

***MARION SOIL AND WATER  
CONSERVATION DISTRICT  
SALEM, OREGON  
ANNUAL FINANCIAL REPORT  
Year Ended June 30, 2017***

**MARION SOIL AND WATER CONSERVATION DISTRICT**  
**JUNE 30, 2017**

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**BOARD OF DIRECTORS**

<u><i>Name</i></u>	<u><i>Position</i></u>	<u><i>Term Expires</i></u>
Tim Bielenberg	Chair Zone 4	December 31, 2020
Doug Krahmer	Vice Chair Zone 1	December 31, 2020
Ken Hestel Jr.	Secretary/Treasurer At Large 2	December 31, 2018
Scott Walker	Director At Large 1	December 31, 2020
Darin Olson	Director Zone 3	December 31, 2018
Robert DeSantis Jr.	Director Zone 5	December 31, 2018

**MAILING ADDRESS**

Jane Keppinger, Registered Agent  
338 Hawthorne Avenue NE  
Salem, Oregon 97301  
Phone (503) 391-9927, Fax (503) 399-5799

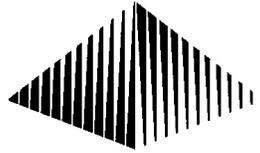
All board members may be contacted at the District office

**MARION SOIL AND WATER CONSERVATION DISTRICT**  
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***FINANCIAL SECTION***



## **GROVE, MUELLER & SWANK, P.C.**

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS  
475 Cottage Street NE, Suite 200, Salem, Oregon 97301  
(503) 581-7788

### ***INDEPENDENT AUDITOR'S REPORT***

Board of Directors  
Marion Soil and Water Conservation District  
338 Hawthorne Avenue NE  
Salem, Oregon 97301

#### ***Report on the Financial Statements***

We have audited the accompanying modified cash basis financial statements of the governmental activities and each major fund of Marion Soil and Water Conservation District (the District) as of and for the year ended June 30, 2017, 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 the modified cash basis of accounting described in the notes to the financial statements; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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 District'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 District'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 modified cash basis financial position of the governmental activities and each major fund of Marion Soil and Water Conservation District, as of June 30, 2017, and the respective changes in modified cash basis financial position for the year then ended in accordance with the modified cash basis of accounting described in the notes to the financial statements.

## ***Basis of Accounting***

We draw attention to the notes to financial statements, which describe the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

## ***Other Matters***

### ***Report on Supplemental and Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. Management's discussion and analysis and supplemental information, which are the responsibility of management, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

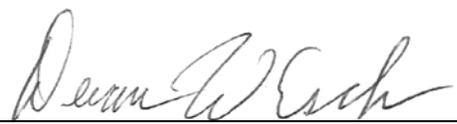
The supplemental information as listed in the table of contents is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole on the basis of accounting described in notes to the financial statements.

Management's discussion and analysis has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

## ***Other Legal and Regulatory Requirements***

In accordance with Minimum Standards for Audits of Oregon Municipal Corporations, we have issued our report dated December 22, 2017, on our consideration of the District's compliance with certain provisions of laws and regulations, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on compliance.

**GROVE, MUELLER & SWANK, PC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

By:   
Devan W. Esch, A Shareholder  
December 22, 2017

**Marion Soil and Water Conservation District**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**  
**June 30, 2017**

As management of Marion Soil and Water Conservation District (the District), we offer readers the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2017. The MD&A report is intended to explain and outline any significant changes in the District's financial position.

***Introduction - Overview and Background Information***

The District is a local unit of government managed by an elected board of seven (7) directors. The District implements their annual work plan utilizing a variety of resources, including grants, volunteers, and tax revenues. In 2000, the District established a permanent tax base that requires compliance with Oregon Local Budget Law. The District's permanent rate is \$0.05/\$1000 of assessed value (AV). As a taxing District, the District is required to hold an annual budget committee meeting for the review and approval of the current year's budget. The budget committee meets, reviews the budget, hears public comment and approves the budget. The budget was published in the newspaper and presented for adoption at the District budget hearing held June 22, 2016.

***How are the District's tax revenues calculated?***

With the passage of ballot measures 47 and 50 in 1996, the law required reductions in taxing authority, and the conversion of a tax base to a permanent rate. The law allows a maximum of 3% growth in Assessed Value in the county, not including new construction. Therefore, the District can increase collections by a maximum of 3%, plus the value of new construction multiplied by our Permanent Rate.

***Method used for estimating the tax revenues for Fiscal Year 2016-2017:***

Multiply 2015-16 Assessed Value (AV) x 1.04 = Projected 2016-17 Assessed Value (AV). *This estimate includes the 3% increase and 1% anticipated new growth.*

Projected 2016 – 2017 (AV) = \$ 2015– 2016 AV x 1.04 =	\$23,390,099,950
x SWCD permanent rate (.05/1000 assessed value) =	1,169,505
Less the estimated uncollectable taxes for 2016-2017 @ 5.59%	<u>(175,754)</u>
Total anticipated tax collections in 2016 – 2017 budget =	<u><u>\$ 993,751</u></u>

The District's budget is categorized by a General Fund and Reserve Funds. The following is an overview of changes for each fund type.

***General Fund***

The purpose of the General Fund is to account for all activities for which specific funds are not required by law or needed to facilitate proper accounting of specific revenues. The primary source of revenue in the General Fund comes from the District's permanent taxing authority established from the 2000 General Election. Other significant revenue sources includes: interest from the US Bank account and the Local Government Investment Pool (LGIP); additional federal/state/local grants; and other small amounts of income from various sources. Categories in the General Fund include personnel services, materials and services, capital outlay, contingency, and unappropriated ending balance. The General Fund accounts for many of the normal expenses associated with operating the District programs and those activities not associated with a special grant restriction.

## ***MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)***

### *Resources*

#### *Increases:*

The actual cash carry-over in the General fund as of July 1, 2016 was \$1,060,684. The carry-over represents unexpended funds budgeted for contingency, unappropriated funds, and a cost savings from materials and services. The General Fund's total resources for the fiscal year 2016-17 were \$1,194,874, an increase of \$39,951 over the previous year's total of \$1,154,923. There was an increase in tax revenues from \$1,033,600 for 2015-16 to \$1,071,540 for 2016-17 in addition to an increase in other income sources such as office rent, interest, and the native plant sale totaling \$10,601.

#### *Decreases:*

There was only one decrease of \$8,590 in income from other agencies in General Fund resources for fiscal year 2016-17. This is often due to the timing of when payments are actually received for awarded grants etc.

### *Personnel Services*

The gross wages for 2016-17 were \$586,892 which was an increase over the 2015-16 amount of \$553,315 due to the hiring of a temporary part-time employee. Modest salary increases were also given due to a board approved cost of living adjustment in December of 2016. Regular salary increases and/or bonuses are given when warranted and are based on job performance and program outcome. The changes in salary levels necessitated only slight increases to social security/Medicare, unemployment, workers' compensation, and retirement. The District had anticipated significant increases in the cost of employee benefits for life, health, and dental insurances but most of these anticipated amounts only rose slightly from the previous year. Funds for compensated absences were also included in the budget to cover wages for any employees who separate or are terminated by the District. These funds cover the employees' earned vacation and any compensatory or credit time that is owed them at the time they leave. These funds would allow the District to replace an employee without placing an undue burden in other areas of the budget.

### *Materials and Services*

The total amount for materials and services for 2016-17 was \$524,354, a decrease of \$19,782 from the total amount of \$544,136 for 2015-2016. The decrease was due to the District's ability to access and use state contracts to purchase supplies and materials through which often equates to a considerable cost savings and/or the anticipated need to spend certain funds did not materialize.

### *Capital Outlay*

The total amount spent for office equipment, furniture and computers was \$5,486 for 2016-2017 as compared to the total amount spent of \$4,958 in 2015-2016. The District had purchased additional computer equipment needed to replace outdated and/or failing equipment.

### *Contingency*

Budgeted contingency remained at the current level of \$50,000. These funds were to be used by the District in the event of shortfalls in other General Fund budget categories. There were no shortfalls or the need to use any contingency funds in 2016-2017.

### *Transfers*

There were no fund transfers in 2016-2017.

**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

*Budget*

The budgeted unappropriated ending balance of \$325,000 remained the same from the previous year. This amount insured the continued operation of the District through the first four months of the new fiscal year or until the District began receiving property tax funds in November.

**Reserve Funds**

Reserve Funds establish a way for the District to “reserve” or save funds for a future need or use (i.e. to purchase a vehicle (Vehicle Reserve Fund)).

*Unanticipated Projects and Catastrophic Loss Reserve Fund*

This reserve fund was created by the District Board through the resolution process in March of 2012. The money used to establish this fund came from the abolished Building Reserve Fund by way of transfers in and out of the General Fund in FY 2012-2013. Each expense line item is budgeted at 50% of the Fund’s total amount. This reserve fund receives income from interest each year and no funds were expended in 2016-2017. The cash carry-over and ending balance for 2016-17 was \$899,364, an increase of \$12,432 over the 2015-16 balance of \$886,932. The increase in income was received from interest earnings.

*Vehicle Reserve Fund*

This is a reserve fund established to accumulate money for the purchase of vehicles for District use. Cash carry-over and the ending balance for 2016-17 was \$104,765, the same as 2015-16. The District did not purchase any new vehicles in 2016-2017.

	<i>For the year ended June 30,</i>	
	<u>2017</u>	<u>2016</u>
<b>General Fund Beginning Balance</b>	\$ 1,060,684	\$ 1,008,170
<b>Resources</b>		
Marion County taxes	1,071,540	1,033,600
Income from other agencies	91,284	99,874
Interest income	12,432	7,032
Miscellaneous	19,618	14,417
<i>Total Resources</i>	<u>1,194,874</u>	<u>1,154,923</u>
<b>Requirements</b>		
Personal services	586,892	553,315
Materials and services	524,354	544,136
Capital outlay	5,486	4,958
<i>Total Requirements</i>	<u>1,116,732</u>	<u>1,102,409</u>
<b>General Fund Ending Balance</b>	<u>\$ 1,138,826</u>	<u>\$ 1,060,684</u>

	<i>For the year ended June 30,</i>	
	<u>2017</u>	<u>2016</u>
<i>Special Funds Beginning Balance</i>	\$ 991,697	\$ 984,665
<i>Resources</i>		
Interest Income	<u>12,432</u>	<u>7,032</u>
<i>Special Funds Ending Balance</i>	<u>\$ 1,004,129</u>	<u>\$ 991,697</u>

***General Fund Budgetary Highlights***

There were no supplemental budgets during the 2016-17 fiscal year.

***Capital Assets***

The District's investment in capital assets includes vehicles and equipment. As of June 30, 2017, the District's capital assets are fully depreciated, a decrease of \$4,064 over the 2015-16 amount of \$4,064. The decrease represents current year depreciation.

Additional information about capital assets can be found in the notes to the financial statements.

***Financial Contact***

The District's financial statements are designed to present users (citizens, taxpayers, customers, 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 Manager, 338 Hawthorne Avenue NE, Salem, Oregon 97301.

***BASIC FINANCIAL STATEMENTS***

**MARION SOIL AND WATER CONSERVATION DISTRICT**  
**STATEMENT OF NET POSITION (MODIFIED CASH BASIS)**  
**JUNE 30, 2017**

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**ASSETS**

Cash and cash equivalents	\$ 2,142,505
Flex plan deposits	450

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<i>Total Assets</i>	2,142,955
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**LIABILITIES**

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**NET POSITION**

Unrestricted	2,142,955
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<i>Total Net Position</i>	<u>\$ 2,142,955</u>
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*The accompanying notes are an integral part of the financial statements.*

**MARION SOIL AND WATER CONSERVATION DISTRICT**  
**STATEMENT OF ACTIVITIES (MODIFIED CASH BASIS)**  
**YEAR ENDED JUNE 30, 2017**

	<u>Expenses</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expenses) Revenues and Changes in in Net Position</u>
<b>FUNCTIONS/PROGRAMS</b>			
<b>Governmental activities:</b>			
Conservation	\$ 1,120,796	\$ 91,284	\$ (1,029,512)
<b>General Revenues:</b>			
Property taxes			1,071,540
Miscellaneous			44,482
<i>Total General Revenues</i>			<u>1,116,022</u>
<b>Change in Net Position</b>			86,510
<b>Net Position - beginning of year</b>			<u>2,056,445</u>
<b>Net Position - end of year</b>			<u>\$ 2,142,955</u>

*The accompanying notes are an integral part of the financial statements.*

**MARION SOIL AND WATER CONSERVATION DISTRICT**  
**BALANCE SHEET (MODIFIED CASH BASIS) – GOVERNMENTAL FUNDS**  
**JUNE 30, 2017**

	<u>Capital Projects</u>			<u>Total</u>
	<u>General</u>	<u>Vehicle Reserve</u>	<u>Unanticipated Projects</u>	
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,138,376	\$ 104,765	\$ 899,364	\$ 2,142,505
Flex plan deposits	450	-	-	450
<i>Total Assets</i>	<u>\$ 1,138,826</u>	<u>\$ 104,765</u>	<u>\$ 899,364</u>	<u>\$ 2,142,955</u>
<b>LIABILITIES AND FUND BALANCE</b>				
<b>Liabilities</b>	\$ -	\$ -	\$ -	\$ -
<b>Fund Balance:</b>				
Committed to:				
Unanticipated projects	-	-	899,364	899,364
Capital outlay	-	104,765	-	104,765
Unassigned	1,138,826	-	-	1,138,826
<i>Total Fund Balance</i>	<u>1,138,826</u>	<u>104,765</u>	<u>899,364</u>	<u>2,142,955</u>
<i>Total Liabilities and Fund Balance</i>	<u>\$ 1,138,826</u>	<u>\$ 104,765</u>	<u>\$ 899,364</u>	<u>\$ 2,142,955</u>

**Reconciliation of the Balance Sheet (Modified Cash Basis)  
to the Statement of Net Position (Modified Cash Basis)**

<i>Fund balances</i>	\$ 2,142,955
Capital assets are not financial resources in governmental funds, but are reported in the Statement of Net Position at their net depreciable value:	
Capital assets, cost	92,227
Accumulated depreciation	(92,227)
<i>Net position</i>	<u>\$ 2,142,955</u>

*The accompanying notes are an integral part of the financial statements.*

**MARION SOIL AND WATER CONSERVATION DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**(MODIFIED CASH BASIS)**  
**YEAR ENDED JUNE 30, 2017**

	<u>General Fund</u>	<u>Capital Projects</u>		<u>Total</u>
		<u>Vehicle Reserve</u>	<u>Unanticipated Projects</u>	
<b>REVENUES</b>				
Taxes and assessments	\$ 1,071,540	\$ -	\$ -	\$ 1,071,540
Intergovernmental	91,284	-	-	91,284
Miscellaneous	32,050	-	12,432	44,482
<i>Total Revenues</i>	1,194,874	-	12,432	1,207,306
<b>EXPENDITURES</b>				
Conservation	1,111,246	-	-	1,111,246
Capital outlay	5,486	-	-	5,486
<i>Total Expenditures</i>	1,116,732	-	-	1,116,732
<b>NET CHANGE IN FUND BALANCE</b>	78,142	-	12,432	90,574
<b>FUND BALANCE, beginning of year</b>	1,060,684	104,765	886,932	2,052,381
<b>FUND BALANCE, end of year</b>	<u>\$ 1,138,826</u>	<u>\$ 104,765</u>	<u>\$ 899,364</u>	<u>\$ 2,142,955</u>

***Reconciliation of the Statement of Revenues, Expenses, and Changes in Fund Balance (Modified Cash Basis) to the Statement of Activities (Modified Cash Basis)***

<i>Net change in fund balance</i>	\$ 90,574
Capital outlays are reported as expenditures in governmental funds. However, the Statement of Activities allocates the cost of capital outlay over the estimated useful life as depreciation expense:	
Depreciation	<u>(4,064)</u>
<i>Change in net position</i>	<u>\$ 86,510</u>

*The accompanying notes are an integral part of the financial statements.*

**MARION SOIL AND WATER CONSERVATION DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2017**

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Between 1947 and 1953, Marion Soil and Water Conservation District was organized as three separate soil conservation districts under the names of Stayton, Silverton, and Mt. Angel Soil and Water Conservation Districts. The Districts were consolidated in 1971 and became Marion Soil and Water Conservation District (the District). The District works with problems associated with flood control, weed control, improvement of fertility and other problems affecting the best use of land and water resources within Marion County. The District is governed by a seven-member board of directors elected on the Oregon general election ballot.

As discussed further under *Measurement Focus and Basis of Accounting*, these financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) established by the Governmental Accounting Standards Board (GASB). These modified cash basis financial statements generally meet the presentation and disclosure requirements applicable to GAAP, in substance, but are limited to the elements presented in the financial statements and the constraints of the measurement and recognition criteria of the modified cash basis of accounting.

The accounting and reporting policies of the District conform to Oregon Local Budget Law. The District's significant accounting policies are described below.

*Reporting Entity*

The District, for financial reporting purposes, includes all of the funds over which District officials exercise oversight responsibility. The criterion used in making this determination is financial accountability.

There are certain governmental agencies and various service districts which provide services within the District. These agencies have independently elected governing boards and the District is not financially accountable for these organizations. Therefore, financial information for these agencies is not included in the accompanying basic financial statements.

*Basic Financial Statements*

Basic financial statements are presented at both the government-wide and fund financial level.

*Government-wide financial statements* display information about the reporting government as a whole. For the most part, the effect of interfund activity has been removed from these statements. These statements focus on the sustainability of the District as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. These aggregated statements consist of the Statement of Net Position (Modified Cash Basis) and the Statement of Activities (Modified Cash Basis).

The Statement of Activities (Modified Cash Basis) demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

**MARION SOIL AND WATER CONSERVATION DISTRICT**  
*NOTES TO BASIC FINANCIAL STATEMENTS (Continued)*  
*YEAR ENDED JUNE 30, 2017*

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Basic Financial Statements (Continued)*

*Fund financial statements* display information at the individual fund level. Each fund is considered to be a separate accounting entity. Funds are classified and summarized as governmental, proprietary, or fiduciary. Currently, the District has only governmental funds (general and capital projects). Accounting principles generally accepted in the United States of America sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures of fund category for the determination of major funds. The general and major individual funds are reported as separate columns in the fund financial statements. Non-major funds are consolidated into a single column within each fund type in the financial section of the basic financial statements and are detailed in the supplemental information.

*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, fund equity, revenues and expenditures / expenses. The various funds are reported by generic classification within the financial statements.

The District reports all of its funds as major and are described below:

*General Fund*

This is the District's primary operating fund. It accounts for all the financial operations of the District, except those required to be accounted for in another fund. Principal sources of revenues are property taxes, interest earnings and grants. Primary expenditures are for general administrative costs and for conservation activities not accounted for in other funds.

*Capital Project Funds*

*Vehicle Reserve* - to account for revenues and expenditures associated with the purchase of new vehicles.

*Unanticipated Projects and Catastrophic Loss Fund* – to account for any revenues and expenditures associated with unanticipated projects or purchases and/or associated with a catastrophic loss.

*Fund Balance*

In governmental funds, the District's policy is to first apply the expenditures toward restricted fund balance, and then to other, less-restrictive classifications – committed and then assigned fund balances before using unassigned fund balances.

Fund balance is reported as nonspendable when the resources cannot be spent because they are either in a nonspendable form or legally or contractually required to be maintained intact. Resources in nonspendable form include inventories, prepaids and deposits, and assets held for resale.

Fund balance is reported as restricted when the constraints placed on the use of resources are either: (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

**MARION SOIL AND WATER CONSERVATION DISTRICT**  
*NOTES TO BASIC FINANCIAL STATEMENTS (Continued)*  
*YEAR ENDED JUNE 30, 2017*

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Fund Balance (Continued)*

Fund balance is reported as committed when the Board of Directors takes formal action that places specific constraints on how the resources may be used.

The Board of Directors can modify or rescind the commitment at any time through taking a similar formal action.

Resources that are constrained by the District's intent to use them for a specific purpose, but are neither restricted nor committed, are reported as assigned fund balance. Intent is expressed when the Board of Directors approves which resources should be "reserved" during the adoption of the annual budget. The District's Budget Officer uses that information to determine whether those resources should be classified as assigned or unassigned for presentation in the District's Annual Financial Report.

Unassigned fund balance is the residual classification for the General Fund. This classification represents fund balance that has not been restricted, committed, or assigned within the General Fund. This classification is also used to report any negative fund balance amounts in other governmental funds

*Definitions of Governmental Fund Types*

The General Fund is used to account for all financial resources not accounted for in another fund.

Capital Projects Funds are utilized to account for financial resources to be used for the acquisition or construction of capital equipment and facilities.

*Measurement Focus and Basis of Accounting*

Measurement focus is a term used to describe what transactions or events are recorded within the various financial statements. Basis of accounting refers to when and how transactions or events are recorded, regardless of the measurement focus applied.

In the government-wide Statement of Net Position (Modified Cash Basis) and Statement of Activities (Modified Cash Basis), governmental activities are presented using the economic resource measurement focus, within the limitations of the modified cash basis of accounting, as defined below.

In the fund financial statements, the current financial resources measurement focus or the economic resources measurement focus is applied to the modified cash basis of accounting. All governmental funds utilize a current financial resources measurement focus within the limitations of the modified cash basis of accounting. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

**MARION SOIL AND WATER CONSERVATION DISTRICT**  
*NOTES TO BASIC FINANCIAL STATEMENTS (Continued)*  
*YEAR ENDED JUNE 30, 2017*

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Measurement Focus and Basis of Accounting (Continued)*

The financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than GAAP as established by GASB. This basis of accounting involves modifications to the cash basis of accounting to report in the statements of net position or balance sheets cash transactions or events that provide a benefit or result in an obligation that covers a period greater than the period in which the cash transaction or event occurred. Such reported balances include:

1. Interfund receivables and payables that are temporary borrowing and result from transactions involving cash or cash equivalents are recognized.
2. Assets that normally convert to cash or cash equivalents (e.g., certificates of deposit, external cash pools, and marketable investments) that arise from transactions and events involving cash or cash equivalents are recognized.
3. Liabilities for cash (or cash equivalents) held on behalf of others or held in escrow are recognized.
4. Capital assets for which cash is expended for the asset and then depreciated over its useful life.

The modified cash basis of accounting differs from GAAP primarily because certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected and other accrued revenue and receivables) and certain liabilities and their related expenses or expenditures (such as accounts payable and expenses for goods and services received but not yet paid and other accrued expenses and liabilities) are not recorded in these financial statements. In addition, other economic assets, deferred outflows, liabilities, and deferred inflows that do not arise from a cash transaction or event are not reported, and the measurement of reported assets and liabilities does not involve adjustment to fair value.

If the District utilized the basis of accounting recognized as generally accepted in the United States of America, the fund financial statements for the governmental funds would use the modified accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

The District's policy, although not in accordance with accounting principles generally accepted in the United States of America, is acceptable under Oregon Law (ORS 294.333), which leaves the selection of the method of accounting to the discretion of the municipal corporation.

When expenditures are paid for purposes in which both restricted and unrestricted net position are available, the District deems restricted net position be spent first.

*Cash and Cash Equivalents*

The District maintains cash and cash equivalents in a common pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the balance sheet as cash and cash equivalents. The District considers cash on hand, demand deposits and savings accounts, and short-term investments with an original maturity of three months or less from the date of acquisition to be cash and cash equivalents.

Oregon Revised Statutes authorize the District to invest in certificates of deposit, savings accounts, bank repurchase agreements, bankers' acceptances, general obligations of the U.S. Government and its agencies, certain bonded obligations of Oregon municipalities and the State Treasurer's Local Government Investment Pool, among others.

**MARION SOIL AND WATER CONSERVATION DISTRICT**  
*NOTES TO BASIC FINANCIAL STATEMENTS (Continued)*  
*YEAR ENDED JUNE 30, 2017*

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Cash and Cash Equivalents (Continued)*

For the purpose of financial reporting, cash and cash equivalents includes all demand and savings accounts and certificates of deposit or short-term investments with an original maturity of three months or less.

Investments in the Local Government Investment Pool are stated at cost, which approximates fair value.

*Property Taxes*

Property taxes are levied by the County Assessor and collected by the County Tax Collector. The taxes are levied and become a lien as of July 1. They may be paid in three installments payable in equal payments due November 15, February 15, and May 15. The District's property tax collection records show that most of the property taxes due are collected during the year of levy and delinquent taxes are collected in the next few years.

*Capital Assets*

Capital assets (items costing more than \$5,000 and lasting more than one year) are capitalized on the Statement of Net Position (Modified Cash Basis). In the fund statements, capital assets are charged as expenditures as purchased. Capital assets are recorded at cost or estimated historical cost where records are available. Donated assets are not recorded. Maintenance and repairs are expensed as incurred. Replacements which improve or extend the lives of property are capitalized.

Depreciation is computed over the estimated useful lives of the capital assets. Depreciation is calculated on the straight-line basis. The estimated useful lives of the various categories of assets are as follows:

Equipment and vehicles	5 years
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Upon disposal of capital assets, cost and accumulated depreciation are removed from the accounts.

*Accrued Compensated Absences*

Earned compensation time and vacation pay is recorded as a disbursement when paid.

*Use of Estimates*

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect reporting amounts of certain assets, liabilities, revenues and expenditures as of and for the year ended June 30, 2017. Actual results may differ from such estimates.

*Budgets and Budgetary Accounting*

The District prepares its budget on the cash basis for all funds. Expenditures of a fund may not legally exceed the annual appropriations for the major object class (personnel services, materials and services, capital outlay, debt service, contingency and interfund transfers). The Board of Directors may amend the budget to expend unforeseen revenue by supplemental appropriations. All supplemental appropriations are included in the budget column of all budget comparison statements. All annual appropriations lapse at fiscal year-end. The District does not use encumbrance accounting.

**MARION SOIL AND WATER CONSERVATION DISTRICT**  
*NOTES TO BASIC FINANCIAL STATEMENTS (Continued)*  
*YEAR ENDED JUNE 30, 2017*

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**CASH AND CASH EQUIVALENTS**

Cash and cash equivalents are comprised of the following at June 30, 2017:

<b>Cash</b>	
Cash on hand	\$ 50
Deposits with financial institutions	45,496
<b>Investments</b>	
Local Government Investment Pool	2,096,959
	<hr/>
	\$ 2,142,505
	<hr/>

*Deposits*

At year end, the book balance of the District's bank deposits (checking account) was \$45,496 and the bank balance was \$163,235. The difference is due to transactions in process. Bank deposits are secured to legal limits by federal deposit insurance. Any remaining amounts would be secured in accordance with ORS 295 under a collateral program administered by the Oregon State Treasurer.

*Custodial Credit Risk - Deposits*

This is the risk that in the event of a bank failure, the District's deposits may not be returned. The Federal Depository Insurance Corporation (FDIC) provides insurance for the District's deposits with financial institutions for up to \$250,000 for the aggregate of all time and savings accounts and the aggregate of all demand deposits accounts at each institution. Deposits in excess of FDIC coverage are with institutions participating in the Oregon Public Funds Collateralization Program (PFCP). The PFCP is a shared liability structure for participating bank depositories, better protecting public funds though still not guaranteeing that all funds are 100% protected. Barring any exceptions, a bank depository is required to pledge collateral valued at least 10% of their quarter-end public fund deposits if they are well capitalized, 25% of their quarter-end public fund deposits if they are adequately capitalized or 110% of their quarter-end public fund deposits if they are undercapitalized or assigned to pledge 110% by the Office of the State Treasurer. In the event of a bank failure, the entire pool of collateral pledged by all qualified Oregon public funds bank depositories is available to repay deposits of public funds of government entities. As of June 30, 2017, all of the District's bank balances were covered by FDIC insurance.

*Local Government Investment Pool*

The State Treasurer of the State of Oregon maintains the Oregon Short-Term Fund, of which the Local Government Investment Pool is part. Participation by local governments is voluntary. The State of Oregon investment policies are governed by statute and the Oregon Investment Council. In accordance with Oregon Statutes, the investment funds are invested as a prudent investor would do, exercising reasonable care, skill and caution. The Oregon Short-Term Fund is the LGIP 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 (ORS 294.805 to 294.895). At June 30, 2017, the fair value of the position in the Oregon State Treasurer's Short-Term Investment Pool was approximately equal to the value of the pool shares. The investment in the Oregon Short-Term Fund is not subject to risk evaluation. LGIP is not rated for credit quality. Separate financial statements for the Oregon Short-Term Fund are available from the Oregon State Treasurer.

**MARION SOIL AND WATER CONSERVATION DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**  
**YEAR ENDED JUNE 30, 2017**

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**CASH AND CASH EQUIVALENTS (Continued)**

*Interest Rate Risk*

In accordance with its investment policy, the District manages its exposure to declines in fair value of its investments by limiting its investments to the LGIP.

*Custodial Credit Risk - Investments*

For an investment, this is the risk that, in the event of a failure of the counterparty, the District will not be able to recover the value of its investments that are in the possession of an outside party. The District's investment policy limits the types of investments that may be held.

The LGIP is administered by the Oregon State Treasury with the advice of other state agencies and is not registered with the U.S. Securities and Exchange Commission. The LGIP is an open-ended no-load diversified portfolio offered to any agency, political subdivision, or public corporation of the state that by law is made the custodian of, or has control of any fund. The LGIP is commingled with the State's short-term funds. In seeking to best serve local governments of Oregon, the Oregon Legislature established the Oregon Short-Term Fund Board, which has established diversification percentages and specifies the types and maturities of the investments.

The purpose of the Board is to advise the Oregon State Treasury in the management and investment of the LGIP. These investments within the LGIP must be invested and managed as a prudent investor would, exercising reasonable care, skill and caution. Professional standards indicate that the investments in external investment pools are not subject to custodial risk because they are not evidenced by securities that exist in physical or book entry form. Nevertheless, management does not believe that there is any substantial custodial risk related to investments in the LGIP.

**CAPITAL ASSETS**

The changes in the capital assets for the year ended June 30, 2017 are as follows:

	<b>Balances</b> <b>July 1,</b> <b>2016</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balances</b> <b>June 30,</b> <b>2017</b>
Vehicles	\$ 71,169	\$ -	\$ -	\$ 71,169
Equipment	21,058	-	-	21,058
	<u>92,227</u>	<u>-</u>	<u>-</u>	<u>92,227</u>
Less accumulated depreciation				
Vehicles	(67,105)	(4,064)	-	(71,169)
Equipment	(21,058)	-	-	(21,058)
	<u>(88,163)</u>	<u>(4,064)</u>	<u>-</u>	<u>(92,227)</u>
	<u>\$ 4,064</u>	<u>\$ (4,064)</u>	<u>\$ -</u>	<u>\$ -</u>

**MARION SOIL AND WATER CONSERVATION DISTRICT**  
*NOTES TO BASIC FINANCIAL STATEMENTS (Continued)*  
*YEAR ENDED JUNE 30, 2017*

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**DEFERRED COMPENSATION PLAN**

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. An employee may enter into an agreement with the District to defer a portion of their compensation, subject to certain limitations provided by law, by means of a payroll deduction. Contributions to the plan and earnings thereon are deferred until the employee is separated from service with the District. Regular employees who work a minimum of 17.5 hours per week and have completed their six month introductory period are eligible to participate in the plan. The District will contribute 4% of the employee's gross monthly wages. During the year ending June 30, 2017, the District contributed \$15,443 to this compensation plan.

The District also participates in a deferred compensation matching program 401(a) for regular employees who work a minimum of 17.5 hours per week. Employees are eligible to begin contributing to the program after they have completed their introductory period. For employees who choose to contribute to the program, the District will match up to 3% of the employee's gross monthly wages. The District reserves the right to modify or discontinue this benefit at any time and for any reason it deems necessary or appropriate, subject to any vested rights that have accrued. During the year ending June 30, 2017, the District contributed \$10,751 to this compensation plan.

Money accumulated under its deferred compensation plans has been deposited with Nationwide Retirement Solutions. Monies held by Nationwide are placed in various investments at the discretion of Nationwide. These investments are uninsured and unregistered securities held by Nationwide or their agents, but not in the District's name.

**LEASE**

The District entered into an 86-month lease for its office space July 1, 2014. The base rate for the lease is \$12,653 per month for the first year as the District is actively pursuing subletting a portion of their space. Beginning July 1, 2015 the base rent is \$14,403 per month and increases \$500 annually until the lease expires August 31, 2022.

Total lease expense for the year ended June 30, 2017 was \$179,336. The future minimum lease payments are as follows:

<u><i>Ending</i></u> <u><i>June 30,</i></u>	
2018	\$ 184,836
2019	190,836
2020	196,836
2021	202,836
2022	33,806
	<u>\$ 809,150</u>

**MARION SOIL AND WATER CONSERVATION DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**  
**YEAR ENDED JUNE 30, 2017**

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***SUBSEQUENT EVENTS***

Management has evaluated subsequent events through December 22, 2017, the date on which the financial statements were available to be issued. Management is not aware of any subsequent events that require recognition or disclosure in the financial statements.

***REQUIRED SUPPLEMENTAL INFORMATION***

**MARION SOIL AND WATER CONSERVATION DISTRICT**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**(MODIFIED CASH BASIS) - BUDGET AND ACTUAL - GENERAL FUND**  
**YEAR ENDED JUNE 30, 2017**

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
<b>REVENUES</b>				
Taxes and assessments	\$ 1,028,751	\$ 1,028,751	\$ 1,071,540	\$ 42,789
Intergovernmental	120,000	120,000	91,284	(28,716)
Miscellaneous	39,500	39,500	32,050	(7,450)
<i>Total Revenues</i>	1,188,251	1,188,251	1,194,874	6,623
<b>EXPENDITURES</b>				
Personnel services	826,125	826,125	586,892	239,233
Materials and services	950,977	950,977	524,354	426,623
Capital outlay	15,000	15,000	5,486	9,514
Contingency	50,000	50,000	-	50,000
<i>Total Expenditures</i>	1,842,102	1,842,102	1,116,732	725,370
<b>NET CHANGE IN FUND BALANCE</b>	(653,851)	(653,851)	78,142	731,993
<b>FUND BALANCE, beginning of year</b>	978,851	978,851	1,060,684	81,833
<b>FUND BALANCE, end of year</b>	\$ 325,000	\$ 325,000	\$ 1,138,826	\$ 813,826

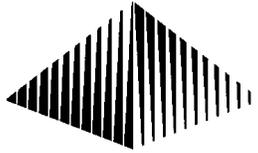
**MARION SOIL AND WATER CONSERVATION DISTRICT**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**(MODIFIED CASH BASIS) - BUDGET AND ACTUAL – VEHICLE RESERVE FUND**  
**YEAR ENDED JUNE 30, 2017**

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
<b>REVENUES</b>	\$ -	\$ -	\$ -	\$ -
<b>EXPENDITURES</b>				
Vehicles	30,000	30,000	-	30,000
<b>REVENUES OVER (UNDER)</b>				
<b>EXPENDITURES</b>	(30,000)	(30,000)	-	30,000
<b>NET CHANGE IN FUND BALANCE</b>	(30,000)	(30,000)	-	30,000
<b>FUND BALANCE, beginning of year</b>	104,765	104,765	104,765	-
<b>FUND BALANCE, end of year</b>	\$ 74,765	\$ 74,765	\$ 104,765	\$ 30,000

**MARION SOIL AND WATER CONSERVATION DISTRICT**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**(MODIFIED CASH BASIS) - BUDGET AND ACTUAL – UNANTICIPATED PROJECTS AND**  
**CATASTROPHIC LOSS RESERVE FUND**  
**YEAR ENDED JUNE 30, 2017**

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
<b>REVENUES</b>				
Miscellaneous	\$ 6,000	\$ 6,000	\$ 12,432	\$ 6,432
<b>EXPENDITURES</b>				
Materials and services	892,800	892,800	-	892,800
<b>NET CHANGE IN FUND BALANCE</b>	(886,800)	(886,800)	12,432	899,232
<b>FUND BALANCE, beginning of year</b>	886,800	886,800	886,932	132
<b>FUND BALANCE, end of year</b>	\$ -	\$ -	\$ 899,364	\$ 899,364

***COMPLIANCE SECTION***



## GROVE, MUELLER & SWANK, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS  
475 Cottage Street NE, Suite 200, Salem, Oregon 97301  
(503) 581-7788

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

Board of Directors  
Marion Soil and Water Conservation District  
338 Hawthorne Avenue NE  
Salem, Oregon 97301

We have audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statements of Marion Soil and Water Conservation District (the District) as of and for the year ended June 30, 2017, and have issued our report thereon dated December 22, 2017.

#### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the 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 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, 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).**
- **Budgets legally required (ORS Chapter 294).**
- **Insurance and fidelity bonds in force or required by law.**
- **Programs funded from outside sources.**
- **Authorized investment of surplus funds (ORS Chapter 294).**
- **Public contracts and purchasing (ORS Chapters 279A, 279B, 279C).**
- **Accountability for collecting or receiving money by elected officials - no money was collected or received by elected officials.**

In connection with our testing nothing came to our attention that caused us 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.

#### ***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

***Restriction on Use***

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

*GROVE, MUELLER & SWANK, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS*

By:   
Devan W. Esch, A Shareholder  
December 22, 2017