

**CLACKAMAS COUNTY SOIL AND WATER
CONSERVATION DISTRICT**

Financial Statements

For the Year Ended June 30, 2014

CLACKAMAS COUNTY SOIL AND WATER CONSERVATION DISTRICT
June 30, 2014

BOARD OF DIRECTORS

<u>Name</u>	<u>Position</u>	<u>Zone</u>
Jesse Nelson	Director	Zone 1
Ron Oberg	Chair	Zone 2
Jeffrey Becker	Director	Zone 3
Joan Zuber	Vice Chair	Zone 4
Don Guttridge	Secretary	Zone 5
Roger Fantz	Director	At Large
Jan Lee	Treasurer	At Large

MAILING ADDRESS

Clackamas County Soil and Water Conservation District
221 Molalla Avenue, Suite 102
Oregon City, OR 97045

CLACKAMAS COUNTY SOIL AND WATER CONSERVATION DISTRICT
Financial Statements
For the year ended June 30, 2014

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Independent Auditor's Report

Board of Directors
Clackamas County Soil and Water Conservation District
Clackamas County, Oregon

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Clackamas County Soil and Water Conservation District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we 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, we 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Clackamas County Soil and Water Conservation District, as of June 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Richard Winkel, CPA

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Portland, OR 97291

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email: rwinkel@winkelcpa.com

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-5 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. We 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 our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The budgetary comparison information on pages 22-23 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. This budgetary information is the responsibility of management and has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Clackamas County Soil and Water Conservation District's basic financial statements. The budgetary comparison schedules and schedule of property tax transactions are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information 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 our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Oregon Revised Statutes

In accordance with 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, we have issued our report dated September 18, 2014 on our consideration of Clackamas County Soil and Water Conservation District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters including the provisions of the Minimum Standards for Audits of Oregon Municipal Corporations. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance.

Richard Winkel, CPA

September 18, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

CLACKAMAS COUNTY SOIL AND WATER CONSERVATION DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2014

Our discussion and analysis of Clackamas County Soil and Water Conservation District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2014. Our purposes are to assist users of these financial statements to interpret the information found in the following pages, highlight the major factors and impacts on the District's financial situation, and to explain significant changes from last year to this year. Please read it in conjunction with the District's financial statements beginning on page 6.

FINANCIAL HIGHLIGHTS

- Revenues increased in 2014 by \$43,134. The majority of the change resulted from increases in property tax revenue, which increased by \$94,158. Grant revenues decreased by \$50,942 due to decreased funding by OWEB for various projects.
- Total expenditures increased by \$115,727, primarily related to increases in specific projects operations at a farm purchased by the District during the current year.
- The District's net position decreased by \$54,078 during the year ended June 30, 2014.

OVERVIEW OF THE FINANCIAL STATEMENTS

The government-wide financial statements on pages 6 and 7 are designed to provide an overview of the District's finances. The statement of net position presents information regarding assets and liabilities, with the difference between the two reported as net position. Over time, the increases or decreases in net position may serve as an indicator of whether the financial position of the District is improving or deteriorating. The statement of activities presents information showing how the District's net assets changed during the year.

The fund financial statements on pages 8 through 11 focus on inflows and outflows of spendable resources, as well as balances of resources available at the end of the year for the District's funds. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate comparison with the government-wide financial statements.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Governmental fund balances totaled \$1,606,760 at June 30, 2014. A summary of changes in governmental fund balances follows:

	<u>June 30, 2014</u>	<u>June 30, 2013</u>	<u>Change</u>
General fund	\$ 1,351,366	\$ 1,541,923	\$ (190,557)
Building reserve fund	95,336	418,314	(322,978)
Conservation fund	<u>160,058</u>	<u>46,699</u>	<u>113,359</u>
Total	<u>\$ 1,606,760</u>	<u>\$ 2,006,936</u>	<u>\$ (400,176)</u>

In 2014 the General Fund revenues increased by \$86,939, approximately 4.6%, while expenditures increased by \$78,446, approximately 5.6%. The increase in revenues is due to a higher property tax revenues and the increase in expenditures was mainly for personnel services.

Revenues for the General Fund were \$1,958,183, which was \$88,503 over budget. Expenditures for the General Fund were \$1,458,740, which was \$163,695 under budget.

CLACKAMAS COUNTY SOIL AND WATER CONSERVATION DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2014

GOVERNMENT-WIDE FINANCIAL ANALYSIS

SUMMARY STATEMENT OF NET POSITION

	<u>FY 2014</u>	<u>FY 2013</u>
Assets:		
Cash and investments	\$ 1,695,397	\$ 2,079,040
Other current assets	<u>167,581</u>	<u>122,237</u>
Total current assets	1,862,978	2,201,277
Loans receivable due in more than one year	46,600	36,000
Capital assets, net of depreciation	<u>919,509</u>	<u>242,177</u>
Total assets	2,829,087	2,479,454
Current liabilities	205,106	131,530
Liabilities due in more than one year	<u>375,135</u>	<u>45,000</u>
Total liabilities	580,241	176,530
NET POSITION:		
Net investment in capital assets	616,341	242,177
Unrestricted	<u>1,632,505</u>	<u>2,060,747</u>
Total net position	<u>\$ 2,248,846</u>	<u>\$ 2,302,924</u>

SUMMARY STATEMENT OF ACTIVITIES

	<u>FY 2014</u>	<u>FY 2013</u>
Program revenues:		
Grants	\$ 149,830	\$ 200,772
General revenues:		
Property taxes	1,869,604	1,775,446
Interest income	9,018	10,330
Other income	<u>18,792</u>	<u>17,561</u>
Total revenues	2,047,244	2,004,109
Expenditures		
Soil and water conservation	<u>2,101,322</u>	<u>1,985,595</u>
Total expenses	<u>2,101,322</u>	<u>1,985,595</u>
Change in net position	(54,078)	18,514
Net position, beginning of year	<u>2,302,924</u>	<u>2,284,410</u>
Net position, end of year	<u>\$ 2,248,846</u>	<u>\$ 2,302,924</u>

CLACKAMAS COUNTY SOIL AND WATER CONSERVATION DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2014

BUDGETARY HIGHLIGHTS

See the supplemental information for detailed schedules of budget to actual variances for the fiscal year ended June 30, 2014. Expenditures were under budget for the year except for the Building Reserve Fund. During the year ended June 30, 2014 the District purchased a farm for approximately \$651,000. The farm purchase was partially funded by a bank loan in the amount of \$327,500. The purchase of the farm and related expenses to prepare the farm for operation exceeded the budget for capital outlay by \$194,216. In addition, the debt service expenses of \$38,011 were not budgeted for the current year.

In the FY 2012-2013 budget, the District appropriated the entire Building Reserve Fund. The amount appropriated exceeded the purchase price of the Beaver creek farm. Later in FY 2012-2013, the District made an offer on the Beaver creek farm, well within the appropriation of the FY 2012-2013 adopted budget. During negotiations among the parties, the District stated the sale must close on or before June 30, 2013 to remain within the District's budget appropriation. All parties worked diligently toward a rapid closing. Unavoidable delays resulted in the actual closing date occurring on July 3, 2013, a few days into the new fiscal year. This caused the expenditure to be limited by the appropriation adopted for FY 2013-2014, and that amount was not sufficient to accommodate the full purchase price of the farm. The District then borrowed some funds to complete the purchase of the Beaver creek farm. This indebtedness was described in various budget documents and was listed on the FY 2014-2015 LB-1 form as published. The indebtedness is listed monthly on the District's Balance Sheet and is regularly discussed in open public meetings of the District's Board of Directors. The District strives to be completely transparent in the budgeting process and the expenditure of funds entrusted the District's care. Now that the District is aware that, unlike most other loan situations, a loan to a governmental entity is considered to be income and the payments are expenditures for budget purposes, the District will be cognizant of this governmental accounting principle in the future.

CAPITAL ASSETS

At June 30, 2014 the District had \$1,164,662 invested in capital assets. During the year ended June 30, 2014 the District purchased capital assets in the amount of \$718,399, most of which was a purchase of farm land. More detailed information about the District's capital assets is presented in the notes to the financial statements.

LONG-TERM DEBT

As noted above, during the current year the District took out a \$327,500 bank loan to finance the purchase of a farm. More detailed information about the District's long-term debt is presented in the notes to the financial statements.

ECONOMIC FACTORS

Property tax revenue is the main source of the District's operating revenue. The District also receives state grants. All expenses for soil and water conservation must be paid for by these sources.

FINANCIAL CONTACT

The District's financial statements are designed to give the public a general overview of the District's accountability. If you have questions about financial matters please contact the District at 221 Molalla Ave, Suite 102, Oregon City, OR 97045. The District telephone number is (503) 210-6000.

FINANCIAL SECTION

BASIC FINANCIAL STATEMENTS

CLACKAMAS COUNTY SOIL AND WATER CONSERVATION DISTRICT

Statement of Net Position

June 30, 2014

	<u>Governmental Activities</u>
ASSETS	
Cash and investments	\$ 1,695,397
Property taxes receivable	108,485
Accounts receivable	33,696
Loans receivable:	
Due within one year	25,400
Due in more than one year	46,600
Capital assets, net of depreciation	<u>919,509</u>
Total assets	2,829,087
LIABILITIES	
Accounts payable	68,224
Accrued payroll	74,631
Accrued compensated absences	34,218
Long-term liabilities:	
Due within one year	28,033
Due in more than one year	<u>375,135</u>
Total liabilities	580,241
NET POSITION	
Net investment in capital assets	616,341
Unrestricted	<u>1,632,505</u>
Total net position	<u>\$ 2,248,846</u>

The accompanying notes are an integral part of these financial statements

CLACKAMAS COUNTY SOIL AND WATER CONSERVATION DISTRICT

Statement of Activities

For the Year Ended June 30, 2014

Functions	Expenses	Function Revenues		Net (Expense) Revenue And Changes in Net Position
		Charges For Services	Operating Grants and Contributions	
Conservation	\$ <u>2,101,322</u>	\$ <u>-</u>	\$ <u>149,830</u>	\$ <u>(1,951,492)</u>
Total Governmental Activities	\$ <u>2,101,322</u>	\$ <u>-</u>	\$ <u>149,830</u>	(1,951,492)

General Revenues:

Property taxes	1,869,604
Unrestricted investment earnings	9,018
Other general revenues	<u>18,792</u>

Total General Revenues 1,897,414

Change in net assets (54,078)

Net position, beginning of year 2,302,924

Net position, end of year \$ 2,248,846

The accompanying notes are an integral part of these financial statements

FUND FINANCIAL STATEMENTS

CLACKAMAS COUNTY SOIL AND WATER CONSERVATION DISTRICT

Balance Sheet – Governmental Funds

June 30, 2014

	<u>General Fund</u>	<u>Conservation Fund</u>	<u>Building Reserve Fund</u>	<u>Total</u>
ASSETS:				
Cash and investments	\$ 1,421,311	\$ 178,750	\$ 95,336	\$ 1,695,397
Property taxes receivable	108,485	-	-	108,485
Accounts receivable	-	33,696	-	33,696
	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	\$ 1,529,796	\$ 212,446	\$ 95,336	\$ 1,837,578
LIABILITIES:				
Accounts payable	\$ 15,836	\$ 52,388	\$ -	\$ 68,224
Accrued payroll	74,631	-	-	74,631
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	90,467	52,388	-	142,855
DEFERRED INFLOWS OF RESOURCES:				
Deferred property tax revenue	87,963	-	-	87,963
	<hr/>	<hr/>	<hr/>	<hr/>
Total deferred inflows of resources	87,963	-	-	87,963
FUND BALANCES:				
Restricted (conservation projects)	-	160,058	-	160,058
Assigned (building and equipment reserve)	40,000	-	95,336	135,336
Unassigned	1,311,366	-	-	1,311,366
	<hr/>	<hr/>	<hr/>	<hr/>
Total fund balances	1,351,366	160,058	95,336	1,606,760
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities, deferred inflow of resources and fund balances	\$ 1,529,796	\$ 212,446	\$ 95,336	\$ 1,837,578
	<hr/>	<hr/>	<hr/>	<hr/>

The accompanying notes are an integral part of these financial statements

CLACKAMAS COUNTY SOIL AND WATER CONSERVATION DISTRICT

Reconciliation of Balance Sheet to Statement of Net Position

For the Year Ended June 30, 2014

Total fund balances – Governmental Funds \$ 1,606,760

The cost of capital assets (land, buildings and equipment) purchased or constructed is reported as an expenditure in governmental funds. The Statement of Net Position includes those capital assets among the assets of the District as a whole.

Net capital assets 919,509

Loans receivable are reported as revenues when the payments are received in the governmental funds. The Statement of Net Position records these as assets of the District as a whole.

Loans receivable 72,000

Property tax revenue in the Statement of Activities differs from the amount reported in the governmental funds. The District records deferred revenue for all property taxes levied but not received; however, in the Statement of Activities, there is no deferred revenue and the full property tax receivable is recognized as revenue.

Deferred revenue related to property taxes 87,963

Accrued vacation and compensation and the net pension obligation are not due and payable in the current period and therefore are not reported in the funds.

Accrued vacation and compensation (34,218)

Long-term liabilities are reported as expenditures when they are repaid in the governmental funds. The Statement of Net Position records these as liabilities of the District and only records the interest expense as an expense.

Long-term liabilities (403,168)

Net position \$ 2,248,846

The accompanying notes are an integral part of these financial statements

CLACKAMAS COUNTY SOIL AND WATER CONSERVATION DISTRICT

**Statement of Revenues, Expenditures and Changes in
Fund Balances– Governmental Funds**

For the Year Ended June 30, 2014

	General Fund	Conservation Fund	Building Reserve Fund	Total
REVENUES:				
Property tax income	\$ 1,873,872	\$ -	\$ -	\$ 1,873,872
Grant income	73,930	75,900	-	149,830
Proceeds from conservation loan	-	55,000	-	55,000
Repayments on loans receivable	-	32,765	-	32,765
Interest income	7,505	1,053	460	9,018
Other income	2,746	16,046	-	18,792
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenues	1,958,053	180,764	460	2,139,277
EXPENDITURES:				
Current:				
Personnel services	1,122,885	-	-	1,122,885
Materials and services	315,392	601,838	14,861	932,091
Conservation loans	-	55,567	-	55,567
Capital outlay	20,333	-	698,066	718,399
Debt service:				
Principal	-	-	24,332	24,332
Interest	-	-	13,679	13,679
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenditures	1,458,610	657,405	750,938	2,866,953
Revenues over (under) expenditures	499,443	(476,641)	(750,478)	(727,676)
OTHER FINANCING SOURCES (USES):				
Proceeds from long-term debt	-	-	327,500	327,500
Transfers in (out)	(690,000)	590,000	100,000	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total other financing sources (uses)	(690,000)	590,000	427,500	327,500
Change in fund balances	(190,557)	113,359	(322,978)	(400,176)
Fund balance, beginning	1,541,923	46,699	418,314	2,006,936
Fund balance, ending	<u>\$ 1,351,366</u>	<u>\$ 160,058</u>	<u>\$ 95,336</u>	<u>\$ 1,606,760</u>

The accompanying notes are an integral part of these financial statements

CLACKAMAS COUNTY SOIL AND WATER CONSERVATION DISTRICT

**Reconciliation of Statement of Revenues, Expenditures and Changes in
Fund Balances to Statement of Activities**

For the Year Ended June 30, 2014

Total changes in fund balances – Governmental Funds \$ (400,176)

Capital asset additions are reported in the governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is capitalized and allocated over their estimated useful lives as depreciation expense.

Current year capital outlay expenditures capitalized as additions 718,399
Depreciation expense (41,067)

Property tax revenue in the Statement of Activities differs from the amount reported in the governmental funds. In the governmental funds, which are on the modified accrual basis, the District recognizes deferred revenue for all property taxes levied but not received; however, in the Statement of Activities, there is no deferred revenue and the full property tax receivable is recognized as revenue. (4,268)

Accrued vacation is not due and payable in the current period and therefore is not reported in the funds. 8,400

Loans payable are reported in the governmental funds as increases in fund balance when received and decreases when paid back. When loans are made to other organizations this is reported in the governmental funds as decrease in fund balance and as an increase in fund balance when they loans are paid back to the District. However, in the Statement of Activities, loans payable are reported as liabilities and loans receivable as assets.

Receipt of loan funds (55,000)
Advances under loans receivable 55,567
Receipts under loans receivable (32,765)
Receipt of long-term bank loan (327,500)
Principal payments on long-term bank loan 24,332

Change in net position of governmental activities \$ (54,078)

The accompanying notes are an integral part of these financial statements

CLACKAMAS COUNTY SOIL AND WATER CONSERVATION DISTRICT

Notes to Financial Statements

June 30, 2014

1. Summary of Significant Accounting Policies

Reporting Entity

Clackamas County Soil and Water Conservation District (the "District") is a municipal corporation organized under the general laws of the State of Oregon established to provide technical and practical services designed to conserve and use resources sustainable today and for future generations. The District works with landowners who have a personal commitment to improving the conservation of their property, including development and delivery of designs and improvements in drainage, protection of water from animal nutrients, mud and manure management, weed control, sustainable crops, and erosion protection.

The District is governed by a seven-member Board of Directors, which is elected by Clackamas County residents. Officers are elected by the Board of Directors, which is authorized to transact all business on the District's behalf.

The District is a political subdivision of the State of Oregon. The reporting entity consists of the primary government, any organization for which the primary government is financially accountable, and any other organizations that, because of the nature and significance of their relationship with the primary government, may not be excluded from the financial reporting entity.

All significant activities have been included in the basic financial statements. The District is financially independent of other state and local governmental units. Based on these criteria, the District is not a component unit of another entity, nor is any other entity required to be included in the financial statements of the District.

Measurement Focus and Basis of Accounting

The Statement of Net Position and the Statement of Activities have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants are recognized as revenue as soon as all eligibility requirements have been met.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the governmental activities of the District in one column. The statement of activities demonstrates the degree to which expenses are offset by program revenues. Items not properly included among program revenues are reported as general revenues.

The statement of activities reports the District's activities by function. The District's sole function is soil and water conservation. The statement of activities demonstrates the degree to which the expenses of each function are offset by program revenues. Program revenues include 1) charges to those who use or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operating requirements of a particular function. Interest income is reported as general revenues.

CLACKAMAS COUNTY SOIL AND WATER CONSERVATION DISTRICT

Notes to Financial Statements – Continued

June 30, 2014

1. Summary of Significant Accounting Policies (continued)

Separate fund financial statements are also provided. The governmental fund financial statements are maintained using the accrual basis of accounting whereby revenues are recorded in the accounting period in which they become both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this period, the governmental considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Fund Accounting

The District has the following major funds:

- The General Fund accounts for all activities except those required to be accounted for in other funds. The principal revenue sources are property taxes, grants and interest.
- The Conservation Fund is a special revenue fund to account for special projects related to conservation. The Fund Balance in this fund is reserved for conservation projects.
- The Building Reserve Fund is a capital project fund used to account for resources restricted for the acquisition or construction of specific capital items or projects. The Fund Balance in this fund is assigned for future capital projects.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, or regulations of other governments. Net assets are classified in the following three categories:

Invested in capital assets, net of related debt – consists of capital assets net of accumulated depreciation, reduced by the outstanding borrowings of any debt attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets – consists of net assets with constraints placed on them by entities outside of the District. At June 30, 2014 the District had no restricted net assets.

Unrestricted net assets – all other net assets that do not meet either of the criteria above.

Fund Equity

The District follows the guidance in GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*. Under this standard, fund balances are classified as nonspendable, restricted, committed, assigned, and unassigned.

- Nonspendable fund balance represents amounts that are not in a spendable form.
- Restricted fund balance represents amounts constrained to specific purpose by their providers (such as grant requirements, donor requirements, or other governments) or are restricted by law (constitutionally or by enabling legislation).

CLACKAMAS COUNTY SOIL AND WATER CONSERVATION DISTRICT

Notes to Financial Statements - Continued

June 30, 2014

1. Summary of Significant Accounting Policies (continued)

- Committed fund balance represents funds constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest-level authority action to remove or change the constraint.
- Assigned fund balance represents amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.
- Unassigned fund balance represents amounts that are available for any purpose; these amounts are reported only in the General Fund.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Cash and Investments

The District has defined cash and cash equivalents to include cash on hand, demand deposits and short term investments with original maturities of three months or less. Investments maintained in the Oregon Local Government Investment Pool (LGIP) are carried at cost, which approximates fair value, and are classified as a cash equivalent. Fair value of the investments in the LGIP are the same as the value of the pool shares. The carrying amount of the cash and cash equivalents approximate fair value due to the short term maturities of these instruments.

The insurance and collateral requirements for deposits are established by banking regulations and Oregon law. Federal Deposit Insurance Corporation (FDIC) insurance of up to \$250,000 applies to total deposits at each financial institution.

Property Taxes

In the government-wide financial statements uncollected property taxes are recorded on the Statement of Net Assets. In the fund financial statements property taxes that are collected within 60 days after year end are considered measurable and available and, therefore, are recognized as revenue. The remaining balance of uncollected property taxes is recorded as deferred revenue on the Governmental Funds Balance Sheet because it is not deemed available to finance operations in the current period. The District considers all property taxes to be fully collectible and therefore, no allowance for uncollectible property taxes has been made.

Real property taxes are levied and attached as an enforceable lien on property as of July 1 of each fiscal year. Real property taxes may be paid in full by November 15 with a 3% discount, or paid in three equal payments on November 15, February 15, and May 15. Clackamas County, Oregon, makes all assessments of property value and levies and collects property taxes for all levying districts within the County. The District considers all property taxes to be fully collectible and therefore, no allowance for uncollectible property taxes has been made.

CLACKAMAS COUNTY SOIL AND WATER CONSERVATION DISTRICT

Notes to Financial Statements - Continued

June 30, 2014

1. Summary of Significant Accounting Policies (continued)

Capital Assets

Capital assets are stated at historical cost. Donated assets are recorded at their estimated fair market value at the date of donation. The District defines capital assets as assets with an initial cost of more than \$1,000 and an estimated useful life in excess of one year. Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Furniture and Equipment	3 to 7 years
Vehicles	5 years

Accrued vacation and compensation

It is the District's policy to allow employees to accrue earned vacation and compensation pay benefits. A liability for these amounts has been recorded on the government wide financial statements because these amounts are payable when employees separate from service with the District.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as revenues and expenses reported for the periods presented. Actual results could differ from those estimates.

Transfers

The District makes transfers between funds when approved by the Board. Transfers are made from the General Fund to the Conservation Fund for conservation projects and to the Building Reserve Fund for future capital asset expenditures. Transfers for the year ended June 30, 2014 are presented in the fund financial statements, but have been eliminated from the statement of activities.

Subsequent Events

Management has evaluated subsequent events through September 16, 2014 which is the date the financial statements were available to be issued.

CLACKAMAS COUNTY SOIL AND WATER CONSERVATION DISTRICT

Notes to Financial Statements - Continued

June 30, 2014

2. Stewardship, Compliance and Accountability

The District is subject to the budget requirements of state law. The resolution authorizing appropriations of each fund sets the level by which expenditures cannot legally exceed appropriations. Total personnel services, materials and services, capital outlay, debt service, interfund transactions, operating contingency and unappropriated balance are the levels of control established by resolution. The budget is adopted and appropriations are made no later than June 30th.

The detail budget document, however, is required to contain more specific detailed information for the above-mentioned expenditure categories. Unexpected additional resources may be added to the budget through the use of a supplemental budget and appropriations resolution. A supplemental budget requires hearings before the public, publication in newspapers, and approval by the Board of Directors. Original and supplemental budgets may be modified by the use of appropriations transfers between the levels of controls. Such transfers require the approval of the Board of Directors.

Expenditures cannot legally exceed the appropriation levels. Appropriations lapse at the end of each fiscal year. Expenditures of the various funds shown in the financial statements were within authorized appropriation levels except for the Building Reserve Fund which exceeded appropriate levels for the capital outlay expenditures by \$194,216 and debt service by \$38,011.

3. Cash and Investments

Cash and investments of the District consisted of the following at June 30, 2014:

Cash on deposit with financial institutions	\$	476,069
Local Government Investment Pool		<u>1,219,328</u>
Total	\$	<u>1,695,397</u>

Deposits

The insurance and collateral requirements for deposits are established by banking regulations and Oregon law. Federal Deposit Insurance Corporation (FDIC) insurance of \$250,000 applies to total deposits at each financial institution. When balances exceed \$250,000, ORS 295.002 requires the bank depository to enter into an agreement described in ORS 295.008(2)(b) and to deposit securities pursuant to ORS 295.015(1). The Oregon State Treasurer's Office facilitates these agreements and maintains a list of qualified depositories. Well capitalized depository banks must pledge securities with a value of at least 10 percent of their quarter-end public fund deposits, unless otherwise directed by the Oregon State Treasurer. Adequately capitalized or undercapitalized bank depositories are required to pledge collateral valued at 110 percent of their uninsured public fund deposits. The securities are held by a custodian for the benefit of the State of Oregon. Any balances in excess of the FDIC insurance plus 10 percent are considered exposed to custodial credit risk. Custodial credit risk for deposits is the risk that, in the event of bank failure, the District will be unable to recover deposits or collateral securities in the hands of an outside party. At June 30, 2014, deposits were fully collateralized.

CLACKAMAS COUNTY SOIL AND WATER CONSERVATION DISTRICT

Notes to Financial Statements - Continued

June 30, 2014

3. Cash and Investments (continued)

Investments

Oregon Revised Statutes 294.035 authorizes the District to invest in general obligations of the U.S. government and its agencies, bankers' acceptances, commercial paper rated A-2 or better by Standard & Poor's Corporation or P-2 by Moody's Investors Service, and the state of Oregon Local Government Investment Pool (LGIP), among others.

The only investments held by the District at June 30, 2014 were amounts deposited with the state of Oregon LGIP. The District's investment in the LGIP is carried at cost, which approximates fair value. The state of Oregon's investment policies used in administering the LGIP are governed by statute and the Oregon Investment Council (the Council). The State Treasurer is the investment officer for the Council and is responsible for the funds on deposit in the State Treasury. The State Treasury's investments in short-term securities are limited by the portfolio rules established by the Oregon Short-term Fund Board and the Council. In accordance with Oregon statutes, the investment funds are invested and the investments are those funds managed, as a prudent investor would do, exercising reasonable care, skill, and caution.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the risk that its fair value will decline if interest rates rise. In order to manage the interest rate risk of its investments, the District only invests in the LGIP. The LGIP has rules that require at least 50 percent of its investments to mature within 93 days, not more than 25 percent may mature in over a year, and all other investments must mature in no more than three years.

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. Investments in the LGIP are not required to be rated for credit risk.

Custodial Credit Risk – Investments. Custodial credit risk is the risk that, in the event of the failure of the counterparty to a transaction, the District will not be able to recover the value of an investment or collateral securities in the possession of an outside party. The LGIP's portfolio rules provide that broker/dealers meet certain qualifications and that investments are delivered to and held by a third-party custodian which holds the securities in the state of Oregon's name.

CLACKAMAS COUNTY SOIL AND WATER CONSERVATION DISTRICT

Notes to Financial Statements - Continued

June 30, 2014

4. Capital Assets

The following is a summary of changes in capital assets during the fiscal year:

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2014</u>
Land	\$ 112,327	\$ 698,065	\$ -	\$ 810,392
Depreciable capital assets:				
Equipment	74,522	13,331	-	87,853
Vehicles	94,191	-	-	94,191
Office equipment	<u>165,223</u>	<u>7,003</u>	<u>-</u>	<u>172,226</u>
Total depreciable capital assets	<u>333,936</u>	<u>20,334</u>	<u>-</u>	<u>354,270</u>
Total capital assets	446,263	718,399	-	1,164,662
Less: accumulated depreciation				
Equipment	(50,710)	(8,154)	-	(58,864)
Vehicles	(67,335)	(8,841)	-	(76,176)
Office equipment	<u>(86,041)</u>	<u>(24,072)</u>	<u>-</u>	<u>(110,113)</u>
Total accumulated depreciation	<u>(204,086)</u>	<u>(41,067)</u>	<u>-</u>	<u>(245,153)</u>
Net capital assets	<u>\$ 242,177</u>	<u>\$ 677,332</u>	<u>\$ -</u>	<u>\$ 919,509</u>

Depreciation expense of \$41,067 was charged to Conservation expenditures during the year ended June 30, 2014.

CLACKAMAS COUNTY SOIL AND WATER CONSERVATION DISTRICT

Notes to Financial Statements - Continued

June 30, 2014

5. Loans Receivable

The District has established a loan fund to help local residents fund projects related to conservation and improve water quality. Loan terms depend on the project being funded.

During the year ended June 30, 2014 the District loaned \$55,567 to local residents under the terms of this loan fund and received \$32,765 in repayments.

	<u>Balance</u> <u>July 1, 2013</u>	<u>New Loans</u>	<u>Repayments</u>	<u>Balance</u> <u>June 30, 2014</u>
Loans receivable	\$ 49,198	\$ 55,567	\$ (32,765)	\$ 72,000

The schedule of future amounts to be received is as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 25,400	\$	\$
2016	25,400		
2017	12,200		
2018	<u>9,000</u>		
Total	\$ <u>72,000</u>	\$	\$

6. Long Term Liabilities

Oregon Department of Environmental Quality

The District has a revolving loan agreement with Oregon Department of Environmental Quality (DEQ). Under the terms of the loan the District may draw up to \$250,000 to loan to local residents to fund projects to improve water quality. The loan accrues interest at 2.63% and repayment only begins after the final loan request is made by the District. If the District complies with all requirements of the loan agreement the DEQ will forgive 30% of the loan, together with any interest accrued on that amount.

During the year ended June 30, 2014 the District drew \$55,000 under the terms of the loan agreement and \$100,000 is outstanding at June 30, 2014. The repayment terms will be determined once the final loan request is made by the District.

CLACKAMAS COUNTY SOIL AND WATER CONSERVATION DISTRICT

Notes to Financial Statements - Continued

June 30, 2014

6. Long Term Liabilities (continued)

Bank Loan

On July 3, 2013 the District purchased a farm and took out a loan from a bank to help fund the purchase. The loan requires monthly payments of \$3,365 including interest at 4.25% and matures in July 2023. The loan is secured by the land.

	<u>Balance</u> <u>July 1, 2013</u>	<u>New Loans</u>	<u>Repayments</u>	<u>Balance</u> <u>June 30, 2014</u>
DEQ	\$ 45,000	\$ 55,000	\$ -	\$ 100,000
Bank loan	-	327,500	(24,332)	303,168
	<u>\$ 45,000</u>	<u>\$ 382,500</u>	<u>\$ (24,332)</u>	<u>\$ 403,168</u>

Future payments under the terms of these loans are follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 28,033	\$ 12,342	\$ 40,375
2016	29,247	11,128	40,375
2017	30,515	9,860	40,375
2018	31,837	8,538	40,375
2019	33,217	7,158	40,375
2020-2024	150,319	14,547	164,866
Thereafter	<u>100,000</u>	<u>-</u>	<u>100,000</u>
Total	<u>\$ 403,168</u>	<u>\$ 63,573</u>	<u>\$ 466,741</u>

Interest expense in the amount of \$13,679 has been recorded as a direct function expense for the year ended June 30, 2014.

7. Leases

The District leases office space under the terms of an operating lease. The lease requires monthly payments and expires on February 28, 2019. The District may terminate the lease on or after March 1, 2017 by giving 120 days written notice. Total rent expense under the term of this lease agreement was \$81,442 for the year ended June 30, 2014.

The District leases a 2014 Toyota Prius under the terms of an operating lease. The lease requires monthly payments of \$205 and expires in May 2016. Total rent expense under the terms of this lease was \$3,000 for the year ended June 30, 2014, which included a \$2,795 down payment.

CLACKAMAS COUNTY SOIL AND WATER CONSERVATION DISTRICT

Notes to Financial Statements - Continued

June 30, 2014

7. Leases (continued)

Future requirements under the terms of these operating leases are as follows:

Year ending June 30,

2015	\$	83,902
2016		83,697
2017		81,442
2018		81,442
2019		<u>54,295</u>
Total	\$	<u><u>384,778</u></u>

8. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the District has purchased insurance coverage. No losses were incurred during the prior three years ended June 30, 2014 that exceeded the District's insurance coverage.

9. Retirement Plan

The District sponsors a 457(b) retirement plan allowing eligible employees to contribute a portion of their compensation to the Plan. The District contributes 7.5% percent of the employees' compensation to the Plan. During the year ended June 30, 2014 the District contributed \$56,047 to the Plan.

REQUIRED SUPPLEMENTARY INFORMATION

CLACKAMAS COUNTY SOIL AND WATER CONSERVATION DISTRICT

**Schedule of Revenues, Expenditures and
Changes in Fund Balance – Budget and Actual – General Fund**

For the Year Ended June 30, 2014

	<u>Original And Final Budget</u>	<u>Actual</u>	<u>Variance to Final Budget Positive (Negative)</u>
REVENUES:			
Property taxes	\$ 1,790,500	\$ 1,873,872	\$ 83,372
Grant revenue	70,930	73,930	3,000
Interest	8,250	7,505	(745)
Miscellaneous income	-	2,746	2,746
	<hr/>	<hr/>	<hr/>
Total revenues	1,869,680	1,958,053	88,373
EXPENDITURES:			
Personnel services	1,168,635	1,122,885	45,750
Materials and supplies	368,800	315,392	53,408
Capital outlay	25,000	20,333	4,667
Contingency	60,000	-	60,000
	<hr/>	<hr/>	<hr/>
Total expenditures	1,622,435	1,458,610	163,825
Excess of revenues over (under) expenditures	247,245	499,443	252,198
OTHER FINANCING SOURCES (USES):			
Transfers in	-	-	-
Transfers out	(690,000)	(690,000)	-
	<hr/>	<hr/>	<hr/>
Total other financing sources (uses)	(690,000)	(690,000)	-
Change in fund balance	(442,755)	(190,557)	252,198
Beginning fund balance	<hr/>	<hr/>	<hr/>
Ending fund balance	\$ 1,626,960	\$ 1,541,923	\$ (85,037)
	<hr/>	<hr/>	<hr/>
Ending fund balance	\$ 1,184,205	\$ 1,351,366	\$ 167,161

CLACKAMAS COUNTY SOIL AND WATER CONSERVATION DISTRICT

**Schedule of Revenues, Expenditures and Changes in Fund
Balance – Budget and Actual – Conservation Fund**

For the Year Ended June 30, 2014

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance to Final Budget Positive (Negative)</u>
REVENUES:			
Grant income	\$ 52,757	\$ 75,900	\$ 23,143
Proceeds from conservation loan	177,000	55,000	(122,000)
Repayments on loans receivable	42,600	32,765	(9,835)
Interest income	2,875	1,053	(1,822)
Other income	-	16,046	16,046
	<hr/>	<hr/>	<hr/>
Total revenues	275,232	180,764	(94,468)
EXPENDITURES:			
Materials and services	624,074	601,838	22,236
Distributions of loans	191,158	55,567	135,591
	<hr/>	<hr/>	<hr/>
Total expenditures	815,232	657,405	157,827
Excess of revenues over (under) expenditures	(540,000)	(476,641)	63,359
OTHER FINANCING SOURCES (USES):			
Transfers in	590,000	590,000	-
	<hr/>	<hr/>	<hr/>
Total other financing sources (uses)	590,000	590,000	-
Change in fund balance	50,000	113,359	63,359
Beginning fund balance	-	46,699	46,699
	<hr/>	<hr/>	<hr/>
Ending fund balance	\$ 50,000	\$ 160,058	\$ 110,058
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

OTHER SUPPLEMENTARY INFORMATION

CLACKAMAS COUNTY SOIL AND WATER CONSERVATION DISTRICT

**Schedule of Revenues, Expenditures and Changes in Fund
Balance – Budget and Actual – Building Reserve Fund**

For the Year Ended June 30, 2014

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance to Final Budget Positive (Negative)</u>
REVENUES:			
Interest income	\$ 1,700	\$ 460	\$ (1,240)
EXPENDITURES:			
Materials and services	50,000	14,861	35,139
Capital outlay	503,850	698,066	(194,216)
Debt service:			
Principal	-	24,332	(24,332)
Interest	-	13,679	(13,679)
Total expenditures	<u>553,850</u>	<u>750,938</u>	<u>(197,088)</u>
Excess of revenues over (under) expenditures	(552,150)	(750,478)	(198,328)
OTHER FINANCING SOURCES (USES):			
Proceeds from long-term debt	-	327,500	327,500
Transfers in	100,000	100,000	-
Total other financing sources (uses)	<u>100,000</u>	<u>427,500</u>	<u>327,500</u>
Change in fund balance	(452,150)	(322,978)	129,172
Beginning fund balance	<u>452,150</u>	<u>418,314</u>	<u>(33,836)</u>
Ending fund balance	<u>\$ -</u>	<u>\$ 95,336</u>	<u>\$ 95,336</u>

CLACKAMAS COUNTY SOIL AND WATER CONSERVATION DISTRICT

Schedule of Property Tax Transactions

For the Year Ended June 30, 2014

<u>Transactions by Year</u>	<u>Property Taxes Uncollected, Beginning</u>	<u>Levy as Extended by Assessor</u>	<u>Interest</u>	<u>Discounts</u>	<u>Collections</u>	<u>Adjustments</u>	<u>Property Taxes Uncollected, Ending</u>
2013-2014	\$ -	\$ 1,917,385	\$ 851	\$ (48,682)	\$ (1,818,220)	\$ (3,143)	\$ 48,191
2012-2013	53,821		2,171	28	(28,302)	(1,473)	26,245
2011-2012	27,783	-	2,196	9	(12,611)	(433)	16,944
2010-2011	12,642	-	1,813	1	(7,433)	(88)	6,935
2009-2010	11,566	-	1,308	-	(4,629)	(218)	8,027
2008-2009	2,054	-	226	1	(601)	(289)	1,391
2007-2008	1,173	-	170	-	(428)	(163)	752
	<u>\$ 109,039</u>	<u>\$ 1,917,385</u>	<u>\$ 8,735</u>	<u>\$ (48,643)</u>	<u>\$ (1,872,224)</u>	<u>\$ (5,807)</u>	<u>\$ 108,485</u>

**INDEPENDENT AUDITOR'S REPORT REQUIRED
BY OREGON STATE REGULATIONS**

**Independent Auditor's Report Required
by Oregon State Regulations**

To the Board of Directors
Clackamas County Soil and Water Conservation District
Clackamas County, Oregon

We have audited the basic financial statements of Clackamas County Soil and Water Conservation District (the District) as of and for the year ended June 30, 2014 and have issued our report thereon dated September 18, 2014. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Compliance

As part of obtaining reasonable assurance about whether Clackamas County Soil and Water Conservation District's financial statements are free of material misstatement, we 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 Revised Statutes as specified in Oregon Administrative Rules OAR 162-10-000 to 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 statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion.

We performed procedures to the extent we 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)
- Indebtedness limitations, restrictions and repayment
- Insurance and Fidelity Bond Coverage
- Budgets legally required (ORS Chapter 294)
- Public Contracting and Purchasing
- Programs Funded From Outside Sources
- Authorized investment of surplus funds (ORS Chapter 294)

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In connection with our testing nothing came to my attention that caused me to believe Clackamas County Soil and Water Conservation 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, except for the over expenditure of budget appropriations as follows:

<u>Building Reserve Fund</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Capital outlay	\$ 503,850	\$ 698,066	\$ (194,216)
Debt service	-	38,011	(38,011)

OAR 162-10-0230 Internal Control

In planning and performing our audit, we considered the District’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Clackamas County Soil and Water Conservation District’s internal control over financial reporting.

Our consideration of the internal control structure was for the limited purpose and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified. However, we have identified a deficiency in internal control that we consider to be a material weakness that is disclosed in a separate letter.

This report is intended for the information of the board of directors and management of Clackamas County Soil and Water Conservation District and the Oregon Secretary of State and is not intended to be and should not be used by anyone other than these parties.

Richard Winkel, CPA

September 18, 2014