

**STARKS AND BILLINGS SOIL CONSERVATION DISTRICT  
DICKINSON, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

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**STARK AND BILLINGS SOIL CONSERVATION DISTRICT**  
DICKINSON, NORTH DAKOTA  
DECEMBER 31, 2018

OFFICIALS

Dean Baar	Supervisor / President
Ron Decker	Supervisor / Vice President
Ron Obritsch	Supervisor
Julie Hoff	Advisory Supervisor
Roger Klym	Supervisor
Robert Wock	Supervisor
Bonnie Twogood	Secretary / Treasurer

## INDEPENDENT AUDITOR'S REPORT

To the Board of Supervisors  
Stark and Billings Soil Conservation District  
Dickinson, North Dakota

We have audited the accompanying modified cash basis financial statements of the governmental activities and the major fund of the Stark and Billings Soil Conservation District, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities and the major fund of the Stark and Billings Soil Conservation District, as of December 31, 2018, and the respective changes in modified cash basis financial position for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

## Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

## Other Matters

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements as a whole that collectively comprise the Stark and Billings Soil Conservation District's basic financial statements. The budgetary comparison information, as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison information is fairly stated in all material respects in relation to the basic financial statements as a whole.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 4, 2019, on our consideration of the Stark and Billings 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 solely 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 the effectiveness of Stark and Billings Soil Conservation District's 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 Stark and Billings Soil Conservation District's internal control over financial reporting and compliance.



**BRADY, MARTZ & ASSOCIATES, P.C.**  
**BISMARCK, NORTH DAKOTA**

April 4, 2019

**STARK AND BILLINGS SOIL CONSERVATION DISTRICT**  
**STATEMENT OF NET POSITION - MODIFIED CASH BASIS**  
**DECEMBER 31, 2018**

<b>ASSETS</b>	
Cash	\$ 483,733
Investments	240,000
Capital assets (net of accumulated depreciation)	<u>156,760</u>
Total assets	<u><u>\$ 880,493</u></u>
 <b>NET POSITION</b>	
Net investment in capital assets	\$ 156,760
Unrestricted	<u>723,733</u>
Total net position	<u><u>\$ 880,493</u></u>

See Notes to the Financial Statements

**STARK AND BILLINGS SOIL CONSERVATION DISTRICT**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Governmental Activities
<u>Governmental activities:</u>				
Conservation of natural resources	\$ 323,015	\$ 195,221	\$ 22,316	\$ (105,478)
Total governmental activities	\$ 323,015	\$ 195,221	\$ 22,316	(105,478)
<u>General revenues:</u>				
Taxes:				
Property taxes				220,192
Earnings on investments				2,145
Miscellaneous revenue				5,196
Total general revenues				227,533
Change in net position				122,055
Net position - January 1				758,438
Net position - December 31				\$ 880,493

See Notes to the Financial Statements

**STARK AND BILLINGS SOIL CONSERVATION DISTRICT**  
**BALANCE SHEET - MODIFIED CASH BASIS - GOVERNMENTAL FUND**  
**DECEMBER 31, 2018**

<b>ASSETS</b>	
Cash	\$ 483,733
Investments	<u>240,000</u>
Total assets	<u><u>\$ 723,733</u></u>

**FUND BALANCE**

Fund balance	
Unassigned	<u>\$ 723,733</u>
Total fund balance	<u><u>\$ 723,733</u></u>

**Reconciliation of the Balance Sheet  
to the Statement of Net Position  
June 30, 2018**

Total fund balance	\$ 723,733
Capital assets	<u>156,760</u>
Net position of governmental activities	<u><u>\$ 880,493</u></u>

See Notes to the Financial Statements



**STARK AND BILLINGS SOIL CONSERVATION DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -**  
**MODIFIED CASH BASIS - GOVERNMENTAL FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

<u>Revenue:</u>	
Taxes	\$ 220,192
Intergovernmental	15,363
Charges for services	195,221
Reimbursements	6,953
Interest	2,145
Miscellaneous	5,196
	<hr/>
Total revenues	445,070
	<hr/>
<u>Expenditures:</u>	
Current	
Conservation of natural resources:	
Cost of goods sold	50,911
Conservation education	24,491
Dues and subscriptions	1,451
Insurance	4,947
Office supplies	6,912
Payroll	177,597
Fuel and oil	3,118
Repairs and maintenance	6,699
Website	820
Advertising	5,338
Utilities	2,447
Donations	1,350
Travel	335
Miscellaneous	629
Capital outlay	11,000
	<hr/>
Total expenditures	298,045
	<hr/>
Revenues over expenditures	147,025
Fund balance - January 1	576,708
	<hr/>
Fund balance - December 31	\$ 723,733
	<hr/> <hr/>

**Reconciliation of Statement of Revenues, Expenditures and Changes in  
Fund Balances of Governmental Fund to the Statement of Activities  
For the Year Ended June 30, 2018**

Net changes in fund balance	\$ 147,025
Purchase of capital assets	11,000
Depreciation expense on capital assets	(35,970)
	<hr/>
Change in net position of governmental activities	\$ 122,055
	<hr/> <hr/>

See Notes to the Financial Statements

**STARK AND BILLINGS SOIL CONSERVATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Stark and Billings Soil Conservation District (District), operates on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental and financial reporting principles. The more significant of the government's accounting policies are described below.

**Financial Reporting Entity**

The accompanying modified cash basis financial statements present the activities of the Stark and Billings Soil Conservation District. 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 the 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 District.

Based on these criteria, there are no component units of the Stark and Billings Soil Conservation District.

**Basis of Presentation**

*Government-wide statements:* The statement of net position and the statement of activities display information about the primary government. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double-counting of internal activities. These statements describe the *governmental activities* of the District. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues 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, fines 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. The emphasis of fund financial statements is on major governmental funds.

**STARK AND BILLINGS SOIL CONSERVATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2018**

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 general government.

**Measurement Focus / Basis of Accounting**

*Government-wide Financial Statements:* The government-wide financial statements are reported using the economic resources measurement focus. The government-wide financial statements are reported using the modified cash basis of accounting. Revenues are recorded when received and expenses are recorded when they are paid. 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. Revenue from grants, entitlements, and donations is recognized when they are received.

*Governmental Fund Financial Statements:* Governmental funds are reported using the current financial resources measurement focus and the modified cash basis of accounting. Under this method, revenues are recognized when received. Expenditures are recorded when payment is made, except for principal and interest on general long-term debt, and claims and judgments, 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.

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

**Cash**

Cash includes amounts in demand deposits and money market accounts.

**Investments**

Investments consists entirely of certificates of deposit.

**Capital Assets**

Capital assets include building and equipment. Assets are reported in the governmental activities column in the government-wide financial statements. All major capital assets are capitalized. Such assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition 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 of is not capitalized.

**STARK AND BILLINGS SOIL CONSERVATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2018**

Capital assets are depreciated using the straight line method with an estimated useful life of five years for equipment and twenty years for buildings.

**Fund Balance Classifications**

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The non-spendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form - inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

*Restricted* – This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

*Committed* – These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances of the Board of Supervisors—the District’s highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the Board of Supervisors removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

*Assigned* – This classification reflects the amounts constrained by the District’s “intent” to be used for specific purposes, but are neither restricted nor committed. The Board of Supervisors has the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as non-spendable and are neither restricted nor committed.

*Unassigned* – This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, the District’s preference is to first use restricted resources, then unrestricted resources—committed, assigned, and unassigned—in order as needed.

The District does not have a minimum fund balance policy.

**Net Position**

Net position represents the difference between assets plus deferred outflow of resources and liabilities plus deferred inflow of resources. Net investment in capital assets, consists of the remaining un-depreciated cost of the asset less the outstanding debt associated with the purchase or construction of the related asset.

**STARK AND BILLINGS SOIL CONSERVATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2018**

Net position is reported as restricted when external creditors, grantors, or other governmental organizations imposed specific restrictions on the District. External restrictions may be imposed through state or local laws, and grant or contract provisions.

**Use of Estimates**

The preparation of financial statements in conformity with the modified cash basis requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**NOTE 2 DEPOSITS**

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 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 county, 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 another state of the United States or such other securities approved by the banking board.

The District maintains cash on deposit at a financial institution. The amounts on deposit were insured by the FDIC up to \$250,000. At December 31, 2018, the Districts carrying amount of deposits was \$723,733 and the bank balance was \$727,735, of which \$250,000 was covered by FDIC, \$221,642 was covered by securities pledged in the District's name and the remaining \$256,093 was uncollateralized.

Credit Risk:

The 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.

**STARK AND BILLINGS SOIL CONSERVATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2018**

Concentration of Credit Risk:

The District does not have a limit on the amount the District may invest in any one issuer. The District does not have an investment policy that specifically addresses credit risk.

**NOTE 3 CAPITAL ASSETS**

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

	1/1/18 Balance	Additions	Decreases	12/31/18 Balance
Governmental activities				
Capital assets, being depreciated				
Building	\$ 181,955	\$ -	\$ -	\$ 181,955
Equipment	162,216	11,000	-	173,216
Total capital assets, being depreciated	<u>344,171</u>	<u>11,000</u>	<u>-</u>	<u>355,171</u>
Less accumulated depreciation for:				
Building	(59,450)	-	-	(59,450)
Equipment	(102,991)	(35,970)	-	(138,961)
Total accumulated depreciation	<u>(162,441)</u>	<u>(35,970)</u>	<u>-</u>	<u>(198,411)</u>
Governmental activities capital assets, net	<u>\$ 181,730</u>	<u>\$ (24,970)</u>	<u>\$ -</u>	<u>\$ 156,760</u>

Depreciation expense of \$35,970 was charged to conservation of natural resources.

**NOTE 4 PROPERTY TAXES**

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 on property taxes 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 received the discount on the property taxes.

**NOTE 5 DEFINED BENEFIT PLAN**

The District participates in the North Dakota Public Employees' Retirement System administered by the State of North Dakota. The following brief description of NDPERS is provided for general information purposes only. Participants should refer to NDCC Chapter 54-52 for more complete information.

**STARK AND BILLINGS SOIL CONSERVATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2018**

NDPERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all employees of the State of North Dakota, its agencies and various participating political subdivisions. NDPERS provides for pension, death and disability benefits. The cost to administer the plan is financed through the contributions and investment earnings of the plan.

Responsibility for administration of the NDPERS defined benefit pension plan is assigned to a Board comprised of nine members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system, one member elected by the retired public employees and two members of the legislative assembly appointed by the chairman of the legislative management.

### **Pension Benefits**

Benefits are set by statute. NDPERS has no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Member of the Main System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). For members hired on or after January 1, 2016 the Rule of 85 will be replaced with the Rule of 90 with a minimum age of 60. The monthly pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. The plan permits early retirement at ages 55-64 with three or more years of service.

Members may elect to receive the pension benefits in the form of a single life, joint and survivor, term-certain annuity, or partial lump sum with ongoing annuity. Members may elect to receive the value of their accumulated contributions, plus interest, as a lump sum distribution upon retirement or termination, or they may elect to receive their benefits in the form of an annuity. For each member electing an annuity, total payment will not be less than the members' accumulated contributions plus interest.

### **Death and Disability Benefits**

Death and disability benefits are set by statute. If an active member dies with less than three years of service for the Main System, a death benefit equal to the value of the member's accumulated contributions, plus interest, is paid to the member's beneficiary. If the member has earned more than three years of credited service for the Main System, the surviving spouse will be entitled to a single payment refund, life-time monthly payments in an amount equal to 50% of the member's accrued normal retirement benefit, or monthly payments in an amount equal to the member's accrued 100% Joint and Survivor retirement benefit if the member had reached normal retirement age prior to date of death. If the surviving spouse dies before the member's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

Eligible members who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits equal to 25% of their final average salary with a minimum benefit of \$100. To qualify under this section, the member has to become disabled during the period of eligible employment and apply for benefits within one year of termination. The definition for disabled is set by the NDPERS in the North Dakota Administrative Code.

**STARK AND BILLINGS SOIL CONSERVATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2018**

**Refunds of Member Account Balance**

Upon termination, if a member of the Main System is not vested (is not 65 or does not have three years of service), they will receive the accumulated member contributions and vested employer contributions, plus interest, or may elect to receive this amount at a later date. If the member has vested, they have the option of applying for a refund or can remain as a terminated vested participant. If a member terminated and withdrew their accumulated member contribution and is subsequently reemployed, they have the option of repurchasing their previous service.

**Member and Employer Contributions**

Member and employer contributions paid to NDPERS are set by statute and are established as a percent of salaries and wages. Member contribution rates are 7% and employer contribution rates are 7.12% of covered compensation.

The member's account balance includes the vested employer contributions equal to the member's contributions to an eligible deferred compensation plan. The minimum member contribution is \$25 and the maximum may not exceed the following:

- 1 to 12 months of service – Greater of one percent of monthly salary or \$25
- 13 to 24 months of service – Greater of two percent of monthly salary or \$25
- 25 to 36 months of service – Greater of three percent of monthly salary or \$25
- Longer than 36 months of service – Greater of four percent of monthly salary or \$25

**Pension Liability and Pension Expense**

At December 31, 2018, if the District were to report on the full accrual basis, a liability of \$170,330, for its proportionate share of the net pension liability would have been reported. The net pension liability was measured as of June 30, 2018 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2018, the District's proportion was 0.010093 percent, which was an increase of 0.000232 from its proportion measured as of June 30, 2017. The net pension liability along with the related deferred inflows or outflows of resources are not reported on the District's financial statements as they are on the modified cash basis.

For the year ended December 31, 2018, the District's required and actual contributions to NDPERS for the fiscal year ending 2018 was \$7,492.



**STARK AND BILLINGS SOIL CONSERVATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2018**

**Actuarial assumptions.** The total pension liability in the July 1, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%		
Salary Increases		<u>Service at</u> <u>Beginning of Year</u>	<u>State</u> <u>Employee</u>
		0	12.00%
		1	9.50%
		2	7.25%
		<u>Age</u>	<u>Non-State</u> <u>Employee</u>
		Under 30	10.00%
		30-39	7.50%
		40-49	6.75%
		50-59	6.50%
		60+	5.25%

\*Age-based salary increase rates apply for employees with three or more years

Investment rate of return      7.75%, net of expenses  
 Cost of living adjustments      None

For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Mortality Table set back one year for males (no setback for females) multiplied by 125%.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Fund's target asset allocation are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real</u> <u>Rate of Return</u>
Domestic Equity	30%	6.05%
International Equity	21%	6.71%
Private Equity	7%	10.20%
Domestic Fixed Income	23%	1.45%
Global Real Assets	19%	5.11%

**Discount rate.** For PERS, GASB Statement No. 67 includes a specific requirement for the discount rate that is used for the purpose of the measurement of the Total Pension Liability. This rate considers the ability of the System to meet benefit obligations in the future. To make this determination, employer contributions, employee contributions, benefit payments, expenses and investment returns are projected into the future. The current employer and employee fixed rate contributions are assumed to be made in each future year. The Plan Net Position (assets) in

**STARK AND BILLINGS SOIL CONSERVATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2018**

future years can then be determined and compared to its obligation to make benefit payments in those years. In years where assets are not projected to be sufficient to meet benefit payments, which is the case for the PERS plan, the use of a municipal bond rate is required.

The Single Discount Rate (SDR) is equivalent to applying these two rates to the benefits that are projected to be paid during the different time periods. The SDR reflects (1) the long-term expected rate of return on pension plan investments (during the period in which the fiduciary net position is projected to be sufficient to pay benefits) and (2) a tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate of return are not met).

For the purpose of this valuation, the expected rate of return on pension plan investments is 7.75%, the municipal bond rate is 3.62%, and the resulting Single Discount Rate is 6.32%.

***Sensitivity of the Employer's proportionate share of the net pension liability to changes in the discount rate.*** The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 6.32 percent, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.32 percent) or 1-percentage-point higher (7.32 percent) than the current rate:

	<b>1% Decrease (5.32%)</b>	<b>Current Discount Rate (6.32%)</b>	<b>1% Increase (7.32%)</b>
Employer's proportionate share of the net pension liability	\$231,447	\$170,330	\$119,330

***Pension plan fiduciary net position.*** Detailed information about the pension plan's fiduciary net position is available in the separately issued NDPERS financial report.

**NOTE 6 GENERAL INFORMATION ABOUT THE OPEB PLAN**

***North Dakota Public Employees Retirement System***

The following brief description of NDPERS is provided for general information purposes only. Participants should refer to NDAC Chapter 71-06 for more complete information.

NDPERS OPEB plan is a cost-sharing multiple-employer defined benefit OPEB plan that covers members receiving retirement benefits from the PERS, the HPRS, and Judges retired under Chapter 27-17 of the North Dakota Century Code a credit toward their monthly health insurance premium under the state health plan based upon the member's years of credited service. Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision and long-term care plan and any other health insurance plan. The Retiree Health Insurance Credit Fund is advance-funded on an actuarially determined basis.

**STARK AND BILLINGS SOIL CONSERVATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2018**

Responsibility for administration of the NDPERS defined benefit OPEB plan is assigned to a Board comprised of nine members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system, one member elected by the retired public employees and two members of the legislative assembly appointed by the chairman of the legislative management.

**OPEB Benefits**

The employer contribution for the PERS, the HPRS and the Defined Contribution Plan is set by statute at 1.14% of covered compensation. The employer contribution for employees of the state board of career and technical education is 2.99% of covered compensation for a period of eight years ending October 1, 2015. Employees participating in the retirement plan as part-time/temporary members are required to contribute 1.14% of their covered compensation to the Retiree Health Insurance Credit Fund. Employees purchasing previous service credit are also required to make an employee contribution to the Fund. The benefit amount applied each year is shown as "*prefunded credit applied*" on the Statement of Changes in Plan Net Position for the OPEB trust funds.

Retiree health insurance credit benefits and death and disability benefits are set by statute. There are no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Employees who are receiving monthly retirement benefits from the PERS, the HPRS, the Defined Contribution Plan, the Chapter 27-17 judges or an employee receiving disability benefits, or the spouse of a deceased annuitant receiving a surviving spouse benefit or if the member selected a joint and survivor option are eligible to receive a credit toward their monthly health insurance premium under the state health plan.

Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision and long-term care plan and any other health insurance plan. The benefits are equal to \$5.00 for each of the employee's, or deceased employee's years of credited service not to exceed the premium in effect for selected coverage. The retiree health insurance credit is also available for early retirement with reduced benefits.

***OPEB Liability and OPEB Expense***

At December 31, 2018, if the District were to report on the full accrual basis, a liability of \$7,463, for its proportionate share of the net OPEB liability would have been reported. The net OPEB liability was measured as of June 30, 2018 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on the District's share of covered payroll in the OPEB plan relative to the covered payroll of all participating OPEB employers. At June 30, 2018, the District's proportion was 0.009476 percent, which was an increase of 0.000171 from its proportion measured as of June 30, 2017. The net OPEB liability along with the related deferred inflows or outflows of resources are not reported on the District's financial statements as they are on the modified cash basis.

For the year ended December 31, 2018, the District recognized OPEB expense of \$1,200.

**STARK AND BILLINGS SOIL CONSERVATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2018**

**Actuarial assumptions.** The total OPEB liability in the July 1, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	Not applicable
Investment rate of return	7.50%, net of investment expenses
Cost-of-living adjustments	None

For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Mortality Table set back one year for males (no setback for females) multiplied by 125%.

The long-term expected investment rate of return assumption for the RHIC fund was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of RHIC investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Estimates of arithmetic real rates of return, for each major asset class included in the RHIC's target asset allocation as of July 1, 2018 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Large Cap Domestic Equities	37%	7.15%
Small Cap Domestic Equities	9%	14.42%
International Equities	14%	8.83%
Core-Plus Fixed Income	40%	0.10%

**Discount rate.** The discount rate used to measure the total OPEB liability was 7.75%. The projection of cash flows used to determine the discount rate assumed plan member and statutory/Board approved employer contributions will be made at rates equal to those based on the July 1, 2018, and July 1, 2017, HPRS actuarial valuation reports. For this purpose, only employer contributions that are intended to fund benefits of current RHIC members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries are not included. Based on those assumptions, the RHIC fiduciary net position was projected to be sufficient to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on RHIC investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

**STARK AND BILLINGS SOIL CONSERVATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2018**

***Sensitivity of the Employer's proportionate share of the net OPEB liability to changes in the discount rate.*** The following presents the net OPEB liability of the Plans as of June 30, 2018, calculated using the discount rate of 7.50%, as well as what the RHIC net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	<b>1% Decrease (6.5%)</b>	<b>Current Discount Rate (7.5%)</b>	<b>1% Increase (8.5%)</b>
Employer's proportionate share of the net OPEB liability	\$9,442	\$7,463	\$5,766

**NOTE 7 RISK MANAGEMENT**

The District is exposed to various risk 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 (NDRIF), 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 District pays an annual premium to NDRIF for its general liability, automobile, and inland marine insurance coverage. The coverage by NDRIF is limited to losses of two million dollars per occurrence for general liability.

The District also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The 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 two million dollars per occurrence during a 12 month period. The State Bonding Fund currently provides the District with blanket fidelity bond coverage in the amount of \$245,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The District has workers compensation with the North Dakota Workforce, Safety and Insurance. The District will pay the equivalent of a single person for the coverage of medical, dental and vision insurance. The employee is responsible for the difference if family coverage is needed.

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

**NOTE 8 SUBSEQUENT EVENTS**

Subsequent events have been evaluated through April 4, 2019, which is the date these financial statements were available to be issued.

**STARK AND BILLINGS SOIL CONSERVATION DISTRICT**  
**BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS**  
**GENERAL FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>Original &amp; Final Budget</u>	<u>Actual</u>	<u>Variance with Budget</u>
<u>Revenue:</u>			
Taxes	\$ 220,000	\$ 220,192	\$ 192
Intergovernmental	15,000	15,363	363
Charges for services	202,157	195,221	(6,936)
Reimbursements	(11,843)	6,953	18,796
Interest	250	2,145	1,895
Miscellaneous	91,206	5,196	(86,010)
	<hr/>	<hr/>	<hr/>
Total revenues	516,770	445,070	(71,700)
<u>Expenditures:</u>			
Current			
Conservation of natural resources:			
Cost of goods sold	94,000	50,911	43,089
Conservation education	25,000	24,491	509
Dues and subscriptions	750	1,451	(701)
Insurance	5,250	4,947	303
Professional fees	650	-	650
Office supplies	3,700	6,912	(3,212)
Payroll	190,000	177,597	12,403
Fuel and oil	3,000	3,118	(118)
Repairs and maintenance	12,000	6,699	5,301
Website	-	820	(820)
Advertising	7,500	5,338	2,162
Utilities	2,000	2,447	(447)
Donations	-	1,350	(1,350)
Travel	1,200	335	865
Miscellaneous	7,000	629	6,371
Depreciation	35,000	-	35,000
Capital outlay	-	11,000	(11,000)
	<hr/>	<hr/>	<hr/>
Total expenditures	387,050	298,045	89,005
	<hr/>	<hr/>	<hr/>
Revenues over expenditures	\$ 129,720	147,025	\$ 17,305
	<hr/>	<hr/>	<hr/>
Fund balance - January 1		576,708	
		<hr/>	
Fund balance - December 31		\$ 723,733	
		<hr/>	

See Note to the Supplementary Information

**STARK AND BILLINGS SOIL CONSERVATION DISTRICT**  
**NOTE TO THE SUPPLEMENTARY INFORMATION**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

**NOTE 1 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgetary Information**

- The District adopts an “appropriated budget” on the basis consistent with accounting principles generally accepted in the United States, as applied under the modified cash basis of accounting for its general fund.
- The budget includes proposed expenditures and means of financing them.
- The district, on or before the October meeting shall determine the amount of taxes that shall be levied for each count and shall levy all such taxes in specific amounts. (NDCC 11-23-05)
- Each budget is controlled by the secretary / treasurer at the revenue and expenditure function / object level.
- The current budget, except property taxes, may be amended during the year for any revenues an appropriations not anticipated at the time the budget was prepared. (NDCC 57-15-31.1)

**INDEPENDENT AUDITOR'S 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**

To the Board of Supervisors  
Stark and Billings Soil Conservation District  
Dickinson, 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 Stark and Billings Soil Conservation District, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated April 4, 2019.

### **Internal Control over Financial Reporting**

In planning and performing our audit of the modified cash basis financial statements, we considered the Stark and Billings 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

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 a 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 as 2018-001 in the accompanying schedule of findings and responses to be a material weakness.



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. We consider the deficiency described as 2018-002 in the accompany schedule of findings and responses to be a significant deficiency.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Stark and Billings Soil Conservation District's modified cash basis financial statements are free from 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2018-003.

### **District's Responses to Findings**

The Stark and Billings Soil Conservation District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**BRADY, MARTZ & ASSOCIATES, P.C.**  
**BISMARCK, NORTH DAKOTA**

April 4, 2019

**STARK AND BILLINGS SOIL CONSERVATION DISTRICT**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

**2018-001 – Material Weakness**

Criteria

An appropriate system of internal control requires the entity to determine that financial statements are properly stated in compliance with accounting principles generally accepted in the United States of America, as applied under the modified cash basis of accounting. This requires the District's personnel to maintain knowledge of current accounting principles and required financial statement disclosures.

Condition

The District's personnel prepare periodic financial information for internal use that meets the needs of management and the board. However, the District does not have internal resources to prepare full-disclosure financial statements for external reporting.

Cause

The District's internal controls have not been designed to address the specific training needs that are required of its personnel to obtain and maintain knowledge of current accounting principles and required financial statement disclosures.

Effect

An appropriate system of internal controls is not present to make a determination that financial statements and the related disclosures are fairly stated in compliance with accounting principles generally accepted in the United States of America. However, the District is aware of the deficiency and addresses it by reviewing and approving the completed statements prior to distribution to the end users.

Recommendation

We recommend that the District reviews its current training system to determine if it is cost effective for the entity to obtain this knowledge internally. As a compensating control the entity should establish an internal control policy to document the annual review of the financial statements and schedules and to review a financial statement disclosure checklist.

Views of Responsible Officials and Planned Corrective Actions

Due to the financial, efficiency and time constraints, it has been determined by Stark and Billings Soil Conservation District's management that it is in the best interest of Stark and Billings Soil Conservation District and all interested parties to have the footnotes to the financial statements prepared by the auditing firm at the time of the audit.

**2018-002**

Criteria

Generally, a system of internal control has the proper separation of duties between authorization, custody, record keeping and reconciliation.

Condition

There is not a system in place for accounting duties to be properly segregated between authorization, custody, record keeping and reconciliation.

Cause

Size and budget constraints limit the number of personnel within the accounting department.

**STARK AND BILLINGS SOIL CONSERVATION DISTRICT**  
**SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

Effect

The design of the internal control over financial reporting could adversely affect the ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Recommendation

The areas should be reviewed periodically and consideration given to improving the segregation of duties. Compensating controls over the underlying financial information may be obtained through oversight by management and the board.

Views of Responsible Officials and Planned Corrective Actions

The District has segregated the accounting duties to the appropriate individuals to the extent possible. Because of the very limited number of staff available for the District, all of the accounting duties cannot be totally segregated in such a way as to eliminate this reportable condition. The only alternative available to the District would be the hiring of additional staff, and current cash flows do not justify it. The District has reviewed the internal controls and procedures in place and believes the procedures in place provide adequate controls under these circumstances.

**2018-003**

Criteria

In accordance with North Dakota Century Code 21-04-09, if a public corporation desires to deposit an amount greater than a depositories insurance (FDIC, FSLIC, or NCUE) and did not receive a personal or surety bond, the excess amount must be protected by a bond or by collateral, which, when computed at market value, shall be at least ten percent more than the amount of the excess deposit.

Condition

The District had a balance of \$727,735 on deposit at one financial institution as of December 31, 2018 that was covered by \$250,000 of FDIC coverage and pledged securities of \$221,642 with the remaining balance of \$256,093 uncollateralized.

Cause

The value of pledged securities totaled \$221,642. The value of pledged securities required by North Dakota Century Code 21-04-09 was \$525,508. The District was under collateralized by approximately \$303,866.

Effect

The District did not have all their deposits adequately covered by FDIC coverage and / or pledged securities as of December 31, 2018 and is not in compliance with North Dakota Century Code 21-04-09.

Recommendation

We recommend the District review all bank accounts and pledged securities to ensure all deposits are adequately covered by FDIC coverage and / or pledged securities.

Views of Responsible Officials and Planned Corrective Actions

The Board of Supervisors will work with their banks to correct this in the next fiscal year.