

# **AUDIT REPORT**

**SOUTH MCLEAN COUNTY SOIL CONSERVATION DISTRICT**  
**Turtle Lake, North Dakota**

**For the Year Ended December 31, 2018**

**RATH & MEHRER, P.C.**  
**CERTIFIED PUBLIC ACCOUNTANTS**

SOUTH MCLEAN COUNTY SOIL CONSERVATION DISTRICT  
Turtle Lake, North Dakota

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For the Year Ended December 31, 2018

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SOUTH MCLEAN COUNTY SOIL CONSERVATION DISTRICT  
Turtle Lake, North Dakota

OFFICIALS

Wilton Kuehn	Chairperson
Eugene Wirtz	Vice-Chairperson
Myron Lick	Secretary/Treasurer
Tom Volochenko	Supervisor
Jeffrey Walcker	Supervisor
Christine McEwen	District Clerk

# Rath & Mehrer

Certified Public Accountants

*Specializing in Governmental Auditing*

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Jayson Rath, CPA

Ken Mehrer, CPA

425 North Fifth Street

Bismarck, ND 58501

## INDEPENDENT AUDITOR'S REPORT

Governing Board  
South McLean County Soil Conservation District  
Turtle Lake, North Dakota

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

We have audited the accompanying financial statements of the governmental activities and the major fund of the South McLean County Soil Conservation District, Turtle Lake, North Dakota, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the soil conservation district's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 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 judgement, 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 soil conservation 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 soil conservation 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 financial position of the governmental activities and the major fund of the South McLean County Soil Conservation District, Turtle Lake, North Dakota, as of December 31, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgeting comparison information on pages 4 through 8 and 22 through 23 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2019 on our consideration of the 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* in considering the soil conservation district's internal control over financial reporting and compliance.

*Rath and Mehrer*

Rath and Mehrer, P.C.

Bismarck, North Dakota

June 28, 2019

## SOUTH MCLEAN COUNTY SOIL CONSERVATION DISTRICT

### Management's Discussion and Analysis

December 31, 2018

The Management's Discussion and Analysis (MD&A) of the South McLean County Soil Conservation District's financial performance provides an overall review of the district's financial activities for the fiscal year ended December 31, 2018. The intent of the MD&A is to look at the district's financial performance as a whole. It should, therefore, be read in conjunction with the basic financial statements and related notes.

The MD&A is a new element of the Required Supplementary Information specified in the Government Accounting Standards Board's (GASB) Statement No. 34 *"Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments"*. Certain comparative information between the current fiscal year and the prior year is required to be presented in the MD&A.

#### FINANCIAL HIGHLIGHTS

Key financial highlights for the year ended December 31, 2018 are as follows:

- \* Net position of the soil conservation district decreased \$22,844 as a result of the current year's operations.
- \* Governmental net position as of the end of the fiscal year totaled \$384,782.
- \* Total revenues from all sources were \$417,983.
- \* Total expenses were \$440,826.
- \* The soil conservation district's general fund had \$418,668 in total revenues and \$414,620 in total expenditures. Overall, the general fund balance increased by \$4,048 for the year ended December 31, 2018.

#### USING THIS ANNUAL REPORT

This annual financial report consists of a series of statements and related footnotes. These statements are organized so that the reader can understand the soil conservation district as a financial whole. The statements then proceed to provide an increasingly detailed look at financial activities.

The Statement of Net Position and Statement of Activities provide information about the activities of the whole soil conservation district, presenting both an aggregate view of the soil conservation district's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. These statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the soil conservation district's general fund.



## REPORTING ON THE SOIL CONSERVATION DISTRICT AS A WHOLE

### Statement of Net Position and Statement of Activities

These statements are summaries of all the funds used by the soil conservation district to provide programs and activities and attempt to answer the question "How did the soil conservation district do financially during the year ended December 31, 2018?"

The Statement of Net Position presents information on all the district's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the soil conservation district is improving or deteriorating.

The Statement of Activities presents information on how the soil conservation district's net position changed during the fiscal year. This statement is presented using the accrual basis of accounting, which means that all changes in net position is reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods (for example, uncollected taxes and earned but unused sick leave and/or vacation leave).

These two statements report the soil conservation district's net position and changes in that position. This change in net position is important because it tells the reader whether, for the soil conservation district as a whole, the financial position of the soil conservation district has improved or deteriorated. The causes of this change may be the result of many factors, some financial and some not.

In the Statement of Net Position and the Statement of Activities, the soil conservation district reports governmental activities. Governmental activities are the activities where most of the soil conservation district's programs and services are reported including, but not limited to, conservation of natural resources.

## REPORTING ON THE SOIL CONSERVATION DISTRICT'S MOST SIGNIFICANT FUNDS

### Balance Sheet - Governmental Funds

The soil conservation district uses one fund to account for and manage money dedicated for particular purposes (e.g. taxes collected from special mill levies and funds received from grants and donations). The fund basis financial statements allow the soil conservation district to demonstrate its stewardship over and accountability for resources provided by taxpayers and other entities. Fund financial statements provide detailed information about the soil conservation district's major fund. Using the criteria established by GASB Statement No. 34, the soil conservation district's general fund is considered a "major fund".

# FINANCIAL ANALYSIS OF THE SOIL CONSERVATION DISTRICT AS A WHOLE

Table I provides a summary of the soil conservation district's net position as of December 31, 2018. A comparative analysis of district-wide data is presented for both current and prior year.

As indicated in the financial highlights above, the soil conservation district's net position decreased by \$22,844 for the year ended December 31, 2018. Changes in net position may serve over time as a useful indicator of the soil conservation district's financial position.

The soil conservation district's net position of \$384,782 is segregated into two separate categories. Net investment in capital assets represents 38% of the soil conservation district's total net position. It should be noted that these assets are not available for future spending. The remaining unrestricted component of net position represents 62% of the soil conservation district's net position and is available to meet the soil conservation district's ongoing obligations.

Table I  
Net Position  
As of December 31, 2018  
(With comparative totals for December 31, 2017)

	2018	2017
<u>Assets</u>		
Current Assets	275,066	273,769
Capital Assets (net of accumulated depreciation)	144,070	170,276
Total Assets	419,136	444,045
<u>Liabilities</u>		
Current Liabilities	6,791	6,685
<u>Deferred Inflows of Resources</u>		
Unavailable Revenue	27,563	29,735
<u>Net Position</u>		
Net Investment in Capital Assets	144,070	170,276
Restricted		
Unrestricted	240,712	237,349
Total Net Position	384,782	407,625
	=====	=====

Table II shows the changes in net position for the fiscal year ended December 31, 2018. A comparative analysis of district-wide data is presented for both current and prior year.



Table II  
Changes in Net Position  
As of December 31, 2018  
(With comparative totals for December 31, 2017)

	<u>2018</u>	<u>2017</u>
<b>Revenues</b>		
<u>Program Revenues:</u>		
Charges for Services	189,027	213,892
Operating Grants and Contributions	126,221	215,280
<u>General Revenues:</u>		
Property Taxes	96,074	94,462
Other Taxes	879	844
State Aid - Unrestricted	3,135	16,250
Interest Earnings and Other Revenue	1,647	1,132
Gain on Sale of Capital Assets	1,000	18,877
Total Revenues	<u>417,983</u>	<u>560,739</u>
<b>Expenses</b>		
Conservation of Natural Resources	440,826	436,808
Net Change in Position	<u>(22,844)</u>	<u>123,931</u>
	=====	=====

Property taxes constituted 23%, operating grants and contributions 31% and charges for services made up 46% of the total revenues of governmental activities of the soil conservation district for the fiscal year ended December 31, 2018.

Conservation of natural resources constituted 100% of total expenses for governmental activities during the fiscal year ended December 31, 2018.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table III shows the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and other unrestricted revenues.

Table III  
Total and Net Cost of Services  
As of December 31, 2018

	<u>Total Cost</u> <u>Year Ended</u> <u>Dec. 31, 2018</u>	<u>Net Cost</u> <u>Year Ended</u> <u>Dec. 31, 2018</u>
Conservation of Natural Resources	440,826	125,578
	=====	=====

#### FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS

The purpose of the soil conservation district's governmental funds is to provide information on the near-term inflows, outflows and balances of available resources. Unassigned fund balance generally can be used as a measure of the soil conservation district's net resources available for spending as of the end of the fiscal year. These funds are accounted for using the modified accrual basis of accounting. The soil conservation district's general fund had total revenue of \$418,668 and expenditures of \$414,620 for the year ended December 31, 2018. As of December 31, 2018, the unassigned fund balance of the soil conservation district's general fund was \$219,177.

## GENERAL FUND BUDGET HIGHLIGHTS

During the course of fiscal year 2018, the soil conservation district did not amend the general fund budget.

Actual revenue for the year ended December 31, 2018 was \$5,463 less than budgeted. Actual expenditures for the year ended December 31, 2018 were under budget by \$33,072. This variance is due to the soil conservation district including an appropriation for capital outlay, which was not expended during the year.

## CAPITAL ASSETS

As of December 31, 2018, the soil conservation district had \$144,070 invested in capital assets. Table IV shows the balances as of December 31, 2018.

Table IV  
Capital Assets  
(Net of Accumulated Depreciation)  
As of December 31, 2018  
(With comparative totals for December 31, 2017)

	<u>2018</u>	<u>2017</u>
Buildings	25,510	27,498
Machinery and Vehicles	118,560	142,778
Total (net of depreciation)	<u>144,070</u>	<u>170,276</u>
	=====	=====

This total represents a decrease of \$26,206 in capital assets from January 1, 2018. For a detailed breakdown of the additions and deletions to capital assets, readers are referred to Note 8 to the audited financial statements which follow this analysis.

## DEBT ADMINISTRATION

As of December 31, 2018, the soil conservation district had no long-term debt obligations.

## CONTACTING THE SOIL CONSERVATION DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our patrons, taxpayers and creditors with a general overview of the soil conservation district's finances and to show the soil conservation district's accountability for the money it receives to provide the best possible services to residents of McLean County. Anyone who has questions about information contained in this report or who is interested in receiving additional information is encouraged to contact the district clerk, South McLean County Soil Conservation District, Turtle Lake, ND 58575.

SOUTH MCLEAN COUNTY SOIL CONSERVATION DISTRICT  
Turtle Lake, North Dakota

Statement of Net Position  
December 31, 2018

	<u>Governmental Activities</u>
<u>ASSETS:</u>	
Cash	201,981.19
Taxes Receivable	1,294.47
Due from McLean County	27,859.86
Accounts Receivable	10,075.76
Intergovernmental Receivables	4,302.00
Due from State Tax Commissioner	29,552.64
Capital Assets (net of accumulated depreciation):	
Buildings	25,510.00
Machinery and Equipment	118,560.00
Total Capital Assets	<u>144,070.00</u>
Total Assets	<u>419,135.92</u>
<u>LIABILITIES:</u>	
Payroll Taxes Payable	5,242.94
Sales Taxes Payable	1,547.92
Total Liabilities	<u>6,790.86</u>
<u>DEFERRED INFLOWS OF RESOURCES:</u>	
Unavailable Revenue	<u>27,563.13</u>
<u>NET POSITION:</u>	
Net Investment in Capital Assets	144,070.00
Restricted for:	
Unrestricted	<u>240,711.93</u>
Total Net Position	<u>384,781.93</u> =====

The accompanying notes are an integral part of these financial statements.



SOUTH MCLEAN COUNTY SOIL CONSERVATION DISTRICT  
Turtle Lake, North Dakota

Statement of Activities  
For the Year Ended December 31, 2018

	Program Revenues		Net (Expense) Revenue and Changes in Net Position
	Charges for	Operating Grants	Governmental
Expenses	Services	and Contributions	Activities
<u>Governmental Activities:</u>			
Conservation of Natural Resources	440,826.21	189,027.05	126,221.16
			(125,578.00)
			=====
<u>General Revenues:</u>			
Taxes:			
Property taxes; levied for general purposes			96,073.86
Homestead tax credit			508.07
Disabled veterans tax credit			265.67
Telecommunication taxes			104.85
State aid - not restricted to specific program			3,135.18
Earnings on investments and other revenue			1,646.87
Gain on sale of capital assets			1,000.00
Total General Revenues			102,734.50
Change in Net Position			(22,843.50)
Net Position - January 1			407,625.43
Net Position - December 31			384,781.93
			=====

The accompanying notes are an integral part of these financial statements.

SOUTH MCLEAN COUNTY SOIL CONSERVATION DISTRICT  
Turtle Lake, North Dakota

Balance Sheet  
December 31, 2018

	<hr/>
	General
	<hr/>
<u>ASSETS:</u>	
Cash	201,981.19
Taxes Receivable	1,294.47
Due from McLean County	27,859.86
Accounts Receivable	10,075.76
Intergovernmental Receivables	4,302.00
Due from State Tax Commissioner	29,552.64
	<hr/>
Total Assets	275,065.92
	=====
 <u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</u>	
 <u>Liabilities:</u>	
Payroll Taxes Payable	5,242.94
Sales Taxes Payable	1,547.92
	<hr/>
Total Liabilities	6,790.86
	<hr/>
 <u>Deferred Inflows of Resources:</u>	
Unavailable Revenue	28,857.60
	<hr/>
Total Liabilities and Deferred Inflows of Resources	35,648.46
	<hr/>
 <u>Fund Balance:</u>	
Assigned to:	
Equipment and Operations	20,240.15
Unassigned	219,177.31
	<hr/>
Total Fund Balance	239,417.46
	<hr/>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	275,065.92
	=====

The accompanying notes are an integral part of these financial statements.

SOUTH MCLEAN COUNTY SOIL CONSERVATION DISTRICT  
Turtle Lake, North Dakota

Reconciliation of Balance Sheet to the Statement of Net Position  
For the Year Ended December 31, 2018

Total Fund Balance	239,417.46
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Total net position reported for government activities in the statement of net position is different because:

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

Cost of Capital Assets	366,685.00	
Less Accumulated Depreciation	(222,615.00)	
Net Capital Assets		144,070.00

Property taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and therefore are reported as unavailable revenue in the fund.

1,294.47

Total Net Position of Governmental Activities	384,781.93
	=====

The accompanying notes are an integral part of these financial statements.



SOUTH MCLEAN COUNTY SOIL CONSERVATION DISTRICT  
Turtle Lake, North Dakota

Statement of Revenues, Expenditures and Changes in Fund Balance  
For the Year Ended December 31, 2018

	General
<u>Revenues:</u>	
Taxes	96,759.30
Intergovernmental	130,234.93
Charges for Services	159,020.13
Miscellaneous	32,653.79
Total Revenues	418,668.15
<u>Expenditures:</u>	
<u>Current:</u>	
<u>Conservation of Natural Resources</u>	
Payroll and Fringe Benefits	158,631.91
Meeting Expense	351.19
Insurance	3,053.00
Workforce Safety Insurance	1,605.39
Utilities	5,705.41
Fuel and Oil	5,971.62
Postage	849.54
Office Supplies	2,458.44
Dues and Subscriptions	1,515.24
Supplies, Maintenance and Repairs	8,355.35
Advertising and Promotions	2,884.59
Training/Conferences	165.00
Sponsorships	300.00
Professional Fees	2,375.00
Sales Tax	1,547.92
Conservation Education	9,091.85
Special Projects - Watershed	111,082.79
Miscellaneous	2,833.59
Cost of Goods Sold	95,842.38
Total Expenditures	414,620.21
Net Change in Fund Balances	4,047.94
Fund Balance - January 1	235,369.52
Fund Balance - December 31	239,417.46
	=====

The accompanying notes are an integral part of these financial statements.

SOUTH MCLEAN COUNTY SOIL CONSERVATION DISTRICT  
Turtle Lake, North Dakota

Reconciliation of Statement of Revenues, Expenditures and Changes in  
Fund Balance to the Statement of Activities  
For the Year Ended December 31, 2018

Net Change in Fund Balance	4,047.94
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The change in net position 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 outlay in the current year.

Current Year Capital Outlay	0.00	
Current Year Depreciation Expense	(26,206.00)	(26,206.00)

Some revenues reported on the statement of activities are not reported as revenues in the governmental funds since they do not represent available resources to pay current expenditures.

Net Decrease in Taxes Receivable	(685.44)
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Change in Net Position of Governmental Activities	(22,843.50)
	=====

The accompanying notes are an integral part of these financial statements.

SOUTH MCLEAN COUNTY SOIL CONSERVATION DISTRICT  
Turtle Lake, North Dakota

Notes to the Financial Statements  
December 31, 2018

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the South McLean County Soil Conservation District have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Government 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. Financial Reporting Entity

The accompanying financial statements present the activities of the soil conservation district. The soil conservation 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 soil conservation district's financial statements to be misleading or incomplete. The Government 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 the 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 the soil conservation district.

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

B. Basis of Presentation

*Government-wide Financial Statements:* The statement of net position and the statement of activities display information about the primary government, South McLean 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.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the soil conservation district's governmental activities. Direct expenses are those that are specifically associated with 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 soil conservation district's fund. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The soil conservation district reports the following major governmental fund:

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

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

*Government-wide Financial Statements:* The government-wide financial statements are reported using the economic resources measurement focus. These 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 soil conservation 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 soil conservation 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 soil conservation district funds certain programs by a combination of specific cost-reimbursements grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the soil conservation district's policy to first apply cost-reimbursement grant resources to such programs, and then by general revenues.

D. Cash

Cash includes amounts in demand deposits and money market accounts.

#### 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 soil conservation district as assets with an initial, individual cost of \$1,000 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:

Buildings	40 years
Machinery and Vehicles	5 to 10 years

#### F. Compensated Absences

No liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

Vested or accumulated vacation leave is not reported in the government-wide statement of net position as it is considered immaterial.

#### 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 position. Bond premiums, discounts and issuance costs are recognized in the current period since the amounts are not material.

In the fund financial statements, governmental fund types recognize bond premiums, discounts and issuance costs in the current period. The face amount of the debt is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs are reported as debt service expenditures.

#### H. Fund Equity

Fund equity at the governmental fund financial reporting level is classified as "fund balance." Fund equity for all other reporting is classified as "net position."

**Fund Balance** - Generally, fund balance represents the difference between current assets, current liabilities and deferred inflows of resources. In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the soil conservation district is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Fund balances are classified as follows:

**Nonspendable** - Fund balances are reported as nonspendable when amounts cannot be spent because they are either (a) not in spendable form (i.e., items that are not expected to be converted to cash such as inventories or prepaid expenses) or (b) legally or contractually required to be maintained intact (i.e., endowment funds).



**Restricted** - Fund balances are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the soil conservation district or through external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments (i.e., funds restricted by state statute, unspent bond proceeds, grants earned but not spent, debt covenants or taxes raised for a specific purpose).

**Committed** - Fund balances are reported as committed when they can be used only for specific purposes pursuant to constraints imposed by formal action of the soil conservation district's governing board through the adoption of a resolution. The governing board also may modify or rescind the commitment.

**Assigned** - Fund balances are reported as assigned when amounts are constrained by the soil conservation district's intent to be used for specific purposes, but are neither restricted nor committed.

**Unassigned** - Fund balances are reported as unassigned as the residual amount when the balances do not meet any of the above criterion. The soil conservation district reports positive unassigned fund balance only in the general fund. Negative fund balances may be reported in all funds.

**Flow Assumptions** - When both restricted and unrestricted amounts of fund balance are available for use for expenditures incurred, it is the district's policy to use restricted amounts first and then unrestricted amounts as they are needed. For unrestricted amounts of fund balance, it is the district's policy to use fund balance in the following order:

- \* Committed
- \* Assigned
- \* Unassigned

**Net Position** - Net position represents the difference between assets, liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used (i.e., the amount that the district has not spent) for the acquisition, construction or improvement of those assets. Net position is reported as restricted as described in the fund balance section above. All other net position is reported as unrestricted.

#### I. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

#### Note 2 DEPOSITS AND INVESTMENTS

In accordance with North Dakota Statutes, the 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 investments 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 county, city, township, school district, park district or any 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 another state of the United States or other securities approved by the banking board.

At December 31, 2018 the district's carrying amount of deposits was \$201,981 and the bank balance was \$208,252. Of the bank balance, \$208,252 was covered by Federal Depository Insurance.

#### Credit Risk

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

- (1) 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.
- (2) Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are of the type listed above.
- (3) Certificates of deposit fully insured by the federal deposit insurance corporation.
- (4) Obligations of the State.

#### Concentration of Credit Risk

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

#### Note 3 TAXES RECEIVABLE

Taxes receivable represents the past two years of uncollected current and delinquent taxes. No allowance has been established for uncollectible taxes receivable.

The county treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Any material tax collections are distributed after the end of each month.

Property taxes are levied as of January 1. The property taxes attach as an enforceable lien on property on January 1 and may be paid in two installments. The first installment includes one-half of the real estate taxes and all the special assessments and the second installment is the balance of the real estate taxes. The first installment is due by March 1 and the second installment is due by October 15. A 5% discount is allowed if all taxes and special assessments are paid by February 15. After the due dates, the bill becomes delinquent and penalties are assessed.

Most property owners choose to pay property taxes and special assessments in a single payment on or before February 15 and receive the discount on the property taxes.

Note 4 DUE FROM MCLEAN COUNTY

The amount due from McLean County consists of the cash on hand for taxes collected but not remitted to the soil conservation district at December 31.

Note 5 ACCOUNTS RECEIVABLE

Accounts receivable consists of amounts owed by individuals for the sale of grass seeds, plants and materials and for services performed by the soil conservation district due at December 31. No allowance has been established for uncollectible accounts.

Note 6 INTERGOVERNMENTAL RECEIVABLES

Intergovernmental receivables consist of amounts due from the North Dakota Department of Health for 319 funding reimbursements for the Turtle Creek Watershed project received subsequent to December 31, 2018.

Note 7 DUE FROM STATE TAX COMMISSIONER

The amount due from the North Dakota State Tax Commissioner consists of a reimbursement owed to the soil conservation district for overpayment of North Dakota state withholding taxes during 2018 and received subsequent to December 31, 2018.

Note 8 CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended December 31, 2018:

	Balance January 1	Increases	Decreases	Balance December 31
Governmental Activities:				
Capital assets				
being depreciated:				
Buildings	91,500			91,500
Machinery & Vehicles	278,935		3,750	275,185
Total	370,435		3,750	366,685
Less accumulated depreciation for:				
Buildings	64,002	1,988		65,990
Machinery & Vehicles	136,157	24,218	3,750	156,625
Total	200,159	26,206	3,750	222,615
Governmental Activities Capital Assets, Net	170,276	(26,206)	-0-	144,070
	=====	=====	=====	=====

Depreciation expense was charged to functions/programs of the soil conservation district as follows for the years ending December 31, 2018:

Conservation of Natural Resources	26,206
	=====



Note 9 PAYROLL TAXES PAYABLE

Payroll taxes payable consists of moneys withheld from employees paychecks and payable at December 31.

Note 10 SALES TAX PAYABLE

Sales tax payable consists of taxes collected on sales during 2018, but remitted to the State of North Dakota subsequent to December 31, 2018.

Note 11 UNAVAILABLE REVENUE

Unavailable revenue on the fund financial statements consist of amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable but not available and include taxes receivable and prepaid property taxes.

Unavailable revenue on the government-wide financial statements consists of prepaid property taxes.

Note 12 RISK MANAGEMENT

The South McLean 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 soil conservation district pays an annual premium to NDIRF for its general liability, automobile and public assets insurance coverage. The coverage by NDIRF is limited to losses of \$1,000,000 per occurrence for general liability and automobile; and \$599,196 for public assets.

The soil conservation district also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The soil conservation district 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 \$1,000,000 per occurrence during a 12 month period. The State Bonding Fund currently provides the soil conservation district with a blanket fidelity bond coverage in the amount of \$118,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The soil conservation district has worker's compensation with the Department of Workforce Safety and Insurance.

Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

SOUTH MCLEAN COUNTY SOIL CONSERVATION DISTRICT  
Turtle Lake, North Dakota

Budgetary Comparison Schedule  
For the Year Ended December 31, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Taxes	99,430.96	99,430.96	96,759.30	(2,671.66)
Intergovernmental	116,250.00	116,250.00	130,234.93	13,984.93
Charges for Services	170,000.00	170,000.00	159,020.13	(10,979.87)
Miscellaneous	38,450.00	38,450.00	32,653.79	(5,796.21)
Total Revenues	424,130.96	424,130.96	418,668.15	(5,462.81)
<u>Expenditures:</u>				
<u>Current:</u>				
<u>Conservation of Natural Resources</u>				
Payroll and Fringe Benefits	150,000.00	150,000.00	158,631.91	(8,631.91)
Meeting Expense			351.19	(351.19)
Insurance	6,000.00	6,000.00	3,053.00	2,947.00
Workforce Safety Insurance	1,200.00	1,200.00	1,605.39	(405.39)
Utilities	6,500.00	6,500.00	5,705.41	794.59
Fuel and Oil	10,000.00	10,000.00	5,971.62	4,028.38
Postage	600.00	600.00	849.54	(249.54)
Office Supplies	3,500.00	3,500.00	2,458.44	1,041.56
Dues and Subscriptions	1,500.00	1,500.00	1,515.24	(15.24)
Supplies, Maintenance and Repairs	31,000.00	31,000.00	8,355.35	22,644.65
Advertising and Promotions	2,300.00	2,300.00	2,884.59	(584.59)
Training/Conferences	800.00	800.00	165.00	635.00
Sponsorship			300.00	(300.00)
Professional Fees	200.00	200.00	2,375.00	(2,175.00)
Sales Tax			1,547.92	(1,547.92)
Conservation Education	5,000.00	5,000.00	9,091.85	(4,091.85)
Special Projects - Watershed	97,591.93	97,591.93	111,082.79	(13,490.86)
Miscellaneous	1,500.00	1,500.00	2,833.59	(1,333.59)
Cost of Goods Sold	95,000.00	95,000.00	95,842.38	(842.38)
Capital Outlay	35,000.00	35,000.00		35,000.00
Total Expenditures	447,691.93	447,691.93	414,620.21	33,071.72
Net Change in Fund Balances	(23,560.97)	(23,560.97)	4,047.94	27,608.91
Fund Balance - January 1	235,369.52	235,369.52	235,369.52	
Fund Balance - December 31	211,808.55	211,808.55	239,417.46	27,608.91



SOUTH MCLEAN COUNTY SOIL CONSERVATION DISTRICT  
Turtle Lake, North Dakota

Notes to the Budgetary Comparison Schedule  
December 31, 2018

Note 1 SUMMARY OF SIGNIFICANT BUDGET POLICIES

The Clerk/District Manager prepare an annual budget. The district budget is prepared for the general fund by function and activity on the modified accrual basis of accounting. The budget includes proposed expenditures and the means of financing them. The governing board reviews the preliminary budget, may make revisions and approves it; and submits it to the County Auditor prior to July 1.

The budget may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared, except no amendment changing the taxes levied can be made after October 10. At year-end, the balance of each appropriation becomes a part of the unappropriated fund balance.

Note 2 LEGAL COMPLIANCE

The governing board did not amend the budget during the year ended December 31, 2018.

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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

## INDEPENDENT AUDITOR'S REPORT

Governing Board  
South McLean County Soil Conservation District  
Turtle Lake, North Dakota

We have audited, in accordance with the 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, the financial statements of the governmental activities and the major fund of the South McLean County Soil Conservation District, Turtle Lake, North Dakota, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the soil conservation district's basic financial statements, and have issued our report thereon dated June 28, 2019.

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

In planning and performing our audit of the financial statements, we considered the soil conservation district's internal control over financial reporting (internal control) 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 soil conservation district's internal control. Accordingly, we do not express an opinion on the effectiveness of the soil conservation district's internal control.

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 soil conservation district's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items II-1 and II-2, that we consider to be significant deficiencies.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the 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*.

## **Soil Conservation District's Response to Findings**

The soil conservation district's response to the findings identified in our audit are described in the accompanying *Schedule of Findings and Responses*. The soil conservation district's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the soil conservation district's internal control or on compliance. This is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the soil conservation district's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Rath and Mehrer*

Rath and Mehrer, P.C.

Bismarck, North Dakota

June 28, 2019



SOUTH MCLEAN COUNTY SOIL CONSERVATION DISTRICT  
Turtle Lake, North Dakota

Schedule of Findings and Responses  
For the Year Ended December 31, 2018

**SECTION I - SUMMARY OF AUDIT RESULTS:**

Financial Statements

Type of Auditor's Report Issued:  
Governmental Activities  
Major Governmental Fund

Unmodified  
Unmodified

Internal control over financial reporting:

* Material weakness(es) identified?	_____ Yes	_____ <u>X</u> No
* Significant deficiency(ies) identified?	_____ <u>X</u> Yes	_____ None Reported
Noncompliance Material to financial statements noted?	_____ Yes	_____ <u>X</u> No

**SECTION II - FINANCIAL STATEMENT FINDINGS:**

Significant Deficiencies

1. Segregation of Duties

*Condition:* The district has one person responsible for most accounting functions.

*Criteria:* There should be sufficient accounting personnel so duties of employees are segregated. The segregation of duties would provide better control over assets of the district.

*Effect:* There is no segregation of duties 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 prepare financial statements. This increases the risk of misstatement of the district's financial condition.

*Recommendation:* Due to the size of the district, it is not feasible to obtain proper separation of duties and no recommendation will be made.

*Client Response:* No response is considered necessary.

2. Financial Statement Preparation

*Condition:* The district's financial statements as of December 31, 2018 are prepared by the district's external auditors.

*Criteria:* A good system of internal controls requires the district to determine that the financial statements are prepared based on accounting principles generally accepted in the United States of America. This means that the district must maintain knowledge of current accounting principles and required financial statement disclosures.

*Effect:* A control system is not in place to determine that the financial statements are properly stated and in compliance with accounting principles generally accepted in the United States of America.

*Recommendation:* We recommend the district obtain the necessary knowledge of current accounting principles to prepare financial statements or outsource the preparation of its financial statements.

*Client Response:* It is not cost effective for the district to prepare its own financial statements.



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Governing Board  
South McLean County Soil Conservation District  
Turtle Lake, North Dakota

Our audit of the financial records of the South McLean County Soil Conservation District, Turtle Lake, North Dakota, for the year ended December 31, 2018 has disclosed opportunities for improvements in the operations of the soil conservation district. Items which we believe should be brought to your attention are set forth below:

\* \* \* \* \*

## INTERNAL CONTROLS/BOARD OVERSIGHT

During the course of the audit, it has come to our attention that the district's clerk has made errors in paying expenditures to a district vendor and submitting payroll tax withholding to the State of North Dakota. It was noted that the clerk had overpaid the North Dakota state withholding taxes to the ND State Tax Commissioner by approximately \$29,600 and had overpaid invoices to Agassiz Seed and Supply in the amount of \$5,805. Due to the small size of the district and the limited personnel involved in preparing the district's financial statements, there is a greater risk of errors and/or misstatements occurring. We have noted this as a significant deficiency in the Schedule of Findings and Responses in prior audits and again in the current audit. The district has controls in place that compensate for the limited segregation of duties, including the governing board approving expenditures and dual signatures on checks. However, it would appear to us, that these compensating controls have failed to uncover these errors that have occurred over an extended period of time and we would recommend the governing board consider implementing the following:

- 1) Printing out a list of bills paid or to be approved for payment. The soil conservation district currently includes a cover sheet with the invoices approved that lists the sequence of checks written and total dollar amount of payments. This cover sheet is signed by members of the board, noting approval. By including this list of bills that shows the vendor and payment amount, the governing board would be able to compare the payment amount to the invoice submitted by the vendor. This list of bills should include any "ACH" debits showing payments made using the district's debit card and payments made for tax withholding. The governing board should also determine that an invoice is included that supports each payment to be made. In addition, the board should require the clerk to mark each invoice as paid, to prevent any duplicate payments.
- 2) The board should review time-sheets submitted by district employees. A board member should initial or sign each time-sheet for full-time staff. The district employee involved in overseeing part-time employees should review time-sheets for these employees and sign or initial showing review and approval.
- 3) Review quarterly payroll reports to verify accuracy.

Due to the small size of the soil conservation district and the limited personnel involved in preparing the district's financial statements, writing checks/maintaining invoices and preparing the required quarterly reports for payroll tax withholding, the risk of misstatements or errors is increased. That is why the oversight and compensating controls provided by the governing board is crucial. In our opinion, incorporating these additional compensating controls should help to find and eliminate future errors.

\* \* \* \* \*

This letter is intended solely for the use of management and should not be used for any other purpose. This restriction is not intended to limit the distribution of this letter which, upon acceptance by the district, is a matter of public record.

We would like to acknowledge all the assistance and many courtesies extended to us by the personnel of the district during our audit.

*Rath and Mehrer*

Rath and Mehrer, P.C.

June 28, 2019