

AUDIT REPORT

MERCER COUNTY SOIL CONSERVATION DISTRICT
Beulah, North Dakota

For the Years Ended December 31, 2019 and 2018

RATH & MEHRER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

MERCER COUNTY SOIL CONSERVATION DISTRICT
Beulah, North Dakota

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MERCER COUNTY SOIL CONSERVATION DISTRICT
Beulah, North Dakota

OFFICIALS

Gerald Bauman	Chairman
Marc Schriefer	Vice Chairman
Janet Connolly	Supervisor
Jeff Ellwein	Supervisor
Wayne Windhorst	Supervisor
Sarah Tunge	District Manager

Rath & Mehrer, P.C.

Certified Public Accountants

Jayson Rath, CPA
Ken Mehrer, CPA
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INDEPENDENT AUDITOR'S REPORT

Governing Board
Mercer County Soil Conservation District
Beulah, North Dakota

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities and the major fund of the Mercer County Soil Conservation District, Beulah, North Dakota, as of and for the years ended December 31, 2019 and 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 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 audits. We conducted our audits 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 audits 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 modified cash basis financial position of the governmental activities and the major fund of the Mercer County Soil Conservation District, Beulah, North Dakota, as of December 31, 2019 and 2018, and the respective changes in modified cash basis financial position thereof for the years 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 audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the soil conservation district's basic financial statements. The budgeting comparison information and the schedule of employer's share of net pension liability are presented for additional analysis and are not a required part of the basic financial statements.

The budgeting comparison information and the schedule of employer's share of net pension liability are the responsibility of management and were 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 budgeting comparison information and the schedule of employer's share of net pension liability are 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 March 19, 2021 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

March 19, 2021

MERCER COUNTY SOIL CONSERVATION DISTRICT
Beulah, North Dakota

Statement of Net Position - Modified Cash Basis
December 31, 2019

	<u>Governmental Activities</u>
<u>ASSETS:</u>	
Cash	93,335.08
Investments	181,502.69
Capital Assets (net of accumulated depreciation):	
Land	1,200.00
Buildings	2,284.47
Machinery and Equipment	47,887.40
Total Capital Assets	<u>51,371.87</u>
Total Assets	<u>326,209.64</u>
 <u>DEFERRED OUTFLOWS OF RESOURCES:</u>	
Changes in Resources Related to Pensions	<u>88,267.00</u>
 <u>LIABILITIES:</u>	
Long-Term Liabilities:	
Due After One Year:	
Compensated Absences Payable	8,361.01
Net Pension Liability	<u>125,592.00</u>
Total Liabilities	<u>133,953.01</u>
 <u>DEFERRED INFLOWS OF RESOURCES:</u>	
Changes in Resources Related to Pensions	<u>41,110.00</u>
 <u>NET POSITION:</u>	
Net Investment in Capital Assets	51,371.87
Unrestricted	<u>188,041.76</u>
Total Net Position	<u><u>239,413.63</u></u>

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

MERCER COUNTY SOIL CONSERVATION DISTRICT
Beulah, North Dakota

Statement of Net Position - Modified Cash Basis
December 31, 2018

	Governmental Activities
<u>ASSETS:</u>	
Cash	148,668.46
Investments	148,785.32
Capital Assets (net of accumulated depreciation):	
Land	1,200.00
Buildings	2,633.91
Machinery and Equipment	58,309.20
Total Capital Assets	62,143.11
Total Assets	359,596.89
<u>DEFERRED OUTFLOWS OF RESOURCES:</u>	
Changes in Resources Related to Pensions	40,074.00
<u>LIABILITIES:</u>	
Long-Term Liabilities:	
Due After One Year:	
Compensated Absences Payable	5,841.31
Net Pension Liability	57,076.00
Total Liabilities	62,917.31
<u>DEFERRED INFLOWS OF RESOURCES:</u>	
Changes in Resources Related to Pensions	46,234.00
<u>NET POSITION:</u>	
Net Investment in Capital Assets	62,143.11
Unrestricted	228,376.47
Total Net Position	290,519.58

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

Statement of Activities - Modified Cash Basis
For the Year Ended December 31, 2019

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

MERCER COUNTY SOIL CONSERVATION DISTRICT
Beulah, North Dakota

Balance Sheet - Modified Cash Basis
Governmental Fund
December 31, 2019

	<u>Major Fund</u>
	<u>General</u>
<u>ASSETS:</u>	
Cash	93,335.08
Investments	<u>181,502.69</u>
Total Assets	<u><u>274,837.77</u></u>
<u>Fund Balance:</u>	
Unassigned	<u><u>274,837.77</u></u>

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

MERCER COUNTY SOIL CONSERVATION DISTRICT
Beulah, North Dakota

Balance Sheet - Modified Cash Basis
Governmental Fund
December 31, 2018

	<u>Major Fund</u>
	<u>General</u>
<u>ASSETS:</u>	
Cash	148,668.46
Investments	<u>148,785.32</u>
Total Assets	<u><u>297,453.78</u></u>
 <u>Fund Balance:</u>	
Unassigned	<u><u>297,453.78</u></u>

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

MERCER COUNTY SOIL CONSERVATION DISTRICT
Beulah, North Dakota

Reconciliation of Governmental Fund Balance Sheet
to the Statement of Net Position - Modified Cash Basis
For the Year Ended December 31, 2019

Total Fund Balance for Governmental Fund	274,837.77
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Total net position reported for governmental 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	179,914.27	
Less Accumulated Depreciation	<u>(128,542.40)</u>	
Net Capital Assets		51,371.87

The deferred outflows and inflows of resources reported on the statement of net position are the result of changes in resources related to pensions and do not affect current financial resources.

Total Deferred Outflows of Resources	88,267.00	
Total Deferred Inflows of Resources	<u>(41,110.00)</u>	
Net Deferred Outflows/Inflows of Resources		47,157.00

Long-term liabilities applicable to the soil conservation district's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities -both current and long-term- are reported in the statement of net position. Balances at December 31, 2019 are:

Compensated Absences Payable	(8,361.01)	
Net Pension Liability	<u>(125,592.00)</u>	
Total Long-Term Liabilities		<u>(133,953.01)</u>

Total Net Position of Governmental Activities	<u>239,413.63</u>
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The accompanying notes are an integral part of these financial statements.

MERCER COUNTY SOIL CONSERVATION DISTRICT
Beulah, North Dakota

Reconciliation of Governmental Fund Balance Sheet
to the Statement of Net Position - Modified Cash Basis
For the Year Ended December 31, 2018

Total Fund Balance for Governmental Fund	297,453.78
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Total net position reported for governmental 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	179,914.27	
Less Accumulated Depreciation	<u>(117,771.16)</u>	
Net Capital Assets		62,143.11

The deferred outflows and inflows of resources reported on the statement of net position are the result of changes in resources related to pensions and do not affect current financial resources.

Total Deferred Outflows of Resources	40,074.00	
Total Deferred Inflows of Resources	<u>(46,234.00)</u>	
Net Deferred Outflows/Inflows of Resources		(6,160.00)

Long-term liabilities applicable to the soil conservation district's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities -both current and long-term- are reported in the statement of net position. Balances at December 31, 2018 are:

Compensated Absences Payable	(5,841.31)	
Net Pension Liability	<u>(57,076.00)</u>	
Total Long-Term Liabilities		<u>(62,917.31)</u>

Total Net Position of Governmental Activities	<u><u>290,519.58</u></u>
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The accompanying notes are an integral part of these financial statements.

MERCER COUNTY SOIL CONSERVATION DISTRICT
Beulah, North Dakota

Statement of Revenues, Expenditures and Changes in Fund Balances
Modified Cash Basis
Governmental Fund
For the Year Ended December 31, 2019

	<u>Major Fund</u>
	<u>General</u>
<u>Revenues:</u>	
Taxes	57,993.53
Intergovernmental	103,750.84
Charges for Services	76,981.85
Miscellaneous	<u>46,276.72</u>
Total Revenues	<u>285,002.94</u>
<u>Expenditures:</u>	
<u>Current:</u>	
Payroll and Fringe Benefits	134,960.56
Supervisor Expenses	4,957.04
Awards and Scholarships	3,361.98
Office Expenses	1,943.46
Travel and Meetings	9,707.72
Insurance	2,873.59
Dues and Subscriptions	3,270.18
Education, Publicity and Stewards	2,511.20
Operating Expenses and Field Supplies	16,896.49
Better Management Practices (BMPs)	79,627.21
Spring Creek Watershed Project	23,325.11
Miscellaneous	35.98
Cost of Goods Sold	<u>24,148.43</u>
Total Expenditures	<u>307,618.95</u>
Net Change in Fund Balance	<u>(22,616.01)</u>
Fund Balance - January 1	<u>297,453.78</u>
Fund Balance - December 31	<u><u>274,837.77</u></u>

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

MERCER COUNTY SOIL CONSERVATION DISTRICT
Beulah, North Dakota

Statement of Revenues, Expenditures and Changes in Fund Balances
Modified Cash Basis
Governmental Fund
For the Year Ended December 31, 2018

	<u>Major Fund</u>
	<u>General</u>
<u>Revenues:</u>	
Taxes	55,242.43
Intergovernmental	114,457.75
Charges for Services	164,601.34
Miscellaneous	<u>38,217.70</u>
Total Revenues	<u>372,519.22</u>
<u>Expenditures:</u>	
<u>Current:</u>	
Payroll and Fringe Benefits	124,709.10
Supervisor Expenses	5,801.16
Awards and Scholarships	3,830.39
Office Expenses	3,798.34
Travel and Meetings	4,459.69
Insurance	2,757.28
Dues and Subscriptions	2,326.00
Education, Publicity and Stewards	1,441.90
Operating Expenses and Field Supplies	18,478.67
Better Management Practices (BMPs)	83,506.74
Spring Creek Watershed Project	26,070.92
Miscellaneous	2,625.00
Cost of Goods Sold	<u>55,931.01</u>
Total Expenditures	<u>335,736.20</u>
Net Change in Fund Balance	<u>36,783.02</u>
Fund Balance - January 1	<u>260,670.76</u>
Fund Balance - December 31	<u><u>297,453.78</u></u>

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

MERCER COUNTY SOIL CONSERVATION DISTRICT
Beulah, North Dakota

Reconciliation of Governmental Fund Statement of Revenues, Expenditures and
Changes in Fund Balances to the Statement of Activities - Modified Cash Basis
For the Year Ended December 31, 2019

Net Change in Fund Balances - Total Governmental Fund	(22,616.01)
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The change in net position reported for governmental activities in the statement of activities is different because:

Governmental fund 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	-	
Current Year Depreciation Expense	<u>(10,771.24)</u>	(10,771.24)

Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental fund.

Net Increase in Compensated Absences	(2,519.70)	
Net Increase to Pension Expense	<u>(15,199.00)</u>	<u>(17,718.70)</u>

Change in Net Position of Governmental Activities	<u><u>(51,105.95)</u></u>
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The accompanying notes are an integral part of these financial statements.

MERCER COUNTY SOIL CONSERVATION DISTRICT
Beulah, North Dakota

Reconciliation of Governmental Fund Statement of Revenues, Expenditures and
Changes in Fund Balances to the Statement of Activities - Modified Cash Basis
For the Year Ended December 31, 2018

Net Change in Fund Balances - Total Governmental Fund	36,783.02
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The change in net position reported for governmental activities in the statement of activities is different because:

Governmental fund 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	-	
Current Year Depreciation Expense	<u>(10,771.25)</u>	(10,771.25)

Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental fund.

Net Increase in Compensated Absences	(2,752.81)	
Net Decrease to Pension Expense	<u>4,831.00</u>	<u>2,078.19</u>

Change in Net Position of Governmental Activities	<u><u>28,089.96</u></u>
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The accompanying notes are an integral part of these financial statements.

MERCER COUNTY SOIL CONSERVATION DISTRICT
Beulah, North Dakota

Notes to the Financial Statements
December 31, 2019 and 2018

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the soil conservation district have been prepared on a modified cash basis, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) 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 soil conservation district is financially accountable and other organizations for which the nature and significance of their relationships with the soil conservation 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. These criteria include 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 Mercer 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, the Mercer 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 a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the soil conservation district's fund. The emphasis of fund financial statements is on the major governmental fund.

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 of the financial resources of the general government.

C. Measurement Focus and Basis of Accounting

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

Measurement Focus

In the government-wide Statement of Net Position and the Statement of Activities, governmental activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus, as applied to the modified cash basis of accounting, is used as appropriate:

- a. All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

Basis of Accounting

In the government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental activities are presented using a modified cash basis of accounting. This basis recognizes assets, liabilities, net position/fund equity, revenues, and expenditures/expenses when they result from cash transactions with a provision for depreciation in the government-wide statements. This basis is a basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

If the soil conservation district utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

D. Cash and Investments

Cash includes amounts in demand deposits and money market accounts

Investments consist of certificates of deposit stated at cost.

E. Capital Assets

Capital assets include plant and equipment. Assets are reported in the governmental activities column and the business-type activities column in the government-wide financial statements. Assets are also reported in the proprietary fund statements. Capital assets are defined by the soil conservation district as assets with an initial, individual cost of \$2,500 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	50 years
Machinery and Vehicles	5 to 10 years

F. Compensated Absences

Vested or accumulated sick leave is reported in the government-wide statement of net position. Compensation for unused sick leave will be granted to all full-time employees upon termination or retirement. The district's personnel policy requires a 25% buyout of the total accumulated sick leave. In addition, unused vacation leave is reported in the government-wide statement of net position. Compensation for unused vacation leave is granted to full-time employees at the end of employment, up to a maximum of 240 hours. All compensated absences are paid at the employees prevailing wage. Compensated absences represent the liability of the district for these employee benefits.

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. Pensions

For purposes of measuring net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the North Dakota Public Employees Retirement System (NDPERS); additions to/deductions from NDPERS' fiduciary net position have been determined on the same basis as they are reported by NDPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

I. 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 the current assets and current liabilities. 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 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 soil conservation 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 soil conservation district's policy to use fund balance in the following order:

- Committed
- Assigned
- Unassigned

Net Position – Net position represents the difference between assets and liabilities. 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 soil conservation 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.

J. Use of Estimates

The preparation of financial statements in conformity with the special purpose framework (SPF) used by the soil conservation district 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 soil conservation district maintains deposits at the depository banks designated by the governing board. All depositories are members of the Federal Reserve System.

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

Authorized collateral includes bills, notes or bonds issued by the United States government, its agencies or instrumentalities, all bonds and notes guaranteed by the United States government, Federal Land Bank bonds, bonds, notes, warrants, certificates of indebtedness, insured certificates of deposit, shares of investment companies registered under the Investment Companies Act of 1940, and all other forms of securities issued by the State of North Dakota, its boards, agencies or instrumentalities or by any 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, 2019 the soil conservation district's carrying amount of deposits was \$274,838 and the bank balance was \$277,602. Of the bank balance, \$277,602 was covered by Federal Depository Insurance.

At December 31, 2018 the soil conservation district's carrying amount of deposits was \$297,454 and the bank balance was \$302,919. Of the bank balance, \$302,919 was covered by Federal Depository Insurance.

Credit Risk

The soil conservation 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.

At December 31, 2019, the soil conservation district held certificates of deposit in the amount of \$181,503, which are all considered deposits.

At December 31, 2018, the soil conservation district held certificates of deposit in the amount of \$148,785, which are all considered deposits.

Concentration of Credit Risk

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

Note 3 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 the 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 receive the discount on the property taxes.

Note 4 CAPITAL ASSETS

The following is a summary of changes in capital assets for the soil conservation district for the years ended December 31:

December 31, 2019

	Balance January 1	Increases	Decreases	Balance December 31
Governmental Activities:				
<i>Capital assets not being depreciated:</i>				
Land	1,200.00			1,200.00
<i>Capital assets being depreciated:</i>				
Buildings and Infrastructure	17,471.95			17,471.95
Machinery and Vehicles	161,242.32			161,242.32
Total	178,714.27	-	-	178,714.27
<i>Less accumulated depreciation for:</i>				
Buildings and Infrastructure	14,838.04	349.44		15,187.48
Machinery and Vehicles	102,933.12	10,421.80		113,354.92
Total	117,771.16	10,771.24	-	128,542.40
Total Capital Assets				
Being Depreciated, Net	60,943.11	(10,771.24)	-	50,171.87
Governmental Activities				
Capital Assets, Net	62,143.11	(10,771.24)	-	51,371.87

December 31, 2018

	Balance January 1	Increases	Decreases	Balance December 31
Governmental Activities:				
<i>Capital assets not being depreciated:</i>				
Land	1,200.00			1,200.00
<i>Capital assets being depreciated:</i>				
Buildings and Infrastructure	17,471.95			17,471.95
Machinery and Vehicles	161,242.32			161,242.32
Total	178,714.27	-	-	178,714.27
<i>Less accumulated depreciation for:</i>				
Buildings and Infrastructure	14,488.59	349.45		14,838.04
Machinery and Vehicles	92,511.32	10,421.80		102,933.12
Total	106,999.91	10,771.25	-	117,771.16
Total Capital Assets				
Being Depreciated, Net	71,714.36	(10,771.25)	-	60,943.11
Governmental Activities				
Capital Assets, Net	72,914.36	(10,771.25)	-	62,143.11

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

	2019	2018
Conservation of Natural Resources	10,771.24	10,771.25

Note 5 LONG-TERM DEBT

Changes in Long-Term Liabilities. During the years ended December 31, 2019 and 2018, the following changes occurred in liabilities reported in the long-term liabilities – Governmental Activities:

	Balance January 1	Increases	Decreases	Balance December 31	Due Within One Year
Compensated Absences *	5,841.31	2,519.70		8,361.01	
	Balance January 1	Increases	Decreases	Balance December 31	Due Within One Year
Compensated Absences *	3,088.50	2,752.81		5,841.31	

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

Note 6 RISK MANAGEMENT

The Mercer 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 \$211,200 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 \$142,000 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; and purchases commercial insurance for employee health and accident insurance.

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

Note 7 PENSION PLAN

North Dakota Public Employees Retirement System (Main System)

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.

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 NDPERS plan is financed by investment income and contributions.

Responsibility for administration of the NDPERS benefits program 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 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 provision or policies with respect to automatic and ad hoc post-retirement benefit increases. Members 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 of disabled is set by the NDPERS in the North Dakota Administrative Code.

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 covered compensation. 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 Liabilities, Pension Expense; and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2019, the Mercer County Soil Conservation District reported a liability of \$125,592 for its proportionate share of the net pension liability. 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 soil conservation district's proportion of the net pension liability was based on the soil conservation 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 soil conservation district's proportion was .007442 percent, which was an increase of .003891 from its proportion measured as of June 30, 2017.

For the year ended December 31, 2019, the soil conservation district recognized pension expense of \$20,593. At December 31, 2019 the soil conservation district reported deferred outflows of resources and deferred inflows of resources related to pensions, from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	333	4,273
Changes in assumptions	45,336	1,793
Net difference between projected and actual earnings on pension plan investments	-	611
Changes in proportion and differences between employer contributions and proportionate share of contributions	36,750	34,433
District contributions subsequent to the measurement date (see below)	5,848	-
Total	<u>88,267</u>	<u>41,110</u>

\$5,848 reported as deferred outflows of resources related to pensions resulting from soil conservation district contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2020.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2019	12,799
2020	11,062
2021	6,279
2022	8,028
2023	3,141
Thereafter	0

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 3.50%

Salary increases

Service at Beginning of Year	Increase Rate
0	15.00%
1	10.00%
2	8.00%
Age *	
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 of service.

Investment rate of return

7.75%, 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 Retiree Mortality Table with ages set back one year for males (not set back for females) multiplied by 125%.

The actuarial assumptions used were based on the results of an actuarial experience study completed in 2015. They are the same as the assumptions used in the July 1, 2018 funding actuarial valuation for NDPERS.

As a result of the 2015 actuarial experience study, the NDPERS Board adopted several changes to the actuarial assumptions effective July 1, 2018. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

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 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 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%
International Equity Income	0%	0.00%
Global Real Assets	19%	5.11%
Cash Equivalents	0%	0.00%

Discount rate. For PERS, GASB 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 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 soil conservation district's proportionate share of the net pension liability to changes in the discount rate. The following presents the soil conservation district's proportionate share of the net pension liability calculated using the discount rate of 6.32%, as well as what the soil conservation district'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:

	1% Decrease (5.32%)	Current Rate (6.32%)	1% Increase (7.32%)
The district's proportionate share of the net pension liability	170,656	125,592	87,987

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 8 OTHER POSTEMPLOYMENT BENEFITS

The soil conservation district is required to implement GASB Statement No. 75, Accounting and Financial Reporting of Postemployment Benefits Other Than Pensions. The effect of this statement is not material to the soil conservation district's financial statements.

Note 9 TAX ABATEMENTS

The soil conservation district has not entered into any tax abatement agreements that would reduce the district's tax revenues for the years ended December 31, 2019 and 2018.

MERCER COUNTY SOIL CONSERVATION DISTRICT
Beulah, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis
For the Year Ended December 31, 2019

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Taxes	50,096.00	50,096.00	57,993.53	7,897.53
Intergovernmental	106,192.81	106,192.81	103,750.84	(2,441.97)
Charges for Services	60,000.00	60,000.00	76,981.85	16,981.85
Miscellaneous	34,250.00	34,250.00	46,276.72	12,026.72
Total Revenues	250,538.81	250,538.81	285,002.94	34,464.13
<u>Expenditures:</u>				
<u>Current:</u>				
Payroll and Fringe Benefits	151,200.00	159,026.34	134,960.56	24,065.78
Supervisor Expenses	7,000.00	7,000.00	4,957.04	2,042.96
Awards and Scholarships	5,000.00	5,000.00	3,361.98	1,638.02
Offices Expenses	3,510.00	3,570.17	1,943.46	1,626.71
Travel and Meetings	4,000.00	9,707.72	9,707.72	-
Insurance	3,500.00	3,500.00	2,873.59	626.41
Dues and Subscriptions	2,500.00	2,500.00	3,270.18	(770.18)
Education, Publicity and Stewards	8,000.00	8,000.00	2,511.20	5,488.80
Operating Expenses and Field Supplies	12,500.00	18,189.06	16,896.49	1,292.57
Better Management Practices (BMPs)	79,242.16	79,242.16	79,627.21	(385.05)
Spring Creek Watershed Project	23,325.11	23,325.11	23,325.11	-
Miscellaneous	5,000.00	5,000.00	35.98	4,964.02
Cost of Goods Sold	39,500.00	39,500.00	24,148.43	15,351.57
Total Expenditures	344,277.27	363,560.56	307,618.95	55,941.61
Net Change in Fund Balance	(93,738.46)	(113,021.75)	(22,616.01)	90,405.74
Fund Balance - January 1	297,453.78	297,453.78	297,453.78	
Fund Balance - December 31	203,715.32	184,432.03	274,837.77	90,405.74

MERCER COUNTY SOIL CONSERVATION DISTRICT
Beulah, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis
For the Year Ended December 31, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Taxes	48,392.00	48,392.00	55,242.43	6,850.43
Intergovernmental	106,995.24	106,995.24	114,457.75	7,462.51
Charges for Services	67,000.00	67,000.00	164,601.34	97,601.34
Miscellaneous	30,250.00	30,250.00	38,217.70	7,967.70
Total Revenues	252,637.24	252,637.24	372,519.22	119,881.98
<u>Expenditures:</u>				
<u>Current:</u>				
Payroll and Fringe Benefits	128,200.00	132,872.68	124,709.10	8,163.58
Supervisor Expenses	8,000.00	8,000.00	5,801.16	2,198.84
Awards and Scholarships	5,000.00	5,000.00	3,830.39	1,169.61
Offices Expenses	1,710.00	3,629.51	3,798.34	(168.83)
Travel and Meetings	2,000.00	4,346.88	4,459.69	(112.81)
Insurance	3,000.00	3,000.00	2,757.28	242.72
Dues and Subscriptions	2,500.00	2,500.00	2,326.00	174.00
Education, Publicity and Stewards	7,500.00	7,500.00	1,441.90	6,058.10
Operating Expenses and Field Supplies	13,000.00	17,912.15	18,478.67	(566.52)
Better Management Practices (BMPs)	82,799.24	82,799.24	83,506.74	(707.50)
Spring Creek Watershed Project	26,070.92	26,070.92	26,070.92	-
Miscellaneous	5,000.00	5,000.00	2,625.00	2,375.00
Cost of Goods Sold	62,000.00	62,003.27	55,931.01	6,072.26
Total Expenditures	346,780.16	360,634.65	335,736.20	24,898.45
Net Change in Fund Balance	(94,142.92)	(107,997.41)	36,783.02	144,780.43
Fund Balance - January 1	260,670.76	260,670.76	260,670.76	
Fund Balance - December 31	166,527.84	152,673.35	297,453.78	144,780.43

MERCER COUNTY SOIL CONSERVATION DISTRICT
Beulah, North Dakota

Notes to the Budgetary Comparison Schedules
December 31, 2019 and 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 cash 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

Budget Amendments

The governing board approved the following amendments to the soil conservation district's budgets for the years ending December 31, 2019 and 2018:

	2019		
	<u>Original Budget</u>	<u>Amendment</u>	<u>Amended Budget</u>
	<u>Appropriations</u>		
General Fund	344,277	19,283	363,561
	2018		
	<u>Original Budget</u>	<u>Amendment</u>	<u>Amended Budget</u>
	<u>Appropriations</u>		
General Fund	346,780	13,854	360,635

MERCER COUNTY SOIL CONSERVATION DISTRICT
Beulah, North Dakota

Schedule of Employer's Share of Net Pension Liability
ND Public Employees Retirement System
Last 10 Fiscal Years *

	2019	2018	2017	2016	2015
District's proportion of the net pension liability	0.007442%	0.003551%	0.009550%	0.011324%	0.008627%
District's proportionate share of the net pension liability	125,592	57,076	93,074	77,001	54,757
District's covered employee payroll	76,449	89,597	91,000	100,877	72,667
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	164.28%	63.70%	102.28%	76.33%	75.35%
Plan fiduciary net position as a percentage of the total pension liability	62.80%	61.98%	70.46%	77.15%	77.70%

Schedule of Employer Contributions
ND Public Employees Retirement System
Last 10 Fiscal Years *

	2019	2018	2017	2016	2015
Statutorily required contribution	5,443	6,379	6,479	7,182	4,817
Contributions in relation to the statutorily required contributions	(5,443)	(6,379)	(6,479)	(7,182)	(4,817)
Contribution deficiency (excess)	0	0	0	0	0
District's covered-employee payroll	76,449	89,597	91,000	100,877	72,667
Contributions as a percentage of covered-employee payroll	7.12%	7.12%	7.12%	7.12%	6.63%

* Complete data for this schedule is not available prior to 2015.

- For changes of assumptions, see Note 7 to the financial statements.

Rath & Mehrer, P.C.

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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
Mercer County Soil Conservation District
Beulah, 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 Mercer County Soil Conservation District, Beulah, North Dakota, as of and for the years ended December 31, 2019 and 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 March 19, 2021.

Internal Control Over Financial Reporting

In planning and performing our audits 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 audits 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 2019-001 and 2019-002, 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 audits, 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 audits is 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 audits 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, P.C.

Bismarck, North Dakota

March 19, 2021

MERCER COUNTY SOIL CONSERVATION DISTRICT
Beulah, North Dakota

Schedule of Findings and Responses
For the Years Ended December 31, 2019 and 2018

SECTION I – SUMMARY OF AUDIT RESULTS

Financial Statements

Type of Auditor's Report Issued:

Governmental Activities
Major Governmental Fund

Unmodified-Modified Cash Basis
Unmodified-Modified Cash Basis

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified? ☒ Yes ☐ None Reported
- Noncompliance material to financial Statements noted? ☐ Yes ☒ No

SECTION II – FINANCIAL STATEMENT FINDINGS:

Significant Deficiencies

1. 2019-001 – Segregation of Duties

Criteria: To ensure adequate internal control over financial reporting and prevent material misstatements due to errors or fraud, there should be a segregation of the functions of approval, custody of assets, posting and reconciliation.

Condition: The soil conservation district has one person responsible for most accounting functions. The 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 bank reconciliations.

Cause: The soil conservation district does not have a large enough staff to properly segregate all duties.

Effect: A lack of segregation of duties leads to a limited degree of internal control.

Recommendation: We recommend that management and the governing board be aware of the lack of segregation of duties and implement controls whenever possible to mitigate this risk.

Views of Responsible Officials: The soil conservation district is aware of the condition and segregates duties whenever possible.

2. 2019-002- Financial Statement Preparation

Criteria: A good system of internal controls requires the soil conservation 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 soil conservation district must maintain knowledge of current accounting principles and required financial statement disclosures.

Condition: The soil conservation district's financial statements, including the accompanying note disclosures, are prepared by the soil conservation district's external auditors.

Cause: The soil conservation district feels that it is more cost effective to have their external auditors prepare the complete financial statements and disclosures, rather than invest in ongoing specialized training that would be necessary.

Effect: Without the assistance of the auditors, the financial statements could be misstated or omit material financial statement disclosures.

Recommendation: We recommend that management be aware of this condition and be prepared and able to provide all necessary information and schedules to complete the financial statements and disclosures; and review and approve them prior to external distribution.

Views of Responsible officials: The soil conservation district will continue to have the external auditors prepare the financial statements, including note disclosures, but will review and approve them prior to external distribution.