

NESKOWIN REGIONAL WATER DISTRICT

AUDITED FINANCIAL STATEMENTS AND OTHER FINANCIAL INFORMATION

*Neskowin, Oregon
June 30, 2014*

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**NESKOWIN REGIONAL WATER DISTRICT
BOARD OF COMMISSIONERS**

June 30, 2014

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President

Dick Warner
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Secretary

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Commissioner

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Commissioner

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Neskowin Regional Water District
Tillamook County, Oregon

I have audited the accompanying basic financial statements of the Neskowin Regional Water District (the District), Neskowin, Oregon (the District), which comprise the statements of net position as of June 30, 2014, and the related statement of revenue, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, and the aggregate remaining fund information of the Neskowin Regional Water District as of June 30, 2014 and the respective changes in financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

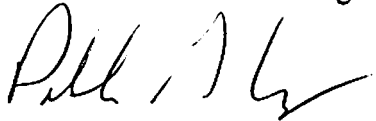
Other Matter

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

The supplementary information (budgetary comparison information, schedule of property tax transactions and schedule of long-term debt) is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Report on Other Legal and Regulatory Requirements

In accordance with the Minimum Standards for Audits of Oregon Municipal Corporations, I have issued my report dated January 2, 2015, on my consideration of the District's compliance with certain provisions of laws and regulations, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules. The purpose of that report is to describe the scope of my testing of compliance and the results of that testing and not to provide an opinion on compliance.



Lake Oswego, Oregon
January 2, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis presents the highlights of financial activities and financial position for the Neskowin Regional Water District (District). The analysis focuses on significant financial issues, major financial activities and resulting changes in financial position, budget changes and variances from the budget, and specific issues related to funds and the economic factors affecting the District.

Management's Discussion and Analysis focuses on current year activities and resulting changes. Please read it in conjunction with the District's financial statements.

REPORT LAYOUT

The District's annual financial report consists of several sections. Taken together they provide a comprehensive financial look at the District. The components of the report include the following:

- * **Management's Discussion and Analysis.** This section of the report provides financial highlights affecting the District.
- * **Basic Financial Statements** The District's basic financial statements are comprised of four components; 1) Statement of Net Position, 2) Statement of Revenue, Expenses and Changes in Net Position, 3) Statement of Cash Flows and 4) Notes to Basic Financial Statements.

The Statement of Net Position presents the current and long-term portions of assets and liabilities separately and may provide a useful indicator of whether the financial position is improving or deteriorating over time. This statement includes all of the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to the District's creditors (liabilities). It also provides the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

The Statement of Revenue, Expenses and Changes in Net Position present information showing profitability and credit worthiness as well as how the District's net assets changed during the most recent fiscal year. This statement shows income and expenses from operations, nonoperating revenues and expenses, and reconciles the change from one fiscal year to the next. This statement measures the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through its user fees and other charges.

The Statement of Cash Flows is prepared using the direct method and is concerned solely with input and outlay of cash from operating activities, capital and related financing activities and investing activities. This statement also includes a reconciliation to the Statement of Revenues, Expenses and Changes in Net Position. The primary purpose of this statement is to provide information about the District's cash receipts and cash payments during the reporting period. It answers such questions as where did the cash come from, what was the cash used for and what was the change in cash balance during the reporting period.

The Notes to Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

FINANCIAL INFORMATION

The Neskowin Regional Water District (NRWD) is a municipal water district that was formed in 1976. The District is identified by the Oregon Health Authority's Drinking Water Program's public water system inventory as Public Water System #OR4100970. The District's infrastructure consists of a 380 gallon per minute membrane water treatment plant, approximately nineteen miles of distribution piping, seven pressure zones, five booster pump stations, three chlorine booster stations and five storage reservoirs (total storage of 975,000 gallons).

This discussion and analysis presents the highlights of the financial activities and financial position for the five funds that make up the District's budget.

1. General Fund

Revenue for this fund comes from water billings, permanent tax rate revenue, interest, meter installation, and miscellaneous sources. In 2013/14 General Fund revenue was \$402,118; up from \$391,340 in 2012/13. Water sales were \$336,092; down from \$337,774 in 2012/13. Permanent tax rate revenue was \$55,569; up from \$42,911 in 2012/13, due to an increase in the amount of these tax dollars being placed in the General Fund. Interest revenue was \$3,920; up from \$3,634 in 2012/13 due to a higher balance in the District's savings account (LGIP) and a higher earned interest rate. Service installation was \$1,105; down from \$3,088 in 2012/13. Miscellaneous revenue was \$5,433; up from \$3,932 in 2012/13. The General Fund beginning fund balance was \$59,546; up from \$55,094 in 2012/13. Total expenditures for the General Fund were \$386,283; down from \$390,122 in 2012/13. Personal Services expenditures were \$280,037; up from \$272,246 in 2012/13. Materials and Services expenditures were \$87,046; down from \$99,876 in 2012/13. Transfers were \$19,200, up from \$18,000 in 2012/13. The 2013/14 General Fund ending fund balance was an estimated \$73,706; up from \$59,546 in 2012/13.

Discussion: In 2013/14 General Fund revenue increased mostly due to the placement of a larger share of our permanent tax rate income into the General Fund. To meet the District's goal of maintaining enough savings to fund our needed capital improvements, the District will need to increase the percentage of permanent tax rate revenue into the Capital Improvement Fund and lower the percentage into the General Fund. This will probably only be possible by increasing our monthly minimum rate from the current \$28.50. Expenditures were down, mostly due to a decrease in Materials and Services expenses. For fiscal year 2013/14 the District changed the health insurance policy to one with higher deductibles and out of pocket expenses for District employees. This change kept the District's health insurance expenses similar to 2012/13. The General Fund is in good shape going forward, but the district will have to closely monitor our revenue versus spending.

2. Debt Service Fund

This fund is used exclusively for the payment of interest and principal on the bonded debt incurred by the District. Property taxes are the only source of Debt Service revenue. Total Debt Service Fund revenue in 2013/14 was \$51,009, down from \$44,774 in 2012/13. Total expenditures in 2013/14 were \$59,969, the same as in 2012/13. The ending fund balance for 2013/14 was \$113,705, down from \$122,666 in 2012/13.

Discussion: The Debt Service Fund ended 2013/14 is in excellent financial condition. The District has one General Obligation Bond to pay off. The District continues to maintain enough cash in this fund to cover our obligations, plus reserve cash to cover any tax revenue not received. The

District's only bond to be paid off is held by the State of Oregon – Oregon Business Development. This remaining bond was passed to rebuild the District's water treatment plant. This bond will be paid off in 2025. Annual payment on this bond is \$59,969.

3. System Development Fund

This fund is used to provide for improvements to the water system that are needed due to growth. Revenue for this fund comes from System Development Charges (SDC's) assessed when a new building is added to the water system, and from past assessments of the District's permanent tax rate. All expenditures are capital outlay for system improvements or replacement. Total revenue in 2013/14 was \$22,618, down from \$52,747 in 2012/13. Tax revenue was \$13, down from \$2 in 2012/13. The District no longer applies tax revenue to the System Development Fund, therefore only previous years' tax revenue shows as revenue on this fund. SDC revenue was \$22,605, down from \$52,745 in 2012/13, due to an decrease in new hook ups to the water system. Total capital outlay expenditures in 2013/14 were \$0, down from \$4,570 in 2012/13. The ending fund balance for 2013/14 was \$264,641, up from \$242,023 in 2012/13, due to zero expenditure.

Discussion: The System Development Fund is in excellent financial condition. This fund ended the year with \$264,641 in cash. In 2013/14 the District received three SDC's. The total number of SDC's received per year has an impact on how quickly the District can complete the SDC eligible projects identified in our Capital Improvement Plan. Our System Development Charge was reviewed in 2005/06 after the District completed our new Water System Master Plan. The District raised the SDC to \$7,535 starting in fiscal year 2006/07.

4. Truck and Equipment Fund

This fund allows the District to accumulate money to purchase vehicles and other equipment. Total revenue for this fund in 2013/14 was \$19,200, up from \$18,000 in 2012/13. The revenue for this fund comes from the General Fund as a transfer. Total expenditures in 2013/14 were \$14,495 up from \$1,702 in 2012/13. The ending fund balance for 2013/14 was \$86,598, up from \$81,893 in 2012/13.

Discussion: The District continues to maintain these reserves for the future purchase of equipment. This includes \$40,050 for the future purchase of replacement membrane modules for the treatment plant. In fiscal year 2013/14, the District used this fund to purchase a new pipe locating device and a new air blower for the treatment plant.

5. Capital Improvement Fund

This was a new fund in 2006-2007. This reserve fund will have three purposes:

- A. To accumulate revenue to pay the non SDC eligible share of the projects identified in the approved capital improvement plan.
- B. To pay for necessary unanticipated and/or emergency repairs and additions to the water system.
- C. To make bond payments if insufficient tax revenue is collected.

In 2013/14 total revenue for this fund was \$55,803, down from \$64,911 in 2012/13. Permanent tax rate property taxes are the only source of revenue for this fund. Total expenditures (Capital Outlay) in 2013/14 were \$0, down from \$15,876 in 2012/13. The ending fund balance for 2013/14 was \$243,380, up from \$188,035 in 2012/13.

Discussion: The District continues to save revenue for future repairs and/or additions to the water system with this fund. Funding for this fund is stable because its' revenue comes from our permanent tax rate. The District also puts permanent tax rate revenue in the General Fund. In 2013/14, the District applied 53,344 of the permanent tax rate revenue into the General Fund and \$51,380 into the Capital Improvement Fund.

Conclusion

The District's financial picture is challenging, based on the current economic conditions. The rate increase implemented on July 1, 2011 has helped balance our revenues with our expenditures, but without additional new customers the District will face a situation where additional rate increases and/or spending reductions will be necessary. In 2013/14 the District received 3 new hookups which generated \$22,605 of revenue for the System Development Fund and approximately \$1,026 in revenue for the General Fund. The assessed value of the property within the District's boundaries continues to go up. In 2013/14 the assessed value was \$292,827,024, up 2.75% from \$284,962,996 in 2011/12. This increase results in additional permanent tax rate revenue for the General Fund and the Capital Improvement Fund. The increase in the System Development Charge and the creation of the Capital Improvement Fund continue to provide the revenue for the District to improve its distribution system. The District's Master Plan set out the projects that are needed to provide proper pressure and fire suppression flows to all areas in the District. Total revenues for 2013/14 were \$550,748, up from \$571,772 in 2012/13. Total expenditures for 2013/14 were \$460,747, down from \$472,239 in 2012/13. Total Ending Fund Balances for 2013/14 were \$782,024, up from \$694,163 in 2012/13. Although the District's facilities are generally in good condition, we still have approximately \$4,000,000 in needed improvements to our system. These needed improvements and the continued operation of the system will always present challenges and opportunities for the future.

CONDENSED FINANCIAL INFORMATION

	<u>June 30, 2013</u>	<u>June 30, 2014</u>	<u>Increase (Decrease)</u>
Cash and current assets	\$ 764,213	\$ 847,403	\$ 83,190
Capital assets, net	<u>2,899,644</u>	<u>2,768,834</u>	<u>(130,810)</u>
Total assets	3,663,857	3,616,237	(47,620)
Current liabilities	77,648	73,598	4,050
Long-term liabilities	<u>578,483</u>	<u>538,933</u>	<u>39,550</u>
Total liabilities	656,131	612,531	43,600
Invested in capital assets	2,282,961	2,190,352	(92,609)
Other fund balance	621,184	706,407	85,223
General fund balance	<u>103,581</u>	<u>106,947</u>	<u>3,366</u>
Total net assets	<u>\$ 3,007,726</u>	<u>\$ 3,003,706</u>	<u>\$ (4,020)</u>

	Fiscal Year Ended <u>June 30, 2013</u>	Fiscal Year Ended <u>June 30, 2014</u>	Favorable (Unfavorable)
Water service revenue	\$ 344,096	\$ 333,426	\$ (10,670)
Property tax revenue	152,596	160,017	7,421
Other revenues	<u>60,314</u>	<u>33,063</u>	<u>(27,251)</u>
Total business-type revenues	557,006	526,506	(30,500)
Personal services	272,246	277,768	(5,522)
Materials and services	117,165	100,186	16,979
Depreciation	130,089	130,810	(721)
Interest expense	<u>23,071</u>	<u>21,762</u>	<u>1,309</u>
Total business-type expenses	542,571	530,526	12,045
Increase (decrease) in net assets	<u>\$ 14,435</u>	<u>\$ (4,020)</u>	<u>\$ (18,455)</u>

FINANCIAL CONTACT

The District's financial statements are designed to present users (citizens, taxpayers, customers, investors, and creditors) with a general overview of the District's finances and to demonstrate the District's accountability. If you have questions about the report or need additional financial information, please contact the District at 47880 South Beach Road, P.O. Box 823, Neskowin, Oregon, 97149.

NESKOWIN REGIONAL WATER DISTRICT
STATEMENT OF NET POSITION
June 30, 2014

ASSETS

Current assets:

Cash	\$ 782,701
Accounts receivable	6,480
Materials inventory – at cost	37,441
Property taxes receivable	12,937
Prepaid expenses	7,844
Total current assets	<u>847,403</u>

Non-current assets:

Capital assets, net of depreciation	<u>2,768,834</u>
Total Assets	<u>3,616,237</u>

LIABILITIES

Current liabilities:

Accounts payable	737
Payroll Tax liabilities	9,002
Compensated absences	13,276
Current portion of long-term debt	39,549
Accrued interest payable	11,034
Total current liabilities	<u>73,598</u>

Non-current liabilities:

Long-term debt	<u>538,933</u>
Total liabilities	<u>612,531</u>

NET POSITION

Invested in capital assets, net of debt	2,190,352
Restricted for:	
Debt service	111,330
System development	264,641
Unrestricted for:	
Capital improvement	243,838
Truck and equipment	86,598
Unrestricted	<u>106,947</u>
Total net position	<u>\$ 3,003,706</u>

The notes to the financial statements are an integral part of this statement.

NESKOWIN REGIONAL WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET POSITION

Fiscal year ended June 30, 2014

OPERATING REVENUES:	
Water service revenues	\$ 333,426
Total operating revenues	<u>333,426</u>
 OPERATING EXPENSES:	
Personal services	277,768
Materials and services	100,186
Depreciation	130,810
Total operating expenses	<u>508,764</u>
 Operating income (loss)	 <u>(175,338)</u>
 Non-operating revenues (expenses):	
Property taxes	160,017
Interest income	3,920
Miscellaneous revenue	29,143
Interest expense	(21,762)
Total non-operating revenues (expenses)	<u>171,318</u>
 Change in net position	 (4,020)
 Net position - July 1, 2013	 <u>3,007,726</u>
 Net position – June 30, 2014	 <u>\$ 3,003,706</u>

The notes to the financial statements are an integral part of this statement.

NESKOWIN REGIONAL WATER DISTRICT
STATEMENT OF CASH FLOWS
Fiscal year ended June 30, 2014

Cash flows from operating activities	
Receipts from customers	\$ 333,426
Payments to suppliers	(132,958)
Payments to employees	(243,456)
Net cash provided (used) by operating activities	<u>(42,988)</u>
Cash flows from non-capital financing activities	
Property tax revenue	160,017
Net cash provided (used) from non-capital financing activities	<u>160,017</u>
Cash flows from capital and related financing activities	
Principal paid on capital debt	(38,201)
Interest paid on capital debt	(23,353)
Net cash provided (used) by capital and related financing activities	<u>(61,554)</u>
Cash flows from investing activities	
Interest received	3,920
Miscellaneous non-operating income	29,143
Net cash provided by investing activities	<u>33,063</u>
Net increase (decrease) in cash and cash equivalents	<u>88,538</u>
Balance - July 1, 2013	<u>694,163</u>
Balance - June 30, 2014	<u>\$ 782,701</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities	
Operating income (loss)	\$ (175,338)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Cash flows reported in other categories:	
Depreciation expense	130,810
Change in assets and liabilities:	
Receivables, net	5,042
Prepaid expenses	(528)
Inventories	834
Accounts payable	(2,470)
Payroll Tax liabilities	1,521
Compensated absences	(2,859)
Net cash provided (used) by operating activities	<u>\$ (42,988)</u>

The notes to the financial statements are an integral part of this statement.

NESKOWIN REGIONAL WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the District have been prepared in accordance with Generally Accepted Accounting Principles (GAAP) in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standards-setting body for establishing governmental accounting and financial reporting principles. GAAP statements include all relevant Governmental Accounting Standards Board (GASB) pronouncements. The financial statements have incorporated all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on accounting procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Reporting Entity:

Neskowin Regional Water District was established under the provisions of Oregon statutes to provide water distribution and service for the benefit of the population within the District, which is located within Tillamook County, Oregon. Control of the District is vested in its Board of Commissioners who are elected to office by voters within the District.

As required by generally accepted accounting principles, the District's financial statements include all component units over which the District officials exercise oversight responsibility. The criteria used in making this determination included an evaluation of the concepts of financial interdependency, election of the governing authority, designation of management, ability to significantly influence operations and accountability of fiscal matters. Based upon the evaluation of these criteria the District is a primary government with no inclusive component units.

Basic Financial Statements:

The Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position and the Statement of Cash Flows were prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

The government-wide statements report information on the District by aggregating the activity of the District's five funds. In the process of aggregating data for the Government-Wide financial statements, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified.

Basis of Presentation

The financial transactions of the District are recorded in individual funds. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

The District reports the following five funds:

General Fund

The District's General Fund accounts for the administrative and operational activities of the District. The principal source of revenue is from water user fees and property taxes. Expenditures are principally for payroll related costs, materials and services and administrative expenses.

Special Revenue Funds

The District's System Development Fund is used for account for the development of the water system. The principal source of revenue is from system development charges and property taxes. The principal expenditures are capital expenditures made to the water system.

The District's Truck and Equipment Fund is used to reserve funds for replacement of trucks and equipment. The principal source of revenue is from transfers from the General Fund.

Debt Service Fund

The District accounts for the payment of its long term debt principal and interest. The principal source of revenue is from property taxes.

Capital Projects Fund

The District's Capital Improvement Fund is used to account for the District's capital outlay expenditures.

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe which transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus.

The District's Basic Financial Statements are presented on a full accrual basis of accounting with an economic resource measurement focus. An economic resource focus concentrates on an entity or fund's net assets. All transactions and events that affect the total economic resources (net assets) during the period are reported. An economic resources measurement focus is inextricably connected with full accrual accounting. Under the full accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash inflows and outflows.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services, and producing and delivering goods in connection with a proprietary fund's principle ongoing operations. The principle operating revenues of the District's General Fund are charges to customers for sales and services. The System Development Fund also recognizes fees intended to recover the cost of connecting new customers to the District's utility system as operating revenue. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and overheads, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Cash and Cash Equivalents

The District is restricted by State of Oregon statutes in the types of investments that can be made. Statutes authorize the District to invest in obligations of the U.S. Treasury; agencies, and instrumentalities of the U.S.; States of Oregon, Washington, Idaho or California; various interest bearing bonds of municipalities; commercial paper rated P-2 and better by Moody's Investors Services or A-2 and better by Standard and Poor's Corporation; bankers' acceptances; and the Oregon State Treasurer's Local Government Investment Pool. Certain other investment types, which are not listed here, are also authorized.

For purposes of the Statement of Cash Flows, cash and cash equivalents include short-term (original maturity of three months or less) highly liquid investments that are readily converted into known amounts of cash or so near maturity they present insignificant risk of changes in value as a result of changes in interest rates.

Taxes Receivable

Property taxes receivable which has been collected by year-end are recognized as revenues in the General Fund, Capital Improvement Fund and the Debt Service Fund. All other property taxes receivable in the General Fund are offset by deferred revenues, and such amounts are not taken into revenue until collected.

Tillamook County reviews, bills collects and distributes property taxes for all taxing jurisdictions within its boundaries, in accordance with State Law. Collection dates are November 15, February 15 and May 15. Discounts are allowed if the amount due is received by November 15 or February 15.

Accounts Receivable

Accounts receivable represent amounts due from water service customers. Accounts receivable at June 30, 2014 is \$6,480. An allowance for doubtful accounts is not considered necessary as all possible uncollectible accounts were written off at June 30, 2014.

Inventories

Inventories of materials and supplies in the General Fund are stated at cost at June 30, 2014 and charged to expenses as used.

Capital Assets

Capital assets, which include property, water system and equipment are reported in the General Fund. Capital assets are charged to expenditures as purchased and then capitalized in the proprietary fund statements. Capital assets are recorded at historical cost or estimated historical cost. Donated assets are recorded at estimated fair market value as of the date of the donation.

Capital assets are defined by the District as assets with an initial, individual cost of \$5,000 or more, and an estimated useful life of greater than one year. Additions or improvements and other capital outlays that significantly extend the useful life of an asset, or that significantly increase the capacity of an asset are capitalized. Other costs for repairs and maintenance are expensed as incurred.

Depreciation on exhaustible assets is recorded as an allocated expense in the Statement of Revenues, Expenditures and Changes in Fund Net Assets with accumulated depreciation reflected in the Statement of Net Assets and is provided on the straight-line basis over the following estimated useful lives:

Asset	Years
Water system	25-50
Vehicles and equipment	5
Office equipment and furniture	5-7

One-half year of depreciation is taken in the year the assets are acquired or retired. Gains or losses from sales or retirements of capital assets are included in operations of the current period.

Accounts Payable

These amounts represent expenditures in the current year but paid for in the subsequent year. In accordance with the full accrual basis of accounting, these amounts are recorded as expenditures in the current year.

Retirement Plan

All of the District's employees with more than 600 hours of service in a year and have 6 months employment with the District are participants in the Public Employee's Retirement System (PERS). Contributions to PERS are made on a current basis as required by the plan and are charged to expenditures.

Net Position

Equity is classified as net position and displayed in three components:

- A. Invested in capital assets, net of related debt. Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages notes or other borrowings that are attributable to the acquisition, construction or improvements of those assets.
- B. Restricted net position. Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors or laws and regulations of other governments: or (2) law through constitutional provisions or enabling legislation.
- C. Unrestricted net position. All other net position that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

Use of Estimates

In preparing the District's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets for all funds are adopted on a basis consistent with Oregon Revised Statutes (ORS 294 Local Budget Law). The process under which the budget is adopted is described in the following paragraphs. The Budget Officer submits a proposed budget to the Budget Committee. The District is required to budget all funds. The District's budget is prepared for each fund on the modified cash basis of accounting. Estimated receipts and expenditures are budgeted for by fund and object. Information on the past two years' actual receipts and expenditures and current-year estimates are included in the budget document.

The Budget Committee conducts public hearings for the purpose of obtaining citizens' comments, and then approves a budget and submits it to the Board of Commissioners for final adoption. The approved expenditures for each fund may not be increased by more than 10% by the Board without returning to the Budget Committee for a second approval.

The Board of Commissioners legally adopts the budget by resolution before July 1. The resolution establishes appropriations for each fund and expenditures cannot legally exceed these appropriations. The level of control established by the resolution for each fund is at the object group level (i.e. personal services, materials and services, capital outlay, inter-fund transfers, and contingency). Appropriations lapse as of year-end.

The Board of Commissioners may change the budget throughout the year by transferring appropriations between levels of control and by adopting supplemental budgets as authorized by Oregon Revised Statutes. Unexpected additional resources may be added to the budget through the use of a supplemental budget. A supplemental budget requires hearings before the public, publications in newspapers and approval by the District. Expenditure appropriations may not be legally over-expended except in the case of grant receipts that could not be reasonably estimated at the time the budget was adopted, and for debt service on new debt issued during the budget year. Management may transfer budget amounts between individual line items within the object group, but cannot make changes to the object groups themselves, which is the legal level of control.

During the fiscal year ended June 30, 2014 the Board did not adopt a supplemental budget and the Board authorized one budget transfer as follows:

General Fund:

Budget line item	Increase	Decrease
Payroll Taxes and Benefits	\$ 50	
Office Supplies	50	
Insurance & Bonds	390	
Bank Charges	90	
Chlorine and Chemical	100	
General Operating Contingency		\$ 680
Total	\$ 680	\$ 680

3. DETAILED NOTES ON ALL FUNDS

Cash and Investments

The insurance and collateral requirements for deposits are established by banking regulations and Oregon law. Federal depository insurance of \$250,000 applies respectively, to total demand deposits and to total savings accounts at each financial institution. Where balances exceed \$250,000, banks are required to pledge collateral, based on their capital condition. Banks are required to provide quarterly collateral pledging for the next quarter. Treasury monitors each depository bank and ensures compliance with collateralization requirements for all public fund deposits. Banks will pledge 10% if they are well capitalized, 25%, if they are adequately capitalized, and in turn, the banks are required to share in the liability of a failed institution, should it ever occur. Undercapitalized banks are required to pledge collateral equal to 110% of their deposits, which is monitored on a weekly basis.

At June 30, 2014, the District had invested \$763,390 with the Oregon Short-Term Fund, which is a cash and investment pool available for use by all state funds and local governments and is maintained by the State Treasurer. The Local Government Investment Pool (LGIP) is an open-ended, no load diversified portfolio offered to eligible participants, including any municipality, political subdivision, or public corporation of the state. Currently, there are more than 1,500 participants in the Pool. Local government pooled assets are reported as an Investment Trust Fund in Oregon's Comprehensive Annual financial Report. The Oregon Short-Term Fund board, established the Oregon Legislature, advises the Oregon Investment Council and the Oregon State Treasury in the management and investments of the LGIP. The carrying value of this investment (cost) approximates the market value at June 30, 2014.

The State of Oregon LGIP is not registered with the U.S. Securities and Exchange Commission as an investment company. The Oregon revised Statutes and the Oregon Investment Council govern the Pool's investment policies. The State Treasurer is the investment officer for the LGIP and it is responsible for all funds in the LGIP. These funds must be invested and the investments managed, as a prudent investor would, exercising reasonable care, skill and caution. Investments in the fund are further governed by portfolio guidelines issued by the Oregon short-term funds Board, which establish diversification percentages and specify the types and maturities of investments. The overall credit quality of the pool is not rated. The Oregon Audits Division of the Secretary of State's Office audits the Pool annually. The Division's report on the LGIP as of and for the year ended June 30, 2014 was unqualified.

Custodial Credit Risk

At June 30, 2014, the book balance of the District's bank deposits (checking accounts) is \$19,261 and the bank balance is \$39,637. The difference is due to transactions in process. Of the bank deposits balances \$250,000 is insured by federal depository insurance.

Cash and investments at June 30, 2014 were comprised of the following:

<u>Type of Deposit</u>	<u>Total Balance</u>
Insured demand deposits with financial institutions	\$ 19,261
Local Government Investment Pool	763,390
Petty cash	50
Total cash and investments	<u>\$ 782,701</u>

Capital Assets

The components of the District's fixed assets and changes to the fixed assets are as follows:

	Cost July 1, 2013	Additions	Deletions	Cost June 30, 2014
Construction in progress	\$ 15,574			\$ 15,574
Buildings	1,284,644			1,284,644
Water system	3,637,147			3,637,147
Equipment	34,822			34,822
Office equipment	5,339			5,339
Accumulated depreciation:				
Buildings	(336,100)	\$ (43,499)		(379,599)
Water system	(1,703,416)	(86,798)		(1,790,214)
Equipment	(34,822)			(34,822)
Office equipment	(3,544)	(513)		(4,057)
Totals	\$ 2,899,644	\$ (130,810)	\$ 0	\$ 2,768,834

Long-term Debt

The Safe Drinking Water loan has an interest rate of 3.53% and payments are due December 1 of each year.

	Balance July 1, 2013	2013/14 Principal Payments	Balance June 30, 2014
Water Treatment Plan Loan:	\$ 616,683	\$ (38,201)	\$ 578,482

Future maturities of loan principal and interest are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2014-2015	\$ 39,549	\$ 20,420
2015-2016	40,945	19,024
2016-2017	42,390	17,579
2017-2018	43,887	16,083
2018-2019	45,436	14,533
2019-2024	252,401	47,446
2024-2026	113,874	6,065
	<u>\$ 578,482</u>	<u>\$ 141,150</u>

Defined Benefit Pension Plan

Plan Description

The District contributes to two pension plans administered by the Oregon Public Employees Retirement System (PERS). The Oregon Public Employees Retirement Fund (OPERF) applies to the District's contribution for qualifying employees who were hired before August 29, 2003, and is a cost-sharing multiple-employer defined benefit pension plan. The Oregon Public Service Retirement Plan (OPSRP) is a hybrid successor plan to the OPERF and consists of two programs: The Pension Program, the defined benefit portion of the plan, applies to qualifying District employees hired after August 29, 2003, and to inactive employees who return to employment following a six-month or greater break in service. Benefits are calculated by a formula for members who attain normal retirement age. The formula takes into contributions go into the Individual Account Program (IAP), the defined contribution portion of the plan. PERS members retain their existing PERS accounts, but any future member contributions are deposited into the member's IAP, not the member's PERS account.

Both PERS plans provide retirement and disability benefits, post employment healthcare benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS is administered under Oregon Revised Statute Chapter 238, which establishes the Public Employees Retirement Board as the governing body of PERS. PERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to PERS, PO Box 23700, Tigard, OR 97281-3700 or by calling 503-598-7377.

Funding Policy

Members of PERS are required to contribute 6.00% of their salary covered under the plan, which is invested in the OPSRP Individual Account Program. The District is required by ORS 238.225 to contribute at an actuarially determined rate for the qualifying employees under the OPERF plan, and a general service rate for the qualifying employees under the OPSRP plan. The OPERF and OPSRP rates in effect for the year ended June 30, 2014 were 5.78% and 6.27% respectively. The contribution requirements for plan members are established by ORS Chapter 238 and may be amended by an act of the Oregon Legislature.

Annual Pension Cost

The District's contributions to the plan for the year ending June 30, 2012, 2013 and 2014 were \$19,628, \$20,465 and \$20,503 respectively, which equaled the required contribution for the year.

Property Tax Limitation

The State of Oregon has a constitutional limit on property taxes for governmental operations. Under the limitation, tax revenue is separated into those for public schools and those for local governments other than public schools. The limitation specifies a maximum rate for all local government operations of \$10.00 per \$1,000 of real market value, while schools are similarly limited to a \$5.00 maximum rate. Local government taxes in the District currently do not exceed the \$10.00 rate limit; however, this limitation may affect the availability of future tax revenues for the District.

In May 1997, voters approved Measure 50 which rolled back assessed values to 90% of 1995-96 and limits future increases of taxable assessed values to 3% per year, except for major improvements. Tax rates are now fixed and not subject to change. Voters may approve local initiatives above the fixed rate

provided a majority approves at either (i) a general election in an even numbered year, or (ii) at any other election in which at least 50% of registered voters cast a ballot.

Compensated Absences Payable

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure of the governmental fund that will pay it. At June 30, 2014, the District's liability for vacation pay and compensatory time is estimated at \$13,276. Under the accrual basis of accounting this liability is accrued on the financial statements. No expenditure is reported for these amounts. Sick leave pay can only be taken in the event of illness and is not paid upon separation of service. The total amount of sick leave pay is estimated at \$63,178.

Risk Management

The District is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; error and omissions; injuries to employees; and natural disasters. The District carries commercial insurance for risk of loss including workers' compensation, property damage, general liability, automobile liability and employee dishonesty coverage. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

SUPPLEMENTARY INFORMATION

NESKOWIN REGIONAL WATER DISTRICT
SCHEDULE OF RECEIPTS, CASH EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND - CASH BASIS

Fiscal year ended June 30, 2014

	Budgeted Amounts		Actual Amounts Cash Basis	Variance With Final Budget Positive (Negative)
	Original	Final		
Cash Receipts				
Property taxes				
Current	\$ 57,240	\$ 57,240	\$ 53,344	\$ (3,896)
Prior	1,500	1,500	2,224	724
Interest	3,800	3,800	3,920	120
Water revenue	339,000	339,000	336,092	(2,908)
Miscellaneous	2,500	2,500	4,429	1,929
Service installation	1,000	1,000	1,105	105
Total receipts	405,040	405,040	401,114	(3,926)
Cash Expenditures				
Schedule – page 24	440,840	440,840	367,083	73,757
Excess of receipts over (under) expenditures	(35,800)	(35,800)	34,031	69,831
Other Financing Sources (Uses)				
Operating transfers in				
Operating transfers out	(19,200)	(19,200)	(19,200)	0
Excess of Receipts and Sources over (under) Expenditures and Other (Uses)	(55,000)	(55,000)	14,831	69,831
Cash balance - July 1, 2013	55,000	55,000	59,546	4,546
Cash Balance - June 30, 2014	\$ 0	\$ 0	\$ 74,377	\$ 74,377

NESKOWIN REGIONAL WATER DISTRICT
SCHEDULE OF CASH EXPENDITURES - BUDGET AND ACTUAL
GENERAL FUND CASH BASIS

Fiscal year ended June 30, 2014

	Budgeted Amounts		Actual Amounts Cash Basis	Variance With Final Budget Positive (Negative)
	Original	Final		
Personal services:				
General Manager	\$ 84,635	\$ 84,635	\$ 84,635	\$ 0
Operator	56,742	56,742	56,590	152
Office Manager	24,887	24,887	18,222	6,665
Maintenance Worker 2	32,780	32,780	31,654	1,126
Overtime	5,000	5,000	0	5,000
Comp./ vacation time payoff	0	0	4,828	4,828
Social security and Medicare	15,610	15,660	15,229	431
Workers comp/accident insurance	5,800	5,800	4,208	1,592
PERS	31,786	31,786	20,503	11,283
Health insurance	46,400	46,400	44,168	2,232
Unemployment tax	200	200	0	200
Total personal services	<u>303,840</u>	<u>303,890</u>	<u>280,037</u>	<u>23,853</u>
Materials and services:				
Office supplies and expenses	4,200	4,250	4,747	(497)
Telephone	5,500	5,500	4,912	588
Office rent	7,650	7,650	7,504	146
Insurance and bond	14,500	14,890	14,889	1
Legal and auditing	6,500	6,500	4,680	1,820
Memberships	1,500	1,500	1,306	194
Refunds	300	300	0	300
Bank charges	650	740	733	7
Vehicle maintenance	10,000	10,000	9,511	489
Miscellaneous	1,500	1,500	0	1,500
Repair and maintenance	30,000	30,000	17,430	12,570
Workshops and seminars	3,000	3,000	891	2,109
Plant supplies and tools	5,000	5,000	2,286	2,714
Chlorine and chemicals	2,500	2,600	2,550	50
Electricity	15,000	15,000	11,570	3,430
Water testing	1,500	1,500	1,337	163
Waste water charges	2,700	2,700	2,700	0
Total materials and services	<u>112,000</u>	<u>112,630</u>	<u>87,046</u>	<u>25,584</u>
Capital outlay	0	0	0	0
Operating contingencies	<u>25,000</u>	<u>24,320</u>	<u>0</u>	<u>24,320</u>
Total expenditures	<u>\$ 440,840</u>	<u>\$ 440,840</u>	<u>\$ 367,083</u>	<u>\$ 73,757</u>

NESKOWIN REGIONAL WATER DISTRICT
SCHEDULE OF RECEIPTS, CASH EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
DEBT SERVICE FUND - CASH BASIS

Fiscal year ended June 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual Amounts Cash Basis</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Cash Receipts				
Current taxes	\$ 49,707	\$ 49,707	\$ 44,543	\$ (5,164)
Prior taxes	4,500	4,500	6,466	1,966
Total receipts	<u>54,207</u>	<u>54,207</u>	<u>51,009</u>	<u>(3,198)</u>
Cash Expenditures				
Loan principal	38,200	38,200	38,200	0
Interest payments	21,769	21,769	21,769	0
Total expenditures	<u>59,969</u>	<u>59,969</u>	<u>59,969</u>	<u>0</u>
Excess of receipts over (under) expenditures	(5,762)	(5,762)	(8,960)	(3,198)
Cash balance – July 1, 2013	<u>125,700</u>	<u>125,700</u>	<u>122,666</u>	<u>(3,034)</u>
Cash Balance – June 30, 2014	<u>\$ 119,938</u>	<u>\$ 119,938</u>	<u>\$ 113,706</u>	<u>\$ (6,232)</u>

NESKOWIN REGIONAL WATER DISTRICT
SCHEDULE OF RECEIPTS, CASH EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
SYSTEM DEVELOPMENT FUND - CASH BASIS

Fiscal year ended June 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual Amounts Cash Basis</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Cash Receipts				
System development charges	\$ 37,675	\$ 37,675	\$ 22,618	\$ (15,057)
Total receipts	<u>37,675</u>	<u>37,675</u>	<u>22,618</u>	<u>(15,057)</u>
Cash Expenditures				
Capital outlay	<u>271,675</u>	<u>271,675</u>	<u>0</u>	<u>271,675</u>
Total expenditures	<u>271,675</u>	<u>271,675</u>	<u>0</u>	<u>271,675</u>
Excess of receipts over (under) expenditures	(234,000)	(234,000)	22,618	256,618
Cash balance – July 1, 2013	<u>234,000</u>	<u>234,000</u>	<u>242,023</u>	<u>8,023</u>
Cash Balance - June 30, 2014	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 264,641</u>	<u>\$ 264,641</u>

NESKOWIN REGIONAL WATER DISTRICT
SCHEDULE OF RECEIPTS, CASH EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
CAPITAL IMPROVEMENT FUND - CASH BASIS

Fiscal year ended June 30, 2014

	Budgeted Amounts		Actual Amounts Cash Basis	Variance With Final Budget Positive (Negative)
	Original	Final		
Cash Receipts				
Current taxes	\$ 55,095	\$ 55,095	\$ 51,380	\$ (3,715)
Previously levied taxes	3,500	3,500	3,965	465
Total receipts	<u>58,595</u>	<u>58,595</u>	<u>55,345</u>	<u>(3,250)</u>
Cash Expenditures				
Capital outlay	238,595	238,595	0	238,595
Total expenditures	<u>238,595</u>	<u>238,595</u>	<u>0</u>	<u>238,595</u>
Excess of receipts over (under) expenditures	(180,000)	(180,000)	55,345	235,345
Cash balance – July 1, 2013	<u>180,000</u>	<u>180,000</u>	<u>188,035</u>	<u>8,035</u>
Cash Balance - June 30, 2014	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 243,380</u>	<u>\$ 243,830</u>

NESKOWIN REGIONAL WATER DISTRICT
SCHEDULE OF RECEIPTS, CASH EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
TRUCK AND EQUIPMENT FUND - CASH BASIS

Fiscal year ended June 30, 2014

	Budgeted Amounts		Actual Amounts Cash Basis	Variance With Final Budget Positive (Negative)
	Original	Final		
Cash Receipts				
Total receipts	\$ 0	\$ 0	\$ 0	\$ 0
Cash Expenditures				
Capital outlay	54,150	54,150	14,495	39,655
Reserve for membrane modules	40,050	40,050	0	40,050
Total expenditures	<u>94,200</u>	<u>94,200</u>	<u>14,495</u>	<u>79,705</u>
Excess of receipts over (under) expenditures	(94,200)	(94,200)	(14,495)	79,705
Other Financing Sources (Uses)				
Operating transfers in	19,200	19,200	19,200	0
Operating transfers out	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Excess of Receipts and Sources over (under) Expenditures and Other (Uses)	(75,000)	(75,000)	4,705	79,705
Cash balance – July 1, 2013	<u>75,000</u>	<u>75,000</u>	<u>81,893</u>	<u>6,893</u>
Cash Balance - June 30, 2014	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 86,598</u>	<u>\$ 86,598</u>

NESKOWIN REGIONAL WATER DISTRICT
STATEMENT OF PROPERTY TAX TRANSACTIONS

Fiscal year ended June 30, 2014

Tax Year	Taxes Receivable July 1, 2013	2013-2014 Levy	Collections	Interest Discounts Adjustments	Taxes Receivable June 30, 2014
2013-14		\$ 161,380	\$ (151,351)	\$ (4,061)	\$ 5,968
2012-13	\$ 6,554		(2,834)	(413)	3,307
2011-12	3,971		(1,933)	(6)	2,032
2010-11	2,553		(1,791)	(6)	756
Prior Years	2,235		(1,341)	(20)	874
	<u>\$ 15,313</u>	<u>\$ 161,380</u>	<u>\$ (159,250)</u>	<u>\$ (4,506)</u>	<u>\$ 12,937</u>

NESKOWIN REGIONAL WATER DISTRICT
SCHEDULE OF LONG-TERM DEBT

For the fiscal year ended June 30, 2014

Safe Drinking Water Financing Program

Water Treatment Plant Upgrade Project

Payment Date	Principal Payment	Interest Rate	Interest Payment
December 1, 2014	\$ 39,548.95	3.53%	\$ 20,420.43
December 1, 2015	40,945.03	3.53%	19,024.35
December 1, 2016	42,390.39	3.53%	17,578.99
December 1, 2017	43,886.77	3.53%	16,082.61
December 1, 2018	45,435.97	3.53%	14,533.41
December 1, 2019	47,039.86	3.53%	12,929.52
December 1, 2020	48,700.37	3.53%	11,269.01
December 1, 2021	50,419.49	3.53%	9,549.89
December 1, 2022	52,199.30	3.53%	7,770.08
December 1, 2023	54,041.94	3.53%	5,927.44
December 1, 2024	55,949.62	3.53%	4,019.76
December 1, 2025	<u>57,924.62</u>	3.53%	<u>2,044.71</u>
Total Requirements	<u>\$ 578,482.31</u>		<u>\$ 141,150.20</u>

**NESKOWIN REGIONAL WATER DISTRICT
COMMENTS AND DISCLOSURES
REQUIRED BY STATE REGULATIONS**

June 30, 2014

Independent Auditor's Report Required by Oregon State Regulations

I have audited the basic financial statements of the Neskowin Regional Water District, Neskowin, Oregon, as of and for the year ended June 30, 2014, and have issued my report dated January 2, 2015. I conducted my audit in accordance with auditing standards generally accepted in the United States of America.

Compliance

As part of obtaining reasonable assurance about whether the Neskowin Regional Water District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, my audit was not directed primarily toward obtaining knowledge of such noncompliance. As such, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion.

I performed procedures to the extent I considered necessary to address the required comments and disclosures which included, but were not limited to the following:

Deposit of public funds with financial institutions (ORS Chapter 295).

Budgets legally required (ORS Chapter 294).

Insurance and fidelity bonds in force or required by law.

Authorized investment of surplus funds (ORS Chapter 294).

Public contracts and purchasing (ORS Chapters 279A, 279B and 279C).

In connection with my testing, nothing came to my attention that caused me to believe the District was not in substantial compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the *Minimum Standards for Audits of Oregon Municipal Corporations*.

OAR 162-10-0230 Internal Control

In planning and performing my audit, I considered the Neskowin Regional Water District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Neskowin Regional Water District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

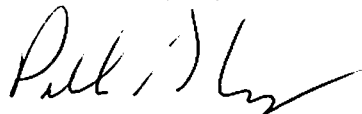
My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. I consider the following deficiency in the District's internal control to be a significant deficiency:

Inadequate Segregation of Accounting Duties

The District does not have sufficient staff to adequately segregate accounting duties. The smaller size of the District allows the record keeping and cash handling functions to be performed by the same individual. The District has adopted financial controls that are relevant to smaller government units. There is a substantial cost benefit by not increasing staffing levels at this time and the District recognizes the need for extra vigilance on the part of the District staff and the Board.

This report is intended solely for the information and use of the Board of Directors and Management of Neskowin Regional Water District and the Oregon Secretary of State and is not intended to be and should not be used by anyone other than these parties.



Patrick G. Carney
Certified Public Accountant