

**DEVILS LAKE WATER IMPROVEMENT DISTRICT
OREGON**

Audit Report

as of

JUNE 30, 2009

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
------------------	--

DEVILS LAKE WATER IMPROVEMENT DISTRICT, OREGON

TABLE OF CONTENTS

INTRODUCTORY SECTION

- Title Page
- List of Officers
- Table of Contents

FINANCIAL SECTION

	<u>Page</u>
Independent Auditor's Report	1
Management's Discussion and Analysis	2-7
Basic Financial Statements	
Statement of Net Assets and Governmental Fund Balance Sheet	8
Statement of Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balances	9
Major Funds	
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual	
General Fund	10
Improvement Fund	11
Notes to Financial Statements	12-19

SUPPLEMENTAL SECTION

Schedule of Property Tax Transactions	20
---	----

COMPLIANCE SECTION

Comments and Disclosures of Independent Auditor Required by State Statute	21-22
---	-------

GRIMSTAD & ASSOCIATES

Certified Public Accountants

PO Box 1930
530 NW 3rd St., Ste. E
Newport, OR 97365

December 28, 2009

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, 2009, 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, 2009, 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

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 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 \$506,343 as of June 30, 2009. This included cash holdings in the amount of \$445,152 (+13.8% over last year). Also included are the taxes owed to the District, credit for prepaid expenses, and the Net Capital Assets within the District, less the few outstanding liabilities (See Table 1).

The increase in the Total Net Assets can largely be attributed to spending being outpaced by revenues, allowing for savings to be transferred into reserve. Capital Assets however declined (-9.9%), largely due to depreciation. Overall the District again saw double digit growth (+10.3%). Notably, this gain of \$47,127 occurred with a -4.0% loss in revenue, but with generally even spending from the year prior (See Table 2).

Most of the Total Net Assets for the year, \$452,619 are considered liquid and are thus unrestricted. These funds are available to meet the District's ongoing obligations. This is an increase of \$53,038 (13.3%) over last year. This percent change continues at least a four year positive growth trend in the Unrestricted Assets of the District.

Table 1. Total Net Assets & Balance Sheet FY 2008-2009.

Net Assets & Balance Sheet As of June 30, 2009	Government Activities FY 2008 - 2009	Government Activities FY 2007 - 2008	Difference	% Change
ASSETS				
Cash	\$445,152	\$391,251	\$53,901	13.8%
Taxes Receivable	\$9,129	\$11,585	(\$2,456)	-21.2%
Prepaid expense	\$1,019	\$1,019	\$0	0.0%
Capital Assets, Net	\$53,724	\$59,635	(\$5,911)	-9.9%
Total Assets	\$509,024	\$463,490	\$45,534	9.8%
LIABILITIES				
Accounts Payable	\$1,372	\$1,233	\$139	11.3%
Payroll Taxes Payable	\$1,309	\$3,041	(\$1,732)	-57.0%
Deferred Revenue	\$0	\$0	\$0	No Change
Total Liabilities	\$2,681	\$4,274	(\$1,593)	-37.3%
Liquidity of Assets				
Invested in Capital Assets	\$53,724	\$59,635	(\$5,911)	-9.9%
Unrestricted Assets	\$452,619	\$399,581	\$53,038	13.3%
*Total Net Assets	\$506,343	\$459,216	\$47,127	10.3%

*Government activities increased the District's net assets by \$47,127 during the fiscal year.

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

Revenue, Expenses & Change in Net Assets Ending June 30, 2009	Government Activities FY 2008-2009	Government Activities FY 2007-2008	Change	% Change
Revenue				
Property Taxes (See Auditor's Note 2)	\$164,769	\$165,373	(\$604)	-0.4%
Interest	\$11,541	\$16,218	(\$4,677)	-28.8%
Miscellaneous	\$0	\$2,001	(\$2,001)	-100.0%
Total	\$176,310	\$183,592	(\$7,282)	-4.0%
Expenses				
Watershed Improvements & Operation	\$129,065	\$129,502	(\$437)	-0.3%
Improvement Fund	\$120	\$120	\$0	N/A
Capital Outlay (See Auditor's Note 2)	\$0	\$0	\$0	0.0%
Total	\$129,185	\$129,622	(\$437)	-0.3%
Net Revenue	\$47,125	\$53,970	(\$6,845)	-12.7%
Total Net Assets				
Beginning FY	\$459,218	\$405,246	\$53,972	13.3%
Ending FY	\$506,343	\$459,216	\$47,127	10.3%

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 \$506,343 at the close of the fiscal year. Of that amount, \$452,619 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, 2009 had a balance of \$321,686. 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 from the General Fund in the amount of \$46,400.

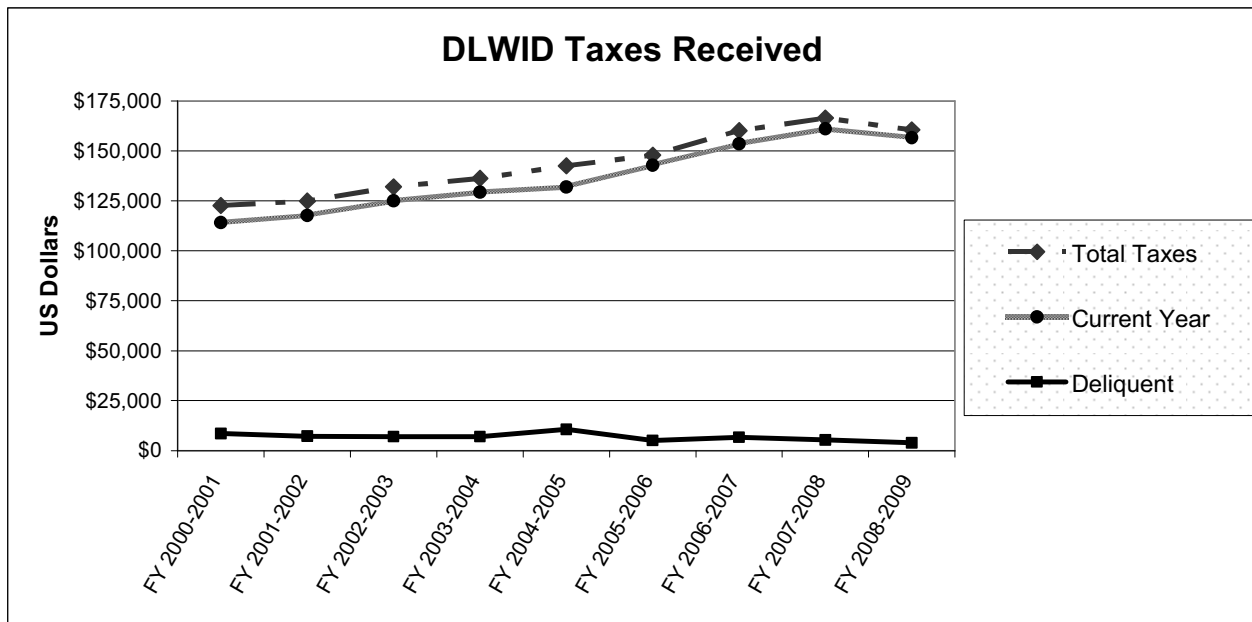


Figure 1. Devils Lake Water Improvement District Tax Revenue since 2000.

The General Fund is the operational fund for the District. In the last fiscal year \$164,769 worth of property taxes were collected (See Auditor's Note 2). This was a slight decrease from the year prior under this modified accrual basis of accounting. However, when strictly accounting for current year tax receipts, \$156,684 were collected in the fiscal year 2008-2009 as compared to \$161,089 in fiscal year 2007-2008. According to audited numbers this was the first contraction of tax revenue in the decade, and may point to a trend of limited expansion or potentially ongoing contraction of this main revenue stream (See Figure 1). A similar comparison in the percent change of tax revenue is presented in Figure 2. For most of the decade the District has enjoyed modest growth of 2% to 8%, not so in the most recent year. Likely this maybe attributed to the economic downturn, as it was the only contraction of taxes in the decade. Notably, tax collections were down 1.5%, interest on those taxes was also down ending at a negligible 0.5%, and 10% of

the properties in the District are being assessed at their real market values which has dropped significantly over the last 24 months. For the most part though, the Devils Lake Water Improvement District has been rather insulated from the current recession largely due to state law that limits its growth in better economic times. Even with the reduction in tax revenue the District was able to carry forward a positive balance. As in years past this balance, which is expected to be in excess of \$42,000, will be transferred into reserve for the following fiscal year.

The last of the core funding mechanism 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 used in the first half of the following fiscal year whilst the District awaits tax levy resources during that year. The bolstering of the UEFB to \$75,000 a few years prior has enabled the District to operate through December of the fiscal year, without incurring debt. A similar increase may be warranted in future budgets.

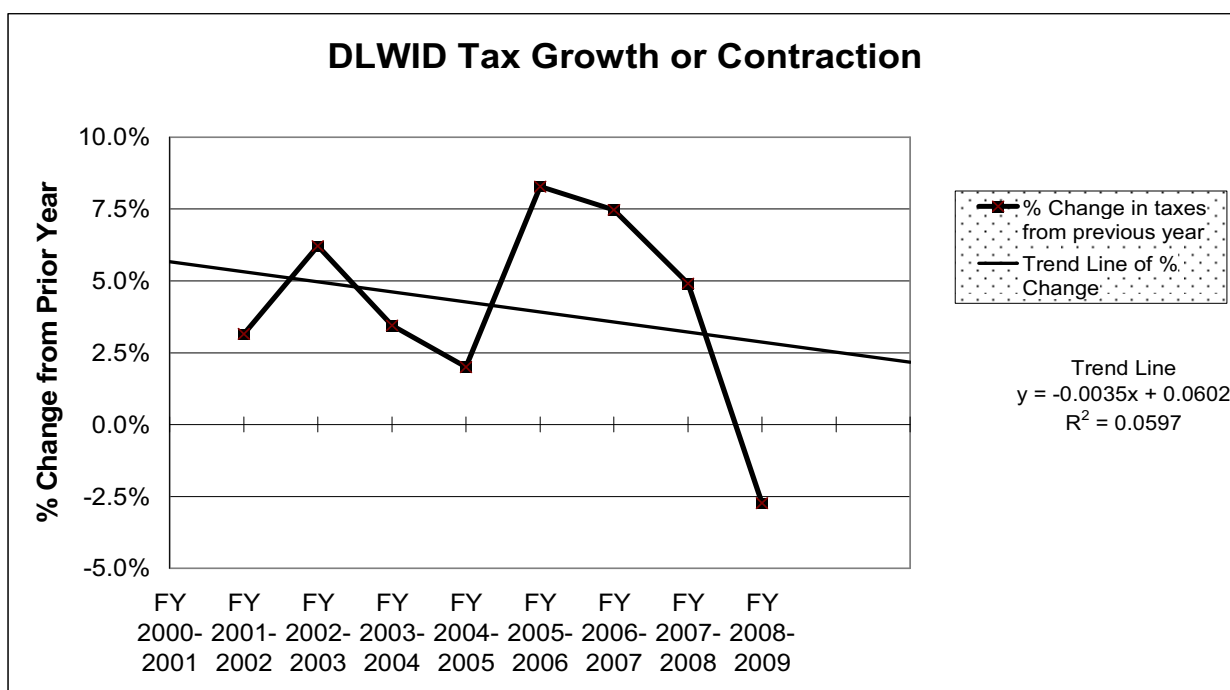


Figure 2. Percent change in taxes received by the Devils Lake Water Improvement District since 2000.

Capital Assets

Devils Lake Water Improvement District's investment in capital assets as of June 30, 2009 amounted to \$53,724 (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 no capital outlays were made.

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 should it be incurred would help finance large capital improvements.

Economic Factors and Forecasted Finances

According to most economists, a worsening recession has largely been averted. Real estate markets however linger in decline which can continue to impact tax revenue. The housing boom in the mid part of the decade that led to years of growth in the District has been quelled by the slowdown. Many insiders to the housing market suggest though that the market is showing signs of having bottomed out, and that increased valuations, however modest, may be expected in the coming years. Some level of ongoing foreclosures however will likely continue, potentially slowing the collection of the current year's assessed taxes. These delinquent taxes however are generally recovered in subsequent years as the liens are paid off at time of auction or sale of the property. Also as seen in Figure 1 delinquent taxes generally only contribute nominally to the annual revenues as most taxes are paid in the year they are assessed. For example in the fiscal year 2009-2010, as of February 4, 2010, 92.1% of the current year taxes have already been collected.

As to the expansion or contraction of the District, it is reasonable to expect a slight reduction in tax revenue if last year is any gauge of the year to come. As seen in Figures 1 and 2, tax revenues declined for the first time in a decade. That being said, more than nine out of ten properties are already paid in full for FY 2009-2010. Therefore any reduction in revenues may be of less significance and/or be short term. Additionally, taxes are collected using a formula involving the Maximum Assessed Value (MAV) of a parcel, not the Real Market Value (RMV). These assessed values have largely remained below what even this recession impacted market values many of these parcels in the watershed. This is largely due to limits from laws set in the 1990's, Measures 5 and 50 as explained below:

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 generally a large gap between the real market values and the maximum assessed values exists. The most recent data shows that Lincoln County residential properties maximum assessed values were at 60% of the real market values on average. For commercial and industrial properties the values were 68% and 100% respectively. However 10% of the residential properties were assessed at the Real Market Value and thus taxes assessed to those properties were directly impacted by a slow housing market. Nonetheless for the vast majority of properties, the Maximum Assessed Values are below the Real Market Value, and thus a 3% growth can be expected on 90% of the properties in the District resulting in a more of less steady funding source for the District into the foreseeable future.

Next Year's Budget

Budgeting for the year following this audit year has been completed. This is inherently the case as the budgeting process for FY 2009-2010 began in January of 2009, a full six months ahead of the close of books for the year ending June 30, 2009. Planning for the 2010-2011 budget however is just beginning, and thus the reflection on this audit will largely guide future budgets.

For FY 2009-2010 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. These included funding for monitoring, lake level management, public relations, and existing staff. All of these provisions have been budgeted in the General Fund, and are supported by annual tax assessments. Appropriations from the Special Reserve Fund, the Improvement Fund, however included the provisions for what at the

time was an anticipated large scale investment towards Whole Lake Circulation. Funding to support this project would have largely come from external sources, and thus the budget as whole was significantly greater than the revenues generally available to the District through its annual levies. Also in the Improvement fund, an appropriation was made for additional human resources to initiate several programs identified by the District through its Devils Lake Plan. This was done through the Resource Assistance for Rural Environment (RARE) program administer by the University of Oregon. Additionally, monies were set aside for Watershed Improvements and Vegetation Management. The District’s budget can be found online at www.DLWID.org, but a short summary of the appropriations is provided here:

General Fund

Personal Services	73,248
Material & Services	84,891
Debt Service	19,051
Capital Outlay	750
Contingencies	211
Transfers to other Funds	<u>47,054</u>
Fund Total	\$225,205

Improvement Fund

Personal Services	1
Material & Services	232,006
Capital Outlay	974,500
Transfers Out (Returned/Refunded Grants or Loans)	<u>281,000</u>
Fund Total	\$1,487,507

Total Appropriations **\$1,712,712**

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 and this audit. 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, 2009

	General Fund	Improvement Fund	Total	Adjustment (Note 2)	Statement of Net Assets
ASSETS					
Cash & cash equivalents	\$ 123,466	\$ 321,686	\$ 445,152	\$ 0	\$ 445,152
Taxes receivable	9,129	0	9,129	0	9,129
Prepaid expenses	1,019	0	1,019	0	1,019
Capital assets, net of accum. depreciation	0	0	0	53,724	53,724
Total assets	<u>133,614</u>	<u>321,686</u>	<u>455,300</u>	<u>53,724</u>	<u>509,024</u>
LIABILITIES					
Accounts payable	1,372	0	1,372	0	1,372
Payroll taxes payable	1,309	0	1,309	0	1,309
Deferred revenues	5,100	0	5,100	(5,100)	0
Total liabilities	<u>7,781</u>	<u>0</u>	<u>7,781</u>	<u>(5,100)</u>	<u>2,681</u>
FUND BALANCES/NET ASSETS					
Fund Balances					
Unreserved	125,833	321,686	447,519	(447,519)	0
Total liabilities & fund balances	<u>\$ 133,614</u>	<u>\$ 321,686</u>	<u>\$ 455,300</u>	<u>(455,300)</u>	<u>0</u>
Net assets					
Invested in capital assets, net of related debt				53,724	53,724
Unrestricted				452,619	452,619
Total net assets				<u>\$ 506,343</u>	<u>\$ 506,343</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, 2009**

	General Fund	Improvement Fund	Total	Adjustment (Note 2)	Statement of Activities
FUNCTIONS/PROGRAMS					
Expenditures/expenses					
Current					
Water improvements & protection - operation	\$ 123,154	\$ 0	\$ 123,154	\$ 5,911	\$ 129,065
Maintenance fee	0	120	120	0	120
Total expenditures/expenses	<u>123,154</u>	<u>120</u>	<u>123,274</u>	<u>5,911</u>	<u>129,185</u>
Program revenues					<u>0</u>
Net program loss					<u>(129,185)</u>
General revenues					
Property taxes	160,620	0	160,620	4,149	164,769
Investment earnings	5,267	6,274	11,541	0	11,541
Total general revenues	<u>165,887</u>	<u>6,274</u>	<u>172,161</u>	<u>4,149</u>	<u>176,310</u>
Excess of revenues over expenditures	42,733	6,154	48,887	(1,762)	47,125
OTHER FINANCING SOURCES (USES)					
Transfers	(46,400)	46,400	0	0	0
Excess of revenues over expenditures	(3,667)	52,554	48,887	(48,887)	0
Change in net assets	0	0	0	47,125	47,125
Fund Balance/Net Assets - Beg. of year	<u>129,500</u>	<u>269,132</u>	<u>398,632</u>	<u>60,586</u>	<u>459,218</u>
Fund Balance/Net Assets - End of year	<u>\$ 125,833</u>	<u>\$ 321,686</u>	<u>\$ 447,519</u>	<u>\$ 58,824</u>	<u>\$ 506,343</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, 2009

GENERAL FUND

	Original & Final Budget	Actual	Variance
REVENUES			
Property taxes - current	\$ 162,920	\$ 156,684	\$ (6,236)
Property taxes - delinquent	5,000	3,936	(1,064)
Interest	2,624	5,267	2,643
Grants	1	0	(1)
Donations	1	0	(1)
Total revenues	<u>170,546</u>	<u>165,887</u>	<u>(4,659)</u>
EXPENDITURES			
Personal services	72,057	69,198	2,859
Materials & services	78,445	53,956	24,489
Capital outlay	1	0	1
Debt service	20,000	0	20,000
Contingency	43	0	43
Total expenditures	<u>170,546</u>	<u>123,154</u>	<u>47,392</u>
Excess (def) of revenues over expenditures	0	42,733	42,733
OTHER FINANCING SOURCES (USES)			
Transfers to Improvement Fund	<u>(47,981)</u>	<u>(46,400)</u>	<u>1,581</u>
Excess (def) of revenues over expenditures	(47,981)	(3,667)	44,314
Unappropriated ending fund balance	(75,000)	0	75,000
FUND BALANCE - Beginning of year	<u>122,981</u>	<u>129,500</u>	<u>6,519</u>
FUND BALANCE - End of year	<u>\$ 0</u>	<u>\$ 125,833</u>	<u>\$ 125,833</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, 2009

IMPROVEMENT FUND

	Original & Final Budget	Actual	Variance
REVENUES			
Interest	\$ 8,634	\$ 6,274	\$ (2,360)
Proceeds from loans	150,000	0	(150,000)
Miscellaneous	<u>381,879</u>	<u>0</u>	<u>(381,879)</u>
Total revenues	<u>540,513</u>	<u>6,274</u>	<u>(534,239)</u>
EXPENDITURES			
Personal services	3,425	0	3,425
Materials & services	113,983	120	113,863
Capital outlay	<u>738,900</u>	<u>0</u>	<u>738,900</u>
Total expenditures	<u>856,308</u>	<u>120</u>	<u>856,188</u>
Excess (def) of revenues over expenditures	(315,795)	6,154	321,949
OTHER FINANCING SOURCES (USES)			
Transfer from General Fund	<u>47,981</u>	<u>46,400</u>	<u>(1,581)</u>
Excess (def) of revenues over expenditures	(267,814)	52,554	320,368
FUND BALANCE - Beginning of year	<u>267,814</u>	<u>269,132</u>	<u>1,318</u>
FUND BALANCE - End of year	<u>\$ 0</u>	<u>\$ 321,686</u>	<u>\$ 321,686</u>

See accompanying notes to financial statements

DEVILS LAKE WATER IMPROVEMENT DISTRICT, OREGON

NOTES TO FINANCIAL STATEMENTS as of June 30, 2009

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, 2009

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.

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, 2009

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:

	<u>Balance</u>
Capital assets, net of accumulated depreciation are not reported in the governmental funds	\$ 53,724
Receivables deferred under modified accrual basis is revenue under the accrual basis	<u>5,100</u>
Net adjustment to reconcile fund balance - governmental funds to arrive at net assets	<u>\$ 58,824</u>

DEVILS LAKE WATER IMPROVEMENT DISTRICT, OREGON

NOTES TO FINANCIAL STATEMENTS
as of June 30, 2009

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	\$ (5,911)
Property taxes are recognized on a modified accrual basis	<u>4,149</u>
Net adjustment to reconcile fund balance - governmental funds to arrive at net assets	<u>\$ (1,762)</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>\$ 445,152</u>

DEVILS LAKE WATER IMPROVEMENT DISTRICT, OREGON

NOTES TO FINANCIAL STATEMENTS as of June 30, 2009

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	\$ 625
Investments	<u>444,527</u>
Total cash & investments	<u>\$ 445,152</u>

Deposits

At the end of the fiscal year, the District's total deposits with financial institutions have a bank value of \$941.

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>\$444,527</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, 2009

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.

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>\$ 9,129</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, 2009

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>69,518</u>	<u>0</u>	<u>0</u>	<u>69,518</u>
Total depreciable at historical cost	<u>95,374</u>	<u>0</u>	<u>0</u>	<u>95,374</u>
Accumulated depreciation				
Control structure	(17,585)	(834)	0	(18,419)
Equipment	<u>(43,154)</u>	<u>(5,077)</u>	<u>0</u>	<u>(48,231)</u>
Total accumulated depreciation	<u>(60,739)</u>	<u>(5,911)</u>	<u>0</u>	<u>(66,650)</u>
Total depreciable, net	<u>34,635</u>	<u>(5,911)</u>	<u>0</u>	<u>28,724</u>
Capital assets, net	<u>\$ 59,635</u>	<u>\$ (5,911)</u>	<u>\$ 0</u>	<u>\$ 53,724</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>\$ 46,400</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, 2009 to lease office space, with options to renew for three additional years. Minimum lease payments under the agreement are as follows:

	<u>Balance</u>
2010	\$ 13,776
2011	14,190
2012	14,616
2013	<u>7,416</u>
Total	<u>\$ 49,998</u>

Lease payments for 2009 totaled \$13,392.

DEVILS LAKE WATER IMPROVEMENT DISTRICT, OREGON

NOTES TO FINANCIAL STATEMENTS
as of June 30, 2009

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 \$4,987.

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.

Subsequent Events

Management has evaluated subsequent events through December 28, 2009, the date on which the financial statements were available to be issued.

DEVILS LAKE WATER IMPROVEMENT DISTRICT, OREGON

SCHEDULE OF PROPERTY TAX TRANSACTIONS
for the Year Ended June 30, 2009

Levy Year	Balance 7/1	Current Levy	Interest & Tax Roll Adjustments	Interest & Tax Collection	Balance 6/30
2008-09	\$ 0	\$ 178,080	\$ (9,343)	\$ 163,203	\$ 5,534
2007-08	7,009	0	(453)	4,635	1,921
2006-07	2,492	0	(503)	1,122	867
2005-06	1,192	0	(99)	760	333
2004-05	400	0	196	552	44
2003-04	87	0	7	28	66
2002-03	76	0	4	18	62
2001-02	64	0	(3)	5	56
Prior Years	265	0	105	124	246
Totals	<u>\$ 11,585</u>	<u>\$ 178,080</u>	<u>\$ (10,089)</u>	<u>\$ 170,447</u>	<u>\$ 9,129</u>

GRIMSTAD & ASSOCIATES

Certified Public Accountants

PO Box 1930

530 NW 3rd St., Ste. E

Newport, OR 97365

December 28, 2009

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, 2009, and have issued my report thereon dated December 28, 2009. 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, 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 162-10-000 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 2009 and 2010.
- 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:

Internal Controls

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 28, 2009.

OTHER COMMENTS

Insurance and Fidelity Bonds

I have examined the District's insurance and fidelity bond coverage at June 30, 2009. 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.

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. This report should not be used by anyone other than these specified parties.

Signe Grimstad

Signe Grimstad
Certified Public Accountant