

NESKOWIN REGIONAL WATER DISTRICT

AUDITED FINANCIAL STATEMENTS AND OTHER FINANCIAL INFORMATION

*Neskowin, Oregon
June 30, 2011*

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**NESKOWIN REGIONAL WATER DISTRICT
BOARD OF COMMISSIONERS**

June 30, 2011

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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

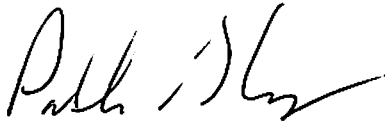
I have audited the accompanying financial statements of the business-type activities, each major fund and the aggregate remaining fund information of the Neskowin Regional Water District, as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. My responsibility is to express an opinion 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 opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Neskowin Regional Water District, as of June 30, 2011, and the respective changes in financial position and cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis information on pages 5 through 8 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 conducted for the purpose of forming an opinion on the basic financial statements of Neskowin Regional Water District taken as a whole. The supplementary information and the supplemental schedules listed in the table of contents are presented for the purposes of additional analysis and are not a required part of the basic financial statements. 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 on the budgetary basis of accounting described in note 2.



Lake Oswego, Oregon
December 15, 2011

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 Assets, 2) Statement of Revenue, Expenses and Changes in Net Assets, 3) Statement of Cash Flows and 4) Notes to Basic Financial Statements.

The Statement of Net Assets 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 Assets 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 Assets. 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 rates, interest, meter installation and miscellaneous sources. In 2010/11 General Fund revenue was \$336,108, down from \$341,635 in 2009/10. Water sales were \$304,895, down from \$306,808 in 2009/10. Permanent tax rate revenue was \$25,260, down from \$29,379 in 2009/10, due to a decrease in the amount of these tax dollars being placed in the General Fund. Interest revenue was \$4,176, down from \$5,056 in 2009/10 due to lower interest rates. Service installation was \$934, down from \$2,215 in 2009/10. Miscellaneous revenue was \$844, down from \$1,177 in 2009/10. The General Fund beginning fund balance was \$67,083, up from \$46,250 in 2009/10. Total expenditures for the General Fund were \$335,728, up from \$330,835 in 2009/10. Personal Services expenditures were \$252,449, up from \$235,728 in 2009/10. Materials and Services expenditures were \$83,279, up from \$83,107 in 2009/10. Transfers were \$15,000, up from \$12,000 in 2009/10. The 2010/11 General Fund ending fund balance was an estimated \$47,725, down from \$67,083 in 2009/10.

Discussion: Since 2008, when the financial problems in the housing sector began, the District has experienced fewer new homes built each year. In 2010/11 we only had two new residential customers hook up, down from six in 2009/10. In 2010/11 General Fund revenue was down, while expenditures were up. This trend of lower revenues and higher expenditures caused the Board of Commissioners to approve a rate increase which began on July 1, 2011. The new minimum rate per month (for a residence) went from \$26.00 to \$28.50. 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. The District began the 2010/11 fiscal year with two bonds to pay off. In March 2011, the District paid off a General Obligation Bond that had been held by the Bank of America. Total Debt Service Fund revenue in 2010/11 was \$95,023, down from \$131,701 in 2009/10. Total expenditures in 2010/11 were \$132,090, up slightly from \$132,046 in 2009/10. The ending fund balance for 2010/11 was \$123,557, down from \$160,625 in 2009/10.

Discussion: The Debt Service Fund ended 2010/11 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. In March 2011 the District paid off a 30 year bond that was held by the Bank of America. This bond was approved by voters in 1980, and was used to build the District's initial water system. The remaining bond 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.

3. System Development Fund

This fund is used to provide for improvements to the water system. 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 2010/11 was \$15,074, down from \$45,219 in 2009/10. Tax revenue was \$4, down from \$15 in 2009/10. The District no longer applies tax revenue to the System Development Fund, therefore only previous years' tax revenue show as revenue on this fund. SDC revenue was \$15,070, down from \$45,210 in 2009/10, due to fewer new hook ups to the water system. Total capital outlay expenditures in 2010/11 were \$4,526, down from \$66,446 in 2009/10. The ending fund balance for 2010/11 was \$264,233, up from \$253,685 in 2009/10, due to a decrease in spending.

Discussion: The System Development Fund is in excellent financial condition. This fund ended the year with \$264,233 in cash. In fiscal year 2011/12, the District will be spending about \$82,500 from this fund to pay for 25% of our North Marshland Crossing Project. The current trend is that the District will be receiving fewer SDC's, thus less revenue for this fund. This will have an impact on how quickly the District can complete the projects identified in our Capital Improvement Plan that are SDC eligible. 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 2010/11 was \$15,000, up from \$12,000 in 2009/10. The revenue for this fund comes from the General Fund as a transfer. Total expenditures in 2010/11 were \$792, down from \$959 in 2009/10. The ending fund balance for 2010/11 was \$62,471, up from \$48,264 in 2009/10.

Discussion: The District continues to maintain these reserves for the future purchase of equipment. This includes \$22,250 for the future purchase of replacement membrane modules for the treatment plant. In fiscal year 2011/12, the District will be using this fund to purchase new safety equipment, new computers and a new truck.

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 2010/11 total revenue for this fund was \$75,279, up from \$68,353 in 2009/10. Total expenditures (Capital Outlay) in 2010/11 were \$48,992, up from \$7,860 in 2009/10. The ending fund balance for 2010/11 was \$297,787, up from \$271,501 in 2009/10.

Discussion: The District continues to save revenue for future repairs and/or additions to the water system with this fund. In fiscal year 2011/12, the District will be using this fund to pay for 75% of our

North Marshland Crossing Project. Funding for this fund is stable because its' revenue comes from our Permanent Tax Rate.

Conclusion

The District's financial picture is challenging, based on the current economic conditions. The rate increase implemented on July 1, 2011 will help 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. The assessed value of the property within the District's boundaries continues to go up. In 2010/11 the assessed value was \$268,142,387, up 4.1% from \$257,500,869 in 2009/10. 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 2010/11 were \$536,484, down from \$598,908 in 2009/10. Total expenditures for 2010/11 were \$534,128, down from \$538,146 in 2009/10. Total Ending Fund Balances for 2010/11 were \$795,773, down from \$801,158 in 2009/10. 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 in the future.

CONDENSED FINANCIAL INFORMATION

	<u>June 30, 2010</u>	<u>June 30, 2011</u>	<u>Increase (Decrease)</u>
Cash and current assets	\$ 865,188	\$ 862,960	\$ (2,228)
Capital assets, net	<u>2,686,590</u>	<u>2,744,793</u>	<u>58,203</u>
Total assets	3,551,778	3,607,753	55,975
Current liabilities	138,153	57,388	(80,765)
Long-term liabilities	<u>689,221</u>	<u>653,581</u>	<u>(35,640)</u>
Total liabilities	827,374	710,969	(116,405)
Invested in capital assets	1,865,380	2,034,623	169,243
Restricted fund balance	754,394	767,951	13,557
General fund balance	<u>104,630</u>	<u>94,210</u>	<u>(10,420)</u>
Total net assets	<u>\$ 2,724,404</u>	<u>\$ 2,896,784</u>	<u>\$ 172,380</u>

	Fiscal Year Ended <u>June 30, 2010</u>	Fiscal Year Ended <u>June 30, 2011</u>	Favorable (Unfavorable)
Water service revenue	\$ 362,680	\$ 313,983	\$ (48,697)
Property tax revenue	228,337	195,089	(33,248)
Other revenues	<u>6,233</u>	<u>130,590</u>	<u>124,357</u>
Total business-type revenues	597,250	639,662	42,412
Personal services	242,308	243,502	(1,194)
Materials and services	89,184	75,021	14,163
Depreciation	119,711	120,894	(1,183)
Interest expense	<u>32,037</u>	<u>27,865</u>	<u>4,172</u>
Total business-type expenses	483,240	467,282	15,958
Increase (decrease) in net assets	<u>\$ 114,010</u>	<u>\$ 172,380</u>	<u>\$ 58,370</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 P.O. Box 823, Neskowin, Oregon, 97149.

NESKOWIN REGIONAL WATER DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

June 30, 2011

ASSETS

Current assets:

Cash	\$ 794,500
Accounts receivable	6,816
Materials inventory – at cost	34,426
Property taxes receivable	19,901
Prepaid insurance	7,317
Total current assets	862,960

Non-current assets:

Capital assets, net of depreciation	2,744,793
Total Assets	3,607,753

LIABILITIES

Current liabilities:

Accounts payable	799
Compensated absences	20,949
Current portion of long-term debt	35,640
Total current liabilities	57,388

Non-current liabilities:

Long-term debt	653,581
Total liabilities	710,969

NET ASSETS

Invested in capital assets, net of debt	2,034,623
Restricted for:	
Debt service	143,459
System development	264,233
Unrestricted for:	
Capital improvement	297,787
Truck and equipment	62,472
Unrestricted	94,210
Total net assets	\$ 2,896,784

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 ASSETS
PROPRIETARY FUNDS
Fiscal year ended June 30, 2011

OPERATING REVENUES:	
Water service revenues	\$ 313,983
Total operating revenues	<u>313,983</u>
OPERATING EXPENSES:	
Personal services	243,502
Materials and services	75,021
Depreciation	<u>120,894</u>
Total operating expenses	<u>439,417</u>
Operating income (loss)	<u>(125,434)</u>
Non-operating revenues (expenses):	
Property taxes	195,089
Interest income	4,176
Miscellaneous revenue	844
Interest expense	<u>(27,865)</u>
Total non-operating revenues (expenses)	<u>172,244</u>
Change in net assets	46,810
Capital assets purchased or constructed	125,570
Net assets - July 1, 2010	<u>2,724,404</u>
Net assets – June 30, 2011	<u>\$ 2,896,784</u>

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

NESKOWIN REGIONAL WATER DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Fiscal year ended June 30, 2011

Cash flows from operating activities	
Receipts from customers	\$ 329,053
Payments to suppliers	(142,435)
Payments to employees	(209,396)
Net cash provided (used) by operating activities	(22,778)
Cash flows from non-capital financing activities	
Operating transfers from (to) other funds	0
Property tax revenue	195,508
Net cash provided (used) from non-capital financing activities	195,508
Cash flows from capital and related financing activities	
Purchase of fixed assets	(53,518)
Principal paid on capital debt	(104,168)
Interest paid on capital debt	(27,865)
Net cash provided (used) by capital and related financing activities	(185,551)
Cash flows from investing activities	
Interest received	4,176
Miscellaneous non-operating income	844
Net cash provided by investing activities	5,020
Net increase (decrease) in cash and cash equivalents	(7,801)
Balance - July 1, 2010	802,301
Balance - June 30, 2011	\$ 794,500
Reconciliation of operating income (loss) to net cash provided (used) by operating activities	
Operating income (loss)	\$ (125,434)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Cash flows reported in other categories:	
Depreciation expense	120,894
Change in assets and liabilities:	
Receivables, net	3,040
Prepaid insurance	(25)
Inventories	(9,016)
Accounts payable	(1,433)
Compensated absences	(6,872)
Payroll taxes payable	(3,932)
Net cash provided (used) by operating activities	\$ (22,778)

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

NESKOWIN REGIONAL WATER DISTRICT NOTES TO FINANCIAL STATEMENTS

June 30, 2011

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 Assets, Statement of Revenues, Expenses and Changes in Net Assets 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, 2011 is \$6,816. An allowance for doubtful accounts is not considered necessary as all possible uncollectible accounts were written off at June 30, 2011.

Inventories

Inventories of materials and supplies in the General Fund are stated at cost at June 30, 2011 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 full time employees 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 Assets

Equity is classified as net assets 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 assets. Consists of net assets 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 assets. All other net assets 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, 2011 the Board did not adopt a supplemental budget nor did the Board authorize any budget transfers.

3. DETAILED NOTES ON ALL FUNDS

Cash and Investments

Oregon Revised Statute 295 governs the collateralization of Oregon public funds. District deposits exceeding federal depository insurance are afforded protection through the Public Funds Collateralization Program, which is a shared liability structure for participating depositories established by the State Treasurer to facilitate compliance with ORS 295. Under the Public Funds Collateralization Program, a qualifying bank depositories are required to pledge collateral valued at least 10% of their quarter-end public fund deposits if they are well capitalized, or 110% of the quarter-end public fund deposits if they are adequately capitalized, or 110% of the quarter-end public fund deposits if they are undercapitalized or assigned to pledge 110% by the Office of State Treasurer. In the event of a bank failure, the entire pool of collateral pledged by all qualified Oregon public bank depositories is available to repay the deposits of public funds of governmental entities.

The District has invested funds in the State Treasurer's Oregon Short-term Fund Local Government Investment Pool during fiscal year 2011. The Oregon Short-term Fund is the local government investment pool for local governments and was established by the State Treasurer. It was created to meet the financial and administrative responsibilities of federal arbitrage regulations. The investments are regulated by the Oregon Short-term Fund Board and approved by the Oregon Investment Council (ORD 294.805 to 294.895). Local Government Investment Pool (LGIP) is an external investment pool managed by the State Treasurer's office, which allow governments within the state to pool their funds for investment purposes. The amounts invested in the pool are not classified by risk categories because they are not evidenced by securities that exist in physical or book entry form as defined by GASB Statement No. 40. Investments in the LGIP are not required to be collateralized.

Custodial Credit Risk

At June 30, 2011, the book balance of the District's bank deposits (checking accounts) is \$ (12,160) and the bank balance is \$3,108. The difference is due to transactions in process. Of the bank deposits balances \$250,000 is insured by federal depository insurance.

The State of Oregon LGIP is not registered with the U.S. Securities and Exchange Commission as an investment company and is not rated by any national rating service. 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 Oregon Audits Division of the Secretary of State's Office audits the Pool annually. The Audit Divisions report on the LGIP as of and for the year ended June 30, 2011 was unqualified. Investments in the Oregon Local Government Investment Pool are not required to be collateralized.

Cash and investments at June 30, 2011, were comprised of the following:

<u>Type of Deposit</u>	<u>Total Cash Balance</u>
Insured demand deposits with financial institutions	\$ (12,160)
Local Government Investment Pool	806,610
Petty cash	50
	<hr/>
Total cash and investments	\$ 794,500
	<hr/>

Capital Assets

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

	Cost July 1, 2010	Additions	Deletions	Cost June 30, 2011
Construction in progress	\$ 19,319		\$ (3,397)	\$ 15,922
Buildings	1,183,090			1,183,090
Water system	3,145,644	\$ 182,494		3,328,138
Equipment	34,822			34,822
Office equipment	7,218			7,218
Accumulated depreciation:				
Buildings	(192,469)	(38,965)		(231,434)
Water system	(1,468,994)	(81,929)		(1,550,923)
Equipment	(34,822)			(34,822)
Office equipment	(7,218)			(7,218)
	<hr/>			
Totals	\$ 2,686,590	\$ 61,600	\$ (3,397)	\$ 2,744,793
	<hr/>			

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, 2010	2010/11 Principal Payments	Balance June 30, 2011
Water Treatment Plan Loan:	\$ 723,645	\$ 34,424	\$ 689,221
	<hr/>	<hr/>	<hr/>

Future maturities of loan principal and interest are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2011-2012	\$ 35,640	\$ 24,329
2012-2013	36,898	23,071
2013-2014	38,200	21,769
2014-2015	39,549	20,420
2015-2016	40,945	19,024
2016-2021	227,453	72,394
2021-2026	270,536	29,313
	<u>\$ 689,221</u>	<u>\$ 210,320</u>

Defined Benefit Pension Plan

Description

The District is a participating employer in the State of Oregon Public Employees Retirement System Plan. PERS is a defined benefit pension plan that provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and their beneficiaries. Benefits are established by state statute.

In the 2003 legislative session, the Oregon Legislative Assembly created a successor plan for PERS. The Oregon Public Service Retirement Plan ("OPSRP") is effective for all new employees hired on or after August 29, 2003, and applies to any inactive PERS members who returned to employment following a six month or greater break in service. The new plan consists of a defined benefit program (the Individual Account Program or "IAP"). The Pension Program portion of OPSRP provides a life pension funded by employer contributions. Benefits are calculated by a formula for members who attain normal retirement age. The formula takes into account final average salary and years of service and a factor that varies based on type of service (general verses police or fire).

Both PERS and OPSRP are administered by the Oregon Public Employees Retirement Board ("OPERB"). PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to PERS, P.O. Box 23700, Tigard, OR 97281-3700.

Funding Policy

Covered employees are required by State statute to contribute 6% of their salary to the plan. The District is required to contribute at actuarially determined rates, as adopted by the PERS Board of Directors. The current rate for PERS is 6.52% of covered payroll. The current rate for OPSRP is 11.63% for fire and 8.92% for general of covered payroll. The District's contribution to the plan for the years ending June 30, 2009, 2010 and 2011 were \$18,203, \$11,357 and \$16,124 respectively.

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, 2011, the District's liability for vacation pay and compensatory time is estimated at \$20,949. 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 \$54,203.

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.

BUDGETARY BASIS SCHEDULES

**NESKOWIN REGIONAL WATER DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND - BUDGETARY BASIS**

Fiscal year ended June 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual Amounts Budgetary Basis</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Property taxes				
Current	\$ 25,750	\$ 25,750	\$ 23,802	\$ (1,948)
Prior	1,400	1,400	1,457	57
Interest	5,000	5,000	4,176	(824)
Water revenue	310,000	310,000	304,895	(5,105)
Miscellaneous	2,200	2,200	844	(1,356)
Service installation	1,500	1,500	934	(566)
Total revenues	<u>345,850</u>	<u>345,850</u>	<u>336,108</u>	<u>(9,742)</u>
Expenditures				
Schedule – page 24	<u>380,850</u>	<u>380,850</u>	<u>336,911</u>	<u>43,939</u>
Excess of revenues over (under) expenditures	(35,000)	(35,000)	(803)	34,197
Other Financing Sources (Uses)				
Operating transfers in				
Operating transfers out	<u>(15,000)</u>	<u>(15,000)</u>	<u>(15,000)</u>	<u>0</u>
Excess of Revenues and Sources over (under) Expenditures and Other (Uses)	(50,000)	(50,000)	(15,803)	34,197
Fund balance - July 1, 2010	<u>50,000</u>	<u>50,000</u>	<u>56,997</u>	<u>6,997</u>
Fund Balance - June 30, 2011	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 41,194</u>	<u>\$ 41,194</u>

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

Fiscal year ended June 30, 2011

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance With Final Budget Positive (Negative)
	Original	Final		
Personal services:				
General Manager	\$ 77,709	\$ 77,709	\$ 84,841	\$ (7,132)
Assistant Operator	49,459	49,459	49,461	(2)
Office Manager	21,840	21,840	20,903	937
Maintenance Worker 2	29,744	29,744	29,745	(1)
Overtime	5,000	5,000	0	5,000
Social security and Medicare	14,057	14,057	14,149	(92)
Workers comp/accident insurance	6,800	6,800	5,276	1,524
PERS	13,566	13,566	16,124	(2,558)
Health insurance	33,000	33,000	32,931	69
Unemployment tax	225	225	202	23
Total personal services	<u>251,400</u>	<u>251,400</u>	<u>253,632</u>	<u>(2,232)</u>
Materials and services:				
Office supplies and expenses	4,000	4,000	4,299	(299)
Telephone	5,200	5,200	5,251	(51)
Office rent	4,800	4,800	4,800	0
Insurance and bond	14,300	14,300	13,834	466
Legal and auditing	7,000	7,000	4,300	2,700
Memberships	1,500	1,500	1,193	307
Refunds	300	300	0	300
Bank charges	650	650	595	55
Vehicle maintenance	10,000	10,000	7,708	2,292
Miscellaneous	400	400	0	400
Repair and maintenance	30,000	30,000	20,226	9,774
Workshops and seminars	3,000	3,000	977	2,023
Plant supplies and tools	5,000	5,000	1,876	3,124
Chlorine and chemicals	1,800	1,800	1,566	234
Electricity	13,000	13,000	12,543	457
Water testing	2,200	2,200	1,411	789
Waste water charges	3,000	3,000	2,700	300
Total materials and services	<u>106,150</u>	<u>106,150</u>	<u>83,279</u>	<u>22,871</u>
Capital outlay	0	0	0	0
Operating contingencies	<u>23,300</u>	<u>23,300</u>	<u>0</u>	<u>23,300</u>
Total expenditures	<u>\$ 380,850</u>	<u>\$ 380,850</u>	<u>\$ 336,911</u>	<u>\$ 43,939</u>

**NESKOWIN REGIONAL WATER DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
DEBT SERVICE FUND - BUDGETARY BASIS**

Fiscal year ended June 30, 2011

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues				
Current taxes	\$ 89,272	\$ 89,272	\$ 87,622	\$ (1,650)
Prior taxes	5,700	5,700	7,344	1,644
Total revenues	<u>94,972</u>	<u>94,972</u>	<u>94,966</u>	<u>(6)</u>
Expenditures				
Bond and loan principal:				
October 1, 2010	34,491	34,491	34,490	1
December 1, 2010	34,425	34,425	34,425	0
April 1, 2011	35,253	35,253	35,253	0
Interest payments:				
October 1, 2010	1,541	1,541	1,541	0
December 1, 2010	25,545	25,545	25,545	0
April 1, 2011	779	779	779	0
Total expenditures	<u>132,034</u>	<u>132,034</u>	<u>132,033</u>	<u>1</u>
Excess of revenues over (under) expenditures	<u>(37,062)</u>	<u>(37,062)</u>	<u>(37,067)</u>	<u>(5)</u>
Fund balance – July 1, 2010	<u>157,000</u>	<u>157,000</u>	<u>160,625</u>	<u>3,625</u>
Fund Balance – June 30, 2011	<u>\$ 119,938</u>	<u>\$ 119,938</u>	<u>\$ 123,558</u>	<u>\$ 3,620</u>

**NESKOWIN REGIONAL WATER DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
SYSTEM DEVELOPMENT FUND - BUDGETARY BASIS**

Fiscal year ended June 30, 2011

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues				
Prior taxes	\$ 0	\$ 0	\$ 4	\$ 4
System development charges	45,210	45,210	15,070	(30,140)
Total revenues	<u>45,210</u>	<u>45,210</u>	<u>15,074</u>	<u>(30,136)</u>
Expenditures				
Capital outlay	306,210	306,210	4,526	301,684
Total expenditures	<u>306,210</u>	<u>306,210</u>	<u>4,526</u>	<u>301,684</u>
Excess of revenues over (under) expenditures	(261,000)	(261,000)	10,548	271,548
Fund balance – July 1, 2010	<u>261,000</u>	<u>261,000</u>	<u>253,685</u>	<u>(7,315)</u>
Fund Balance - June 30, 2011	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 264,233</u>	<u>\$ 264,233</u>

**NESKOWIN REGIONAL WATER DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
CAPITAL IMPROVEMENT FUND - BUDGETARY BASIS**

Fiscal year ended June 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual Amounts Budgetary Basis</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Current taxes	\$ 77,250	\$ 77,250	\$ 71,389	\$ (5,861)
Previously levied taxes	2,000	2,000	3,890	1,890
Total revenues	<u>79,250</u>	<u>79,250</u>	<u>75,279</u>	<u>(3,971)</u>
Expenditures				
Capital outlay	<u>354,250</u>	<u>354,250</u>	<u>48,992</u>	<u>305,258</u>
Total expenditures				
Excess of revenues over (under) expenditures	(275,000)	(275,000)	26,287	301,287
Fund balance – July 1, 2010	<u>275,000</u>	<u>275,000</u>	<u>271,500</u>	<u>(3,500)</u>
Fund Balance - June 30, 2011	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 297,787</u>	<u>\$ 297,787</u>

**NESKOWIN REGIONAL WATER DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
TRUCK AND EQUIPMENT FUND - BUDGETARY BASIS**

Fiscal year ended June 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual Amounts Budgetary Basis</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Total revenues	\$ 0	\$ 0	\$ 0	\$ 0
Expenditures				
Capital outlay	38,750	38,750	792	37,958
Reserve for membrane modules	22,250	22,250	0	22,250
Total expenditures	<u>61,000</u>	<u>61,000</u>	<u>792</u>	<u>60,208</u>
Excess of revenues over (under) expenditures	(61,000)	(61,000)	(792)	60,208
Other Financing Sources (Uses)				
Operating transfers in	15,000	15,000	15,000	0
Operating transfers out				
Excess of Revenues and Sources over (under) Expenditures and Other (Uses)	(46,000)	(46,000)	14,208	60,208
Fund balance – July 1, 2010	<u>46,000</u>	<u>46,000</u>	<u>48,264</u>	<u>2,264</u>
Fund Balance - June 30, 2011	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 62,472</u>	<u>\$ 62,472</u>

SUPPLEMENTARY INFORMATION

NESKOWIN REGIONAL WATER DISTRICT
STATEMENT OF PROPERTY TAX TRANSACTIONS
Fiscal year ended June 30, 2011

Tax Year	Taxes Receivable July 1, 2010	2010-2011 Levy	Collections	Interest Discounts Adjustments	Taxes Receivable June 30, 2011
2010-11		\$ 197,881	\$ (183,827)	\$ (4,849)	\$ 9,205
2009-10	\$ 11,059		(5,125)	(54)	5,880
2008-09	5,443		(1,998)	(44)	3,401
2007-08	2,783		(1,732)	(2)	1,049
Prior Years	1,034		(638)	(30)	366
	<u>\$ 20,319</u>	<u>\$ 197,881</u>	<u>\$ (193,320)</u>	<u>\$ (4,979)</u>	<u>\$ 19,901</u>

**NESKOWIN REGIONAL WATER DISTRICT
SCHEDULE OF LONG-TERM DEBT**

For the fiscal year ended June 30, 2011

Safe Drinking Water Financing Program

Water Treatment Plant Upgrade Project

Payment Date	Principal Payment	Interest Rate	Interest Payment
December 1, 2011	\$ 35,639.89	3.53%	\$ 24,329.49
December 1, 2012	36,897.98	3.53%	23,071.40
December 1, 2013	38,200.48	3.53%	21,768.90
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	57,924.67	3.53%	2,044.71
Total Requirements	\$ 689,220.71		\$ 210,319.99

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

June 30, 2011

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, 2011, and have issued my report dated December 15, 2011. 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).

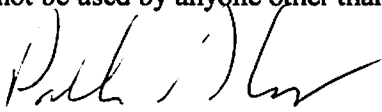
In connection with my testing, nothing came to my attention that caused me to believe the District was not in substantial compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000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

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.

A handwritten signature in black ink, appearing to read "Patrick G. Carney". The signature is fluid and cursive, with a prominent initial "P" and a long, sweeping underline.

Patrick G. Carney
Certified Public Accountant