



Financial Statements  
December 31, 2017

# Bismarck Rural Fire District

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## Independent Auditor's Report

The Board of Directors  
Bismarck Rural Fire District  
Bismarck, North Dakota

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of Bismarck Rural Fire District as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of Bismarck Rural Fire District, as of December 31, 2017, and the respective changes in financial position and budgetary comparison for the general fund 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 schedules of employer's proportionate share of net pension liability and of employer's contributions as listed in the table of contents 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 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 the accounting principles generally accepted in the United States of America requires 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 the missing information.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2018 on our consideration of Bismarck Rural Fire District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Bismarck Rural Fire District's internal control over financial reporting and compliance.



Bismarck, North Dakota  
October 23, 2018

Bismarck Rural Fire District  
Statement of Net Position  
December 31, 2017

|  | Governmental<br>Activities |
|--|----------------------------|
| <b>Assets</b>  |                            |
| Cash and cash equivalents  | \$ 1,448,149               |
| Taxes receivable   | 14,867                     |
| Prepaid items  | 4,768                      |
| Capital assets not being depreciated                               | 15,000                     |
| Capital assets being depreciated, net                              | 1,756,816                  |
| Total assets   | 3,239,600                  |
| <b>Deferred Outflows of Resources</b>                              |                            |
| Deferred outflows of resources<br>related to pension               | 397,375                    |
| Total assets and deferred outflows of resources                    | \$ 3,636,975               |
| <b>Liabilities and Net Position</b>                                |                            |
| <b>Current Liabilities</b>   |                            |
| Accounts payable   | \$ 43,864                  |
| Accrued payroll  | 4,686                      |
| Compensated absences   | 51,026                     |
| Noncurrent liabilities   |                            |
| Net pension liability  | 768,689                    |
| Total liabilities  | 868,265                    |
| <b>Deferred Inflows of Resources</b>                               |                            |
| Deferred inflows of resources<br>related to pension                | 21,083                     |
| <b>Net Position</b>  |                            |
| Net investment in capital assets                                   | 1,771,816                  |
| Unrestricted   | 975,811                    |
| Total net position   | 2,747,627                  |
| Total net position, liabilities, and deferred inflows or resources | \$ 3,636,975               |

Bismarck Rural Fire District  
Statement of Activities  
Year Ended December 31, 2017

| Functions/Programs              | Expenses     | Program Revenues<br>Operating<br>Grants and<br>Contributions | Governmental<br>Activities |
|---------------------------------|--------------|--|----------------------------|
| Primary government              |              |  |                            |
| Governmental activities         |              |  |                            |
| Public safety                   | \$ 1,516,035 | \$ 45,748  | \$ (1,470,287)             |
| Total primary government        | \$ 1,516,035 | \$ 45,748  | (1,470,287)                |
| General revenues                |              |  |                            |
| Property taxes                  |              |  | 1,373,986                  |
| Insurance premium reimbursement |              |  | 157,315                    |
| Investment earnings             |              |  | 6,830                      |
| Donations                       |              |  | 2,531                      |
| Miscellaneous                   |              |  | 2,223                      |
| Total general revenues          |              |  | 1,542,885                  |
| Gain on sale of equipment       |              |  | 5,000                      |
| Change in Net Position          |              |  | 77,598                     |
| Net Position, Beginning of Year |              |  | 2,670,029                  |
| Net Position, End of Year       |              |  | \$ 2,747,627               |

Bismarck Rural Fire District  
Balance Sheet – Governmental Funds  
December 31, 2017

|   | General      |
|---|--------------|
| <b>Assets</b>   |              |
| Cash and cash equivalents   | \$ 1,448,149 |
| Taxes receivable  | 14,867       |
| Prepaid items   | 4,768        |
| Total assets  | \$ 1,467,784 |
| <b>Liabilities and Fund Balance</b>                               |              |
| <b>Current Liabilities</b>  |              |
| Accounts payable  | \$ 43,864    |
| Accrued payroll   | 4,686        |
| Total liabilities   | 48,550       |
| <b>Deferred Inflows of Resources</b>                              |              |
| Unavailable revenue - property taxes                              | 10,998       |
| <b>Fund Balance</b>   |              |
| Nonspendable  |              |
| Prepays   | 4,768        |
| Unassigned  | 1,403,468    |
| Total fund balance  | 1,408,236    |
| Total liabilities, deferred inflows of resources and fund balance | \$ 1,467,784 |

Bismarck Rural Fire District  
 Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position  
 December 31, 2017

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|  |    |                         |
|--|----|-------------------------|
| Total fund balances for governmental funds   | \$ | 1,408,236               |
| Amounts reported for governmental activities in the statement of net position are different because:   |    |                         |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds   |    |                         |
| Cost of capital assets   |    | 3,811,986               |
| Accumulated depreciation   |    | (2,040,170)             |
|  |    |                         |
| Assets, such as taxes receivable that are not available to pay for current period expenditures, are deferred in the governmental funds                             |    | 10,998                  |
|  |    |                         |
| Net pension liability and pension related deferred outflows and inflows of resources are not due in the current period and therefore are not reported in the funds |    | (392,397)               |
|  |    |                         |
| Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds                                     |    |                         |
| Compensated absences   |    | (51,026)                |
|  |    | <u>(51,026)</u>         |
| Net position   | \$ | <u><u>2,747,627</u></u> |



Bismarck Rural Fire District  
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds  
Year Ended December 31, 2017

|                                      | General      |
|--------------------------------------|--------------|
| Revenues                             |              |
| Taxes                                | \$ 1,370,834 |
| Interest                             | 6,830        |
| Grants                               | 45,748       |
| Insurance premium reimbursement      | 157,315      |
| Donations                            | 2,531        |
| Miscellaneous                        | 2,225        |
|                                      | 1,585,483    |
| Expenditures                         |              |
| Public safety                        |              |
| Labor                                | 1,005,340    |
| Insurance                            | 26,774       |
| Fire department                      | 78,744       |
| Repairs and maintenance              | 27,313       |
| Utilities                            | 22,736       |
| Board expense                        | 19,123       |
| Professional fees                    | 13,295       |
| Miscellaneous                        | 4,686        |
| Capital outlay                       | 247,131      |
|                                      | 1,445,142    |
| Excess of revenues over expenditures | 140,341      |
| Other financing sources              |              |
| Proceeds on sale of capital assets   | 5,000        |
| Total other financing sources        | 5,000        |
| Net change in fund balance           | 145,341      |
| Fund Balance - Beginning of Year     | 1,262,895    |
| Fund Balance, End of Year            | \$ 1,408,236 |

Bismarck Rural Fire District

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds  
to the Statement of Activities  
Year Ended December 31, 2017

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|   |           |                  |
|---|-----------|------------------|
| Net Change in Fund Balances - Governmental Funds  | \$        | 145,341          |
| <p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period these amounts are:</p>                         |           |                  |
| Capital outlay  | \$        | 247,131          |
| Depreciation expense  |           | <u>(213,810)</u> |
|   |           | 33,321           |
| <p>Changes to net pension liability and pension related deferred outflows and inflows do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds</p>  |           |                  |
|   |           | (94,834)         |
| <p>Governmental funds report property taxes as revenue in the period for which the tax is levied, subject to availability, but the statement of activities includes the property taxes as revenue in the period for which the taxes are levied, regardless of when collections occur.</p> |           |                  |
|   |           | 3,152            |
| <p>In the statement of activities, compensated absences are measured by the amounts earned during the year. In the governmental funds expenditures for the items is measured by the amount of financial resources used.</p>   |           |                  |
| Increase in compensated absences  |           | <u>(9,382)</u>   |
| Change in Net Position of Governmental Activities   | <u>\$</u> | <u>77,598</u>    |

Bismarck Rural Fire District

Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund  
Year Ended December 31, 2017

|   | Original and Final<br>Budget | Actual              | Variance-<br>Favorable<br>(Unfavorable) |
|---|------------------------------|---------------------|---|
| <b>Revenues</b>                                 |                              |                     |   |
| Taxes   | \$ 1,275,000                 | \$ 1,370,834        | \$ 95,834                               |
| Interest  | -                            | 6,830               | 6,830                                   |
| Grants  | 5,000                        | 45,748              | 40,748                                  |
| Insurance premium reimbursement                 | 150,000                      | 157,315             | 7,315                                   |
| Donations                                       | 1,000                        | 2,531               | 1,531                                   |
| Rental income                                   | 10,000                       | -                   | (10,000)                                |
| Miscellaneous                                   | 1,250                        | 2,225               | 975                                     |
|   | <u>1,442,250</u>             | <u>1,585,483</u>    | <u>143,233</u>                          |
| <b>Expenditures</b>                             |                              |                     |   |
| Public safety                                   |                              |                     |   |
| Labor   | 949,000                      | 1,005,340           | (56,340)                                |
| Insurance                                       | 31,700                       | 26,774              | 4,926                                   |
| Fire department                                 | 136,500                      | 78,744              | 57,756                                  |
| Repairs and maintenance                         | 30,000                       | 27,313              | 2,687                                   |
| Utilities                                       | 17,200                       | 22,736              | (5,536)                                 |
| Board expense                                   | 11,200                       | 19,123              | (7,923)                                 |
| Professional fees                               | 17,500                       | 13,295              | 4,205                                   |
| Miscellaneous                                   | 19,700                       | 4,686               | 15,014                                  |
| Capital outlay                                  | 229,000                      | 247,131             | (18,131)                                |
|   | <u>1,441,800</u>             | <u>1,445,142</u>    | <u>(3,342)</u>                          |
| Excess of revenues over (under)<br>expenditures | <u>450</u>                   | <u>140,341</u>      | <u>139,891</u>                          |
| <b>Other financing sources</b>                  |                              |                     |   |
| Proceeds from sale of capital assets            | -                            | 5,000               | 5,000                                   |
| Total other financing sources                   | <u>-</u>                     | <u>5,000</u>        | <u>5,000</u>                            |
| Net change in fund balance                      | <u>450</u>                   | <u>145,341</u>      | <u>144,891</u>                          |
| Fund Balance - Beginning of Year                | <u>1,262,895</u>             | <u>1,262,895</u>    | <u>-</u>                                |
| Fund Balance, End of Year                       | <u>\$ 1,263,345</u>          | <u>\$ 1,408,236</u> | <u>\$ 144,891</u>                       |

**Note 1 - Summary of Significant Accounting Policies**

The financial statements of the Bismarck Rural Fire District have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

**Reporting Entity**

The Bismarck Rural Fire District is governed by an elected 13-member board. In accordance with Governmental Accounting Standards Board, a reporting entity's financial statements should include all component-units. Based upon the criteria set forth, there are no component units to be included with the District as a reporting entity.

**Basis of Presentation and Basis of Accounting**

**Basis of Presentation**

Government-wide Statements: The statement of net position and the statement of activities display information about the 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 non-exchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include 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 Statement: The fund financial statements provide information about the District's funds. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

Following is a list of the major funds:

| <u>Governmental Funds</u> | <u>Description</u>   |
|---------------------------|--|
| General Fund              | The General Fund is the general operating fund. It is used to account for all financial resources of the general government except those required to be accounted for in another fund. |

### **Basis of Accounting**

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported on the financial statements.

The government-wide financial statements are reported using the economic resources measurement focus and 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. Non-exchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

In the fund financial statements, the governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers significant revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Expenditures are recorded when the related fund liability is incurred, except for the principal and interest on general long-term debt, claims, and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources. Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

All revenues are considered to be susceptible to accrual and so have been recorded as revenues of the current period. All other revenue items are considered to be measurable and available only when cash is received by the District.

### **Budgets**

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general fund. All annual appropriations lapse at year-end.

### **Cash and Cash Equivalents**

Cash and cash equivalents consists of highly liquid investments with an original maturity of three months or less.

### **Prepaid Items**

Payments made to vendors for services that will benefit periods beyond December 31, 2017, are recorded as prepaid items and are offset equally by a fund balance reserve account which indicates that they do not constitute expendable available financial resources, and therefore, are not available for appropriation.

### **Deferred Outflows and Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenses/expenditure) until then. The District only has one item that qualifies for reporting in this category. This is the contributions made to pension plans after the measurement date and prior to the fiscal year-end.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District reports changes in the net pension liability not included in pension expense reported in the government-wide statement of net position.

### **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. Accordingly, actual results could differ from those estimates.

### **Fund Balances**

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact.
- Unassigned: This classification includes the residual fund balance for the General Fund. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

### **Net Position Balances**

The government-wide financial statements report information on all activities of the District. The statement of net assets presents the following net asset classifications:

- Net investment in capital assets: This classification consists of capital assets, net of accumulated depreciation.
- Unrestricted net position: This classification consists of net position that does not meet the definition of the preceding category.

### Capital Assets

Capital assets include land and plant and equipment. Assets are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the District as assets and are capitalized if total cost exceeds \$500. Capital assets are recorded at cost or estimated historical cost if purchased or constructed. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extended assets lives are not capitalized.

Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives:

|                         |             |
|-------------------------|-------------|
| Land improvements       | 15-40 years |
| Buildings               | 39 years    |
| Machinery and equipment | 5-20 years  |

The District reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the year ended December 31, 2017.

### Pensions

For purposes of measuring the net pension liability, deferred outflows of resources related to pensions, deferred inflows of resources related to pension, pension expense, information about the fiduciary net position of the North Dakota Public Employee Retirement System of Base Plan (Base Plan) and additions to/deductions from Base Plan's fiduciary net position have been determined on the same basis as they are reported by the Base Plan. 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.

### Compensated Absences

Full time employees are granted vacation benefits from 48 to 144 hours per year depending on tenure with the District. Employees can accrue up to a maximum of 240 hours of vacation at year end. Upon termination of the employment, employees will be paid for vacation benefits that have accrued at the employee's rate of pay on their last day of employment. Sick leave benefits accrued at a rate of 8 hours per month. Unused sick leave benefits are allowed to accumulate indefinitely. Upon termination of employment or retirement, 10% of unused sick leave will be paid. Vested or accumulated leave is reported in the long-term debt account group and in the enterprise funds.

## **Note 2 - Deposits and Investments**

The state statutes authorize political subdivisions to invest in bonds, treasury bills and notes, or other securities that are a direct obligation of, or an obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities or organizations created by an act of Congress. The District is also authorized to invest in 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, certificates of deposit fully insured by the federal deposit insurance corporation or the state, and the obligations of the state. The District currently has not invested in any certificates of deposit or investments.

**Credit Risk** – The District does not have a formal policy that limits the amount the District may invest in any one issuer. In addition, the District does not have any investments for the year ended December 31, 2017.

**Interest Rate Risk** – The District does not have a formal investment policy that limits investments as a means of managing its exposure to fair value losses arising from changing interest rates.

### **Custodial and Concentration of Credit Risk**

In the case of deposits and investments, there is the risk that in the event of the failure of a depository financial institution, the District will not be able to recover deposits or will not be able to recover collateral securities that are in the possession on an outside party. All of the District's deposits are held by Dakota Community Bank. At December 31, 2017, the bank balance of the District's deposits was \$1,473,489. Of the bank balance, \$250,000 was covered by federal depository insurance and the remaining bank balance was covered by collateral held by the pledging bank in the District's name.

## **Note 3 - Legal Compliance - Budgets**

The District secretary-treasurer, Fire Chief, and Financial Committee prepare an annual budget for the general fund. The budget is prepared by function and activity, and includes information on the past year, current year estimates, and requested appropriations for the next year. The legal level of budgetary control is at the fund level. The District's governing board holds a public hearing where any District taxpayer may testify in favor of or against any proposed disbursements or tax levies. After the budget hearing, the board adopts the final budget. The final budget is sent to the county auditor.

The budget may be amended during the year for any receipts 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 4 - Taxes Receivable**

The taxes receivable consist of uncollected and collected but not remitted property taxes as of December 31. No allowance has been established for estimated uncollectible taxes since amounts are considered unavailable and therefore have not met revenue recognition requirements and an offsetting deferred revenue account has been established for uncollected taxes.

Property taxes attach as an enforceable lien on property on January 1 of the following year. A five percent reduction is allowed if paid by February 15. Penalty and interest are added March 1 unless the first half of the taxes has been paid. Additional penalties are added October 15 if not paid. Taxes are collected by the county and remitted monthly to the entity.

**Note 5 - Capital Assets**

A summary of changes in capital assets for the year ended December 31, 2017 is as follows:

**Governmental activities**

|  | Balance<br>12/31/16 | Additions        | Deletions     | Balance<br>12/31/17 |
|--|---------------------|------------------|---------------|---------------------|
| Capital assets, not being depreciated          |                     |                  |               |                     |
| Land   | \$ 15,000           | \$ -             | \$ -          | \$ 15,000           |
| Total capital assets not being depreciated     | <u>15,000</u>       | <u>-</u>         | <u>-</u>      | <u>15,000</u>       |
| Capital assets, being depreciated              |                     |                  |               |                     |
| Land improvements                              | 194,361             | -                | -             | 194,361             |
| Buildings                                      | 835,854             | -                | -             | 835,854             |
| Machinery and equipment                        | 2,484,640           | 247,131          | 35,000        | 2,766,771           |
| Total capital assets being depreciated         | <u>3,514,855</u>    | <u>247,131</u>   | <u>35,000</u> | <u>3,796,986</u>    |
| Less accumulated depreciation for              |                     |                  |               |                     |
| Land improvements                              | 18,342              | 12,633           | -             | 30,975              |
| Buildings                                      | 297,567             | 18,883           | -             | 316,450             |
| Machinery and equipment                        | 1,475,451           | 182,294          | 35,000        | 1,692,745           |
| Total accumulated depreciation                 | <u>1,791,360</u>    | <u>213,810</u>   | <u>35,000</u> | <u>2,040,170</u>    |
| Total capital assets being depreciated, net    | <u>1,723,495</u>    | <u>33,321</u>    | <u>-</u>      | <u>1,756,816</u>    |
| Governmental type activity capital assets, net | <u>\$ 1,738,495</u> | <u>\$ 33,321</u> | <u>\$ -</u>   | <u>\$ 1,771,816</u> |

Depreciation expense was charged to functions as follows:

|                         |            |
|-------------------------|------------|
| Governmental activities |            |
| Public safety           | \$ 213,810 |

**Note 6 - Non-Current Liabilities**

|   | Compensated<br>Absences | Total     |
|---|-------------------------|-----------|
| Noncurrent liabilities payable, December 31, 2016 | \$ 41,644               | \$ 41,644 |
| Increase in compensated absences                  | 37,632                  | 37,632    |
| Decrease in compensated absences                  | (28,250)                | (28,250)  |
| Noncurrent liabilities payable, December 31, 2017 | 51,026                  | 51,026    |
| Noncurrent liabilities, due within one year       | 51,026                  | 51,026    |
| Noncurrent liabilities, due in more than one year | \$ -                    | \$ -      |

**Note 7 - Risk Management**

The Bismarck Rural Fire Department participates in the North Dakota Fire and Tornado Fund. The District pays an annual premium for the Fire and Tornado Fund to cover property damage to buildings and business personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of one million dollars per occurrence during a twelve-month period.

The Bismarck Rural Fire Department participates in the North Dakota Insurance Reserve Fund. The District pays an annual premium for the North Dakota Insurance Reserve Fund to cover \$2,000,000 for losses arising out of an alleged error or omission on the part of the firemen or the Board of Directors. This policy also includes a \$2,000,000 personal injury and property damage liability and coverage of \$574,247 for inland marine insurance.

The Bismarck Rural Fire Department participates in the North Dakota Worker's Compensation Bureau, an Enterprise Fund of the State of North Dakota. The Bureau is a state insurance fund and a "no fault" insurance system covering the State's employers and employees financed by premiums assessed to employers. The premiums are available for the payment of claims to employees injured in the course of employment.

There have been no significant reductions in insurance coverage from the prior year and settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

## **Note 8 - Pension Plan**

Bismarck Rural Fire District participates in the North Dakota Public Employees Retirement System (PERS) administered by the State of North Dakota. PERS is an agency of the State of North Dakota financial reporting entity and is included in the State of North Dakota's Comprehensive Annual Financial Report. The following is a brief description of the plans, for general information only. Participants should refer to NDCC Chapter 54-52 for more complete information.

### **Defined Benefit Pension Plan**

PERS is a cost-sharing multiple-employer defined benefit pension plan covering most classified employees of Bismarck Rural Fire District. The plan provides pension, disability and death benefits. The cost to administer the plan is financed through the contributions and investment earnings of the plan. Responsibility for administration of the PERS defined benefit pension plan is assigned to a Board comprised of seven members. The Board consists of a Chairman, who is appointed by the Governor, one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system; and one member elected by the retired public employees.

Benefit and contribution provisions are administered in accordance with chapter 54-52 of the NDCC. The System has no provisions 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). The annual 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 member's accumulated contributions plus interest.

### **Death and Disability Benefits**

Benefit and contribution provisions are administered in accordance with chapter 54-52 of the NDCC. If an active member dies with less than three years of service, 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, the surviving spouse will be entitled to a single payment refund, life-time monthly payment 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 beneficiary.

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

**Refunds of Member Contributions**

Upon termination, if a member is not vested (is not 65 or does not have three years of service credited for the NDPERS) they will receive the accumulated member contributions plus interest, or may elect to receive this amount at a later date. If a 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 contributions 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.

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At December 31, 2017, Bismarck Rural Fire District reported a liability of \$768,689 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. Bismarck Rural Fire District's proportion of the net pension liability was based on Bismarck Rural Fire District's share of covered payroll in the pension plan relative to the covered payroll of all participating NDPERS Main System employers. At June 30, 2017, Bismarck Rural Fire District's proportion was 0.047824 percent, which is an increase of 0.001528 percent from June 30, 2016.

For the year ended December 31, 2017, Bismarck Rural Fire District recognized pension expense of \$94,834. At December 31, 2017, Bismarck Rural Fire District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|   | Deferred<br>Outflows of<br>Resources | Deferred<br>Inflows of<br>Resources |
|---|--------------------------------------|-------------------------------------|
| Difference between expected and actual experiences  | \$ 4,568                             | \$ 3,745                            |
| Change in assumptions   | 315,214                              | 17,337                              |
| Net differences between projected and actual earnings on pension plan investments                             | 10,338                               | -                                   |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 47,234                               | 1                                   |
| Employer contributions subsequent to the measurement date   | 20,021                               | -                                   |
|   | \$ 397,375                           | \$ 21,083                           |
| Total   |                                      |                                     |

\$20,021 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018.

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 December 31: |                   |
| 2018                    | \$ 79,258         |
| 2019                    | 93,444            |
| 2020                    | 82,671            |
| 2021                    | 68,032            |
| 2022                    | 32,867            |
|                         | <hr/>             |
|                         | <u>\$ 356,272</u> |

### Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of July 1, 2017, using the following actuarial assumptions, applied to all periods included in the measurement (unless noted otherwise):

|                                  |        |
|----------------------------------|--------|
| Inflation                        | 2.50%  |
| Salary Increase (Payroll Growth) |        |
| Service at beginning of year:    |        |
| 0                                | 15.00% |
| 1                                | 10.00% |
| 2                                | 8.00%  |
| Age*                             |        |
| Under 35                         | 8.00%  |
| 36-40                            | 7.50%  |
| 41-49                            | 6.00%  |
| 50+                              | 5.00%  |
| Investment Rate of Return        | 7.75%  |
| Discount Rate                    | 6.44%  |

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

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

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

| Asset Class                                   | Target Allocation | Long-Term Expected Real Rate of Return |
|---|-------------------|--|
| Domestic equity                               | 31%               | 6.05%                                  |
| International equity                          | 21%               | 6.70%                                  |
| Private Equity                                | 5%                | 10.02%                                 |
| Domestic Fixed Income                         | 17%               | 1.43%                                  |
| Int'l Fixed Income-Developed Investment Grade | 5%                | -0.45%                                 |
| Global Real Assets                            | 20%               | 5.16%                                  |
| Cash Equivalents                              | 1%                | 0.00%                                  |

### Discount Rate

Projected benefit payments are required to be discounted to their actuarial present values using a Single Discount Rate that reflects (1) a long-term expected rate of return on pension plan investments (to the extent that the plan's 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 mixed maturity general obligation bonds with an average Standard & Poor's Corp.'s AA credit rating (which is published by Fidelity) 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 percent; the municipal bond rate is 3.56 percent (based on the most recent date available on or before the measurement date of the "20-year Municipal GO Index" from Fidelity); and the resulting Single Discount Rate is 6.44 percent for June 30, 2017.

### Sensitivity of the Employer's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Employer's proportionate share of the net pension liability calculated using the discount rate of 6.44 percent, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.44 percent) or 1-percentage-point higher (7.44 percent) than the current rate:

|                                  | 1% Decrease<br>(5.44%) | Current Discount<br>Rate (6.44%) | 1% Increase<br>(7.44%) |
|----------------------------------|------------------------|----------------------------------|------------------------|
| Employers' net pension liability | \$ 1,043,518           | \$ 768,689                       | \$ 540,042             |

### Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued NDPERS financial report. This report may be obtained by writing to: North Dakota Public Employees Retirement System; 400 East Broadway, Suite 505; PO Box 1657, Bismarck, ND 58502-1657.



Required Supplementary Information  
December 31, 2016

# Bismarck Rural Fire District

Bismarck Rural Fire District  
 Schedule of the Employer's Proportionate Share of Net Pension Liability  
 North Dakota Public Employee Retirement System Pension Plan  
 Year Ended December 31, 2017

Last 10 Fiscal Years\*

| Pension Plan | Fiscal Year<br>Ending | Employer's<br>Proportion<br>(Percentage) of<br>the Net Pension<br>Liability | Employer's<br>Proportionate<br>Share (Amount)<br>of the Net<br>Pension<br>Liability (a) | Employer's<br>Covered<br>Payroll (b) | Employer's<br>Proportionate<br>Share of the<br>Net Pension<br>Liability as a<br>Percentage of<br>its Covered<br>Payroll (a/b) | Plan Fiduciary<br>Net Position as<br>a Percentage<br>of the Total<br>Pension<br>Liability |
|--------------|-----------------------|---|---|--------------------------------------|---|---|
| NDPERS       | 6/30/2015             | 0.039827%   | \$ 270,817  | \$ 354,808                           | 76.33%  | 77.70%  |
| NDPERS       | 6/30/2016             | 0.046296%   | \$ 451,200  | \$ 466,557                           | 96.71%  | 71.10%  |
| NDPERS       | 6/30/2017             | 0.047824%   | \$ 768,689  | \$ 488,211                           | 157.45%   | 62.65%  |

\* GASB Statement N. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the District will present the information for those years for which information is available.



Bismarck Rural Fire District  
 Schedule of the Employer's Contributions  
 North Dakota Public Employee Retirement System Pension Plan  
 Year Ended December 31, 2017

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Last 10 Fiscal Years\*

| <u>Pension Plan</u> | <u>Fiscal Year<br/>Ending</u> | <u>Statutorily<br/>Required<br/>Contribution (a)</u> | <u>Contributions in<br/>Relation to the<br/>Statutorily<br/>Required<br/>Contribution (b)</u> | <u>Contribution<br/>Deficiency<br/>(Excess) (a-b)</u> | <u>Employer's<br/>Covered<br/>Payroll (d)</u> | <u>Contributions<br/>as a Percentage<br/>of Covered<br/>Payroll (a/d)</u> |
|---------------------|-------------------------------|--|---|---|---|---|
| NDPERS              | 12/31/2015                    | \$ 26,951  | \$ 26,951   | \$ -  | \$ 354,808                                    | 7.60%   |
| NDPERS              | 12/31/2016                    | \$ 33,778  | \$ 33,778   | \$ -  | \$ 466,557                                    | 7.24%   |
| NDPERS              | 12/31/2017                    | <u>\$ 35,401</u>                                     | <u>\$ 35,401</u>  | <u>\$ -</u>   | <u>\$ 488,211</u>                             | <u>7.25%</u>  |

\* GASB Statement N. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the District will present the information for those years for which information is available.

**Note 1- Employer Pension Liability and Contributions**

There were no changes made in the plan provisions since the prior valuation.

The following changes were made to the actuarial assumptions beginning with the July 1, 2017 actuarial valuation:

- The investment rate of return was lowered from 8.00 to 7.75 percent
- The price inflation assumption was lowered from 3.5 to 2.5 percent
- The payroll growth assumption used in calculating the amortization of the unfunded liability contribution rate was lowered from 4.5 to 3.75 percent
- The asset valuation method was updated to smooth total investment gains or losses compared to the investment return assumption over a five-year period. Net deferred asset gains attributable to fiscal years 2016 and prior were fully recognized as of July 1, 2017

Other actuarial assumptions used in the July 1, 2017 valuation were based on the results of an experience study for the period July 1, 2009 to June 30, 2014.



**Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

To the Board of Directors  
Bismarck Rural Fire District  
Bismarck, North Dakota

We have audited, 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, the financial statements of the governmental activities and the major fund of Bismarck Rural Fire District as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise Bismarck Rural Fire District’s basic financial statements, and have issued our report thereon dated October 23, 2018.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Bismarck Rural Fire 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 Bismarck Rural Fire District’s internal control. Accordingly, we do not express an opinion on the effectiveness of Bismarck Rural Fire District’s internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies 2017-A, 2017-B, and 2017-C described in the accompanying Schedule of Findings and Responses to material weaknesses.

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.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Bismarck Rural Fire District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Bismarck Rural Fire District's Responses to Findings**

Bismarck Rural Fire District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. Bismarck Rural Fire District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **Purpose of this Report**

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

A handwritten signature in cursive script that reads "Eide Sully LLP".

Bismarck, North Dakota  
October 23, 2018

## **Current Audit Findings and Recommendations**

### **2017-A – Preparation of Financial Statements**

Condition – The District does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements.

Criteria – A good system of internal accounting control contemplates an adequate system for recording and processing entries material to the financial statements.

Cause – Due to cost and other considerations, the District has requested we draft the financial statements and related footnotes.

Effect – This control deficiency could result in a misstatement to the financial statements that would not be prevented or detected.

Recommendation – This circumstance is not unusual in a district of your size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response – Due to cost constraints, the District will continue to have the auditors draft the financial statements and accompanying notes to the financial statements.

### **2017-B – Segregation of Duties**

Condition – The District has a lack of segregation of duties in the cash receipt process due to limited staff.

Criteria – A good system of internal accounting control contemplates an adequate segregation of duties so that no one individual handles a cash receipt transaction from its inception to its completion.

Cause – Due to cost constraints and the limited size of staff, the District does not facilitate the segregation of duties in the cash receipt process or review and approval of journal entries necessary to achieve a low level of control risk.

Effect – Inadequate segregation of duties could adversely affect the District's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned function.

Recommendation – While we recognize that your office staff may not be large enough to permit complete segregation of duties in respects to the cash receipt process for an effective system of internal control, all accounting activity should continue to be reviewed by the Board of Directors.

Response – Due to the size of our organization total segregation of duties is not possible but measures have been put into place such as the fire chief approving all invoices, the secretary then writes the checks and verifies invoices and then they are sent for the president or vice president to review and sign, they are returned to the secretary for second signature and finally the finance committee reviews all invoices as well as payroll, comparing them to the check stubs and reports. The finance committee also reviews bank statements and savings accounts before the approval of the treasurer's report at the monthly board meetings.

**2017-C – Recording of Transactions**

Condition – We identified misstatements in the District’s financial statements causing us to propose significant audit adjustments.

Criteria – A good system of internal accounting control contemplates proper reconcilements of all general ledger accounts and adjustments of those accounts to the reconciled balances.

Cause – Due to cost and other considerations, the District has not trained personnel to make all of the necessary financial statement adjustments.

Effect – Inadequate internal controls over recording of transactions affects the District’s ability to detect misstatements in amounts that would be material in relation to the financial statements.

Recommendation – We recommend that all general ledger accounts are reconciled in a timely manner and adjustments made for any differences noted.

Response – Due to size of our organization we do not have the personnel available with training to make these entries due to the cost and time that would be involved.