

**DEVILS LAKE WATER IMPROVEMENT DISTRICT
OREGON**

Audit Report

as of

JUNE 30, 2008

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	Jack Strayer 6895 SW Preslynn Drive Portland, OR 97225
Secretary/Treasurer	Smokey Aschenbrenner 1735 NE 10 th St. Lincoln City, OR 97367
Board Member	Dave Juenke 2132 NE Lake Drive Lincoln City, OR 97367
Board Member	Otis Winchester 2601 NE Holmes Road Lincoln City, OR 97367

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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December 12, 2008

Independent Auditor's Report

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

I have audited the accompanying financial statements of the governmental activities and each major fund of Devils Lake Water Improvement District as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. My responsibility is to express opinions 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 opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Devils Lake Water Improvement District as of June 30, 2008, and the respective changes in financial position, and the respective budgetary comparison for the General Fund and Improvement Fund, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying required supplementary information, management's discussion and analysis, 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 consisted 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.

My audit was made for the purpose of forming opinions on the financial statements that collectively comprise the Devils Lake Water Improvement District's basic financial statements. The supplementary information, schedule of property tax transactions, is presented for purposes of additional analysis and is not a required part of the basic financial statements of Devils Lake Water Improvement District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Signe Grimstad
Certified Public Accountant

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 overview 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 \$463,490 as of 30 June 2008. This included the \$403,855 held in the various bank accounts owned by the District, taxes owed to the District, expenses prepaid by the District, Capital Assets within the District less any outstanding liabilities (See Table 1). At the end of the fiscal year, Capital Assets existed at \$59,635, mostly unchanged from last year. Total Liabilities amounted to \$4,274 with no long-term liabilities. Overall, Total Net Assets increased by 13.3% from a year ago. The gain in Total Net Assets of \$53,970 occurred with a 6.0% increase in revenue and a 0.0% increase in expenditures (See Table 2).

Table 1. Total Net Assets & Balance Sheet FY 2007-2008.

Net Assets & Balance Sheet As of 30 June 2008	Government Activities FY 2007 - 2008	Government Activities FY 2006 - 2007	Difference	% Change
ASSETS				
Cash, and Current Other Assets	\$403,855	\$347,913	\$55,942	16.1%
Capital Assets, Net	\$59,635	\$59,640	(\$5)	0.0%
Total Assets	\$463,490	\$407,553	\$55,937	13.7%
LIABILITIES				
Accounts Payable	\$1,233	\$349	\$884	253.3%
Payroll Taxes Payable	\$3,041	\$1,958	\$1,083	55.3%
Deferred Revenue	\$0	\$0	\$0	N/A
Total Liabilities	\$4,274	\$2,307	\$1,967	85.3%
Liquidity of Assets				
Invested in Capital Assets	\$59,635	\$59,640	(\$5)	0.0%
Unrestricted Assets	\$399,581	\$345,607	\$53,974	15.6%
*Total Net Assets	\$459,216	\$405,246	\$53,970	13.3%

*Government activities increased the District's net assets by \$53,970 during fiscal year.

Much of the Total Net Assets for the year, \$399,581 are considered liquid and thus are unrestricted. These funds are available to meet the District's ongoing obligations. This is an increase of \$53,974 (+15.6%) over last year. This percent change continues a three year positive growth trend in the Unrestricted Assets of the District.

Table 2. Fiscal Year-end Summary of Total Net Assets.

Revenue, Expenses & Change in Net Assets Ending 30 June 2008	Government Activities FY 2007-2008	Government Activities FY 2006-2007	Change	% Change
Revenue				
Property Taxes	\$165,373	\$155,431	\$9,942	6.4%
Interest	\$16,218	\$15,794	\$424	2.7%
Miscellaneous	\$2,001	\$1,997	\$4	0.2%
Total	\$183,592	\$173,222	\$10,370	6.0%
Expenses				
Watershed Improvements & Operation	\$129,502	\$113,571	\$15,931	14.0%
Improvement Fund	\$120	\$0	\$120	N/A
Capital Outlay (See Note 2)	\$0	\$0	\$0	0.0%
Total	\$129,622	\$113,571	\$16,051	14.1%
Net Revenue	\$53,970	\$59,651	(\$5,681)	-9.5%
Less Rounding Errors		(\$1)		
Total Net Assets				
Beginning FY	\$405,246	\$345,596	\$59,650	17.3%
Ending FY	\$459,216	\$405,246	\$53,970	13.3%

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 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 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 the property tax levy that supports the District, but also earnings from investments. 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 of Revenues, Expenditures, and Changes in Fund Balance 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, starting with the General Fund followed by the Special Revenue Funds.

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 past, delinquent taxes owed the District. The balance is a rendering of collectable taxes and thus 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 \$459,216 at the close of the fiscal year. Of that amount, \$399,581 are unrestricted assets. Most of these assets are in a Special Reserve Fund called the Improvement Fund. This fund was established from the balances in the now dissolved Special Reserve Funds, the Watershed Protection Fund, the Vegetation Management Fund and the Capital Improvement Fund. The Improvement Fund has grown with interest and from transfers from the General Fund following budget surpluses. The Improvement Fund is to be used exclusively for watershed and lake restoration projects beyond the funding capacity of the General Fund. By resolution, expenditures in the General Fund are to be met by the annual tax levies assessed against properties in the District, plus interest or through other funding mechanisms such as grants or donations. One other core funding mechanism exists in the District, an intra-fund account, the Unappropriated Ending Fund Balance (UEFB). The UEFB is actually inside the General Fund and serves as a savings account for the next fiscal year whilst the District awaits tax levy resources during the year. The bolstering of the UEFB to \$75,000 a year has enabled the District to operate through December of the fiscal year, without incurring debt.

Capital Assets

Devils Lake Water Improvement District's investment in capital assets as of 30 June 2008 amounted to \$59,635 (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. Capital Outlays in the last fiscal year included a digital projector replacement, GIS software, a lake level recorder, and an apparatus for conducting cyanobacteria toxin analyses.

Long Term Debt

Devils Lake Water Improvement District has no long term debt; however a Debt Servicing Budget Item has been created within the General Fund. A total of \$20,000 was appropriated from the General Fund to payoff what is currently unassumed debt. Potential debt within the District is anticipated to be the financing of large capital improvements.

Economic Factors and Next Year's Budget and Finances

The economic downturn and current recession are not expected to have a large impact on the resources available to the District. This is largely due to limits from laws set in the 1990's, Measures 5 and 50. Oregon law restricts the increase of a property's maximum assessed value to 3% a year, not withstanding qualifying improvements to the property, such as additions. Real market property values since the restriction have largely outpaced this modest and regulated 3% growth, and as a result a large gap between the real market values and the maximum assessed values has been created. In Lincoln County residential properties maximum assessed values are 55% of the real market values on average. For commercial and industrial properties the values are 68% and 100% respectively. Even with the recent sharp decline in the real estate market (already reflected in these numbers) and the additional expected drop of 10%-12%, the maximum assessed values remain significantly less than the market values for properties in the Devils Lake Water Improvement District. As a result the District can continue to expect a steady and increasing funding source into the foreseeable future.

The District adopted a budget for fiscal year 2008- 2009 of \$1,149,835. The resources for this budget are in part from prospective grant monies anticipated by the District into the Special Revenue Fund. However resources and requirements in the General Fund Budget have been limited to what is reasonably expected during the course of the current fiscal year from the tax levy, back taxes and interest, estimated to be \$170,544 in total. Appropriated spending from the General Fund includes Personnel Services in the amount \$72,057, Material & Services of \$77,660, \$20,000 in Debt Servicing, \$1 in Capital Outlay, and \$828 in contingency monies. Operation expenses include Accounting, Consulting, Elections, Erosion & Sediment Control, Equipment, Insurance & Bonds, Lake Level Management, Legal, Monitoring, Office Operations, Public relations, Training, and Transportation.

As to Special Reserve Fund monies, the District has increased its budget to reflect potential grant monies. Additional resources may result from loans and donations which have also been estimated into the budget. Receipt of such resources though will dictate the spending the District will be able to afford within the special revenue fund. The actual tangible, liquid dollars total \$266,176, and are held in a special account with the Oregon Treasury. Again, it should be noted that all Special Reserve Funds were combined into one fund called the Improvement Fund. This combination was done to allow the District greater flexibility in its spending as well as to save the District time and money handling its finances.

Appropriations in the Special Funds have been made to account for the whole of the dollars potentially received by the District. The bulk of the appropriations have been made into Capital Outlay in the anticipation of acquiring infrastructure to facilitate whole lake circulation. Additional resources have been directed to watershed protection, vegetation management and consulting.

Requests for Information

The financial report is designed to only provide a general overview of the Devils Lake Water Improvement District's finances, for all those with an 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. 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, 2008

	General Fund	Improvement Fund	Total	Adjustment (Note 2)	Statement of Net Assets
ASSETS					
Cash & cash equivalents	\$ 122,119	\$ 269,132	\$ 391,251	\$ 0	\$ 391,251
Taxes receivable	11,585	0	11,585	0	11,585
Prepaid expenses	1,019	0	1,019	0	1,019
Capital assets, net of accum. depreciation	0	0	0	59,635	59,635
Total assets	<u>134,723</u>	<u>269,132</u>	<u>403,855</u>	<u>59,635</u>	<u>463,490</u>
LIABILITIES					
Accounts payable	1,233	0	1,233	0	1,233
Payroll taxes payable	3,041	0	3,041	0	3,041
Deferred revenues	951	0	951	(951)	0
Total liabilities	<u>5,225</u>	<u>0</u>	<u>5,225</u>	<u>(951)</u>	<u>4,274</u>
FUND BALANCES/NET ASSETS					
Fund Balances					
Unreserved	129,498	269,132	398,630	(398,630)	0
Total liabilities & fund balances	<u>\$ 134,723</u>	<u>\$ 269,132</u>	<u>\$ 403,855</u>	<u>(403,855)</u>	<u>0</u>
Net assets					
Invested in capital assets, net of related debt				59,635	59,635
Unrestricted				399,581	399,581
Total net assets				<u>\$ 459,216</u>	<u>\$ 459,216</u>

See accompanying notes to financial statements

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, 2008**

	General Fund	Improvement Fund	Total	Adjustment (Note 2)	Statement of Activities
FUNCTIONS/PROGRAMS					
Expenditures/expenses					
Current					
Water improvements & protection - operation	\$ 123,201	\$ 0	\$ 123,201	\$ 6,301	\$ 129,502
Maintenance fee	0	120	120	0	120
Capital outlay	6,297	0	6,297	(6,297)	0
Total expenditures/expenses	<u>129,498</u>	<u>120</u>	<u>129,618</u>	<u>4</u>	<u>129,622</u>
Program revenues					<u>0</u>
Net program loss					<u>(129,622)</u>
General revenues					
Property taxes	166,424	0	166,424	(1,051)	165,373
Investment earnings	5,086	11,132	16,218	0	16,218
Miscellaneous	2,001	0	2,001	0	2,001
Total general revenues	<u>173,511</u>	<u>11,132</u>	<u>184,643</u>	<u>(1,051)</u>	<u>183,592</u>
Excess of revenues over expenditures	44,013	11,012	55,025	(1,055)	53,970
OTHER FINANCING SOURCES (USES)					
Transfers	(258,120)	258,120	0	0	0
Excess of revenues over expenditures	(214,107)	269,132	55,025	(55,025)	0
Change in net assets	0	0	0	53,970	53,970
Fund Balance/Net Assets - Beg. of year	<u>343,605</u>	<u>0</u>	<u>343,605</u>	<u>61,641</u>	<u>405,246</u>
Fund Balance/Net Assets - End of year	<u>\$ 129,498</u>	<u>\$ 269,132</u>	<u>\$ 398,630</u>	<u>\$ 60,586</u>	<u>\$ 459,216</u>

See accompanying notes to financial statements

DEVILS LAKE WATER IMPROVEMENT DISTRICT, OREGON

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL for the Year Ended June 30, 2008

GENERAL FUND

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES				
Property taxes - current	\$ 152,906	\$ 152,906	\$ 161,089	\$ 8,183
Property taxes - delinquent	3,493	3,493	5,335	1,842
Interest	3,500	3,500	5,086	1,586
Miscellaneous	2,100	2,100	2,001	(99)
Total revenues	<u>161,999</u>	<u>161,999</u>	<u>173,511</u>	<u>11,512</u>
EXPENDITURES				
Personal services	68,885	68,885	69,131	(246)
Materials & services	65,930	69,413	54,070	15,343
Capital outlay	1	3,600	6,297	(2,697)
Debt service	20,000	20,000	0	20,000
Contingency	7,082	0	0	0
Total expenditures	<u>161,898</u>	<u>161,898</u>	<u>129,498</u>	<u>32,400</u>
Excess (def) of revenues over expenditures	101	101	44,013	43,912
OTHER FINANCING SOURCES (USES)				
Transfers to Improvement Fund	<u>(258,120)</u>	<u>(258,120)</u>	<u>(258,120)</u>	<u>0</u>
Excess (def) of revenues over expenditures	(258,019)	(258,019)	(214,107)	43,912
Unappropriated ending fund balance	(75,000)	(75,000)	0	75,000
FUND BALANCE - Beginning of year	<u>333,019</u>	<u>333,019</u>	<u>343,605</u>	<u>10,586</u>
FUND BALANCE - End of year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 129,498</u>	<u>\$ 129,498</u>

See accompanying notes to financial statements

DEVILS LAKE WATER IMPROVEMENT DISTRICT , OREGON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL for the Year Ended June 30, 2008

IMPROVEMENT FUND

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES			
Interest	\$ 13,462	\$ 11,132	\$ (2,330)
Proceeds from loans	150,000	0	(150,000)
Miscellaneous	<u>375,000</u>	<u>0</u>	<u>(375,000)</u>
Total revenues	<u>538,462</u>	<u>11,132</u>	<u>(527,330)</u>
EXPENDITURES			
Personal services	1	0	1
Materials & services	2,125	120	2,005
Capital outlay	<u>794,456</u>	<u>0</u>	<u>794,456</u>
Total expenditures	<u>796,582</u>	<u>120</u>	<u>796,462</u>
Excess (def) of revenues over expenditures	(258,120)	11,012	269,132
OTHER FINANCING SOURCES (USES)			
Transfer from General Fund	<u>258,120</u>	<u>258,120</u>	<u>0</u>
Excess (def) of revenues over expenditures	0	269,132	269,132
FUND BALANCE - Beginning of year	<u>0</u>	<u>0</u>	<u>0</u>
FUND BALANCE - End of year	<u>\$ 0</u>	<u>\$ 269,132</u>	<u>\$ 269,132</u>

See accompanying notes to financial statements

DEVILS LAKE WATER IMPROVEMENT DISTRICT, OREGON

NOTES TO FINANCIAL STATEMENTS as of June 30, 2008

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.

DEVILS LAKE WATER IMPROVEMENT DISTRICT, OREGON

NOTES TO FINANCIAL STATEMENTS as of June 30, 2008

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 and claims and judgments, 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.

Cash and Cash Equivalents

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).

The District's investment in the State Treasurer's Local Government Investment Pool is stated at fair value.

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."

DEVILS LAKE WATER IMPROVEMENT DISTRICT, OREGON

NOTES TO FINANCIAL STATEMENTS as of June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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.

Fund Equity

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.

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.	\$ 59,635
Receivables deferred under modified accrual basis is revenue under the accrual basis.	<u>951</u>
Net adjustment to reconcile fund balance - governmental funds to arrive at net assets	<u>\$ 60,586</u>

DEVILS LAKE WATER IMPROVEMENT DISTRICT, OREGON

NOTES TO FINANCIAL STATEMENTS as of June 30, 2008

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:

Acquisition of Capital Assets is recorded as Capital Outlay in Governmental Funds, however the Statement of Activities does not reflect the expense	\$ 6,297
Depreciation expense amortizes the cost of acquired Capital Assets over the life of the asset	(5,694)
Gains and losses arising from the disposal of existing capital assets are not recorded in governmental funds but are reported in the Statement of Net Assets	(607)
Property taxes are recognized on a modified accrual basis	<u>(1,051)</u>
Net adjustment to reconcile fund balance - governmental funds to arrive at net assets	<u>\$ (1,055)</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.

DEVILS LAKE WATER IMPROVEMENT DISTRICT, OREGON

NOTES TO FINANCIAL STATEMENTS
as of June 30, 2008

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - Continued

Excess of Expenditures Over Appropriations

The District exceeded appropriations in the General Fund by \$246 for personal services and by \$2,697 for capital outlay.

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>\$ 391,251</u>

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

	<u>Balance</u>
Deposits with financial institutions	\$ 120
Investments	<u>391,131</u>
Total cash & investments	<u>\$ 391,251</u>

Deposits

At the end of the fiscal year, the District's total deposits with financial institutions have a bank value of \$120. For deposits in excess of federal depository insurance, Oregon Revised Statutes require the depository institution to maintain on deposit with a custodian, in a collateral pool, securities having a value not less than 25% of the outstanding certificates of participation which are issued by the collateral pool manager. The certificates of participation are issued in the District's name and are held by the District.

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 \$120 insured by the National Credit Union Share Insurance Fund. 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>\$391,131</u>	1	100	Unrated

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

DEVILS LAKE WATER IMPROVEMENT DISTRICT, OREGON

NOTES TO FINANCIAL STATEMENTS as of June 30, 2008

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. Currently, the District's only investment is in the State of Oregon's Local Government Investment Pool.

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 approximated cost. The OSTF financial statements are available at <http://ost.state.or.us>.

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.

The LGIP's S&P weighted average credit quality for its investments at the end of the fiscal year was AA.

Concentration of credit risk

The District places no limit on the amount the District may invest in any one issuer.

The LGIP's concentration of credit risk at the end of the fiscal year included: commercial paper (19.0%), corporate notes (27.0%), certificates of deposits (1.5%) and U.S. agency securities (52.5%).

B. RECEIVABLES

Receivables at June 30, consist of the following:

	<u>Balance</u>
Property taxes	<u>\$ 11,585</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, 2008

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>70,484</u>	<u>6,297</u>	<u>(7,263)</u>	<u>69,518</u>
Total depreciable at historical cost	<u>96,340</u>	<u>6,297</u>	<u>(7,263)</u>	<u>95,374</u>
Accumulated depreciation				
Control structure	(16,751)	(834)	0	(17,585)
Equipment	<u>(44,949)</u>	<u>(4,860)</u>	<u>6,655</u>	<u>(43,154)</u>
Total accumulated depreciation	<u>(61,700)</u>	<u>(5,694)</u>	<u>6,655</u>	<u>(60,739)</u>
Total depreciable, net	<u>34,640</u>	<u>603</u>	<u>(608)</u>	<u>34,635</u>
Capital assets, net	<u>\$ 59,640</u>	<u>\$ 603</u>	<u>\$ (608)</u>	<u>\$ 59,635</u>

D. INTERFUND TRANSFER

The composition of interfund transfers is as follows:

	<u>Transfers Out</u> <u>General</u> <u>Fund</u>
Transfer In	
Improvement Fund	<u>\$ 258,120</u>

Transfer from the General Fund was made to establish the Improvement Fund in July 2007.

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>
2009	\$ 13,392
2010	13,776
2011	14,190
2012	14,616
2013	7,416
Total	<u>\$ 63,390</u>

Lease payments for 2008 totaled \$9,747.

DEVILS LAKE WATER IMPROVEMENT DISTRICT, OREGON

NOTES TO FINANCIAL STATEMENTS
as of June 30, 2008

NOTE 4 - DETAILED NOTES ON ALL FUNDS - Continued

F. PENSION PLAN

The District has contributed to a Simplified Employee Pension Plan. Contributions made during this fiscal year were \$4,800.

G. OTHER INFORMATION

Accountability for Independently Elected Officials

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

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.

**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, 2008

Levy Year	Balance 7/1	Current Levy	Interest & Tax Roll Adjustments	Interest & Tax Collection	Balance 6/30
2007-08	\$ 0	\$ 168,948	\$ (5,473)	\$ 156,466	\$ 7,009
2006-07	5,332	0	816	3,656	2,492
2005-06	2,062	0	180	1,050	1,192
2004-05	1,120	0	14	734	400
2003-04	354	0	247	514	87
2002-03	98	0	5	27	76
2001-02	77	0	7	20	64
2000-01	61	0	3	4	60
Prior Years	218	0	0	13	205
Totals	<u>\$ 9,322</u>	<u>\$ 168,948</u>	<u>\$ (4,201)</u>	<u>\$ 162,484</u>	<u>\$ 11,585</u>

December 12, 2008

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

To Board of Directors
Devils Lake Water Improvement District
Lincoln City, Oregon

I have audited the financial statements of the governmental-type activities and each major fund of Devils Lake Water Improvement District as of and for the year ended June 30, 2008, and have issued my report thereon dated December 12, 2008. I conducted my audit in accordance with auditing standards generally accepted in the United States and the provisions of the Minimum Standards for Audits of Oregon Municipal Corporations, prescribed by the Secretary of State, and Auditing Standards, issued by the American Institute of Certified Public Accountants. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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 obtaining reasonable assurance about whether Devils Lake Water Improvement District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, 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 162-10-000 to 162-10-330, 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 2008 and 2009.
- 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.

The results of my tests indicate that with respect to the items tested, Devils Lake Water Improvement District complied, in all material respects, with the provisions referred to above except for the following:

As part of my audit of the basic financial statements, I made a study and evaluation of accounting systems and controls as required by auditing standards generally accepted in the United States of America. The purpose of my study and evaluation was to determine the nature, timing and extent of the auditing procedures necessary for expressing an opinion on Devils Lake Water Improvement District's basic financial statements. My study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control of Devils Lake Water Improvement District taken as a whole. My study and evaluation disclosed no condition that I believe to be a significant deficiency or material weakness. However, I noted certain control deficiencies that I have reported to management in my separate letter dated December 12, 2008.

In the General Fund, expenditure for personal services exceeded budget by \$246 and expenditure for capital outlay exceeded budget by \$2,697. This is reported in Note 3 to Devils Lake Water Improvement District's financial statements.

This report is intended for the information 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. However, this report is a matter of public record and its distribution is not limited.

SIGNE GRIMSTAD
Certified Public Accountant