

# **AUDIT REPORT**

**MERCER COUNTY SOIL CONSERVATION DISTRICT**  
**Beulah, North Dakota**

**For the Years Ended December 31, 2017 and 2016**

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

MERCER COUNTY SOIL CONSERVATION DISTRICT  
Beulah, North Dakota

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For the Years Ended December 31, 2017 and 2016

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MERCER COUNTY SOIL CONSERVATION DISTRICT  
Beulah, North Dakota

OFFICIALS

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

# Rath & Mehler, P.C.

Certified Public Accountants

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## INDEPENDENT AUDITOR'S REPORT

Governing Board  
Mercer County Soil Conservation District  
Beulah, North Dakota

### Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities and the major fund of the Mercer County Soil Conservation District, Beulah, North Dakota, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the soil conservation district's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities and the major fund of the Mercer County Soil Conservation District, Beulah, North Dakota, as of December 31, 2017 and 2016, and the respective changes in modified cash basis financial position thereof for the years then ended in accordance with the modified cash basis of accounting described in Note 1.

## **Basis of Accounting**

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

## **Other Matters**

### Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the soil conservation district's basic financial statements. The management's discussion and analysis, the budgeting comparison information and the schedule of employer's share of net pension liability are presented for additional analysis and are not a required part of the basic financial statements.

The management's discussion and analysis, the budgeting comparison information and the schedule of employer's share of net pension liability are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the management's discussion, analysis and the budgeting comparison information and the schedule of employer's share of net pension liability are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 25, 2018 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

May 25, 2018

MERCER COUNTY SOIL CONSERVATION DISTRICT

Management's Discussion and Analysis

December 31, 2017 and 2016

The Management's Discussion and Analysis (MD&A) of the Mercer County Soil Conservation District's financial performance provides an overall review of the district's financial activities for the fiscal years ended December 31, 2017 and 2016. The intent of the MD&A is to look at the district's financial performance as a whole. It should, therefore, be read in conjunction with the basic financial statements and related notes.

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

**FINANCIAL HIGHLIGHTS**

Key financial highlights for the year ended December 31, 2017 are as follows:

- \* Net position of the soil conservation district decreased \$3,748 as a result of the current year's operations.
- \* Governmental net position as of the end of the fiscal year totaled \$262,430.
- \* Total revenues from all sources were \$272,272.
- \* Total expenses were \$276,020.
- \* The soil conservation district's general fund had \$272,272 in total revenues and \$303,449 in total expenditures. Overall, the general fund balance decreased by \$31,177 for the year ended December 31, 2017.

Key financial highlights for the year ended December 31, 2016 are as follows:

- \* Net position of the soil conservation district decreased \$16,068 as a result of the current year's operations.
- \* Governmental net position as of the end of the fiscal year totaled \$266,178.
- \* Total revenues from all sources were \$277,007.
- \* Total expenses were \$293,075.
- \* The soil conservation district's general fund had \$277,007 in total revenues and \$280,130 in total expenditures. Overall, the general fund balance decreased by \$3,123 for the year ended December 31, 2016.

## USING THIS ANNUAL REPORT

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

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

## REPORTING ON THE SOIL CONSERVATION DISTRICT AS A WHOLE

### Statement of Net Position and Statement of Activities

These statements are summaries of all the funds used by the soil conservation district to provide programs and activities and attempt to answer the question "How did the soil conservation district do financially during the years ended December 31, 2017 and 2016?"

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

The Statement of Activities presents information on how the soil conservation district's net position changed during the fiscal year. This statement is presented using the modified cash basis of accounting. This basis recognizes revenues and expenses when they result from cash transactions with provisions for depreciation of capital assets, and issuance of and payments made on long-term debt issues.

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

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

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

### Balance Sheet - Governmental Funds

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

### FINANCIAL ANALYSIS OF THE SOIL CONSERVATION DISTRICT AS A WHOLE

Table I provides a summary of the soil conservation district's net position as of December 31, 2017 and 2016. A comparative analysis of district-wide data is presented for both current years and prior year.

As indicated in the financial highlights above, the soil conservation district's net position decreased by \$3,748 and \$16,068 for the years ended December 31, 2017 and 2016, respectively. Changes in net position may serve over time as a useful indicator of the soil conservation district's financial position.

As of December 31, 2017 the district's net position of \$262,430 is segregated into two separate categories. Net investment in capital assets totals \$72,914 of the district's total net position. It should be noted that these assets are not available for future spending. The remaining unrestricted component of net position is \$189,515, which includes (\$68,067) relating to the reporting of it's share of the unfunded liability for the North Dakota Public Employees Retirement System as required by GASB Statement No. 68. The net amount of \$257,582 is available to meet the district's ongoing obligations.

As of December 31, 2016 the district's net position of \$266,178 is segregated into two separate categories. Net investment in capital assets totals \$41,552 of the district's total net position. It should be noted that these assets are not available for future spending. The remaining unrestricted component of net position is \$224,626, which includes (\$59,787) relating to the reporting of it's share of the unfunded liability for the North Dakota Public Employees Retirement System as required by GASB Statement No. 68. The net amount of \$284,413 is available to meet the district's ongoing obligations.



Table I  
Net Position  
As of December 31, 2017 and 2016  
(With comparative totals for December 31, 2015)

	2017	2016	2015
<b>Assets</b>			
Current Assets	260,671	291,847	294,970
Capital Assets (net of accumulated depreciation)	72,914	41,552	51,362
Total Assets	333,585	333,399	346,332
Deferred Outflows of Resources	41,710	34,998	8,489
<b>Liabilities</b>			
Long-Term Liabilities	3,089	7,434	7,129
Net Pension Liability	93,074	77,001	54,757
Total Liabilities	96,163	84,435	61,886
Deferred Inflows of Resources	16,703	17,784	10,689
<b>Net Position</b>			
Net Investment in Capital Assets	72,914	41,552	51,362
Unrestricted	189,515	224,626	230,884
Total Net Position	262,430	266,178	282,246

Table II shows the changes in net position for the fiscal years ended December 31, 2017 and 2016. A comparative analysis of district-wide data is presented for both current years and prior year.

Table II  
Changes in Net Position  
As of December 31, 2017 and 2016  
(With comparative totals for December 31, 2015)

	2017	2016	2015
<b>Revenues</b>			
<b>Program Revenues:</b>			
Charges for Services	99,661	115,094	86,075
Operating Grants and Contributions	118,634	112,835	108,017
<b>General Revenues:</b>			
Property Taxes	51,033	47,482	38,776
Interest Earnings and Other Revenue	2,944	1,596	1,641
Gain on Sale of Capital Assets			3,200
Total Revenues	272,272	277,007	237,709
<b>Expenses</b>			
Conservation of Natural Resources	276,020	293,075	259,724
Net Change in Position	(3,748)	(16,068)	(22,015)

Property taxes constituted 19%, operating grants and contributions 44% and charges for services made up 37% of the total revenues of governmental activities of the soil conservation district for the fiscal year ended December 31, 2017.

Conservation of natural resources constituted 100% of total expenses for governmental activities during the fiscal year ended December 31, 2017.

Property taxes constituted 17%, operating grants and contributions 41% and charges for services made up 42% of the total revenues of governmental activities of the soil conservation district for the fiscal year ended December 31, 2016.

Conservation of natural resources constituted 100% of total expenses for governmental activities during the fiscal year ended December 31, 2016.

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

Table III

Total and Net Cost of Services  
As of December 31, 2017

	Total Cost Year Ended December 31, 2017	Net Cost Year Ended December 31, 2017
Conservation of Natural Resources	276,020	118,634
	=====	=====

Total and Net Cost of Services  
As of December 31, 2016

	Total Cost Year Ended December 31, 2016	Net Cost Year Ended December 31, 2016
Conservation of Natural Resources	293,075	112,835
	=====	=====

FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS

The purpose of the soil conservation district's governmental funds is to provide information on the near-term inflows, outflows and balances of available resources. Unassigned fund balance generally can be used as a measure of the soil conservation district's net resources available for spending as of the end of the fiscal year. These funds are accounted for using the modified cash basis of accounting. The soil conservation district's general fund had total revenue of \$272,272 and expenditures of \$303,449 for the year ended December 31, 2017. For the year ended December 31, 2016, the general fund had total revenue of \$277,007 and expenditures of \$280,130. As of December 31, 2017 and 2016, the unassigned fund balance of the soil conservation district's general fund was \$260,671 and 291,847, respectively.

## GENERAL FUND BUDGET HIGHLIGHTS

During the course of fiscal year 2017, the soil conservation district amended the general fund budget. The gross effect of the amendments was to increase appropriations by \$31,110.

During the course of fiscal year 2016, the soil conservation district amended the general fund budget. The gross effect of the amendments was to increase appropriations by \$12,538.

Actual revenue for the year ended December 31, 2017 was \$12,299 less than budgeted. Actual expenditures for the year ended December 31, 2017 were under budget by \$153,150. This budget variance was due to the district overestimating appropriations for cost of goods sold, better management practices and payroll.

Actual revenue for the year ended December 31, 2016 was \$41,607 more than budgeted. The budget variance was due to the district underestimating estimated revenues for tree planting. Actual expenditures for the year ended December 31, 2016 were under budget by \$96,701. This budget variance was due to the district overestimating appropriations for better management practices and payroll.

## CAPITAL ASSETS

As of December 31, 2017 and 2016, the soil conservation district had \$72,914 and \$41,552, respectively, invested in capital assets. Table IV shows the balances as of December 31, 2017, 2016 and 2015.

Table IV  
Capital Assets  
(Net of Accumulated Depreciation)  
As of December 31, 2017 and 2016  
(With comparative totals for December 31, 2015)

	2017	2016	2015
Land	1,200	1,200	1,200
Buildings	2,983	3,333	3,682
Machinery and Vehicles	68,731	37,019	46,479
Total (net of depreciation)	72,914	41,552	51,362

The December 31, 2017 total represents an increase of \$31,363 in capital assets from January 1, 2017. The December 31, 2016 total represents an decrease of \$9,810 in capital assets from January 1, 2016. The increase in machinery and vehicles is due to the purchase of a grass drill. For a detailed breakdown of the additions and deletions to capital assets, readers are referred to Note 4 to the audited financial statements which follow this analysis.

## DEBT ADMINISTRATION

As of December 31, 2017, the soil conservation district had \$3,089 in outstanding debt. As of December 31, 2016, the soil conservation district had \$7,434 in outstanding debt. During fiscal years 2017 and 2016, the district did not issue any new long-term debt obligations.

For a detailed breakdown of the long-term debt, readers are referred to Note 5 to the audited financial statements which follow this analysis.

## CONTACTING THE SOIL CONSERVATION DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our patrons, taxpayers and creditors with a general overview of the soil conservation district's finances and to show the soil conservation district's accountability for the money it receives to provide the best possible services to residents of Mercer County. Anyone who has questions about information contained in this report or who is interested in receiving additional information is encouraged to contact Sarah Tunge, District Manager, Mercer County Soil Conservation District, Beulah, ND 58523.

MERCER COUNTY SOIL CONSERVATION DISTRICT  
Beulah, North Dakota

Statement of Net Position - Modified Cash Basis  
December 31, 2017

	Governmental Activities
<b><u>ASSETS:</u></b>	
Cash	81,163.35
Investments	179,507.41
Capital Assets (net of accumulated depreciation):	
Land	1,200.00
Buildings	2,983.36
Machinery and Vehicles	68,731.00
Total Capital Assets	72,914.36
Total Assets	333,585.12
<b><u>DEFERRED OUTFLOWS OF RESOURCES:</u></b>	
Changes in Resources Related to Pensions	41,710.00
<b><u>LIABILITIES:</u></b>	
Long-Term Liabilities:	
Due After One Year:	
Compensated Absences Payable	3,088.50
Net Pension Liability	93,074.00
Total Liabilities	96,162.50
<b><u>DEFERRED INFLOWS OF RESOURCES:</u></b>	
Changes in Resources Related to Pensions	16,703.00
<b><u>NET POSITION:</u></b>	
Net Investment in Capital Assets	72,914.36
Unrestricted	189,515.26
Total Net Position	262,429.62

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

MERCER COUNTY SOIL CONSERVATION DISTRICT  
Beulah, North Dakota

Statement of Net Position - Modified Cash Basis  
December 31, 2016

	<u>Governmental Activities</u>
<b><u>ASSETS:</u></b>	
Cash	113,172.41
Investments	178,674.96
Capital Assets (net of accumulated depreciation):	
Land	1,200.00
Buildings	3,332.79
Machinery and Vehicles	37,018.80
Total Capital Assets	<u>41,551.59</u>
Total Assets	<u>333,398.96</u>
<b><u>DEFERRED OUTFLOWS OF RESOURCES:</u></b>	
Changes in Resources Related to Pensions	<u>34,998.00</u>
<b><u>LIABILITIES:</u></b>	
Long-Term Liabilities:	
Due After One Year:	
Compensated Absences Payable	7,434.19
Net Pension Liability	77,001.00
Total Liabilities	<u>84,435.19</u>
<b><u>DEFERRED INFLOWS OF RESOURCES:</u></b>	
Changes in Resources Related to Pensions	<u>17,784.00</u>
<b><u>NET POSITION:</u></b>	
Net Investment in Capital Assets	41,551.59
Unrestricted	224,626.18
Total Net Position	<u>266,177.77</u> =====

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

MERCER COUNTY SOIL CONSERVATION DISTRICT  
Beulah, North Dakota

Statement of Activities - Modified Cash Basis  
For the Year Ended December 31, 2017

	Program Revenues		Net (Expense) Revenue and Changes in Net Position
	Charges for Services	Operating Grants and Contributions	Governmental Activities
Expenses			
<u>Governmental Activities:</u>			
Conservation of Natural Resources	276,020.28	99,661.48	118,634.22
			(57,724.58)
=====			
<u>General Revenues:</u>			
Taxes:			
Property taxes; levied for general purposes			51,032.86
Earnings on investments and other revenue			2,943.57
Total General Revenues			53,976.43
Change in Net Position			(3,748.15)
Net Position - January 1			266,177.77
Net Position - December 31			262,429.62
			=====

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

MERCER COUNTY SOIL CONSERVATION DISTRICT  
Beulah, North Dakota

Statement of Activities - Modified Cash Basis  
For the Year Ended December 31, 2016

	Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
<u>Governmental Activities:</u>				
Conservation of Natural Resources	293,075.26	115,094.30	112,835.45	(65,145.51)
=====				
<u>General Revenues:</u>				
Taxes:				
Property taxes; levied for general purposes				47,481.74
Earnings on investments and other revenue				1,595.50
Total General Revenues				49,077.24
Change in Net Position				(16,068.27)
Net Position - January 1				282,246.04
Net Position - December 31				266,177.77
=====				

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

MERCER COUNTY SOIL CONSERVATION DISTRICT  
Beulah, North Dakota

Balance Sheet - Modified Cash Basis  
Governmental Fund  
December 31, 2017

	<hr/>
	General
	<hr/>
<u>ASSETS:</u>	
Cash	81,163.35
Investments	179,507.41
	<hr/>
Total Assets	260,670.76
	=====
<u>FUND BALANCES:</u>	
Unassigned	260,670.76
	=====

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



MERCER COUNTY SOIL CONSERVATION DISTRICT  
Beulah, North Dakota

Balance Sheet - Modified Cash Basis  
Governmental Fund  
December 31, 2016

	<hr/>
	General
	<hr/>
<b><u>ASSETS:</u></b>	
Cash	113,172.41
Investments	178,674.96
	<hr/>
Total Assets	291,847.37
	=====
<b><u>FUND BALANCES:</u></b>	
Unassigned	291,847.37
	=====

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

MERCER COUNTY SOIL CONSERVATION DISTRICT  
Beulah, North Dakota

Reconciliation of Governmental Fund Balance Sheet  
to the Statement of Net Position - Modified Cash Basis  
For the Year Ended December 31, 2017

Total Fund Balance	260,670.76
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Total net position reported for government activities in the statement  
of net position is different because:

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

Cost of Capital Assets	179,914.27	
Less Accumulated Depreciation	(106,999.91)	
	<hr/>	
Net Capital Assets		72,914.36

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

Total Deferred Outflows of Resources	41,710.00	
Total Deferred Inflows of Resources	(16,703.00)	
	<hr/>	
Net Deferred Outflows/Inflows of Resources		25,007.00

Long-term liabilities applicable to the soil conservation district's  
governmental activities are not due and payable in the current period and  
accordingly are not reported as fund liabilities. Long-term liabilities  
-both current and long-term- are reported in the statement of net position.  
Balances at December 31, 2017 are:

Compensated Absences Payable	(3,088.50)	
Net Pension Liability	(93,074.00)	
	<hr/>	
Total Long-Term Liabilities		(96,162.50)

Total Net Position of Governmental Activities	262,429.62
	=====

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

MERCER COUNTY SOIL CONSERVATION DISTRICT  
Beulah, North Dakota

Reconciliation of Governmental Fund Balance Sheet  
to the Statement of Net Position - Modified Cash Basis  
For the Year Ended December 31, 2016

Total Fund Balance	291,847.37
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Total net position reported for government activities in the statement  
of net position is different because:

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

Cost of Capital Assets	137,780.27	
Less Accumulated Depreciation	(96,228.68)	
Net Capital Assets		41,551.59

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

Total Deferred Outflows of Resources	34,998.00	
Total Deferred Inflows of Resources	(17,784.00)	
Net Deferred Outflows/Inflows of Resources		17,214.00

Long-term liabilities applicable to the soil conservation district's  
governmental activities are not due and payable in the current period and  
accordingly are not reported as fund liabilities. Long-term liabilities  
-both current and long-term- are reported in the statement of net position.  
Balances at December 31, 2016 are:

Compensated Absences Payable	(7,434.19)	
Net Pension Liability	(77,001.00)	
Total Long-Term Liabilities		(84,435.19)

Total Net Position of Governmental Activities	266,177.77
	=====

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

MERCER COUNTY SOIL CONSERVATION DISTRICT  
Beulah, North Dakota

Statement of Revenues, Expenditures and Changes in Fund Balance  
Modified Cash Basis  
Governmental Fund  
For the Year Ended December 31, 2017

	General
<u>Revenues:</u>	
<u>Taxes</u>	
General Property Taxes	51,032.86
<u>Intergovernmental</u>	
Grants	101,620.50
<u>Charges for Services</u>	
Tree Planting	98,749.35
<u>Miscellaneous</u>	
Interest	951.32
Sponsors	10,000.00
ND Sales Tax	912.13
Reimbursements	7,013.72
Miscellaneous	1,992.25
Total Miscellaneous	20,869.42
Total Revenues	272,272.13
<u>Expenditures:</u>	
Current:	
<u>Conservation of Natural Resources</u>	
Advertising and Promotion	1,302.80
Cost of Goods Sold	30,542.95
Conservation Education	2,653.07
Achievement Contest/Convention	3,788.60
Dues and Subscriptions	1,760.00
Fuel/Oil	1,839.40
Insurance	2,597.55
Better Management Practices (BMP'S)	49,635.74
Office Supplies	401.08
Payroll	143,061.33
Sample Analysis	319.28
Repairs and Maintenance	4,141.51
Field Supplies	4,034.67
Supervisor/Administration	7,906.70
Telephone/Postage	1,178.31
Utilities/Warehouse	1,151.23
Workshop/Training	2,263.25
Sales Taxes	610.57
Miscellaneous	2,126.70
Capital Outlay	42,134.00
Total Expenditures	303,448.74
Excess (Deficiency) of Revenues Over Expenditures	(31,176.61)
Fund Balance - January 1	291,847.37
Fund Balance - December 31	260,670.76
	=====

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

MERCER COUNTY SOIL CONSERVATION DISTRICT  
Beulah, North Dakota

Statement of Revenues, Expenditures and Changes in Fund Balance  
Modified Cash Basis  
Governmental Fund  
For the Year Ended December 31, 2016

	General
<u>Revenues:</u>	
<u>Taxes</u>	
General Property Taxes	47,481.74
<u>Intergovernmental</u>	
Grants	94,288.68
<u>Charges for Services</u>	
Tree Planting	114,448.71
<u>Miscellaneous</u>	
Interest	983.72
Sponsors	5,000.00
ND Sales Tax	645.59
Reimbursements	13,546.77
Miscellaneous	611.78
Total Miscellaneous	20,787.86
Total Revenues	277,006.99
<u>Expenditures:</u>	
Current:	
<u>Conservation of Natural Resources</u>	
Advertising and Promotion	1,383.18
Cost of Goods Sold	43,717.55
Conservation Education	7,216.92
Achievement Contest/Convention	3,604.56
Dues and Subscriptions	2,065.00
Fuel/Oil	1,790.29
Insurance	2,120.55
Better Management Practices (BMP'S)	50,463.52
Office Supplies	772.69
Payroll	132,683.28
Tree Planting Equipment	299.00
Sample Analysis	440.92
Project Expense	10,649.38
Repairs and Maintenance	6,780.15
Field Supplies	739.53
Supervisor/Administration	6,664.62
Telephone/Postage	1,232.55
Utilities/Warehouse	1,777.71
Workshop/Training	2,543.20
Sales Taxes	546.80
Miscellaneous	2,638.24
Total Expenditures	280,129.64
Excess (Deficiency) of Revenues Over Expenditures	(3,122.65)
Fund Balance - January 1	294,970.02
Fund Balance - December 31	291,847.37
	=====

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

MERCER COUNTY SOIL CONSERVATION DISTRICT  
Beulah, North Dakota

Reconciliation of Governmental Funds Statement of Revenues, Expenditures and  
Changes in Fund Balances to the Statement of Activities - Modified Cash Basis  
For the Year Ended December 31, 2017

Net Change in Fund Balance (31,176.61)

The change in net position reported for governmental activities in the  
statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in  
the statement of activities, the cost of those assets is allocated over  
their estimated useful lives and reported as depreciation expense. This  
is the amount by which capital outlay exceeded depreciation in the  
current year.

Current Year Capital Outlay	42,134.00	
Current Year Depreciation Expense	(10,771.23)	31,362.77

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

Net Decrease in Compensated Absences	4,345.69	
Net Increase in Pension Expense	(8,280.00)	(3,934.31)

Change in Net Position of Governmental Activities (3,748.15)

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

MERCER COUNTY SOIL CONSERVATION DISTRICT  
Beulah, North Dakota

Reconciliation of Governmental Funds Statement of Revenues, Expenditures and  
Changes in Fund Balances to the Statement of Activities - Modified Cash Basis  
For the Year Ended December 31, 2016

Net Change in Fund Balance	(3,122.65)
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The change in net position reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current year.

Current Year Capital Outlay	0.00	
Current Year Depreciation Expense	(9,810.04)	(9,810.04)

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

Net Increase in Compensated Absences	(305.58)	
Net Increase in Pension Expense	(2,830.00)	(3,135.58)

Change in Net Position of Governmental Activities	(16,068.27)
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The accompanying notes are an integral part of these financial statements.

MERCER COUNTY SOIL CONSERVATION DISTRICT  
Beulah, North Dakota

Notes to the Financial Statements  
December 31, 2017 and 2016

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Mercer County Soil Conservation District have been prepared on a modified cash basis, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Financial Reporting Entity

The accompanying financial statements present the activities of the soil conservation district. The soil conservation district has considered all potential component units for which the district is financially accountable and other organizations for which the nature and significance of their relationships with the district are such that exclusion would cause the soil conservation district's financial statements to be misleading or incomplete. The Government Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body and (1) the ability of the soil conservation district to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the soil conservation district.

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

B. Basis of Presentation

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

The statement of activities presents a comparison between direct expenses and program revenues for each function of the soil conservation district's governmental activities. Direct expenses are those that are specifically associated with program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.



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

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 and Basis of Accounting

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

##### Measurement Focus

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

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

- a. All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. All government-wide statements utilize an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position and cash flows. All assets and liabilities (whether current or noncurrent, financial or nonfinancial) associated with their activities are reported. Fund equity is classified as net position.

##### Basis of Accounting

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

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

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

#### D. Cash and Investments

Cash includes amounts in demand deposits and money market accounts.

Investments consist of certificates of deposit stated at cost.

#### E. Capital Assets

Capital assets include plant and equipment. Assets are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the soil conservation district as assets with an initial, individual cost of \$2,500 or more. Such assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is not capitalized.

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

Buildings	50 years
Machinery and Vehicles	5 to 10 years

#### F. Compensated Absences

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

#### G. Long-Term Obligations

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

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

## H. Pension

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

## I. Fund Equity

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

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

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

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

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

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

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

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

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

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

#### J. Use of Estimates

The preparation of financial statements in conformity with the special purpose framework (SPF) used by the soil conservation district requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

#### Note 2 DEPOSITS AND INVESTMENTS

In accordance with North Dakota Statutes, the district maintains deposits at the depository banks designated by the governing board. All depositories are members of the Federal Reserve System.

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

Authorized collateral includes bills, notes or bonds issued by the United States government, its agencies or instrumentalities, all bonds and notes guaranteed by the United States government, Federal Land Bank bonds, bonds, notes, warrants, certificates of indebtedness, insured certificates of deposit, shares of investments companies registered under the Investment Companies Act of 1940, and all other forms of securities issued by the State of North Dakota, its boards, agencies or instrumentalities or by any county, city, township, school district, park district or any other political subdivision of the State of North Dakota, whether payable from special revenues or supported by the full faith and credit of the issuing body and bonds issued by another state of the United States or other securities approved by the banking board.

At December 31, 2017 the district's carrying amount of deposits was \$260,671 and the bank balance was \$280,787. Of the bank balance, \$280,787 was covered by Federal Depository Insurance.

At December 31, 2016 the district's carrying amount of deposits was \$291,847 and the bank balance was \$292,148. Of the bank balance, \$292,148 was covered by Federal Depository Insurance.

### Credit Risk

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

- (1) Bonds, treasury bills and notes, or other securities that are a direct obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities or organizations created by an act of Congress.
- (2) Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are of the type listed above.
- (3) Certificates of deposit fully insured by the federal deposit insurance corporation.
- (4) Obligations of the State.

At December 31, 2017 the district held certificates of deposit in the amount of \$179,507, which are all considered deposits.

At December 31, 2016 the district held certificates of deposit in the amount of \$178,675, which are all considered deposits.

### Concentration of Credit Risk

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

### Note 3 PROPERTY TAXES

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

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

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

Note 4 CAPITAL ASSETS

The following is a summary of changes in capital assets for the years ended December 31, 2017 and 2016:

<u>2017</u>				
	<u>Balance January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance December 31</u>
Governmental Activities:				
Capital assets not being depreciated:				
Land	1,200.00			1,200.00
Capital assets being depreciated:				
Buildings	17,471.95			17,471.95
Machinery & Vehicles	119,108.32	42,134.00		161,242.32
Total	136,580.27	42,134.00		178,714.27
Less accumulated depreciation for:				
Buildings	14,139.16	349.43		14,488.59
Machinery & Vehicles	82,089.52	10,421.80		92,511.32
Total	96,228.68	10,771.23		106,999.91
Total Capital Assets Being Depreciated, Net	40,351.59	31,362.77		71,714.36
Governmental Activities Capital Assets, Net	41,551.59	31,362.77	-0-	72,914.36
	=====	=====	=====	=====
<u>2016</u>				
	<u>Balance January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance December 31</u>
Governmental Activities:				
Capital assets not being depreciated:				
Land	1,200.00			1,200.00
Capital assets being depreciated:				
Buildings	17,471.95			17,471.95
Machinery & Vehicles	119,108.32			119,108.32
Total	136,580.27			136,580.27
Less accumulated depreciation for:				
Buildings	13,789.72	349.44		14,139.16
Machinery & Vehicles	72,628.92	9,460.60		82,089.52
Total	86,418.64	9,810.04		96,228.68
Total Capital Assets Being Depreciated, Net	50,161.63	(9,810.04)		40,351.59
Governmental Activities Capital Assets, Net	51,361.63	(9,810.04)	-0-	41,551.59
	=====	=====	=====	=====

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

	<u>2017</u>	<u>2016</u>
Conservation of Natural Resources	10,771.23	9,810.04
	=====	=====

Note 5 LONG-TERM DEBT

Changes in Long-Term Liabilities. During the years ended December 31, 2017 and 2016, the following changes occurred in liabilities reported in the long-term liabilities - Governmental Activities:

<u>2017</u>					
	<u>Balance</u>			<u>Balance</u>	<u>Due Within</u>
	<u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>December 31</u>	<u>One Year</u>
Compensated					
Absences Payable	7,434.19	-0-	4,345.69	3,088.50	-0-
	=====	=====	=====	=====	=====
<u>2016</u>					
	<u>Balance</u>			<u>Balance</u>	<u>Due Within</u>
	<u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>December 31</u>	<u>One Year</u>
Compensated					
Absences Payable	7,128.61	305.58	-0-	7,434.19	-0-
	=====	=====	=====	=====	=====

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

Note 6 RISK MANAGEMENT

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

In 1986, state agencies and political subdivisions of the State of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The soil conservation district pays an annual premium to NDIRF for its general liability, automobile and public assets insurance coverage. The coverage by NDIRF is limited to losses of \$1,000,000 per occurrence for general liability and automobile; and \$111,700 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 \$106,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The soil conservation district has worker's compensation with the Department of Workforce Safety and Insurance; and purchases commercial insurance for employee health and accident insurance.

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

Note 7 PENSION PLAN

North Dakota Public Employees Retirement System (Main System)

The following brief description of NDPERS is provided for general information purposes only. Participants should refer to NDCC Chapter 54-52 for more complete information.

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

Responsibility for administration of the NDPERS benefits program is assigned to a Board comprised of 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 active membership of the NDPERS system; and one member elected by the retired public employees.

**Pension Benefits**

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

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



## **Death and Disability Benefits**

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

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

## **Refunds of Member Account Balance**

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

## **Member and Employer Contributions**

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

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

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

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

At December 31, 2017, the Mercer County Soil Conservation District reported a liability of \$93,074 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The district's proportion of the net pension liability was based on the district's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2016 the district's proportion was .009550 percent, which was a decrease of .001774 from its proportion measured as of June 30, 2015.

For the year ended December 31, 2017 the district recognized pension expense of \$13,292. At December 31, 2017 the district reported deferred outflows of resources and deferred inflows of resources related to pensions, from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	-----	-----
Differences between expected and actual experience	1,398	862
Changes in assumptions	8,580	4,624
Net difference between projected and actual earnings on pension plan investments	12,985	
Changes in proportion and differences between employer contributions and proportionate share of contributions	12,928	11,217
District contributions subsequent to the measurement date (see below)	5,819	
Total	<u>41,710</u>	<u>16,703</u>
	=====	=====

\$5,819 reported as deferred outflows of resources related to pensions resulting from district 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 June 30:	
-----	
2018	4,088
2019	4,088
2020	6,921
2021	4,710
2022	(619)
Thereafter	0

**Actuarial assumptions.** The total pension liability in the July 1, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Salary increases	4.50% per annum
Investment rate of return	8.00%, net of investment expenses.
Cost-of-living adjustments	None

For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Retiree Morality Table with ages set back one year for males (not set back for females) multiplied by 125%.

The actuarial assumptions used were based on the results of an actuarial experience study completed in 2015. They are the same as the assumptions used in the July 1, 2016, funding actuarial valuation for NDPERS.

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	31%	6.90%
International Equity	21%	7.55%
Private Equity	5%	11.30%
Domestic Fixed Income	17%	1.52%
International Equity Income	5%	0.45%
Global Real Assets	20%	5.38%
Cash Equivalents	1%	0.00%

**Discount rate.** The discount rate used to measure the total pension liability was 8 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at rates equal to those based on the July 1, 2016, Actuarial Valuation Report. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members as of June 30, 2016. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2016.

Sensitivity of the district's proportionate share of the net pension liability to changes in the discount rate. The following presents the district's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the district's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7 percent) or 1-percentage-point higher (9 percent) than the current rate:

	1% Decrease (7%)	Current Rate (8%)	1% Increase (9%)
The district's proportionate share of the net pension liability	132,024	93,074	60,257

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

MERCER COUNTY SOIL CONSERVATION DISTRICT  
Beulah, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis  
For the Year Ended December 31, 2017

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues:</b>				
<u>Taxes</u>				
General Property Taxes	44,664.00	44,664.00	51,032.86	6,368.86
<u>Intergovernmental Grants</u>	142,657.40	142,657.40	101,620.50	(41,036.90)
<u>Charges for Services</u>				
Tree Planting	80,250.00	80,250.00	98,749.35	18,499.35
<u>Miscellaneous</u>				
Interest			951.32	951.32
Sponsors			10,000.00	10,000.00
ND Sales Tax			912.13	912.13
Reimbursements	12,000.00	12,000.00	7,013.72	(4,986.28)
Miscellaneous	5,000.00	5,000.00	1,992.25	(3,007.75)
Total Miscellaneous	17,000.00	17,000.00	20,869.42	3,869.42
Total Revenues	284,571.40	284,571.40	272,272.13	(12,299.27)
<b>Expenditures:</b>				
Current:				
<u>Conservation of Natural Resources</u>				
Advertising and Promotion	1,500.00	1,500.00	1,302.80	197.20
Cost of Goods Sold	45,000.00	45,000.00	30,542.95	14,457.05
Conservation Education	6,850.00	6,850.00	2,653.07	4,196.93
Achievement Contest/Convention	3,500.00	4,788.60	3,788.60	1,000.00
Dues and Subscriptions	2,250.00	2,250.00	1,760.00	490.00
Fuel/Oil			1,839.40	(1,839.40)
Insurance	2,000.00	2,000.00	2,597.55	(597.55)
Better Management Practices (BMP'S)	159,929.00	159,929.00	49,635.74	110,293.26
Office Supplies	1,110.00	1,110.00	401.08	708.92
Payroll	156,200.00	172,813.44	143,061.33	29,752.11
Sample Analysis			319.28	(319.28)
Tree Planting Equipment	6,000.00	7,134.57		7,134.57
Project Expense	10,000.00	10,000.00		10,000.00
Repairs and Maintenance			4,141.51	(4,141.51)
Field Supplies	1,900.00	2,288.89	4,034.67	(1,745.78)
Supervisor/Administration	10,750.00	10,750.00	7,906.70	2,843.30
Telephone/Postage	1,300.00	1,300.00	1,178.31	121.69
Utilities/Warehouse	1,500.00	1,500.00	1,151.23	348.77
Workshop/Training	1,200.00	1,200.00	2,263.25	(1,063.25)
Sales Taxes			610.57	(610.57)
Miscellaneous	5,000.00	5,000.00	2,126.70	2,873.30
Capital Outlay	9,500.00	21,184.00	42,134.00	(20,950.00)
Total Expenditures	425,489.00	456,598.50	303,448.74	153,149.76
Net Change in Fund Balances	(140,917.60)	(172,027.10)	(31,176.61)	140,850.49
Fund Balance - January 1	291,847.37	291,847.37	291,847.37	
Fund Balance - December 31	150,929.77	119,820.27	260,670.76	140,850.49

MERCER COUNTY SOIL CONSERVATION DISTRICT  
Beulah, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis  
For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues:</b>				
<u>Taxes</u>				
General Property Taxes	36,500.00	36,500.00	47,481.74	10,981.74
<u>Intergovernmental</u>				
Grants	106,649.80	106,649.80	94,288.68	(12,361.12)
<u>Charges for Services</u>				
Tree Planting	75,250.00	75,250.00	114,448.71	39,198.71
<u>Miscellaneous</u>				
Interest			983.72	983.72
Sponsors			5,000.00	5,000.00
ND Sales Tax			645.59	645.59
Reimbursements	12,000.00	12,000.00	13,546.77	1,546.77
Miscellaneous	5,000.00	5,000.00	611.78	(4,388.22)
Total Miscellaneous	17,000.00	17,000.00	20,787.86	3,787.86
<b>Total Revenues</b>	<b>235,399.80</b>	<b>235,399.80</b>	<b>277,006.99</b>	<b>41,607.19</b>
<b>Expenditures:</b>				
Current:				
<u>Conservation of Natural Resources</u>				
Advertising and Promotion	1,500.00	1,500.00	1,383.18	116.82
Cost of Goods Sold	45,000.00	46,398.00	43,717.55	2,680.45
Conservation Education	6,850.00	7,558.97	7,216.92	342.05
Achievement Contest/Convention	3,000.00	3,605.00	3,604.56	0.44
Dues and Subscriptions	2,250.00	2,250.00	2,065.00	185.00
Fuel/Oil			1,790.29	(1,790.29)
Insurance	2,000.00	2,121.00	2,120.55	0.45
Better Management Practices (BMP'S)	98,583.00	98,583.00	50,463.52	48,119.48
Office Supplies	1,110.00	1,110.00	772.69	337.31
Payroll	159,500.00	162,640.59	132,683.28	29,957.31
Tree Planting Equipment		299.00	299.00	
Sample Analysis			440.92	(440.92)
Project Expense	10,000.00	10,722.00	10,649.38	72.62
Repairs and Maintenance	3,400.00	8,851.00	6,780.15	2,070.85
Field Supplies	1,500.00	1,500.00	739.53	760.47
Supervisor/Administration	10,750.00	10,750.00	6,664.62	4,085.38
Telephone/Postage	1,300.00	1,300.00	1,232.55	67.45
Utilities/Warehouse	1,500.00	1,592.00	1,777.71	(185.71)
Workshop/Training	1,200.00	1,200.00	2,543.20	(1,343.20)
Sales Taxes			546.80	(546.80)
Miscellaneous	5,000.00	5,000.00	2,638.24	2,361.76
Capital Outlay	9,850.00	9,850.00		9,850.00
Total Expenditures	364,293.00	376,830.56	280,129.64	96,700.92
<b>Net Change in Fund Balances</b>	<b>(128,893.20)</b>	<b>(141,430.76)</b>	<b>(3,122.65)</b>	<b>138,308.11</b>
<b>Fund Balance - January 1</b>	<b>294,970.02</b>	<b>294,970.02</b>	<b>294,970.02</b>	
<b>Fund Balance - December 31</b>	<b>166,076.82</b>	<b>153,539.26</b>	<b>291,847.37</b>	<b>138,308.11</b>

MERCER COUNTY SOIL CONSERVATION DISTRICT  
Beulah, North Dakota

Notes to the Budgetary Comparison Schedule  
December 31, 2017 and 2016

Note 1 SUMMARY OF SIGNIFICANT BUDGET POLICIES

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

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

Note 2 LEGAL COMPLIANCE

Budget Amendments

The governing board approved the following amendments to the soil conservation district's budgets for the years ending December 31, 2017 and 2016:

<u>2017</u>			
	<u>Original Budget</u>	<u>Amendment</u>	<u>Amended Budget</u>
<u>Appropriations</u>			
General Fund	425,489	31,110	456,599
<u>2016</u>			
	<u>Original Budget</u>	<u>Amendment</u>	<u>Amended Budget</u>
<u>Appropriations</u>			
General Fund	364,293	12,538	376,831

MERCER COUNTY SOIL CONSERVATION DISTRICT  
Beulah, North Dakota

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

	2017 -----	2016 -----	2015 -----
District's proportion of the net pension liability	0.009550%	0.011324%	0.008627%
District's proportionate share of the net pension liability	93,074	77,001	54,757
District's covered-employee payroll	91,000	100,877	72,667
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	102.28%	76.33%	75.35%
Plan fiduciary net position as a percentage of the total pension liability	70.46%	77.15%	77.70%

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

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

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

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



# Rath & Mehrer, P.C.

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

INDEPENDENT AUDITOR'S REPORT

Governing Board  
Mercer County Soil Conservation District  
Beulah, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of the Mercer County Soil Conservation District, Beulah, North Dakota, as of and for the years ended December 31, 2017 and 2016, 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 May 25, 2018.

**Internal Control Over Financial Reporting**

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

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

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

## Compliance and Other Matters

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

## Soil Conservation District's Response to Findings

The soil conservation district's response to the findings identified in our audits 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 audits of the financial statements and, accordingly, we express no opinion on it.

## Purpose of this Report

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



Rath and Mehrer, P.C.

Bismarck, North Dakota

May 25, 2018

MERCER COUNTY SOIL CONSERVATION DISTRICT  
Beulah, North Dakota

Schedule of Findings and Responses  
For the Years Ended December 31, 2017 and 2016

SECTION I - SUMMARY OF AUDIT RESULTS:

Financial Statements

Type of Auditor's Report Issued:

Governmental Activities

Unmodified-Modified Cash Basis

Major Governmental Fund

Unmodified-Modified Cash Basis

Internal control over financial reporting:

\* Material weakness(es) identified? ☐ Yes ☒ No

\* Significant deficiency(ies) identified? ☒ Yes ☐ None Reported

Noncompliance Material to financial  
statements noted?

☐ Yes ☒ No

SECTION II - FINANCIAL STATEMENT FINDINGS:

Significant Deficiencies

1. Segregation of Duties

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

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

*Effect:* There is no segregation of duties as one employee is responsible to collect monies, deposit monies, issue checks, send checks to vendors, record receipts and disbursements in journals, maintain the general ledger and prepare financial statements. This increases the risk of misstatement of the district's financial condition.

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

*Client Response:* No response is considered necessary.

## 2. Financial Statement Preparation

*Condition:* The district's financial statements as of December 31, 2017 and 2016 are prepared by the district's external auditors.

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

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

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

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