

## TAB 6

### DISTRICT OPERATIONS: FINANCIAL

- Accounting Procedures
  - District Records
  - Internal Control
  - District Audit
- Permissible & Non-Permissible Expenditures
  - Budgets
  - Taxes
- Insurance Coverage



**FINANCIAL**

# DISTRICT FINANCES

## **District Accounting Procedure**

A popular accounting program called *QuickBooks* can be used for bookkeeping needs. There are many other accounting programs out there so don't limit yourself, use what works best for your office. Before you install your program on your USDA-NRCS computer, you will need permission from your IT staff. Once approved, your IT staff will install the program for you. If using a computerized accounting program, it is necessary to have two backups done and especially at year end time. One back up should be located offsite. You will need to do frequent software updates and payroll tables.

It is necessary for all districts to keep a general ledger or chart of accounts. The following headings should be used for manual or computerized accounting.

### **Income**

- Custom work (casoron application, tree cleaning)
- Grants (Soil Conservation District Technician Program)
- Interest income
- Mill levy
- Miscellaneous income
- Reimbursed expense
- Equipment rental and lease (grass drills, tree scalper, undercutter)
- Sale of asset
- Sales (tree hand plants, flags, stakes, tree protectors, tree planting, weed barrier fabric)
- Special projects (NPS 319, water quality, watershed projects, US Fish & Wildlife Service)
- Sponsors (newsletter, workshop, demonstration)

### **Expense**

- Advertising/Promotion (newspaper, radio, booth, newsletter)
- Charges (bank service charge, finance charge)
- Cost of goods sold (stakes, flags, trees, tree protectors, weed barrier fabric)
- Conservation education (achievement program, camps, scholarships, education materials, soil stewardship, tours, demonstrations)
- Contributions
- Depreciation
- Dues and subscriptions
- Fuel, oil and grease
- Insurance expense (life, health, liability)
- Interest expense (loan)
- Miscellaneous
- Office supplies
- Payroll (Social Security, Medicare, Wages, Workers Compensation)
- Postage

- Professional fees (accounting, legal)
- Purchase of fixed assets
- Rent (building, equipment)
- Repairs and maintenance (building, equipment, computer)
- Shop supplies
- Supervisors (meetings, district/area/state/national)
- Taxes (specials)
- Telephone
- Utilities (electricity, garbage, gas, water)
- Workshop training (employee attendance)

## **Soil Conservation District Records**

### **Requirements And Recommendations:**

A comprehensive financial statement is to be used in reporting monthly financial transactions. Your financial statement should be made a part of the district minutes and be retained as a permanent record. Districts utilizing *QuickBooks* can generate this report from the reports menu under profit and loss.

If recording manually, these items should be included in your statements:

#### **Receipts**

Custom Work	Sale of Assets
Grants	Sales
Interest Income	Special Projects
Miscellaneous Income	Sponsors
Reimbursement Expense	Taxes Levied
Rent or Lease	

#### **Expenses**

Advertising & Promotion	Payroll
Charges	Postage
Cost of Goods Sold	Professional fees
Conservation Education	Purchase of Assets
Contributions	Rent Expense
Depreciation Expense	Repairs & Maintenance
Dues & Subscriptions	Shop Supplies
Fuel & Oil	Supervisors Expense
Insurance	Taxes
Interest Expense	Telephone
Miscellaneous Expense	Utilities
Office Supplies	Workshops/Training

An itemized income/expense account report should be reviewed by the district board on a monthly basis which should include:

- Balance Sheet
- Transactions by Account
- Payroll Summary for Monthly Reporting
- Checking Bank Statements & Reconciliation Reports
- Credit Card Statements
- Accounts Receivable Summary
- Grant Running Totals if Applicable
- Quarterly Budget Profit & Loss Report
- Receipt Vouchers

An unpaid bill report should also be reviewed monthly. The status of districts outstanding receivables should be reviewed monthly. SFN 3820 (Annual Financial Statement) is required annually. One copy must be forwarded to the State Soil Conservation Committee at the close of the business year. The district should keep a copy on file. You may wish to give a more complete breakdown of receipts.

Financial and district program plans can either be on a calendar or fiscal year basis.

### **State Soil Conservation Committee Recommendation Regarding Internal Controls for Handling District Funds and District Audits:**

#### **Internal controls for handling district funds:**

- Supervisors review a monthly financial statement listing receipts and expenses
- Maintain a check register
- Reconcile bank statement monthly – have a copy of bank statement sent out to chairman
- Checks compared with billing/invoice as they are signed
- Invoices signed by employee or supervisor
- Checks signed after being prepared (preferably with dual signatures)
- Bills examined by board prior to approval (Exception, monthly bills such as utilities can be paid, but should be approved at the next board meeting.)
- Immediate receipt of all collections, including cash and interest
- Petty cash fund replenished on receipt removal
- Unused check blanks stored in secure place
- Voided checks properly identified and retained
- Maintain a fixed asset record listing the asset, actual cost and year purchased (include at a minimum all items purchased at \$250 or greater)
- Conduct an annual inventory of all assets
- Maintain record of savings and certificate of deposit accounts
  - Use stamp “for deposit only” for all deposits
  - Supervisor required to sign payroll checks
  - District employee time cards/sheets to be signed by the employee and applicable supervisor
  - All disbursements should be by check.

**District audits:**

- An audit should be conducted annually (internal or external)
  - The State Auditor may in lieu of conducting an audit every two years, require an annual financial report from districts with less than \$200,000 in annual receipts.
- At a minimum, an external audit should be conducted every three years
  - a. Who can perform audits:
    - 1. Internal
      - Supervisors
    - 2. External
      - Certified Public Accountant
      - Business/Tax Agency
      - Bank Officials
      - Accountants
      - State Auditor's Office
      - Business Instructor
      - County Auditor/Treasurer
      - Licensed Public Accountants
  - b. Items to be reviewed in an audit (both internal and external)
    - Review district minutes, contracts and policies
    - Review general ledger, checking for payments and receipt
    - Check depositing of district funds
    - Review savings and certificate of deposit accounts
    - Inventory current and fixed assets
    - Check district payroll
    - Review internal controls for handling district funds

## RECOMMENDED POLICY GUIDELINES FOR EXPENDITURE OF SOIL CONSERVATION DISTRICT FUNDS FOR PROMOTION, EDUCATION, AND RECOGNITION ACTIVITIES

These recommended Policy Guidelines were developed by the North Dakota State Soil Conservation Committee in accordance with Section 4-22-26 of the North Dakota Soil Conservation Districts Law.

Situation	Permissible	Non-Permissible
1. Awards		
A. Clean Tree Contest		
1. Cash Award		✓
2. Plaques, Certificates, Etc..	✓	
B. Other Educational Contest Awards		
1. Cash Award	✓	
2. Plaques, Certificates, Etc.	✓	
C. Soil Conservation Achievement Program		
1. Aerial Photo to Winner	✓	
2. District Sponsored Banquets		
a. Meal	✓	
b. District-Hosted Social Hour		✓
3. Winners Trip to Annual Meeting (actual expenses incurred)		
a. Mileage	✓	
b. Registration	✓	
c. Meals	✓	
d. Lodging	✓	
D. Service Awards		
1. Supervisors		
a. Cash Awards		✓
b. Plaques, Certificates, Gifts	✓	
2. District Employees		
a. Cash Awards		✓
b. Plaques, Certificates, Gifts (Not to exceed amount in-service award program developed for SCDs)	✓	
3. Assisting Agencies		
a. Cash Awards		✓
b. Plaques, Certificates, Gifts	✓	
2. Dues and Memberships		
A. District Memberships		
1. State Association	✓	
2. NACD		
a. Quotas	✓	
b. Endowment Fund	✓	

<b>Situation</b>	<b>Permissible</b>	<b>Non-Permissible</b>
3. Other organizations supporting soil, water and wildlife conservation	✓	
B. Individual Supervisor		✓
C. District Employees Dues (e.g., ND Districts Employees Association)		✓
3. Soil Stewardship		
A. Meals	✓	
B. Informational Materials	✓	
4. Conservation/Education Activities - examples follow, but are not limited to:		
A. Tours	✓	
B. Newsletters	✓	
C. Literature	✓	
D. Visual Aids	✓	
E. Contests	✓	
F. Camps (conservation/natural resource)	✓	
G Donations		
—Conservation Scholarship funds	✓	
—ND 4-H Foundation	✓	
—Future Farmers of America	✓	
5. Other		
A. Alcoholic Beverages		✓
B. Purchase Premium at Fair (E.G., 4-H Steer)		✓
C. Memorials (Cash)		✓
D. Flowers and Bouquets	✓	
E. Magazine Subscription	✓	
F. Salary Bonuses to Employees (e.g. Christmas Bonus)		✓
G. Season's Greetings Ad in Newspaper	✓	
H. Coffee and Cookies		
—District Meetings	✓	
—District Sponsored Educational Meetings	✓	
I. Auxiliary Members and Spouses expenses to Area, State and National Meetings		✓
J. Reimbursement to Volunteers, Auxiliary and Members for support of District Activities	✓	
K. Meals for Social Functions		✓
L. Gifts (e.g., Weddings, Anniversaries, Retirement for Non-District Staff such as Extension, NRCS, FSA)		✓
M. Give Away Items Used for Conservation Promotional Purposes	✓	

## BUDGETS

A key component when working with your district financials is developing a budget and reviewing it monthly or quarterly. Budget development should begin in mid-December and reviewed in January or February of the year applicable. When developing your budget categories, you should follow the chart of accounts for income and expenses that were listed on pg. 2 of this tab. The District Board will need to review and approve the budget. Any additions to the chart of accounts during the calendar year will need to be amended in the budget. Budgets are useful when developing grant requests and filling out yearend audit forms. For those utilizing QuickBooks, you may develop a budget report to share with your board.

## TAXES

### State

Soil conservation districts are legal subdivisions of the State of North Dakota and as such **are exempt** from the payment income tax, motor vehicle excise tax, real estate tax, sales tax, and use taxes.

#### **Exemptions:**

Income Tax:	<u>N.D.C.C. 57-38-09</u>
Motor Vehicle Excise Tax:	<u>N.D.C.C. 57-40.3-04(2)</u>
Real Estate Tax:	<u>N.D.C.C. 57-02-08(3)</u>
Sales Tax:	<u>N.D.C.C. 57-39.2-04(6)</u>
Use Tax:	<u>N.D.C.C. 57-40.2-04</u>

#### **Sales Tax Exemption Certificate**

Soil conservation districts, as political subdivisions of the State, must apply to the North Dakota State Tax Department for a Sales Tax Exemption Certificate.

Upon issuance of a certificate of exemption, the certificate must be retained by the district and the district must present its certificate (exemption number) to all suppliers or retailers whenever a tax exemption is claimed.

A political subdivision of another state is exempt under this subsection only if a sale to a ND political subdivision is treated as an exempt sale in that state.

Application for this certificate can be made through the **North Dakota State Tax Department, 600 East Boulevard Avenue, Bismarck, ND 58505-0599, (701-328-3474)**. Applications are available from the State Tax Department (Form 21919).

#### **Non-Exemptions**

Soil Conservation districts **are not exempt** from the payment of **state** gasoline tax. A district is, however, eligible and may apply to the North Dakota State Tax Department for a gas tax refund.

Political subdivisions (soil conservation districts) **are not exempt** from payment of special assessments. N.D.C.C. 40-23-07.



## **Contracts to Install Material**

Contractors who install personal property into real estate will always be subject to sales and use tax on the cost of such property regardless of who owns it. This provision of the law makes it the responsibility of the contractor to pay tax on all materials installed into real estate unless the person who owns the materials has already paid a sales or use tax on them.

On contracts with government agencies, hospitals, schools or other tax-exempt institutions (e.g. soil conservation districts), the construction contractor must pay sales or use tax on the purchase price of all materials installed even if the exempt institution has already purchased the materials.

## **Federal**

### **Employment Taxes**

State and local government employers should file Form 941E to report income tax withheld from employees and should send Social Security payments and reports to the appropriate State officials. A Form 941E must be filed for each quarter of the calendar year. Soil Conservation district are required now to file your monthly payroll liabilities electronically at:

<https://www.eftps.gov/eftps/direct/EftpsHome.page>

You will need to create an account by utilizing the Electronic Federal Tax Payment System. Follow the onscreen instructions. You should keep your logins and passwords protected and stored in your 941 file for future reference. You will need to provide your banking information when registering.

### **Quarterlies:**

Every three months you are required to file your quarterly tax report forms which include 941, ND State Tax Withholdings, and ND Job Service Unemployment. The ND State Tax Withholdings and ND Job Service Unemployment both can be filed electronically.

<http://www.nd.gov/tax/indwithhold/elecfilling/>

<http://jobsnd.com/insurance/UIEasyWelcome.html>

State and local government employers **are not liable** for filing Federal Unemployment Tax Returns.

### **Employer Identification Number (EIN)**

Districts that employ individuals should have an EIN. An EIN may be obtained by filing form SS-4 with the Internal Revenue Service, Entity Control, Mail Stop 627-T, PO Box 9950, Ogden UT 84409, or by calling (801) 620-7645 and providing the information on the form.

### **Gasoline Taxes**

Section 4221 of the Internal Revenue Code **exempts** State and local governments from the **Federal** excise tax on gasoline. They may purchase the gasoline tax free by registering with the District Director of the Internal Revenue Service. Registration is accomplished by filing Form 637, Registration for Tax Free Transactions, with the **District Director, PO Box 8, Fargo, ND 58107**. Questions for Federal excise taxes can be answered by calling: (612) 290-3704.

## **Income Taxes**

State or local governments **are exempt** from filing Federal income tax returns (IRS Code section 115(2), paragraph 7140). They **are also exempt** from filing information returns, such as Form 990, which are required of other non-profit organizations.

The Internal Revenue Service code under “Charitable Contributions, section 170, paragraph 11,675, page 26, 573, .0171 - Organizations that qualify as charitable contribution donees,” indicates that political subdivisions can receive tax deductible contributions.

The foregoing information on return requirements is not necessarily all inclusive. There are a great number of Federal returns and forms for which an organization might become liable in different situations. However, this information should cover those returns for which organizations such as soil conservation districts would generally be concerned with.

If you have any questions regarding any Internal Revenue requirements for soil conservation districts, you may call this toll free number for assistance: 1-800-829-1040

### **IRS Form 1099 - Misc.**

A district must report on Form 1099-Misc. all payments of \$600 or more of fees, commission, cost-share, or other forms of compensation that you make during a calendar year to anyone who is not an employee of yours, other than a corporation or tax-exempt organization.

If the following four conditions are met, a payment is generally reportable as nonemployee compensation:

1. You made the payment to someone who is not your employee.
2. You made the payment for services rendered in the course of your trade or business (including government agencies and nonprofit organizations).
3. You made the payment to someone other than a corporation, e.g. an individual or a partnership.
4. You made payments to the payee of at least \$600 during the year.

**Exceptions** - Some payments are not required to be reported on Form 1099-Misc., although they may be taxable to the recipient. Payments for which a Form 1099-Misc. is not required include:

1. Payment to a corporation.
2. Payments for merchandise.
3. Payments of rent to real estate agents.
4. Wages and Travel allowances paid to employees (report on Form W-2).

### **IRS Telephone Assistance:**

1. Forms and Publications orders **1-800-829-3676**.
2. Tax information and notice inquiries **1-800-829-1040**.

**Form 1099-MISC. due dates:**

1. To IRS **February 28.**
2. To Recipient **January 31.**

**Form W-2**

W-2s are required to be filed at the end of every fiscal year. W-2's are used to report your state and federal tax withholdings for your employees. You will need to provide your employee their personal w-2 form by January 31<sup>st</sup>. These may be generated in QuickBooks or typed individually. One copy is kept for the SCD file, three copies given to the employee, one copy sent to the ND State Tax Commissioner, and one gets filed to the Social Security Administration along with a completed W-3.

**North Dakota Workforce Safety & Insurance (WSI)**

Workforce Safety is a no-fault plan designed to compensate for job-related injury, disease, or death. It pays medical, disability, death, and impairment benefits as the nature of the injury requires and, if medically and vocationally necessary, rehabilitation benefits as well.

Employers having one or more employees working for them are required to purchase coverage through the ND Workforce Safety & Insurance. The District must get and pay for the insurance. WSI does have an online payroll reporting service and you may call them to set up an account. Your dues are paid once a year. Once you have an online account you will receive a letter from WSI reminding you that your annual report is due. You will log onto [www.WorkforceSafety.com](http://www.WorkforceSafety.com) and visit their online service section. Once you file your report, you will receive a premium billing detail for you to pay. You are required to report all of your employees (full time, part time, and seasonal) and your supervisors.

**Insurance Coverage**

**32-12.1-05. Liability insurance policy coverage.** An insurance policy or insurance contract purchased by a political subdivision or state agency or a government self-insurance pool in which a political subdivision or state agency participates pursuant to this chapter may provide coverage for the types of liabilities established by this chapter and may provide such additional coverage as the state agency or the governing body of the political subdivision determines to be appropriate. The insurer may not assert the defense of governmental immunity, but this chapter confers no right upon a claimant to sue an insurer directly. If a dispute exists concerning the amount or nature of the required insurance coverage, the dispute must be tried separately. The insurance coverage authorized by this chapter may be in addition to any insurance coverage purchased by a political subdivision or state agency pursuant to any other provision of law and if premium savings will result therefrom, any insurance policies purchased pursuant to this chapter or any other provision of law may be written for a period which exceeds one year.

**32-12.1-07. Authorized insurance.**

The insurance authorized by this chapter may be provided by:

- a. Self-insurance, which may be funded by appropriations to establish or maintain reserves for self-insurance purposes. (Refer to Mill Levy Authorization section.)

- b. An insurance company authorized to do business in this state which the commissioner has determined to be responsible and financially sound, considering the extent of the coverage required.
- c. Any combination of the methods of obtaining insurance authorized in subdivisions a and b.

Nothing in this chapter shall be construed to prohibit a political subdivision or state agency from uniting with other political subdivisions and state agencies in order to purchase liability insurance or to self-insure.

If a political subdivision has no liability insurance coverage, its exposure for liabilities is limited to \$250,000 per person and \$500,000 for injury to three or more persons during any single occurrence. If, however, a political subdivision purchases insurance coverage in excess of those amounts, an injured plaintiff may receive judgment in the amount of the insurance coverage. Soil conservation districts have five basic alternatives for payment of a judgment:

1. Carry a liability insurance policy from a licensed private insurance carrier or the North Dakota Insurance Reserve Fund (NDIRF). NDIRF can be purchased through local agents.
2. Create their own insurance reserve fund. (See Mill Levy Authorization section - Insurance Reserve Fund)
3. Levy five (5) mills per year to pay a judgment if the district does not carry liability insurance or have a reserve fund or the cash reserves. (See Mill Levy Authority section - Payment of a Judgment)
4. Where a compromise judgment is accepted and the judgment is reduced by at least 25%, the district may levy a tax necessary to pay the reduced judgment in accordance with the terms of the compromise agreement. Limitations on taxes levied to pay the reduced judgment shall not be applicable to taxes levied under this section. N.D.C.C. § 32-12.1-12. (See Mill Levy Authority section - Payment of a Compromised Amount of Judgment)
5. Bonds may also be issued to pay a compromised judgment. Annual installments may be paid over a period not to exceed 25 years and at an annual rate of interest of not more than 25 percent. Bonds are then payable with the levy of a general tax. N.D.C.C. § 32-12.1-13 and 32-12.1-14. (See Mill Levy Authority section - Payment of a Bond Principal and Interest of a Compromised Amount of a Judgment.)

The \$250,000/500,000 liability limitation does not apply to political subdivisions if the judgment is a result of a violation of federal law; i.e., civil rights/discrimination. Political subdivisions can purchase up to \$1,000,000 of liability insurance from the NDIRF without jeopardizing their statutory liability limitation of \$250,000/500,000 under state law. Purchasing from the NDIRF, a governmental self-insurance fund, does not waive the state's statutory limit. NDIRF has tested several cases to verify this exception. Purchasing liability insurance in excess of the \$250,000/500,000 from a private insurance carrier, not utilizing NDIRF, could result in potential judgments to the extent of your liability policy coverage.

There are two forms of liability insurance districts have utilized. They are **General Liability** insurance which covers premises and operations and **Public Officials Errors and Omissions** insurance. The State Soil Conservation Committee strongly encourages all soil conservation

districts to carry liability insurance for additional protection. Carefully study your insurance program to be certain your district has adequate coverage.

**N.D.C.C. § 32-12.1-09 Duties of insurance commissioner.** The commissioner shall be responsible for determining the specifications for the liability insurance covering the areas of risk as specified in this chapter. The commissioner shall require the insurance company to guarantee that its policy provides minimum coverage's pursuant to required specifications. The commissioner may certify to political subdivisions obtaining liability insurance from an insurance company whether such company is responsible and financially sound considering the extent of coverage which the insurance company is offering.