Traditionally the Improvement Fund has grown from interest and from transfers from the General Fund following budget surpluses. However, with the economic downturn, interest rates have plummeted, and thus growth in the Improvement Fund has largely been a result of a budgeted transfer. This year, \$36,130 were available to move to reserve. Notably, since its inception in 2007, the Improvement Fund had largely not been actively utilized other than as a savings account. In the previous fiscal year however that changed, and two items, the RARE program and a Shoreline Planting Guide, were funded with reserve dollars. In the most recent year reflected by this review the RARE program, which provided some funding for new staff, was expanded into a fulltime position. Septic Tank Revitalization and the Save our Shorelines programs developed originally under the RARE program are now managed by the new Project Manager. This position is entirely funded from the Improvement Fund. Other activities in the Improvement Fund included the receipt of \$14,480 in federal grant monies to fund the creation of a database for the District. These dollars were then spent on expert consultants who both evaluated the existing data and created the database. In total, \$61,419 were spent and \$52,374 were brought into the fund, thus the Improvement showed a \$9,045 decline in its fund balance.

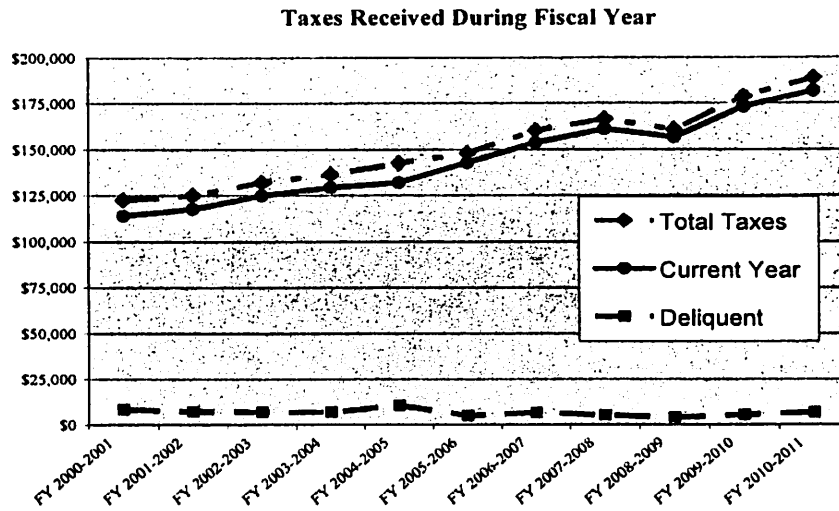


Figure 1. Devils Lake Water Improvement District Tax Revenue since 2000.

The other major fund in the District is the General Fund, which serves as the operational fund for the District. Property taxes collected on behalf of the District are entered into this fund. For the most part, the Devils Lake Water Improvement District has been rather insulated from the recent recession and has had secure, stable funding. This is largely due to state laws that limit the District's growth in better economic times. From Figure 1, it can be seen that the tax revenue has increased steadily throughout nearly all of the last decade. A slight dip in tax revenues did occur in FY 2008-2009, which suggested a possible contraction of the District, but that trend has not carried forth into the two most recent periods.

As to the specifics, in the last fiscal year \$188,640 worth of property taxes were collected (See Auditor's Note 2). This was a 5.0% increase over last year. This continued growth in tax receipts (up 10.5% in the previous year) has offset the dip seen in FY 2008-2009. The average annual change in tax receipts over the last 11 years, as depicted by the linear trend line in Figure 2, is approximately five percent.

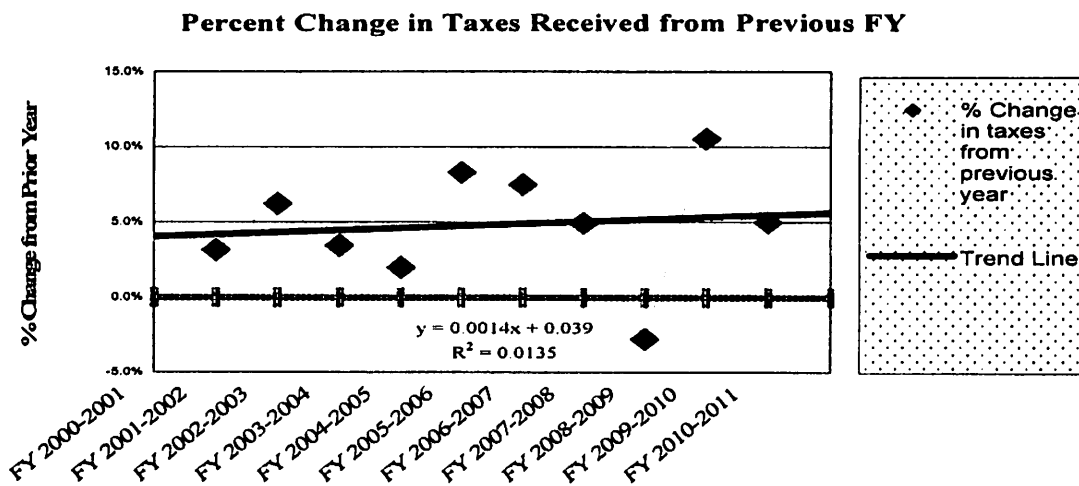


Figure 2. Percent change in taxes received by the Devils Lake Water Improvement District since 2000. The District's average over eleven years is depicted by the linear trend line, with a current value of 5% of annual growth.

The last of the core funding mechanisms that exists in the District is an intra-fund account, the Unappropriated Ending Fund Balance (UEFB). The UEFB is actually part of the General Fund and serves as a revolving savings account. The District uses this account in the first half of the subsequent fiscal year whilst it awaits tax receipts from the current year. The bolstering of the UEFB to \$75,000 a several years prior enabled the District to operate through December of the fiscal year, without incurring debt. A further infusion of an additional \$25,000 last year has extended that horizon while at the same time providing resources to the District for additional projects in the first two quarters of its fiscal year.

Capital Assets

Devils Lake Water Improvement District's investment in capital assets amounted to \$46,811 (net of accumulated depreciation). The primary capital assets of the District are the water impoundment structure placed at the outlet of the lake, the easement acquired by the District to access that property, and the District's vehicle. Other capital is invested in office furnishings, computer equipment, and various pieces of scientific equipment. In the last fiscal year capitol outlay included the purchase of a refurbished digital projector.

Long Term Debt

Devils Lake Water Improvement District currently has no long term debt.

Economic Factors and Forecasted Finances

With nine quarters of concurrent growth the current US economy is showing signs of recovery. However significant losses were seen, particularly in the housing sector, which the District depends on for its tax base. Unemployment, while beginning to drop, also remains high. Poor employment opportunities often lead to increases in foreclosures which can further slow the housing sector generally. This could ultimately lead to reduced revenue for the District. However, as stated previously, the District is largely insulated from periodic economic swings and the outlook for continued growth seems to be reasonable assumption at this time. Ultimately, declining real estate markets can have a staggering effect on the taxable property values in the District, but currently the real market values continue to largely outpace the assessed values for which taxes are calculated.

More explicitly, taxes are assessed using a state regulated formula involving the Maximum Assessed Value (MAV) of a parcel, not the Real Market Value (RMV) which is more volatile. Oregon law restricts the increase of a property's maximum assessed value to 3% a year, notwithstanding qualifying improvements to the property, such as additions. Real market property values since the restrictions were put in place have largely outpaced this modest and regulated 3% growth. As a result generally a large gap between the real market values and the maximum assessed values exists. Recent data shows that Lincoln County residential properties maximum assessed values were at 64.5% of the real market values on average. For properties just in the Devils Lake Water Improvement District boundaries this figure was even lower at 63%. Ten percent of the residential properties, however, were assessed at the Real Market Value, and thus taxes assessed to those properties are directly impacted by a slow housing market. Nonetheless, for the vast majority of properties, the Maximum Assessed Values are well below the Real Market Value, and thus a 3% growth in assessed values can be expected on 90% of the properties in the District resulting in a more or less steady

funding source for the District into the foreseeable future. It is noteworthy that the possibility for tax delinquency may cause for a delay in receipt of a fraction of the revenue stream of the District. However, these taxes are eventually recovered in subsequent years, and as seen in Figure 1, contribute only nominally to the annual revenues.

Next Year's Budget

Budgeting for the year following this review year has been completed. This is inherently the case as the budgeting process for FY 2011-2102 began in January of 2011, a full six months ahead of the close of books for the year ending June 30, 2011. Planning for the 2012-2013 fiscal year is just beginning, and thus this review will guide future budgeting.

For FY 2011-2012 the budget passed by the Devils Lake Water Improvement District Board of Directors incorporated many of the same revenue and expenditure estimates as the previous year for the General Fund. These included funding for monitoring, lake level management, public relations, personal services, office, insurance, accounting, and large budget transfers for contingencies and into reserve. All of these provisions are supported by annual tax assessments, and thus do not reduce the District's reserves. Appropriations from the Special Reserve Fund, the Improvement Fund, however have changed and include funding of a full time Project Manager. This was largely an extension of the RARE Program, which was also funded out of the Improvement Fund.

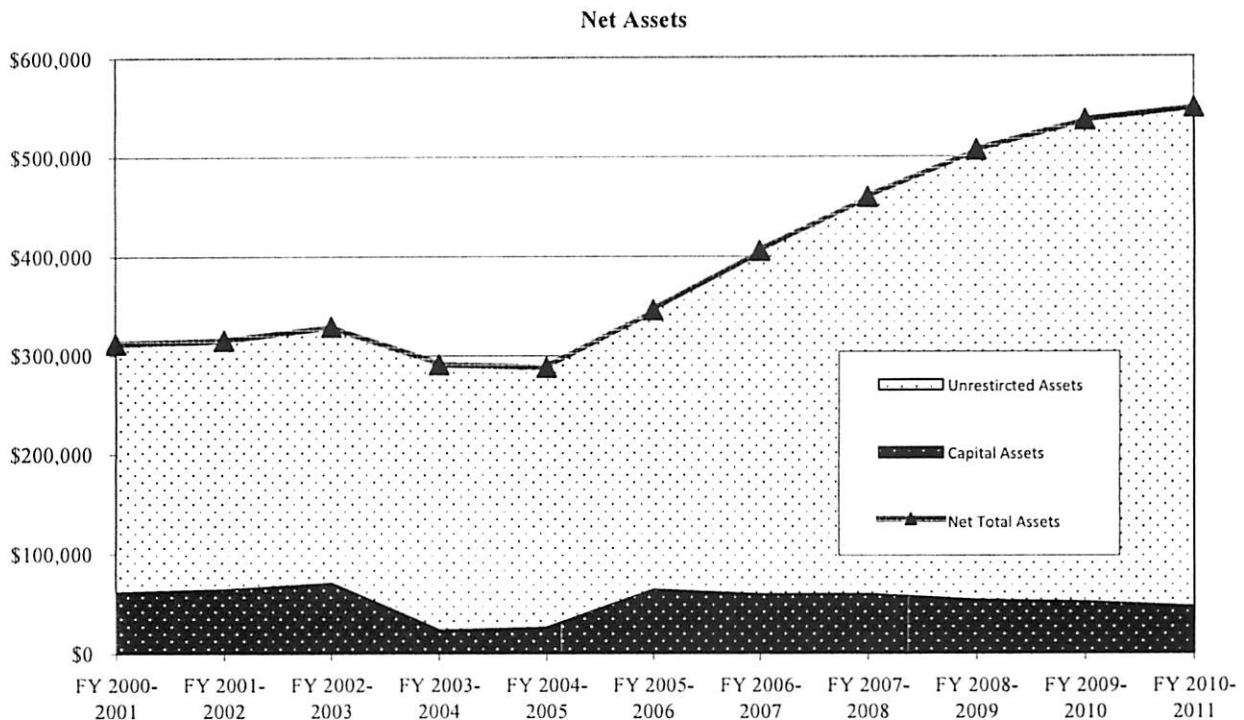


Figure 3. Devils Lake Water Improvement District's Net Assets with six years of growth shown.

Other appropriations made in this fund include Watershed Protection and Vegetation Management. Some of these reserve funds are actively being used for the Save our Shorelines Program and for an Erosion Study of the lake. Further appropriations have been made for funds associated with the District's efforts to secure the right to replant sterile grass carp in the lake for vegetation control. This includes funds for a scientific

study and a consultant to lead the appeal process, plus a large capital outlay for the purchase of the fish themselves. As a result, it is expected then that the Improvement Fund would carry a significantly lesser balance in the upcoming years as resources are utilized. Separately, the District also has budgeted the capacity to borrow money to support the potential creation of the Center for Applied Freshwater Ecology, better known as The Cafe. Should such monies be sought the District would incur a debt service which was budgeted for through the General Fund. Longer-term, with the sun-setting of Lincoln City's Urban Renewal District in 2014 substantial growth in the District is expected which could help absorb the cost associated with such a project. Approximately \$25,000 annually will become available to the District in the 2014-20115 fiscal year. As for now, assets continue to be accumulating by the District with significant growth demonstrated since 2005 (See Figure 3). This again is evident in the most current year even with the planned increased spending from the District's special reserve fund.

The District's full budget can be found online at www.DLWID.org; a short summary of the appropriations is provided here:

Devils Lake Water Improvement District FY 2011-2012

General Fund

Personal Services	76,000
Materials & Services	78,951
Debt Service	30,000
Capital Outlay	1,250
Contingencies	4,644
Transfers to other Funds	<u>32,051</u>
Fund Total	\$222,896

The Improvement Fund

Personal Services	47,000
Materials & Services	101,465
Capital Outlay	<u>515,000</u>
Fund Total	\$663,465

TOTAL Appropriated Funds	<u>\$886,361</u>
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NON-APPROPRIATED BUDGET REQUIREMENTS

General Fund (Unappropriated Ending Fund Balance)	100,000
The Improvement Fund	<u>117,863</u>
TOTAL Non-Appropriated Funds	<u>\$217,863</u>

Requests for Information

This financial report is designed to only provide a general overview of the Devils Lake Water Improvement District's finances, for those with a greater interest in the District's finances please contact the District directly, or visit the District's website at www.DLWID.org for a link to the full budget and this review. Questions or requests for additional information should be addressed to the Devils Lake Water Improvement District, PO Box 974, Lincoln City, Oregon 97367.

DEVILS LAKE WATER IMPROVEMENT DISTRICT, OREGON

**STATEMENT OF NET ASSETS AND GOVERNMENTAL FUND BALANCE SHEET
as of June 30, 2011**

	General Fund	Improvement Fund	Total	Adjustment (Note 2)	Statement of Net Assets
ASSETS					
Cash & cash equivalents	\$ 148,037	\$ 334,072	\$ 482,109	\$ 0	\$ 482,109
Taxes receivable	20,541	0	20,541	0	20,541
Prepaid expenses	1,019	0	1,019	0	1,019
Capital assets, net of accum. depreciation	0	0	0	46,811	46,811
Total assets	<u>\$ 169,597</u>	<u>\$ 334,072</u>	<u>\$ 503,669</u>	<u>46,811</u>	<u>550,480</u>
LIABILITIES					
Payroll taxes payable	\$ 1,926	\$ 0	\$ 1,926	\$ 0	\$ 1,926
Deferred revenues	17,615	0	17,615	(17,615)	0
Total liabilities	<u>19,541</u>	<u>0</u>	<u>19,541</u>	<u>(17,615)</u>	<u>1,926</u>
FUND BALANCES/NET ASSETS					
Fund Balances					
Committed - Lake improvements	0	334,072	334,072	(334,072)	0
Unassigned	150,056	0	150,056	(150,056)	0
Total fund balance	<u>150,056</u>	<u>334,072</u>	<u>484,128</u>	<u>(484,128)</u>	<u>0</u>
Total liabilities & fund balances	<u>\$ 169,597</u>	<u>\$ 334,072</u>	<u>\$ 503,669</u>	<u>(503,669)</u>	<u>0</u>
Net assets					
Invested in capital assets, net of related debt				46,811	46,811
Unrestricted				501,743	501,743
Total net assets				<u>\$ 548,554</u>	<u>\$ 548,554</u>

DEVILS LAKE WATER IMPROVEMENT DISTRICT, OREGON

**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES for the Year Ended June 30, 2011**

	<u>General Fund</u>	<u>Improvement Fund</u>	<u>Total</u>	<u>Adjustment (Note 2)</u>	<u>Statement of Activities</u>
FUNCTIONS/PROGRAMS					
Expenditures/expenses					
Current					
Water improvements & protection - operation	\$ 126,974	\$ 61,419	\$ 188,393	\$ 5,434	\$ 193,827
Capital outlay	1,159	0	1,159	(500)	659
Total expenditures/expenses	<u>128,133</u>	<u>61,419</u>	<u>189,552</u>	<u>4,934</u>	<u>194,486</u>
Program revenues					
Net program loss					<u>0</u>
					<u>(194,486)</u>
General revenues					
Property taxes	188,640	0	188,640	1,348	189,988
Grants	0	14,480	14,480	0	14,480
Investment earnings	704	1,764	2,468	0	2,468
Total general revenues	<u>189,344</u>	<u>16,244</u>	<u>205,588</u>	<u>1,348</u>	<u>206,936</u>
Excess of revenues over expenditures	61,211	(45,175)	16,036	(3,586)	12,450
OTHER FINANCING SOURCES (USES)					
Transfers	<u>(36,130)</u>	<u>36,130</u>	<u>0</u>	<u>0</u>	
Excess of revenues over expenditures	25,081	(9,045)	16,036	(16,036)	
Change in net assets	0	0	0	12,450	12,450
Fund Balance/Net Assets - Beg. of year	<u>124,975</u>	<u>343,117</u>	<u>468,092</u>	<u>68,012</u>	<u>536,104</u>
Fund Balance/Net Assets - End of year	<u>\$ 150,056</u>	<u>\$ 334,072</u>	<u>\$ 484,128</u>	<u>\$ 64,426</u>	<u>\$ 548,554</u>

See accompanying notes and independent accountant's review report.

DEVILS LAKE WATER IMPROVEMENT DISTRICT, OREGON

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL for the Year Ended June 30, 2011**

GENERAL FUND

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES				
Property taxes - current	\$ 177,336	\$ 177,336	\$ 181,778	\$ 4,442
Property taxes - delinquent	6,000	6,000	6,862	862
Interest	443	443	704	261
Grants	1	1	0	(1)
Donations	1	1	0	(1)
Total revenues	<u>183,781</u>	<u>183,781</u>	<u>189,344</u>	<u>5,563</u>
EXPENDITURES				
Personal services	76,000	76,000	73,909	2,091
Materials & services	88,536	80,603	53,065	27,538
Capital outlay	1,002	2,177	1,159	1,018
Debt service	1	1	0	1
Contingency	18,242	0	0	0
Total expenditures	<u>183,781</u>	<u>158,781</u>	<u>128,133</u>	<u>30,648</u>
Excess (def) of revenues over expenditures	0	25,000	61,211	36,211
OTHER FINANCING SOURCES (USES)				
Transfers to Improvement Fund	<u>(36,130)</u>	<u>(36,130)</u>	<u>(36,130)</u>	<u>0</u>
Excess (def) of revenues over expenditures	(36,130)	(11,130)	25,081	36,211
Unappropriated ending fund balance	(75,000)	(100,000)	0	100,000
FUND BALANCE - Beg of year	<u>111,130</u>	<u>111,130</u>	<u>124,975</u>	<u>13,845</u>
FUND BALANCE - End of year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 150,056</u>	<u>\$ 150,056</u>

See accompanying notes and independent accountant's review report.

DEVILS LAKE WATER IMPROVEMENT DISTRICT, OREGON

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL for the Year Ended June 30, 2011**

IMPROVEMENT FUND

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES				
Interest	\$ 1,882	\$ 1,882	\$ 1,764	\$ (118)
Proceeds from loans	1	1	0	(1)
Grants & donations	<u>85,001</u>	<u>85,001</u>	<u>14,480</u>	<u>(70,521)</u>
Total revenues	<u>86,884</u>	<u>86,884</u>	<u>16,244</u>	<u>(70,640)</u>
EXPENDITURES				
Personal services	35,000	39,450	36,110	3,340
Materials & services	179,875	175,425	25,309	150,116
Capital outlay	<u>8,000</u>	<u>8,000</u>	<u>0</u>	<u>8,000</u>
Total expenditures	<u>222,875</u>	<u>222,875</u>	<u>61,419</u>	<u>161,456</u>
Excess (def) of revenues over expenditures	(135,991)	(135,991)	(45,175)	90,816
OTHER FINANCING SOURCES (USES)				
Transfer from General Fund	<u>36,130</u>	<u>36,130</u>	<u>36,130</u>	<u>0</u>
Excess (def) of revenues over expenditures	(99,861)	(99,861)	(9,045)	90,816
Unappropriated ending fund balance	(248,662)	(248,662)	0	248,662
FUND BALANCE - Beginning of year	<u>348,523</u>	<u>348,523</u>	<u>343,117</u>	<u>(5,406)</u>
FUND BALANCE - End of year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 334,072</u>	<u>\$ 334,072</u>

See accompanying notes and independent accountant's review report.

DEVILS LAKE WATER IMPROVEMENT DISTRICT, OREGON

NOTES TO FINANCIAL STATEMENTS as of June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Devils Lake Water Improvement District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

Organization

The Devils Lake Water Improvement District is a municipal corporation and therefore is exempt from federal taxes. It operates under the provisions of a special district, authorized by Oregon Revised Statute 552, for the purpose of maintenance and improvement of Devils Lake. The District was formed in 1984 by order of the Lincoln County Commissioners and ratified by voters.

There are various other governmental agencies and special service districts which provide services within the District's boundaries. However, the District is not financially accountable for any of these entities and accordingly their financial information is not included in these financial statements.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been adjusted from these statements. Governmental activities are financed primarily through property taxes and proceeds from borrowings. Major individual governmental funds are reported as separate columns in the fund financial statements. A fund is a separate accounting entity with a self-balancing set of accounts.

The statement of activities demonstrates the degree to which the direct expense of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues. The District has no indirect expense.

The financial activities of the District is conducted within the following major funds:

GOVERNMENTAL FUNDS

General Fund - This is the general operating fund of the District. The expenditures cover the normal operations.

Improvement Fund - The Improvement fund is to provide resources for watershed management, vegetation management, capital improvements, and other improvements deemed necessary by the Board of Directors. The primary funding sources are grants, transfer from the General Fund, and interest income.

DEVILS LAKE WATER IMPROVEMENT DISTRICT, OREGON

NOTES TO FINANCIAL STATEMENTS as of June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Basis of Accounting

The government-wide financial statements are reported using the economic resources 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. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, claims and judgements, are recorded only when payment is due.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Restricted Assets

Assets whose use is restricted for construction, debt service or by other agreement are segregated on the balance sheet. Restricted resources are expended first to fund appropriations for which those restrictions were to be utilized.

Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The District's investment policies are governed by Oregon statutes. The statutes authorize the District to invest primarily in general obligations of the U.S. Government and its agencies, certain bonded obligations of Oregon municipalities, bank repurchase agreements, bankers' acceptances, high-grade commercial paper and the State Treasurer's Local Government Investment Pool (LGIP). See Note 4A.

Interfund Transactions

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Capital Assets

Capital assets, which include improvements and equipment are reported in the applicable governmental activities columns in the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are valued at their estimated fair market value at the date of the donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

DEVILS LAKE WATER IMPROVEMENT DISTRICT, OREGON

NOTES TO FINANCIAL STATEMENTS
as of June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Capital Assets

Capital assets are defined in the District's capitalization policy as having a historic cost or market value in excess of \$500 and an estimated useful life in excess of one year.

Capital assets are depreciated using the straight-line method over the following estimated useful lives.

	<u>Years</u>
Control Structure	31
Equipment	5 - 10

Compensated Absences

As management is on a contract salary basis, there is no accumulated vacation leave liability to recognize at June 30.

Reserved Fund Balance/Restricted Net Assets

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Restricted net assets reported in the Statement of Net Assets represent amounts for which constraints were imposed by creditors, grantors, contributors or laws or regulations.

Fund Balance Classifications

Fund balances may be committed by resolution of the District's Board of Directors. Similarly a fund balance commitment may be modified or rescinded by Board resolution. The District considers committed fund balances to have been spent when an expenditure is incurred for which committed or unassigned fund balances could be used.

Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The governmental fund balance sheet includes a reconciliation of differences between fund balances and net assets. The elements are as follows:

Capital assets, net of accumulated depreciation are not reported in the governmental funds	<u>Balance</u> \$ 46,811
Receivables deferred under modified accrual basis is revenue under the accrual basis	<u>17,615</u>
Net adjustment to reconcile fund balance - governmental funds to arrive at net assets	<u>\$ 64,426</u>

DEVILS LAKE WATER IMPROVEMENT DISTRICT, OREGON

NOTES TO FINANCIAL STATEMENTS
as of June 30, 2011

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS - Continued

The governmental fund statement of revenues, expenditures, and changes in fund balance includes a reconciliation of differences between fund balances and net assets. The elements are as follows:

	<u>Balance</u>
Depreciation expense amortizes the cost of acquired capital assets over the life of the asset	\$ (5,434)
Capital assets are not expensed in the year of purchase	500
Property taxes are recognized on a modified accrual basis	<u>1,348</u>
 Net adjustment to reconcile fund balance - governmental funds to arrive at net assets	 <u>\$ (3,586)</u>

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budget Law and Practice

The District legally adopts an annual budget for each governmental fund prior to July 1 through passage of a resolution in accordance with the legal requirements set forth in the Oregon Local Budget Law. The resolution authorizes fund appropriations at the following control levels: personal services, materials and services, capital outlay, debt service, interfund transactions, operating contingency, and all other requirement levels. Expenditures cannot legally exceed appropriations at these control levels.

Budgets are prepared using a modified accrual basis of accounting. The legally adopted budget may be amended when unexpected modifications are required in estimated revenues and appropriations. Unencumbered appropriations for annually budgeted funds lapse at fiscal year-end.

Unexpected additional resources may be added to the budget through the use of a supplemental budget. The supplemental budget process requires hearings before the public, publications in newspapers, and approval by the Board of Directors. Only the Board of Directors may modify original and supplemental budgets by the use of appropriation transfers between the levels of control. In addition, Oregon Local Budget Law provides certain specific exceptions to the supplemental budget process to increase appropriations. Such transfers and increases require Board's approval by adoption of a resolution. Budget appropriation amounts shown in the financial statements include the original and revised budget appropriations as approved by the Board of Directors. Appropriations are limited to a single fiscal year; therefore, all spending authority of the District lapse at year end.

NOTE 4 - DETAILED NOTES ON ALL FUNDS

A. DEPOSITS AND INVESTMENTS

Cash and investments as of June 30, are classified in the accompanying Statement of Net Assets as follows:

	<u>Balance</u>
Cash & cash equivalents	<u>\$ 482,109</u>

DEVILS LAKE WATER IMPROVEMENT DISTRICT, OREGON

NOTES TO FINANCIAL STATEMENTS
as of June 30, 2011

NOTE 4 - DETAILED NOTES ON ALL FUNDS - Continued

A. DEPOSITS AND INVESTMENTS

Cash, cash equivalents and investments as of June 30, consist of the following:

	<u>Balance</u>
Deposits with financial institutions	\$ (961)
Investments - external pool	<u>483,070</u>
Total cash & investments	<u>\$ 482,109</u>

Deposits

At the end of the fiscal year, the District's total deposits with financial institutions have a bank value of \$9,104, all covered under NCUSIF.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. At the end of the fiscal year, the District has deposits of \$941 insured by the National Credit Union Share Insurance Fund. As required by Oregon Revised Statutes, deposits in excess of federal depository insurance were held at qualified depositories for public funds. All qualified depositories for public funds are included in the multiple financial institution collateral pool that is maintained by and in the name of the Office of the State Treasurer. As a result the District has no exposure to custodial credit risk for deposits with financial institutions. The District does not have a formally adopted deposit policy for custodial credit risk.

Investments

As of June 30, the District held the following investment:

	<u>Fair Value</u>	<u>Weighted average maturity in days</u>	<u>% of investment portfolio</u>	<u>Credit Risk</u>
Local Government Investment Pool	<u>\$483,070</u>	1	100	Unrated

The "weighted average maturity in days" assumes that all investments are held to maturity.

The Oregon State Treasurer maintains the Oregon Short Term Fund (OSTF), of which the Local Government Investment Pool (LGIP) is a part. Participation by local governments is voluntary. The State of Oregon investment policies are governed by statute and the Oregon Investment Council. In accordance with Oregon statutes, funds are invested as a prudent investor would do, exercising reasonable care, skill and caution. LGIP was created to offer a short-term investment alternative to Oregon local governments and it is not registered with the U.S. Securities and Exchange Commission. The investments are regulated by the OSTF and approved by the Oregon Investment Council. At the end of the fiscal year, the fair value of the District's deposits with the LGIP approximately equals the value of the pool shares. The OSTF financial statements are available at <http://ost.state.or.us>.

DEVILS LAKE WATER IMPROVEMENT DISTRICT, OREGON

**NOTES TO FINANCIAL STATEMENTS
as of June 30, 2011**

NOTE 4 - DETAILED NOTES ON ALL FUNDS - Continued

A. DEPOSITS AND INVESTMENTS

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk

Oregon Statutes limit investments to general obligations of U.S. government and its agencies, certain bonded obligations of Oregon municipalities, bank repurchase agreements, high-grade commercial paper and the State Treasurer's Local Government Investment Pool. The District has no investment policy that would further limit its investment choices.

Concentration of credit risk

At June 30, the District had 100% of total investments in the LGIP. The District places no limit on the amount the District may invest in any one issuer.

B. RECEIVABLES

Receivables at June 30, consist of the following:

	<u>Balance</u>
Property taxes	<u>\$ 20,541</u>

Property Taxes

Property taxes are levied and become a lien on all taxable property as of July 1. Taxes are levied on November 15 with collection dates: November 15, February 15, and May 15. Discounts are allowed if the amount due is received by November 15. Taxes unpaid and outstanding on May 16 are considered delinquent.

Uncollected property taxes are deemed to be substantially collectible or recoverable through liens; therefore, no allowance for uncollectible taxes has been established. Taxes collected within approximately sixty days of the fiscal year end are recognized as revenue, and the remaining balance of property taxes receivable is recorded as deferred revenue as it is not considered available to financial operations of the current period.

DEVILS LAKE WATER IMPROVEMENT DISTRICT, OREGON

NOTES TO FINANCIAL STATEMENTS
as of June 30, 2011

NOTE 4 - DETAILED NOTES ON ALL FUNDS - Continued

C. CAPITAL ASSETS

Capital asset activity for the year ended June 30, was as follows:

	<u>7/01</u> <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>6/30</u> <u>Balance</u>
Capital assets not being depreciated				
Land easement	\$ 25,000	\$ 0	\$ 0	\$ 25,000
Capital assets being depreciated				
Control structure	25,856	0	0	25,856
Equipment	<u>73,095</u>	<u>500</u>	<u>(6,060)</u>	<u>67,535</u>
Total depreciable at historical cost	<u>98,951</u>	<u>500</u>	<u>(6,060)</u>	<u>93,391</u>
Accumulated depreciation				
Control structure	(19,253)	(834)	0	(20,087)
Equipment	<u>(52,953)</u>	<u>(4,600)</u>	<u>6,060</u>	<u>(51,493)</u>
Total accumulated depreciation	<u>(72,206)</u>	<u>(5,434)</u>	<u>6,060</u>	<u>(71,580)</u>
Total depreciable, net	<u>26,745</u>	<u>(4,934)</u>	<u>0</u>	<u>21,811</u>
Capital assets, net	<u>\$ 51,745</u>	<u>\$ (4,934)</u>	<u>\$ 0</u>	<u>\$ 46,811</u>

Total depreciation expenses for the year is \$5,434.

D. INTERFUND TRANSFER

The composition of interfund transfers is as follows:

<u>Transfer In</u>	<u>Transfers Out</u>
<u>Improvement Fund</u>	<u>General Fund</u>
	<u>\$ 36,130</u>

This transfer was made to build reserves for future capital expenditures.

E. OPERATING LEASE

The District signed a five-year agreement effective April 1, 2008 to lease office space, with options to renew for three additional years. Minimum lease payments under the agreement are as follows:

	<u>Balance</u>
2012	\$ 14,616
2013	<u>7,416</u>
Total	<u>\$ 22,032</u>

Lease payments for 2011 totaled \$14,190.

DEVILS LAKE WATER IMPROVEMENT DISTRICT, OREGON

NOTES TO FINANCIAL STATEMENTS
as of June 30, 2011

NOTE 4 - DETAILED NOTES ON ALL FUNDS - Continued

F. PENSION PLAN

The District contributes to a Simplified Employee Pension Plan. Contributions made during this fiscal year were \$5,137.

G. OTHER INFORMATION

Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which it carries commercial insurance. Annual premiums are paid for its property, liability, automobile physical damage, and employee bond.

Evaluation of Subsequent Events

Management has evaluated subsequent events through November 23, 2011, the date on which the financial statements were available to be issued.

**DEVILS LAKE WATER IMPROVEMENT DISTRICT
OREGON**

SUPPLEMENTAL SECTION

DEVILS LAKE WATER IMPROVEMENT DISTRICT, OREGON

SCHEDULE OF PROPERTY TAX TRANSACTIONS
for the Year Ended June 30, 2011

<u>Levy Year</u>	<u>Balance 7/1</u>	<u>Current Levy</u>	<u>Interest & Tax Roll Adjustments</u>	<u>Interest & Tax Collection</u>	<u>Balance 6/30</u>
2010-11	\$ 0	\$ 194,590	\$ (5,027)	\$ 178,022	\$ 11,541
2009-10	11,079	0	(241)	5,974	4,864
2008-09	4,489	0	242	2,101	2,630
2007-08	2,043	0	236	1,365	914
2006-07	739	0	150	744	145
2005-06	117	0	8	57	68
2004-05	47	0	(4)	17	26
2003-04	37	0	0	2	35
Prior Years	<u>335</u>	<u>0</u>	<u>(2)</u>	<u>15</u>	<u>318</u>
Totals	<u><u>\$ 18,886</u></u>	<u><u>\$ 194,590</u></u>	<u><u>\$ (4,638)</u></u>	<u><u>\$ 188,297</u></u>	<u><u>\$ 20,541</u></u>

See independent accountant's review report.

**DEVILS LAKE WATER IMPROVEMENT DISTRICT
OREGON**

COMPLIANCE SECTION

GRIMSTAD & ASSOCIATES
Certified Public Accountants

Newport Office:
P.O. Box 1930
530 N.W. 3rd St. Ste E
Newport, OR 97365
(541) 265-5411
Fax (541) 265-9255
info@grimstad-assoc.com

Lincoln City Office:
1349 N.W. 15th Street
Lincoln City, OR 97367
(541) 994-5252
Fax (541) 994-2105

November 23, 2011

**COMMENTS AND DISCLOSURES OF INDEPENDENT
ACCOUNTANT REQUIRED BY STATE STATUTE**

Board of Directors
Devils Lake Water Improvement District
PO Box 974
Lincoln City, Oregon

The Minimum Standards for Reviews of Oregon Municipal Corporations, prescribed by the Secretary of State in cooperation with the Oregon State Board of Accountancy, enumerate the financial statements, schedules, comments and disclosures required in review reports. Required comments and disclosures related to my examination of such statements and schedules follow.

Compliance with laws, regulations, contracts and grants applicable to Devils Lake Water Improvement District is the responsibility of Devils Lake Water Improvement District's management. As part of planning and performing my review of Devils Lake Water Improvement District's financial statements, I considered its compliance with certain provisions of laws, regulations, contracts and grants. However, my objective was not to provide an opinion on overall compliance with such provisions. Accordingly, I do not express such an opinion. Provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules OAR 162-040-0110 to 162-040-0150, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, are set forth below:

- The accounting records and related internal control structure.
- The amount and adequacy of collateral pledged by depositories to secure the deposit of public funds.
- The requirements relating to debt.
- The requirements relating to the preparation, adoption and execution of the annual budgets for fiscal years 2011 and 2012.
- The requirements relating to insurance and fidelity bond coverage.
- The appropriate laws, rules and regulations pertaining to programs funded wholly or partially by other governmental agencies.
- The requirements pertaining to the use of revenue from taxes on motor vehicle use fuel funds.
- The statutory requirements pertaining to the investment of public funds.
- The requirements pertaining to the awarding of public contracts and the construction of public improvements.

Members:
AICPA, OSCPA & OAIA

The results of my tests indicate that with respect to the items tested, Devils Lake Water Improvement District complied, in all material respects, except as follows:

Local Budget Law

For the 2011-12 budget the amount appropriated for the Improvement Fund in the budget resolution was \$200 less than the budget detail.

Other Comments

Insurance and Fidelity Bonds

I have examined the District's insurance and fidelity bond coverage at June 30, 2011. I ascertained that such policies appeared to be in force and comply with legal requirements relating to insurance and fidelity bond coverage mandated by the Board and State statutes, however, I am not competent by training to comment on the adequacy of the insurance policies covering District owned property.

Accountability for Independently Elected Officials

No funds were received or disbursed by any independently elected official during the current year.

I noted a matter that I reported to management of Devils Lake Water Improvement District in a separate letter dated November 23, 2011.

This report is intended for the information and use of the Board of Directors and management for Devils Lake Water Improvement District, and the Secretary of State, Division of Audits of the State of Oregon. This report should not be used by anyone other than these specified parties.



SIGNE GRIMSTAD
Certified Public Accountant

