

**OFFICE OF  
STATE AUDITOR**

**AUDIT REPORT**

**BARNES COUNTY  
SOIL CONSERVATION DISTRICT  
VALLEY CITY, NORTH DAKOTA**

**FOR THE YEAR ENDED DECEMBER 31, 2010**



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BARNES COUNTY SOIL CONSERVATION DISTRICT  
Valley City, North Dakota

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For the Year Ended December 31, 2010

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BARNES COUNTY SOIL CONSERVATION DISTRICT  
Valley City, North Dakota

**LIST OF OFFICIALS**

At December 31, 2010

Bill Bertram	Chairman
Bradley McKay	Supervisor
Diane Olson	Supervisor
Shelly Nelson	Supervisor
Wes Elston	Supervisor
Karen Olstad	District Clerk
Lori Frank	District Technician

**STATE AUDITOR**

ROBERT R. PETERSON  
Phone (701) 328-2241  
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Local Government Division:  
FARGO OFFICE  
MANAGER – DAVID MIX  
Phone: (701) 239-7252 Fax: (701) 239-7251

STATE OF NORTH DAKOTA  
**OFFICE OF THE STATE AUDITOR**  
STATE CAPITOL  
600 E. BOULEVARD AVENUE - DEPT. 117  
BISMARCK, NORTH DAKOTA 58505

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**INDEPENDENT AUDITOR'S REPORT**

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Governing Board  
Barnes County Soil Conservation District  
Valley City, North Dakota

We have audited the accompanying financial statements of the governmental activities and the major fund of the Barnes County Soil Conservation District, Valley City, North Dakota, as of and for the year ended December 31, 2010, which collectively comprise the Soil District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Barnes County Soil Conservation District's management. 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Barnes County Soil Conservation District, Valley City, North Dakota, as of December 31, 2010, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 2012 on our consideration of the Barnes County Soil 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. 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The budgetary comparison information on page 16 is not a required part of the basic financial statements but is a supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Barnes County Soil Conservation District, Valley City, North Dakota, has not presented the management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

**BARNES COUNTY SOIL CONSERVATION DISTRICT**  
Independent Auditor's Report - Continued

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Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Barnes County Soils Conservation District's basic financial statements. The *schedule of fund activity arising from cash transactions* is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of State and Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of Barnes County Soils Conservation District, Valley City, North Dakota. The *schedule of fund activity arising from cash transactions* which has been prepared on a cash basis has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is not fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Robert R. Peterson  
State Auditor

January 9, 2012

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BARNES COUNTY SOIL CONSERVATION DISTRICT  
Valley City, North Dakota

STATEMENT OF NET ASSETS  
December 31, 2010

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	Governmental Activities
<u>ASSETS:</u>	
Cash	\$ 203,374
Investments	3,086
Accounts Receivable	5,831
Capital Assets (net of accumulated depreciation):	
Land	2
Buildings	6,000
Vehicles	21,739
Equipment	93,771
	<hr/>
Total Capital Assets	\$ 121,512
	<hr/>
Total Assets	\$ 333,803
	<hr/>
<u>LIABILITIES:</u>	
Accounts Payable	\$ 27,288
Interest Payable	576
Long-Term Liabilities:	
Due Within One Year:	
Lease Payable	17,637
Compensated Absences Payable	496
Due After One Year:	
Lease Payable	35,274
Compensated Absences Payable	4,462
	<hr/>
Total Liabilities	\$ 85,733
	<hr/>
<u>NET ASSETS:</u>	
Invested in capital assets, net of related debt	\$ 68,601
Restricted for:	
Unrestricted	179,469
	<hr/>
Total Net Assets	\$ 248,070
	<hr/>

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

BARNES COUNTY SOIL CONSERVATION DISTRICT  
Valley City, North Dakota

STATEMENT OF ACTIVITIES  
For the Year Ended December 31, 2010

Functions/Programs	Expenses	Program Revenues		Governmental Activities	Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions		
<u>Governmental Activities:</u>					
Conser. of Natural Resources	\$ 780,969	\$ 128,552	\$ 614,398	\$ 57,057	\$ 19,038
Total Governmental Activities	<u>\$ 780,969</u>	<u>\$ 128,552</u>	<u>\$ 614,398</u>	<u>\$ 57,057</u>	<u>\$ 19,038</u>
<u>General Revenues:</u>					
Taxes:					
Property taxes; levied for general purposes					\$ 52,688
Earnings on Investments (interest expense)					717
Miscellaneous Revenue					<u>31,658</u>
Total General Revenues					<u>\$ 85,063</u>
Change in Net Assets					<u>\$ 104,101</u>
Net Assets - January 1					<u>\$ 143,969</u>
Net Assets - December 31					<u>\$ 248,070</u>

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

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BARNES COUNTY SOIL CONSERVATION DISTRICT  
Valley City, North Dakota

BALANCE SHEET - GOVERNMENTAL FUNDS  
December 31, 2010

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	<u>General Fund</u>
<u>ASSETS</u>	
Cash	\$ 203,374
Inventory	3,086
Receivables:	
Accounts Receivable	<u>5,831</u>
Total Assets	<u>\$ 212,291</u>
<u>LIABILITIES AND FUND BALANCES</u>	
<u>Liabilities:</u>	
Accounts Payable	<u>\$ 27,288</u>
<u>Fund Balances:</u>	
Unreserved, reported in:	
General Fund	<u>\$ 185,003</u>
Total Liabilities and Fund Balances	<u>\$ 212,291</u>

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

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BARNES COUNTY SOIL CONSERVATION DISTRICT  
Valley City, North Dakota

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
December 31, 2010

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Total *Fund Balances* for Governmental Funds \$ 185,003

Total *net assets* reported for government activities in the statement of net assets  
is different because:

Capital assets used in governmental activities are not financial resources  
and are not reported in the governmental funds.

Capital Assets - Historical Cost	\$ 181,620	
Capital Assets - Accumulated Depreciation	<u>(60,108)</u>	
Net Capital Assets		121,512

Long-term liabilities applicable to the District's governmental activities are  
not due and payable in the current period and accordingly are not reported  
as fund liabilities. Interest on long-term debt is not accrued in governmental  
funds, but rather is recognized as an expenditure when due. All liabilities-  
both current and long-term- are reported in the statement of net assets.  
Balances at December 31, 2010 are:

Lease Payable	\$ (52,911)	
Interest Payable	(576)	
Compensated Absences Payable	(4,958)	
Total Long-Term Liabilities		<u>(58,445)</u>

Total Net Assets of Governmental Activities \$ 248,070

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

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BARNES COUNTY SOIL CONSERVATION DISTRICT  
Valley City, North Dakota

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
For the Year Ended December 31, 2010

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	<u>General Fund</u>
<u>Revenues:</u>	
Taxes	\$ 52,688
Intergovernmental Revenue	614,398
Charges for Service	128,552
Interest Income	717
Miscellaneous	<u>31,658</u>
Total Revenues	<u>\$ 828,013</u>
<u>Expenditures:</u>	
Current:	
Conservation of Natural Resources	\$ 800,212
Debt Service:	
Principal	17,637
Interest	<u>1,382</u>
Total Debt Service	<u>\$ 19,019</u>
Total Expenditures	<u>\$ 819,231</u>
Excess (Deficiency) of Revenue Over Expenditures	<u>\$ 8,782</u>
<u>Other Financing Sources (Uses):</u>	
Lease Proceeds	<u>\$ 70,548</u>
Net Change in Fund Balances	<u>\$ 79,330</u>
Fund Balance - January 1	<u>\$ 105,673</u>
Fund Balance - December 31	<u><u>\$ 185,003</u></u>

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

BARNES COUNTY SOIL CONSERVATION DISTRICT  
Valley City, North Dakota

RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
For the Year Ended December 31, 2010

Net Change in *Fund Balances* - Total Governmental Funds \$ 79,330

The change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current year.

Capital Asset Additions	\$ 37,646	
Capital Contributions	57,057	
Current Year Depreciation Expense	<u>(14,598)</u>	80,105

Miscellaneous transactions involving capital assets caused a decrease in net assets equity.

Loss on Disposals of Capital Assets	(2,200)
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The proceeds of debt issuances are reporting as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets issuing debt increases long-term liabilities and does not affect the statement of activities. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of debt repayment.

Lease Payable	(52,911)
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Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds.

Net Increase in Compensated Absences	\$ (576)	
Net Decrease in Interest Payable	<u>353</u>	<u>(223)</u>

Change in Net Assets of Governmental Activities	<u>\$ 104,101</u>
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The notes to the financial statements are an integral part of this statement

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BARNES COUNTY SOIL CONSERVATION DISTRICT  
Valley City, North Dakota

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2010

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Barnes County Soil Conservation District, Valley City, North Dakota, have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Reporting Entity

The accompanying financial statements present the activities of the Barnes County Soil Conservation District, Valley City, North Dakota. The district has considered all potential component units for which the district is financially accountable and other organizations for which the nature and significance of their relationships with the district are such that exclusion would cause the district's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body and (1) the ability of Barnes County Soil Conservation District to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on Barnes County Soil Conservation District.

Based on these criteria, there are no component units to be included within the Barnes County Soil Conservation District as a reporting entity.

B. Basis of Presentation

*Government-wide statements:* The statement of net assets and the statement of activities display information about the primary government, Barnes County Soil Conservation District. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business type activities of the District and for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

*Fund Financial Statements:* The fund financial statements provide information about the District's funds. Separate statements for each fund category - governmental and proprietary - are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The District reports the following major governmental fund:

*General Fund.* This is the District's primary operating fund. It accounts for all financial resources of the government.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

*Government-wide and Proprietary Fund Financial Statements.* The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

*Governmental Fund Financial Statements.* Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. All revenues are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then by general revenues.

All governmental and business-type activities and enterprise funds of the District follow FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements. The district does not apply FASB pronouncements issued after November 30, 1989.

D. Cash, Cash Equivalents and Investments

Cash and cash equivalents include amounts in demand deposits and money market accounts.

The investments of the soil conservation district during the year ended December 31, 2010 consist of certificates of deposit stated at cost.

E. Capital Assets

Capital assets include plant and equipment. Assets are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of \$3,000 or more. Such assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<b>Assets</b>	<b>Years</b>
Buildings	30
Equipment	10
Vehicles	10

F. Compensated Absences

Vested or accumulated vacation leave is reported on the government wide financial statements. Employees may carry over 240 hours of annual leave at year end. Upon termination of employment, employees will be paid for vacation benefits that have accrued. No liability is reported for accumulated sick leave as it is the district's policy not to pay for unused sick leave when the employee terminates employment.

G. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets.

In the fund financial statements, governmental fund types report the face amount of the debt as other financing sources. Issuance costs are reported as debt service expenditures.

**NOTE 2: DEPOSITS**

In accordance with North Dakota Statutes, Barnes County Soil Conservation District maintains deposits at the depository banks designated by the governing board. All depositories are members of the Federal Reserve System.

Deposits must either be deposited with the Bank of North Dakota or in other financial institutions situated and doing business within the state. Deposits, other than with the Bank of North Dakota, must be fully insured or bonded. In lieu of a bond, a financial institution may provide a pledge of securities equal to 110% of the deposits not covered by insurance or bonds.

Authorized collateral includes bills, notes, or bonds issued by the United States government, its agencies or instrumentalities, all bonds and notes guaranteed by the United States government, Federal land bank bonds, bonds, notes, warrants, certificates of indebtedness, insured certificates of deposit, shares of investment companies registered under the Investment Companies Act of 1940, and all other forms of securities issued by the State of North Dakota, its boards, agencies or instrumentalities or by any park, city, township, school district, park district, or other political subdivision of the state of North Dakota. Whether payable from special revenues or supported by the full faith and credit of the issuing body and bonds issued by any other state of the United States or such other securities approved by the banking board.

**BARNES COUNTY SOIL CONSERVATION DISTRICT**

## Notes to the Financial Statements – Continued

At year ended December 31, 2010, the soil conservation district's carrying amount of deposits was \$203,374 and the bank balances were \$205,015. Of the bank balances, \$205,015 was covered by Federal Depository Insurance. There was nothing remaining to be collateralized with securities held by the pledging financial institution's agent in the government's name.

Credit Risk:

The soil conservation district may invest idle funds as authorized in North Dakota Statutes, as follows:

- (a) Bonds, treasury bills and notes, or other securities that are a direct obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of congress.
- (b) Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are the type listed above.
- (c) Certificates of Deposit fully insured by the federal deposit insurance corporation.
- (d) Obligations of the state.

As of December 31, 2010, the soil conservation district held certificates of deposit in the amount of \$43,550, which are all considered deposits.

Concentration of Credit Risk:

The soil conservation district does not have a limit on the amount the district may invest in any one issuer.

**NOTE 3: INTERGOVERNMENTAL RECEIVABLES**

Intergovernmental receivables consist of reimbursements due for expenses in the operation of various soil conservation management programs. These amounts consist of a mix of State and Federal dollars.

**NOTE 4: ACCOUNTS PAYABLE**

Accounts payable consists of a liability account reflecting amounts on open accounts owing to private persons or organizations for goods and services received prior to December 31.

**NOTE 5: CAPITAL ASSETS**

The following is a summary of changes in capital assets for the year ended December 31, 2010:

<b>Governmental Activities:</b>	<b>Balance January 1</b>	<b>Increases</b>	<b>Decreases</b>	<b>Transfers</b>	<b>Balance December 31</b>
<i>Capital assets not being depreciated:</i>					
Land	\$ 2	\$ -	\$ -	\$ -	\$ 2
<i>Capital assets, being depreciated:</i>					
Buildings	\$ 24,000	\$ -	\$ -	\$ -	\$ 24,000
Vehicles	40,535	24,155	40,535)	-	24,155
Equipment	62,915	70,548	-	-	133,463
<b>Total Capital Assets, Being Depreciated</b>	<b>\$127,450</b>	<b>\$94,703</b>	<b>\$(40,535)</b>	<b>\$ -</b>	<b>\$181,620</b>
<i>Less accumulated depreciation for:</i>					
Buildings	\$ 18,000	\$ -	\$ -	\$ -	\$ 18,000
Vehicles	38,335	2,416	38,335)	-	2,416
Equipment	27,510	12,182	-	-	39,692
<b>Total Accumulated Depreciation</b>	<b>\$ 83,845</b>	<b>\$14,598</b>	<b>\$(38,335)</b>	<b>\$ -</b>	<b>\$ 60,108</b>
<b>Total Capital Assets Being Depreciated, Net</b>	<b>\$ 43,605</b>	<b>\$80,105</b>	<b>\$( 2,200)</b>	<b>\$ -</b>	<b>\$121,510</b>
<b>Governmental Activities-Capital Assets, Net</b>	<b>\$ 43,607</b>	<b>\$80,105</b>	<b>\$( 2,200)</b>	<b>\$ -</b>	<b>\$121,512</b>

**BARNES COUNTY SOIL CONSERVATION DISTRICT**

Notes to the Financial Statements – Continued

**NOTE 6: LONG-TERM DEBT**

**Changes in Long-Term Liabilities** - During the year ended December 31, 2010, the following changes occurred in liabilities reported in long-term liabilities:

Governmental Activities:

	<b>Balance January 1</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance December 31</b>	<b>Due Within One Year</b>
Leases Payable	\$ -	\$70,548	\$17,637	\$52,911	\$17,637
Compensated Absences *	5,311	-	353	4,958	496
Total Governmental Activities	\$5,311	\$70,548	\$17,990	\$57,869	\$18,133

\* The change in compensated absences is shown as a net change because changes in salary prohibit exact calculations of additions and reductions.

**Capital Leases** – Barnes County Soil Conservation District as of December 31, 2010 had entered into a lease agreement for a Hydro Engineering Pump. This lease qualifies as a capital lease for accounting purposes.

The assets acquired through the original capital lease were as follows as of December 31, 2010:

<b>Capital Asset</b>	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Carrying Amount</b>
Hydro Pump	\$70,548	\$7,055	\$63,493

Future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2010 were as follows:

<b>Year Ending December 31</b>	<b>Long-Term Debt</b>
2011	\$19,019
2012	19,019
2013	17,637
Total Minimum Lease Payments	\$55,675
Less: Amount Representing Interest	(2,764)
Present Value of Minimum Lease Payments	\$52,911

**NOTE 7: RISK MANAGEMENT**

Barnes County Soil Conservation District is exposed to various risks of loss relating to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

In 1986 state agencies and political subdivisions of the state of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The Barnes County Soil Conservation District pays an annual premium to NDIRF for its general liability, auto, and inland marine insurance coverage. The coverage by NDIRF is limited to losses of one million dollars per occurrence for general liability and automobile and \$134,795 for public asset coverage.

**BARNES COUNTY SOIL CONSERVATION DISTRICT**

## Notes to the Financial Statements – Continued

Barnes County Soil Conservation District also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. Barnes County Soil Conservation pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of one million dollars per occurrence during a 12 month period. The State Bonding Fund currently provides Barnes County Soil Conservation with blanket fidelity bond coverage in the amount of \$167,140 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

Barnes County Soil Conservation District has workers compensation with the North Dakota Workforce, Safety and Insurance and purchases commercial insurance for employee health and accident insurance.

**NOTE 8: PENSION PLANS**North Dakota Public Employees' Retirement System

The Barnes County Soil Conservation District contributes to the North Dakota Public Employees' Retirement System (NDPERS); a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Dakota for its non-certified staff. NDPERS provides for retirement, disability and survivor benefits to plan members and beneficiaries. Benefit and contribution provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code. NDPERS issues a publicly available financial report that includes financial statements and required supplementary information for NDPERS. That report may be obtained by writing to NDPERS, 400 E Broadway, Suite 505, P.O. Box 1214, Bismarck, North Dakota, 58502-1214.

Plan members are required to contribute 4% of their annual covered salary. The county is required to contribute 5.12% of the employee's salary, which consists of 4.12% for employee retirement and 1% for the retiree health benefits fund. The county has agreed to pay 100% of the member assessments in lieu of a salary increase. The contribution requirements of plan members and the county are established and may be amended by the State legislature. The County's contributions to NDPERS for the years ending December 31, 2010, 2009, and 2008 were \$4,223, \$4,011, and \$3,752 respectively, equal to the required contributions for the year.

**NOTE 9: BUDGET TO ACTUAL RECONCILIATION**

The soil district entered into a lease for the purchase of a Hydro Engineering Pump System. The lease proceeds and corresponding expenditures were reported on the statement of revenues, expenditures and changes in fund balance – governmental funds but were not reported on the budgetary comparison schedule. The entity did not budget for these funds and these transactions were not recorded on the entity's general ledger. The differences are as follows:

<b>General Fund</b>	<b>Combined Statement</b>	<b>Adjustment</b>	<b>Budget to Actual</b>
Expenditures	\$819,231	\$(70,548)	\$748,683
Lease Proceeds	70,548	(70,548)	-

BARNES COUNTY SOIL CONSERVATION DISTRICT  
Valley City, North Dakota

BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
For the Year Ended December 31, 2010

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Taxes	\$ 41,000	\$ 41,000	\$ 52,688	\$ 11,688
Intergovernmental	398,861	398,861	614,398	215,537
Charges for Service	110,208	110,208	128,552	18,344
Interest Income	1,141	1,141	717	(424)
Miscellaneous	7,915	7,915	31,658	23,743
<b>Total Revenues</b>	<b>\$ 559,125</b>	<b>\$ 559,125</b>	<b>\$ 828,013</b>	<b>\$ 268,888</b>
<u>Expenditures:</u>				
Current:				
Conservation of Natural Resources	\$ 560,940	\$ 560,940	\$ 729,664	\$ (168,724)
<u>Debt Service:</u>				
Principal	-	-	17,637	(17,637)
Interest	-	-	1,382	(1,382)
<b>Total Debt Service</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 19,019</b>	<b>\$ (19,019)</b>
<b>Total Expenditures</b>	<b>\$ 560,940</b>	<b>\$ 560,940</b>	<b>\$ 748,683</b>	<b>\$ (187,743)</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>\$ (1,815)</b>	<b>\$ (1,815)</b>	<b>79,330</b>	<b>\$ 81,145</b>
<b>Fund Balance - January 1</b>	<b>\$ 105,673</b>	<b>\$ 105,673</b>	<b>\$ 105,673</b>	<b>\$ -</b>
<b>Fund Balance - December 31</b>	<b>\$ 103,858</b>	<b>\$ 103,858</b>	<b>\$ 185,003</b>	<b>\$ 81,145</b>

The accompanying required supplementary information notes are an integral part of this schedule.

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BARNES COUNTY SOIL CONSERVATION DISTRICT  
Valley City, North Dakota

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
December 31, 2010

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**NOTE 1: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Budgetary Information:

- The soil conservation district adopts an “appropriated budget” on the modified accrual basis of accounting.
- Annually on or before September tenth the soil conservation district prepares a preliminary budget.
- The preliminary budget includes the estimated revenues and appropriations for the general fund of the soil conservation district.
- The soil conservation district shall meet and hear any and all protests or objections to the items or amounts set forth in the preliminary budget. At the hearing, the soil conservation district shall make any changes in the items or amounts shown in the preliminary budget. The final budget is prepared which includes a summary of the amounts levied for each fund and the total amount levied.
- After the budget hearing and on or before the October 7<sup>th</sup>, the soil conservation district adopts the final budget.
- The final budget must be filed with the county auditor by October 10th.
- Each budget is controlled by the soil conservation district clerk at the revenue and expenditure function/object level.
- The current budget, except for property taxes, may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared. NDCC 57-15-31.1
- All appropriations lapse at year-end.

**NOTE 2: EXPENDITURES IN EXCESS OF BUDGET**

During fiscal year 2010, Barnes County Soil Conservation District had the following fund expenditures in excess of budgeted amounts:

<b>Overspent Funds:</b>	<b>Budget</b>	<b>Actual</b>	<b>Overspent</b>
<b>Major Fund</b>			
General Fund	\$560,940	\$748,683	\$(187,743)

No remedial action is anticipated or required regarding these excess expenditures.

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BARNES COUNTY SOIL CONSERVATION DISTRICT  
Valley City, North Dakota

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended December 31, 2010

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Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Federal Expenditures
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY:</u>		
<u>Passed through the North Dakota State Department of Health:</u> Non-point Source Implementation Grant	66.460	<u>\$ 636,992</u>

\*\* - Major federal program

**NOTE 1: BASIS OF PRESENTATION:**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Barnes County Soil Conservation District under programs of the federal government for the year ended December 31, 2010. The information in the schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Barnes County Soil Conservation District, it is not intended to and does not present the financial position or changes in net assets of Barnes County Soil Conservation District.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribe Governments*, wherein certain types of expenditures are allowable or are limited as to reimbursement.

STATE AUDITOR

ROBERT R. PETERSON  
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Local Government Division:  
FARGO OFFICE  
MANAGER – DAVID MIX  
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STATE OF NORTH DAKOTA  
**OFFICE OF THE STATE AUDITOR**  
STATE CAPITOL  
600 E. BOULEVARD AVENUE - DEPT. 117  
BISMARCK, NORTH DAKOTA 58505

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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Governing Board  
Barnes County Soil Conservation District  
Valley City, North Dakota

We have audited the financial statements of the governmental activities and the major fund of the Barnes County Soil Conservation District, Valley City, North Dakota as of and for the year ended December 31, 2010, which collectively comprise the Soil Conservation District's basic financial statements and have issued our report thereon dated January 9, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurances that all deficiencies, significant deficiencies, or material weaknesses have been identified. However as described in the accompanying *schedule of findings and questioned costs*, we identified one deficiency in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying *schedule of findings and questioned costs identified as item 2010-01* to be a material weakness.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Barnes County Soil Conservation District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We note certain matters that we reported to management of Barnes County Soil Conservation District in a separate letter dated January 9, 2012.

Barnes County Soil Conservation District's response to the finding identified in our audit is described in the accompanying *schedule of findings and questioned costs*. We did not audit Barnes County Soil Conservation District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the governing board, others within the district, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Bob Peterson". The signature is fluid and cursive, with a large initial "B" and "P".

Robert R. Peterson  
State Auditor

January 9, 2012

**STATE AUDITOR**

ROBERT R. PETERSON  
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REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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Independent Auditor's Report

Governing Board  
Barnes County Soil Conservation District  
Valley City, North Dakota

**Compliance**

We have audited Barnes County Soil Conservation District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on Barnes County Soil Conservation District's major federal program for the year ended December 31, 2010. Barnes County Soil Conservation District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of Barnes County Soil Conservation District's management. Our responsibility is to express an opinion on Barnes County Soil Conservation District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Barnes County Soil Conservation District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Barnes County Soil Conservation District's compliance with those requirements.

In our opinion, Barnes County Soil Conservation District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2010.

**Internal Control Over Compliance**

Management of Barnes County Soil Conservation District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Barnes County Soil Conservation District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Barnes County Soil Conservation District's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended solely for the information and use of management, the governing board, others within the district, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, appearing to read "Bob Peterson".

Robert R. Peterson  
State Auditor

January 9, 2012

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BARNES COUNTY SOIL CONSERVATION DISTRICT  
Valley City, North Dakota

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended December 31, 2010

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**Section I - Summary of Auditor's Results**

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Financial Statements

Type of Report Issued?  
Governmental Activities Unqualified  
Major Fund Unqualified

Internal control over financial reporting:

Material weaknesses identified?  X  Yes   No  
Significant deficiencies identified not considered to be  
material weaknesses?   Yes  X  No  
Noncompliance material to financial statements  
noted?   Yes  X  No

Federal Awards

Internal Control over major programs:

Material weaknesses identified?   Yes  X  No  
Significant deficiencies identified?   Yes  X  None reported  
Type of auditor's report issued on compliance for  
major programs: Unqualified  
Any audit findings disclosed that are required to be  
reported in accordance with Circular A-133, Section  
.510(a)?   Yes  X  No

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program Or Cluster</u>
66.460	Nonpoint Source Implementation Grants – 319 Program

Dollar threshold used to distinguish between Type  
A and B programs:  \$300,000

Auditee qualified as low-risk auditee?   Yes  X  No

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**Section II - Financial Statement Findings**

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**2010-01 – LACK OF SEGREGATION OF DUTIES**

**Condition:**

The Barnes County Soil Conservation District (BCSCD) has one Secretary-Treasurer responsible for the primary accounting functions. A lack of segregation of duties exists as one employee is responsible to collect monies, deposit monies, issue checks, send checks to vendors, record receipts and disbursements in journals, maintain the general ledger, and perform bank reconciliations.

**Effect:**

The lack of adequate segregation of duties in the check writing and mailing process, Barnes County SCD exposes itself to risk of loss of assets, potential liabilities, and damage to the Soil Conservation District's reputation, whether due to error or fraud.

**Cause:**

Due to the client's size, complexity, organizational structure and the economic realities the Barnes County SCD faces, it is presently not economically feasible to have more than one person responsible for certain accounting functions.

**Criteria:**

Internal control guidance provided by the Committee of Sponsoring Organizations (COSO) and accounting principles generally accepted in the United States of America (GAAP) indicate that the following functions should be separated: custody of assets, posting, reconciliation, and authorization.

**Recommendation:**

Due to the size, complexity and the economic realities of the SCD, it is presently not feasible to obtain proper separation of duties. We recommend that if it becomes feasible to segregate duties in the future, that duties are segregated to the extent possible to reduce the potential risk of loss.

**Views of Responsible Officials / Planned Corrective Actions:**

We agree that there is inadequate segregation of duties. The Barnes County Soil Conservation District has utilized one person to handle the secretarial duties and bookkeeping duties; the reason is for lack of funding. It would not be cost effective to hire an additional employee.

**Section III - Federal Award Findings and Questioned Costs**

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No matters were reported.