

AUDIT REPORT

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

For the Year Ended December 31, 2019

RATH & MEHRER, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

SOUTH MCLEAN COUNTY SOIL CONSERVATION DISTRICT
Turtle Lake, North Dakota

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SOUTH MCLEAN COUNTY SOIL CONSERVATION DISTRICT
Turtle Lake, North Dakota

OFFICIALS

Tom Volochenko	Chairman
Jeffrey Walcker	Vice Chairman
Myron Lick	Treasurer
Wilton Kuehn	Supervisor
Drew Petersen	Supervisor
Christine McEwen	District Clerk

Rath & Mehrer, P.C.

Certified Public Accountants

Jayson Rath, CPA
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Todd Goehring, CPA

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the South McLean County Soil Conservation District, Turtle Lake, North Dakota, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the soil conservation district's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the soil conservation district's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the soil conservation district's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the South McLean County Soil Conservation District, Turtle Lake, North Dakota, as of December 31, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

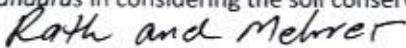
Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgeting comparison information on pages 18 through 20 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2020 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, P.C.

Bismarck, North Dakota

October 16, 2020

SOUTH MCLEAN COUNTY SOIL CONSERVATION DISTRICT

Turtle Lake, North Dakota

Statement of Net Position

December 31, 2019

	<u>Governmental Activities</u>
<u>ASSETS:</u>	
Cash	226,049.65
Accounts Receivable	20,180.40
Intergovernmental Receivables	18,425.84
Taxes Receivable	1,742.24
Due from County Treasurer	29,279.67
Capital Assets (net of accumulated depreciation):	
Buildings	23,522.00
Machinery and Vehicles	<u>96,342.00</u>
Total Capital Assets	<u>119,864.00</u>
Total Assets	<u>415,541.80</u>
<u>LIABILITIES:</u>	
Payroll Taxes Payable	3,004.72
Sales Tax Payable	<u>2,729.56</u>
Total Liabilities	<u>5,734.28</u>
<u>DEFERRED INFLOWS OF RESOURCES:</u>	
Unavailable Revenue	<u>29,186.48</u>
<u>NET POSITION:</u>	
Net Investment in Capital Assets	119,864.00
Unrestricted	<u>260,757.04</u>
Total Net Position	<u><u>380,621.04</u></u>

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

SOUTH MCLEAN COUNTY SOIL CONSERVATION DISTRICT
Turtle Lake, North Dakota

Statement of Activities
For the Year Ended December 31, 2019

				Net (Expense) Revenue and Changes in Net Position
		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Conservation of Natural Resources	373,315.35	130,277.84	115,984.30	(127,053.21)
General Revenues:				
Taxes:				
Property taxes; levied for general purposes				95,708.85
Telecommunications tax				104.85
Homestead tax credit				536.70
Disabled veterans tax credit				285.36
State aid - not restricted to specific program				3,543.45
Earnings on investments and other revenue				22,713.11
Total General Revenues				122,892.32
Change in Net Position				(4,160.89)
Net Position - January 1				384,781.93
Net Position - December 31				380,621.04

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

SOUTH MCLEAN COUNTY SOIL CONSERVATION DISTRICT
Turtle Lake, North Dakota

Balance Sheet
Governmental Fund
December 31, 2019

	<u>Major Fund</u>
	<u>General</u>
<u>ASSETS:</u>	
Cash	226,049.65
Accounts Receivable	20,180.40
Intergovernmental Receivables	18,425.84
Taxes Receivable	1,742.24
Due from County Treasurer	<u>29,279.67</u>
 Total Assets	 <u><u>295,677.80</u></u>
 <u>LIABILITIES, DEFERRED INFLOWS</u>	
<u>OF RESOURCES AND FUND BALANCE</u>	
 <u>Liabilities:</u>	
Payroll Taxes Payable	3,004.72
Sales Tax Payable	<u>2,729.56</u>
 Total Liabilities	 <u>5,734.28</u>
 <u>Deferred Inflows of Resources:</u>	
Unavailable Revenue	<u>30,928.72</u>
 Total Liabilities and Deferred Inflows of Resources	 <u>36,663.00</u>
 <u>Fund Balance:</u>	
Assigned to:	
Equipment and Operations	20,290.80
Unassigned	<u>238,724.00</u>
 Total Fund Balance	 <u>259,014.80</u>
 Total Liabilities, Deferred Inflows of Resources and Fund Balance	 <u><u>295,677.80</u></u>

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

SOUTH MCLEAN COUNTY SOIL CONSERVATION DISTRICT
Turtle Lake, North Dakota

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

Total Fund Balance for Governmental Fund	259,014.80
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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	364,335.00	
Less Accumulated Depreciation	<u>(244,471.00)</u>	
Net Capital Assets		119,864.00

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

Property Taxes Receivable		<u>1,742.24</u>
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Total Net Position of Governmental Activities		<u><u>380,621.04</u></u>
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The accompanying notes are an integral part of these financial statements.

SOUTH MCLEAN COUNTY SOIL CONSERVATION DISTRICT
Turtle Lake, North Dakota

Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Fund
For the Year Ended December 31, 2019

	<u>Major Fund</u>
	<u>General</u>
<u>Revenues:</u>	
<u>Taxes</u>	
General Property Taxes	95,261.08
<u>Intergovernmental</u>	
319 Program Grant	110,609.30
NDSU Extension Office (Dart Grant)	5,375.00
State Aid	3,543.45
Homestead Tax Credit	536.70
Disabled Veterans Tax Credit	285.36
Telecommunications Tax	104.85
Total Intergovernmental	120,454.66
<u>Charges for Services</u>	
Tree Planting	21,480.40
Weed Barrier Installation	41,889.20
NO-till Drill and Seeding	43,484.82
Custom Hire - Shredder	3,354.00
Custom Hire - Other Charges	3,812.55
Total Charges for Services	114,020.97
<u>Miscellaneous</u>	
Interest	267.31
Building Rent - NRCS	14,981.28
Sale of Trees, Plants and Materials	16,256.87
Sale of Assets	1,058.00
Other	6,406.52
Total Miscellaneous	38,969.98
Total Revenues	368,706.69

(continued)

SOUTH MCLEAN COUNTY SOIL CONSERVATION DISTRICT
Turtle Lake, North Dakota

Statement of Revenues, Expenditures and Changes
in Fund Balance - Governmental Fund
For the Year Ended December 31, 2019
(continued)

	<u>Major Fund</u>
	<u>General</u>
<u>Expenditures:</u>	
<u>Current:</u>	
Payroll and Fringe Benefits	192,622.32
Supervisor and Meeting Expenses	120.55
Advertising	2,604.51
Dues and Subscriptions	1,398.89
Sponsorship	800.00
Conservation Education	6,986.12
Fuel and Oil	4,812.22
Insurance	3,828.91
Professional Fees	3,250.00
Office Expenses	4,349.83
Supplies	332.86
Postage and Shipping	519.84
Reimbursements	489.05
Repairs and Maintenance	15,922.83
Sales Tax Expense	3,178.88
Tools and Equipment	615.82
Training/Conferences	483.80
Utilities	5,291.06
Watershed	48,016.59
Workforce Safety Insurance	872.96
Other	356.34
Cost of Goods Sold	<u>52,255.97</u>
Total Expenditures	<u>349,109.35</u>
Net Change in Fund Balance	<u>19,597.34</u>
Fund Balance - January 1	<u>239,417.46</u>
Fund Balance - December 31	<u><u>259,014.80</u></u>

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

SOUTH MCLEAN COUNTY SOIL CONSERVATION DISTRICT
Turtle Lake, North Dakota

Reconciliation of Governmental Fund Statement of Revenues, Expenditures
and Changes in Fund Balance to the Statement of Activities
For the Year Ended December 31, 2019

Net Change in Fund Balance - Total Governmental Fund	19,597.34
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The change in net position reported for governmental activities in the statement of activities is different because:

The governmental fund reports 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>(24,206.00)</u>	(24,206.00)

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

Net increase in Taxes Receivable		<u>447.77</u>
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Change in Net Position of Governmental Activities	<u><u>(4,160.89)</u></u>
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The accompanying notes to the financial statements are an integral part of these financial statements.

SOUTH MCLEAN COUNTY SOIL CONSERVATION DISTRICT
Turtle Lake, North Dakota

Notes to the Financial Statements
December 31, 2019

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the South McLean County Soil Conservation District have been prepared in conformity with accounting principles generally accepted in the United States of America (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 South McLean County Soil Conservation District as a reporting entity.

B. Basis of Presentation

Government-wide Financial Statements: The statement of net position and the statement of activities display information about the primary government, South McLean County Soil Conservation District. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the soil conservation district's governmental activities. Direct expenses are those that are specifically associated with 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 financial resources of the general government.

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

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

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

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

D. Cash

Cash includes amounts in demand deposits and money market accounts.

E. Capital Assets

Capital assets include vehicles and equipment. Assets are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the soil conservation district as assets with an initial individual cost of \$2,000 or more. Such assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is not capitalized.

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

Buildings	40 years
Machinery and Vehicles	5 to 10 Years

F. Compensated Absences

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

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

G. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position. Bond premiums, discounts and issuance costs are recognized in the current period since the amounts are not material.

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

H. Fund Equity

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

Fund Balance – Generally, fund balance represents the difference between 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.

I. Use of Estimates

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

Note 2 DEPOSITS AND INVESTMENTS

In accordance with North Dakota Statutes, the 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 \$226,050 and the bank balance was \$236,873. Of the bank balance, \$236,873 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.

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 ACCOUNTS RECEIVABLE

Accounts receivable consists of amounts owed by individuals for the sale of grass seeds, plants and materials and for services performed by the soil conservation district due at December 31, 2019. No allowance has been established for uncollectible accounts.

Note 4 INTERGOVERNMENTAL RECEIVABLES

Intergovernmental receivables consist of reimbursements due from the NDSU Extension Office for expenses related to the DART Grant and from the North Dakota Department of Health for expenses related to the Turtle Creek Watershed Project.

Note 5 TAXES RECEIVABLE

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

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

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

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

Note 6 DUE FROM COUNTY TREASURER

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

Note 7 CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended December 31, 2019:

	Balance January 1	Increases	Decreases	Balance December 31
Governmental Activities:				
Buildings	91,500			91,500
Machinery and Vehicles	275,185		2,350	272,835
Total	366,685	-	2,350	364,335
<i>Less accumulated depreciation for:</i>				
Buildings	65,990	1,988		67,978
Machinery and Vehicles	156,625	22,218	2,350	176,493
Total	222,615	24,206	2,350	244,471
Governmental Activities Capital Assets, Net	144,070	(24,206)	-	119,864

Depreciation expense was charged to functions/programs of the soil conservation district as follows:

Conservation of Natural Resources	24,206
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Note 8 PAYROLL TAXES PAYABLE

Payroll taxes payable consists of moneys withheld from employees' paychecks and payable at December 31, 2019.

Note 9 SALES TAX PAYABLE

Sales tax payable consists of taxes collected on sales during 2019 but remitted to the State of North Dakota subsequent to December 31, 2019.

Note 10 UNAVAILABLE REVENUE

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

Unavailable revenue on the government-wide financial statement consist of prepaid property taxes.

Note 11 RISK MANAGEMENT

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

In 1986, state agencies and political subdivisions of the State of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The soil conservation district pays an annual premium to NDIRF for its general liability and automobile insurance coverage. The coverage by NDIRF is limited to losses of \$1,000,000 per occurrence for general liability and automobile; and \$200,350 for public assets.

The soil conservation district also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The soil conservation district pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third-party insurance carrier for losses in excess of \$1,000,000 per occurrence during a 12 month period. The State Bonding Fund currently provides the soil conservation district with a blanket fidelity bond coverage in the amount of \$118,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

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

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

Note 12 TAX ABATEMENTS

The soil conservation district has no tax abatements for the year ended December 31, 2019.

SOUTH MCLEAN COUNTY SOIL CONSERVATION DISTRICT
Turtle Lake, North Dakota

Budgetary Comparison Schedule
For the Year Ended December 31, 2019

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
<u>Taxes</u>				
General Property Taxes	99,430.96	99,430.96	95,261.08	(4,169.88)
<u>Intergovernmental</u>				
319 Program Grant			110,609.30	110,609.30
NDSU Extension Office (Dart Grant)			5,375.00	5,375.00
State Aid			3,543.45	3,543.45
Homestead Tax Credit			536.70	536.70
Disabled Veterans Tax Credit			285.36	285.36
Telecommunications Tax			104.85	104.85
Total Intergovernmental	-	-	120,454.66	120,454.66
<u>Charges for Services</u>				
Tree Planting	34,852.13	34,852.13	21,480.40	(13,371.73)
Weed Barrier Installation	67,965.59	67,965.59	41,889.20	(26,076.39)
No-till Drill and Seeding	70,554.49	70,554.49	43,484.82	(27,069.67)
Custom Hire - Shredder	5,441.89	5,441.89	3,354.00	(2,087.89)
Custom Hire - Other Charges	6,185.90	6,185.90	3,812.55	(2,373.35)
Total Charges for Services	185,000.00	185,000.00	114,020.97	(70,979.03)
<u>Miscellaneous</u>				
Interest	100.00	100.00	267.31	167.31
Building Rent - NRCS	15,000.00	15,000.00	14,981.28	(18.72)
Sale of Trees, Plants and Materials	20,000.00	20,000.00	16,256.87	(3,743.13)
Sale of Assets	5,000.00	5,000.00	1,058.00	(3,942.00)
Other	900.00	900.00	6,406.52	5,506.52
Total Miscellaneous	41,000.00	41,000.00	38,969.98	(2,030.02)
Total Revenues	325,430.96	325,430.96	368,706.69	43,275.73

(continued)

SOUTH MCLEAN COUNTY SOIL CONSERVATION DISTRICT
Turtle Lake, North Dakota

Statement of Revenues, Expenditures and Changes
in Fund Balance - Governmental Fund
For the Year Ended December 31, 2019
(continued)

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Expenditures:</u>				
<u>Current:</u>				
Payroll and Fringe Benefits	195,000.00	195,000.00	192,622.32	2,377.68
Supervisor and Meeting Expenses	2,000.00	2,000.00	120.55	1,879.45
Advertising	2,000.00	2,000.00	2,604.51	(604.51)
Dues and Subscriptions	2,500.00	2,500.00	1,398.89	1,101.11
Sponsorship	1,500.00	1,500.00	800.00	700.00
Conservation Education	800.00	800.00	6,986.12	(6,186.12)
Fuel and Oil	5,000.00	5,000.00	4,812.22	187.78
Insurance	6,000.00	6,000.00	3,828.91	2,171.09
Professional Fees	2,000.00	2,000.00	3,250.00	(1,250.00)
Office Expenses	3,000.00	3,000.00	4,349.83	(1,349.83)
Supplies	1,500.00	1,500.00	332.86	1,167.14
Postage and Shipping	1,000.00	1,000.00	519.84	480.16
Reimbursements			489.05	(489.05)
Repairs and Maintenance	15,000.00	15,000.00	15,922.83	(922.83)
Sales Tax Expense			3,178.88	(3,178.88)
Tools and Equipment			615.82	(615.82)
Training/Conferences	4,000.00	4,000.00	483.80	3,516.20
Utilities	6,800.00	6,800.00	5,291.06	1,508.94
Watershed			48,016.59	(48,016.59)
Workforce Safety Insurance			872.96	(872.96)
Other	5,025.00	5,025.00	356.34	4,668.66
Cost of Goods Sold	100,000.00	100,000.00	52,255.97	47,744.03
Capital Outlay	31,000.00	31,000.00		31,000.00
Total Expenditures	384,125.00	384,125.00	349,109.35	35,015.65
Net Change in Fund Balance	(58,694.04)	(58,694.04)	19,597.34	78,291.38
Fund Balance - January 1	239,417.46	239,417.46	239,417.46	
Fund Balance - December 31	180,723.42	180,723.42	259,014.80	78,291.38

SOUTH MCLEAN COUNTY SOIL CONSERVATION DISTRICT
Turtle Lake, North Dakota

Notes to the Budgetary Comparison Schedule
December 31, 2019

Note 1 SUMMARY OF SIGNIFICANT BUDGET POLICIES

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

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

Note 2 LEGAL COMPLIANCE

The governing board did not amend the soil conservation district's budget during the year ended December 31, 2019.

Rath & Mehrer, P.C.

Certified Public Accountants

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

INDEPENDENT AUDITOR'S REPORT

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of the South McLean County Soil Conservation District, Turtle Lake, North Dakota, as of and for the year ended December 31, 2019, 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 October 16, 2020.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the soil conservation district's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 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 audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Soil Conservation District's Response to Findings

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

Purpose of this Report

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



Rath and Mehrer, P.C.

Bismarck, North Dakota

October 16, 2020

SOUTH MCLEAN COUNTY SOIL CONSERVATION DISTRICT
Turtle Lake, North Dakota

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

SECTION I – SUMMARY OF AUDIT RESULTS:

Financial Statements

Type of Auditor's Report Issued:

Governmental Activities

Unmodified

Major Governmental Fund

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified? _____ X Yes _____ None Reported
- Noncompliance material to financial statements noted? _____ Yes X 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 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.

Rath & Mehrer, P.C.

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

Our audit of the financial records of the South McLean County Soil Conservation District, Turtle Lake, North Dakota, for the year ended December 31, 2019 has disclosed opportunities for improvements in the operations of the soil conservation district. Items which we believe should be brought to your attention are set forth below:

* * * * *

INTERNAL CONTROL/BOARD OVERSIGHT

Due to the small size of the district and the limited personnel involved in preparing the district's financial statements and filing various reports, there is a greater risk of errors and/or misstatements occurring. We have noted this as a significant deficiency in the Schedule of Findings and Responses in prior audits and again in the current audit. The district has controls in place that compensate for the limited segregation of duties, including the governing board approving expenditures and requiring dual signatures on checks. As part of the governing board's oversight, we would recommend the soil conservation district implement the following procedures:

- 1) The district clerk should print out a list of bills paid or to be approved for payment for the governing board to review. The soil conservation district had previously included a cover sheet that was filed with the monthly invoices that listed the sequence of checks written and the total dollar amount of payments. This cover sheet was signed by members of the board noting approval. By including this list of bills that shows the vendor and payment amount, the governing board would be able to compare the payment amount to the vendor invoice. This list of bills should include any "ACH" debits showing payments made using the district's debit card and payments made for tax withholdings. The governing board should also determine that the district clerk has an invoice on file that supports each payment to be made. It was noted that the soil conservation district discontinued preparing this cover sheet in December 2019.
- 2) The board should review time-sheets submitted by district employees. A board member should initial or sign each time-sheet for full-time staff. The district employee involved in overseeing part-time employees should review time-sheets for these employees and sign or initial showing review and approval.

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

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

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

A handwritten signature in cursive script that reads "Rath and Mehrer".

Rath and Mehrer, P.C.

October 16, 2020