

**LITCHVILLE – MARION PUBLIC SCHOOL DISTRICT NO. 46  
MARION, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2018

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**LITCHVILLE-MARION PUBLIC SCHOOL DISTRICT NO. 46**  
**MARION, NORTH DAKOTA**  
**ROSTER OF SCHOOL OFFICIALS**  
**AT JUNE 30, 2018**

Kyle Severance	President
David Holweg Jr.	Vice President
Joy Karlgaard	Director
Larinda Velure	Director
Lacey Enger	Director
Rhea Miller	Director
Wayne Smith	Director
Mitch Carlson (Through June 30, 2018)	Superintendent
Tom Nitschke (Effective July 1, 2018)	Superintendent
Cindy Vogel	Business Manager



CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

## INDEPENDENT AUDITOR'S REPORT

To the Board of Education  
Litchville-Marion Public School District No. 46  
Marion, North Dakota

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Litchville-Marion Public School District No. 46 as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Litchville-Marion Public School District No. 46, as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of District's proportionate share of the net pension liability, schedule of District's contributions to the TFFR pension plan, and the notes to the required supplementary information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

The roster of school officials on page 1 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2018 on our consideration of the Litchville-Marion Public School District No. 46's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's 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 Litchville-Marion Public School District No. 46's internal control over financial reporting and compliance.



**BRADY, MARTZ & ASSOCIATES, P.C.**  
**GRAND FORKS, NORTH DAKOTA**

December 5, 2018

**LITCHVILLE-MARION PUBLIC SCHOOL DISTRICT NO. 46**  
**MARION, NORTH DAKOTA**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE YEAR ENDED JUNE 30, 2018

As management of the Litchville-Marion Public School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2018. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

### **FINANCIAL HIGHLIGHTS**

- The beginning General Fund balance for the District on July 1, 2017 was \$688,956.
- The General Fund had \$2,458,743 in revenue and \$2,495,015 in expenditures and transfers out of \$31,871.
- The ending General Fund balance for the District on June 30, 2018 was \$620,813.
- The ending General Fund cash balance for the District on June 30, 2018 was \$617,207.
- The food service fund had revenues of \$90,679 and expenditures of \$123,578 and a transfer of \$31,871 was made from the general fund to fund the deficit.
- The District holds in trust \$237,658; the interest earned from this trust is paid out in scholarships.
- The District continues to improve the design and operation of internal control systems by implementing proper separation of duties for office personnel. This provides for proper checks and balances within the financial accounting system.

### **OVERVIEW OF FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

#### Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the District's assets, deferred inflows and outflows, and liabilities, with the difference as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Taxes and intergovernmental revenues also support fixed assets and related debt.

**LITCHVILLE-MARION PUBLIC SCHOOL DISTRICT NO. 46**  
**MARION, NORTH DAKOTA**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) -CONTINUED  
FOR THE YEAR ENDED JUNE 30, 2018

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all North Dakota public school districts. Our District is utilizing the RDA administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds. Governmental funds consist of the general fund, food service fund and permanent fund. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$493,444 as of June 30, 2018.

The largest portion of the District's net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, equipment and supplies over \$5,000 less accumulated depreciation and any related debt used to acquire those assets that is still outstanding). The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

**LITCHVILLE-MARION PUBLIC SCHOOL DISTRICT NO. 46**  
**MARION, NORTH DAKOTA**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) -CONTINUED  
FOR THE YEAR ENDED JUNE 30, 2018

**Net Position for the period ended June 30, 2018 and 2017**

The District has provided a table below that consists of net position for the years ended June 30, 2018 and 2017.

	<u>6/30/2018</u>	<u>6/30/2017</u>
<b>ASSETS</b>		
Cash	\$ 618,630	\$ 672,309
Investments	237,658	238,000
Federal Receivables	6,518	18,563
Property Taxes Receivable	37,155	26,382
Due from Employees	-	111
Total Current Assets	<u>899,961</u>	<u>955,365</u>
Capital Assets		
Land	70,724	70,724
Buildings	1,001,324	1,001,324
Vehicles and Equipment	52,494	52,494
Less: Accumulated Depreciation	<u>(901,938)</u>	<u>(892,495)</u>
Total Capital Assets, Net of Depreciation	<u>222,604</u>	<u>232,047</u>
<b>TOTAL ASSETS</b>	<u>1,122,565</u>	<u>1,187,412</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Cost Sharing Defined Benefit Pension Plan-TFFR	<u>269,320</u>	<u>452,964</u>
<b>LIABILITIES</b>		
Accounts Payable	<u>2,912</u>	-
Total Current Liabilities	<u>2,912</u>	-
Long-Term Liabilities		
Net Pension Liability	<u>1,805,259</u>	<u>1,925,932</u>
Total Non-Current Liabilities	<u>1,805,259</u>	<u>1,925,932</u>
<b>TOTAL LIABILITIES</b>	<u>1,808,171</u>	<u>1,925,932</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Cost Sharing Defined Benefit Pension Plan-TFFR	<u>77,158</u>	<u>80,603</u>
<b>NET POSITION</b>		
Net Investment in Capital Assets	222,604	232,047
Restricted - Nonexpendable	237,658	-
Restricted for Scholarships	423	238,000
Unrestricted (Deficit)	<u>(954,129)</u>	<u>(836,206)</u>
<b>TOTAL NET POSITION</b>	<u>\$ (493,444)</u>	<u>\$ (366,159)</u>



**LITCHVILLE-MARION PUBLIC SCHOOL DISTRICT NO. 46**  
**MARION, NORTH DAKOTA**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) -CONTINUED  
FOR THE YEAR ENDED JUNE 30, 2018

The following presents comparative changes in net position for the years ended June 30, 2018 and 2017:

	<u>6/30/18</u>	<u>6/30/17</u>
<b>REVENUES</b>		
Charges for services	\$ 49,091	\$ 47,377
Operating grants and contributions	1,412,811	1,357,782
Property taxes	992,704	889,458
Other income	104,508	99,118
Interest income	2,565	2,316
<b>TOTAL REVENUES</b>	<u>2,561,679</u>	<u>2,396,051</u>
<b>EXPENSES</b>		
Regular instruction	1,337,478	1,315,542
Special education	185,966	235,002
Vocational education	49,017	32,140
Administrative and library	262,673	341,927
Transportation	229,403	194,007
Operation and maintenance	444,462	354,087
Student activities	56,387	66,122
School food services	123,578	125,343
<b>TOTAL EXPENSES</b>	<u>2,688,964</u>	<u>2,664,170</u>
<b>CHANGE IN NET POSITION</b>	(127,285)	(268,119)
<b>NET POSITION - BEGINNING</b>	<u>(366,159)</u>	<u>(98,040)</u>
<b>NET POSITION - ENDING</b>	<u><u>\$ (493,444)</u></u>	<u><u>\$ (366,159)</u></u>

**Capital Assets**

As of June 30, 2018, the District had \$222,604 invested in capital assets. Following are the balances as of June 30, 2018 (See Note 3 for details).

	<u>Balance 6-30-17</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 6-30-18</u>
<b>Governmental Activities</b>				
Land	\$ 70,724	\$ -	\$ -	\$ 70,724
Buildings	1,001,324	-	-	1,001,324
Vehicles and equipment	52,494	-	-	52,494
<b>Total</b>	<u>1,124,542</u>	<u>-</u>	<u>-</u>	<u>1,124,542</u>
<b>Less Accumulated Depreciation</b>				
Buildings	853,203	7,203	-	860,406
Vehicles and equipment	39,292	2,240	-	41,532
<b>Total</b>	<u>892,495</u>	<u>9,443</u>	<u>-</u>	<u>901,938</u>
<b>Net Capital Assets for</b>				
Governmental Activities	<u>\$ 232,047</u>	<u>\$ (9,443)</u>	<u>\$ -</u>	<u>\$ 222,604</u>

**LITCHVILLE-MARION PUBLIC SCHOOL DISTRICT NO. 46**  
**MARION, NORTH DAKOTA**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) -CONTINUED  
FOR THE YEAR ENDED JUNE 30, 2018

**Comments on General Fund Budgetary Comparison**

- The District's general fund revenues for the fiscal year ended June 30, 2018 were \$2,458,743.
- General fund actual revenues were higher than budgeted revenues by \$10,273.
- The District's general fund expenditures for the fiscal year ended June 30, 2018 were \$2,495,015.
- General fund budgeted expenses were lower than actual expenditures by \$89,396.
- General fund budget expenditures to actual varied slightly but compared reasonably to the budgeted amounts as anticipated.
- The budget was amended to adjust to the actual amount of federal sources.

**Instructional Expenditures**

Instructional expenditures account for approximately \$1,512,935 or 61% of total governmental fund expenditures. Regular instruction accounts for 84% of the instructional expenditures. Special education and federal programs account for 12% and vocational programs account for 4% of the instructional expenditures.

**Non-Instructional Expenditures**

Non-Instructional or central support services expenditures account for approximately \$982,080 or 39% of total governmental expenditures. Non-instructional expenditures consist of transportation (including repairs, fuel, supplies, and drivers), maintenance & operations (including utilities, repairs, insurance, supplies, electricity, heating oil, equipment and custodians), administration and library (including unemployment, worker's comp, contracted services, communications, board, library, exec. administration and office staff expenses), student activities, food services and debt service.

**BUDGETARY IMPLICATIONS**

Fiscal years for school districts in North Dakota run from July 1<sup>st</sup> to June 30<sup>th</sup>.

Declining enrollment and funding formulas continue to be monitored closely. We are encouraged seeing that our preschool numbers and elementary numbers are back in double digit numbers and enrollment remains steady to rising.

A printout from the North Dakota Department of Public Instruction shows 126 Districts with a higher mill levy than Litchville Marion and 23 districts with a lower mill levy, Litchville – Marion is at 63.55.

Federal funding has shown decreases in previous years. We received more funding this year and applied for reallocated funds for Title I and Title II. Title I regular funding was used for Salaries, benefits, and supplies. Title II regular funds were used for Professional Development, salaries, benefits and travel. Reallocated funds for Title I are planned to be used for supplementing the rest of Title I teacher salary and reallocated Title II will be used for more Professional Development.

**LITCHVILLE-MARION PUBLIC SCHOOL DISTRICT NO. 46**  
**MARION, NORTH DAKOTA**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) -CONTINUED  
FOR THE YEAR ENDED JUNE 30, 2018

Retirements or job openings of certified staff allowed us to fill positions within or hire staff with less years' experience where possible. The District hired 4 new staff members for 18-19. 3 of the new staff members were new teachers with less experience and just out of College.

Both buildings are still being utilized as the space needed is an issue. Continued repairs and upkeep keep both buildings maintained. Roofing projects are done in sections on both buildings to help absorb the cost of roofing improvements. The final roof on the elementary was completed this summer on the projected plan.

17-18 saw a part-time Superintendent; a part-time principal/teacher in the high school; and a part-time principal/technology coordinator in the elementary. This shifted some of the administrative costs around.

We continue to hire a bus company for our transportation needs, thus eliminating the high maintenance cost of buses and other fleet operation. This also relieves time for administration to concentrate on other areas.

We maintain 2 food service programs, one at the high school and one at the elementary. This continues to be a cost to the district with the high cost of food and 2 sets of food service salaries. Options to try eliminate the cost have been looked into and more study will be done on this.

We are anticipating staff and administration changes for the 2018-2019 year that will improve administrative costs in our budget.

**Contacting the District's Financial Management**

Questions regarding this report should be directed to the Superintendent, Tom Nitschke, or to Business Manager, Cindy Vogel (701) 762-4234 or by mail at 304 6<sup>th</sup> Avenue, Litchville, ND 58461.

**LITCHVILLE-MARION PUBLIC SCHOOL DISTRICT NO. 46**  
**MARION, NORTH DAKOTA**  
**STATEMENT OF NET POSITION – GOVERNMENTAL ACTIVITIES**  
**AS OF JUNE 30, 2018**

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Cash	\$ 618,630
Investments	237,658
Federal Receivables	6,518
Property Taxes Receivable	37,155
Total Current Assets	899,961
Capital Assets	
Land - Not Being Depreciated	70,724
Buildings	1,001,324
Vehicles and Equipment	52,494
Less: Accumulated Depreciation	(901,938)
Total Capital Assets, Net of Depreciation	222,604
<b>TOTAL ASSETS</b>	<b>1,122,565</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Cost Sharing Defined Benefit Pension Plan-TFFR	269,320
<b>LIABILITIES</b>	
Accounts Payable	2,912
Total Current Liabilities	2,912
Long-Term Liabilities	
Net Pension Liability	1,805,259
Total Non-Current Liabilities	1,805,259
<b>TOTAL LIABILITIES</b>	<b>1,808,171</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Cost Sharing Defined Benefit Pension Plan-TFFR	77,158
<b>NET POSITION</b>	
Net Investment in Capital Assets	222,604
Restricted - Nonexpendable	237,658
Restricted for Scholarships	423
Unrestricted (Deficit)	(954,129)
<b>TOTAL NET POSITION</b>	<b>\$ (493,444)</b>

**LITCHVILLE-MARION PUBLIC SCHOOL DISTRICT NO. 46**  
**MARION, NORTH DAKOTA**  
**STATEMENT OF ACTIVITIES – GOVERNMENTAL ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2018**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Position</u>
<b>GOVERNMENTAL ACTIVITIES</b>				
Instruction:				
Regular instruction	\$ 1,337,478	\$ -	\$ -	\$ (1,337,478)
Special education & federal programs	185,966	-	64,737	(121,229)
Vocational education	49,017	-	-	(49,017)
Support Services:				
Administrative and library	262,673	-	-	(262,673)
Transportation	229,403	-	111,605	(117,798)
Operation and maintenance	444,462	-	-	(444,462)
Student Activities	56,387	-	-	(56,387)
School food services	123,578	49,091	41,588	(32,899)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<u>\$ 2,688,964</u>	<u>\$ 49,091</u>	<u>\$ 217,930</u>	<u>(2,421,943)</u>
<b>GENERAL REVENUES</b>				
Property taxes				992,704
State aid not restricted to a specific function				1,194,881
Interest income				2,565
Other revenues				104,508
<b>TOTAL GENERAL REVENUES</b>				<u>2,294,658</u>
<b>Change in Net Position</b>				(127,285)
<b>Net Position-Beginning</b>				<u>(366,159)</u>
<b>Net Position-Ending</b>				<u>\$ (493,444)</u>

**LITCHVILLE-MARION PUBLIC SCHOOL DISTRICT NO. 46**  
**MARION, NORTH DAKOTA**  
**BALANCE SHEET – GOVERNMENTAL FUNDS**  
**AS OF JUNE 30, 2018**

	<b>General Fund</b>	<b>Food Service Fund</b>	<b>Permanent Fund</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>				
Cash	\$ 617,207	\$ 1,000	\$ 423	\$ 618,630
Investments	-	-	237,658	237,658
Due from County	6,518	-	-	6,518
Property Taxes Receivable	37,155	-	-	37,155
<b>TOTAL ASSETS</b>	<b><u>\$ 660,880</u></b>	<b><u>\$ 1,000</u></b>	<b><u>\$ 238,081</u></b>	<b><u>\$ 899,961</u></b>
<b>LIABILITIES</b>				
Accounts payable	\$ 2,912	\$ -	\$ -	\$ 2,912
<b>TOTAL LIABILITIES</b>	<b><u>2,912</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>2,912</u></b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable Property Taxes-Delinquent	37,155	-	-	37,155
<b>FUND BALANCES</b>				
Nonspendable Permanent Fund Principal	-	-	237,658	237,658
Restricted for Scholarships	-	-	423	423
Assigned Food Service	-	1,000	-	1,000
Unassigned	620,813	-	-	620,813
<b>TOTAL FUND BALANCES</b>	<b><u>620,813</u></b>	<b><u>1,000</u></b>	<b><u>238,081</u></b>	<b><u>859,894</u></b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b><u>\$ 660,880</u></b>	<b><u>\$ 1,000</u></b>	<b><u>\$ 238,081</u></b>	<b><u>\$ 899,961</u></b>

See Notes to the Financial Statements

**LITCHVILLE-MARION PUBLIC SCHOOL DISTRICT NO. 46**  
**MARION, NORTH DAKOTA**  
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
STATEMENT OF NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2018

Total fund balances - governmental funds \$ 859,894

Amounts reported for governmental activities in the statement  
of net position are different because:

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

Land	\$	70,724	
Buildings		1,001,324	
Vehicles and equipment		52,494	
Less: accumulated depreciation		<u>(901,938)</u>	222,604

Net deferred outflows (inflows) of resources relating to the cost sharing  
of defined benefit plans in the governmental activities are not financial  
resources and therefore, are not reported as deferred outflows (inflows)  
of resources in the governmental funds. 192,162

Property taxes receivable will be collected during the year, but are  
not available soon enough to pay for the current period's expenditures,  
and therefore are deferred in the funds. 37,155

Long-term liabilities are not due and payable in the current period and  
therefore are not reported as liabilities in the governmental funds.  
Net Pension Liability (1,805,259)

Total net position - governmental activities \$ (493,444)

**LITCHVILLE-MARION PUBLIC SCHOOL DISTRICT NO. 46**  
**MARION, NORTH DAKOTA**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

	<b>General Fund</b>	<b>Food Service Fund</b>	<b>Permanent Fund</b>	<b>Total Governmental Funds</b>
<b>REVENUES</b>				
Property taxes	\$ 981,930	\$ -	\$ -	\$ 981,930
Revenue from state sources	1,306,486	-	-	1,306,486
Revenue from federal sources	64,737	41,588	-	106,325
Other local sources	104,508	49,091	-	153,599
Interest income	1,082	-	1,483	2,565
<b>TOTAL REVENUES</b>	<b>2,458,743</b>	<b>90,679</b>	<b>1,483</b>	<b>2,550,905</b>
<b>EXPENDITURES</b>				
Current				
Regular instruction	1,277,952	-	-	1,277,952
Special education & federal programs	185,966	-	-	185,966
Vocational education	49,017	-	-	49,017
Administrative and library	262,673	-	-	262,673
Transportation	227,163	-	-	227,163
Operation and maintenance	437,259	-	-	437,259
Student activities	54,985	-	1,402	56,387
School food services	-	123,578	-	123,578
<b>TOTAL EXPENDITURES</b>	<b>2,495,015</b>	<b>123,578</b>	<b>1,402</b>	<b>2,619,995</b>
<b>EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES</b>	<b>(36,272)</b>	<b>(32,899)</b>	<b>81</b>	<b>(69,090)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	31,871	-	31,871
Transfers out	(31,871)	-	-	(31,871)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(31,871)</b>	<b>31,871</b>	<b>-</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(68,143)</b>	<b>(1,028)</b>	<b>81</b>	<b>(69,090)</b>
<b>FUND BALANCE, BEGINNING OF YEAR</b>	<b>688,956</b>	<b>2,028</b>	<b>238,000</b>	<b>928,984</b>
<b>FUND BALANCE, END OF YEAR</b>	<b>\$ 620,813</b>	<b>\$ 1,000</b>	<b>\$ 238,081</b>	<b>\$ 859,894</b>

See Notes to the Financial Statements



**LITCHVILLE-MARION PUBLIC SCHOOL DISTRICT NO. 46**  
**MARION, NORTH DAKOTA**  
RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES TO THE  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2018

Total net change in fund balances - governmental funds \$ (69,090)

Amounts reported for governmental activities in the statement  
of activities are different because:

Capital outlays are reported in governmental funds as expenditures. However in  
the statement of activities, the cost of those assets is allocated over the estimated  
useful lives as depreciation expense.

Capital outlays	\$ -	
Depreciation expense	<u>(9,443)</u>	(9,443)

Some revenues will not be collected for several months after the District's  
fiscal year end. These revenues are not considered "available" revenues  
in the governmental funds. These consist of:

Net change in unavailable property taxes	10,774
------------------------------------------	--------

Changes in deferred outflows and inflows of resources related to net pension liability	(180,199)
----------------------------------------------------------------------------------------	-----------

Changes in net pension liability	<u>120,673</u>
----------------------------------	----------------

Change in net position - governmental activities	<u><u>\$ (127,285)</u></u>
--------------------------------------------------	----------------------------

**LITCHVILLE-MARION PUBLIC SCHOOL DISTRICT NO. 46**  
**MARION, NORTH DAKOTA**  
**STATEMENT OF NET POSITION – FIDUCIARY FUNDS**  
**AS OF JUNE 30, 2018**

	<u>Student Activities Fund</u>	<u>Scholarship Fund</u>	<u>Flex Fund</u>	<u>Total Fiduciary Funds</u>
<b>ASSETS</b>				
Cash	\$ 19,687	\$ 1,535	\$ 9,228	\$ 30,450
<b>TOTAL ASSETS</b>	<u>\$ 19,687</u>	<u>\$ 1,535</u>	<u>\$ 9,228</u>	<u>\$ 30,450</u>
<b>LIABILITIES</b>				
Due to Student Groups	\$ 19,687	\$ -	\$ -	\$ 19,687
Due to Employees	-	-	9,228	9,228
<b>TOTAL LIABILITIES</b>	<u>19,687</u>	<u>-</u>	<u>9,228</u>	<u>28,915</u>
<b>NET POSITION</b>				
Restricted for Scholarships	-	1,535	-	1,535
<b>TOTAL NET POSITION</b>	<u>\$ -</u>	<u>\$ 1,535</u>	<u>\$ -</u>	<u>\$ 1,535</u>

See Notes to the Financial Statements

**LITCHVILLE-MARION PUBLIC SCHOOL DISTRICT NO. 46**  
**MARION, NORTH DAKOTA**  
STATEMENT OF CHANGES IN NET POSITION – FIDUCIARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2018

	<b>Scholarship Fund</b>
<b>ADDITIONS</b>	
Contributions:	
Other	\$ 318
<b>TOTAL ADDITIONS</b>	<b>318</b>
<b>DEDUCTIONS</b>	
Scholarships awarded	-
<b>Change in Net Position</b>	318
<b>Net Position—Beginning of the Year</b>	1,217
<b>Net Position—End of the Year</b>	<b>\$ 1,535</b>

See Notes to the Financial Statements

**LITCHVILLE-MARION PUBLIC SCHOOL DISTRICT NO. 46**  
**MARION, NORTH DAKOTA**  
NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2018

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

The District, in accordance with government accounting standards, has developed criteria to determine whether outside agencies with activities which benefit the District should be included within its financial reporting entity. The criteria include, but are not limited to, whether the District exercises oversight responsibility on financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters, scope of public service and special financing relationships. The District has determined that no other outside agency meets the above criteria and, therefore, no other agency has been included as a component unit in the District's financial statements.

**Basis of Presentation**

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

The District's basic financial statements consist of government-wide statements and fund financial statements.

**Government-wide Financial Statements**

The government-wide financial statements are prepared using the economic resources measurement focus. All assets, deferred outflows of resources, liabilities and deferred inflows of resources associated with the operation of the District are included in the statement of net position.

Government-wide financial statements are prepared on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The government-wide financial statements consist of a statement of net position and a statement of activities. These statements display information about the District as a whole. These statements include all the financial activities of the District, except for the fiduciary funds. The fiduciary funds are only reported in the Statement of Fiduciary Net Position at the fund financial statement level.

The statement of net position presents the financial condition of the governmental activities of the District at year-end.

The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the District's governmental activities. The statement identifies the extent to which each governmental function is self-financing or drawing from the general revenues of the District. Direct expenses are expenses that are specifically associated with a service, program or department. The direct expenses are clearly identifiable to a particular function. Program revenues include charges to recipients for goods or services offered by the program, grants and contributions that are restricted to meet the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the District.

**LITCHVILLE-MARION PUBLIC SCHOOL DISTRICT NO. 46**  
**MARION, NORTH DAKOTA**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
AS OF JUNE 30, 2018

### **Fund Financial Statements**

The governmental funds are accounted for using a flow of current financial resources measurement focus. Under this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reports on the sources and uses of current financial resources.

The District's governmental funds use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they become measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The District considers revenues to be available if they are collected within 60 days of the end of its fiscal year. Expenditures are generally recorded as the related fund liability is incurred.

The current financial resources measurement focus differs from the manner that the governmental activities of the government-wide financial statements are prepared. Due to the difference, the District's financial statements include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for government funds.

Separate fund financial statements are provided for governmental and fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. Typically, aggregated information for the remaining non-major governmental funds is reported in a single column in the fund financial statements; currently, however, all funds of the District are considered major in the fund financial statements. Fiduciary funds are presented in the fiduciary fund financial statements by type. Since by definition, fiduciary fund assets are being held for the benefit of a third party and cannot be used for activities or obligations of the District, these funds are excluded from the District-wide financial statements.

### **Governmental Funds**

Governmental funds are utilized to account for most of the District's governmental functions. The reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which the obligation will be paid. Fund balance represents the difference between the governmental fund assets and liabilities. The District's major governmental funds consist of the following:

#### General Fund

This fund is the general operating fund of the District. It accounts for all financial resources except those requiring to be accounted for in another fund.

#### Food Service

This fund accounts for the financial resources associated with the District's hot lunch program.

#### Permanent Fund

This fund accounts for assets a government holds in a trustee capacity for others when the principal of the trust is held intact and only the income earned by the principal may be used for the purpose specified in the trust agreement.

**LITCHVILLE-MARION PUBLIC SCHOOL DISTRICT NO. 46**  
**MARION, NORTH DAKOTA**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
AS OF JUNE 30, 2018

**Non-major Governmental Funds**

Typically, aggregated information for the non-major governmental funds is reported in a single column in the fund financial statements; currently, however, all funds of the District are considered major in the fund financial statements so there are no non-major funds in the District's financial statements.

**Fiduciary Funds**

The reporting focus of fiduciary funds is on net position and changes in net position. The District's fiduciary funds consist of the following:

Student Activity Fund

This fund accounts for the financial transactions related to the District's student activity programs. This fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations.

Scholarship Fund

This fund accounts for contributions a government holds in a trustee capacity for others.

Flex Fund

This fund accounts for employee funds withheld for their flexible spending benefits.

**Revenues-Exchange and Non-Exchange Transactions**

Exchange transactions are transactions in which each party gives and receives essentially equal value. Under the accrual basis of accounting, revenue for exchange transactions is recorded when the exchange takes place. Under the modified accrual basis of accounting, revenue for exchange transactions is recorded when the resources are measurable and available.

Non-exchange transactions include transactions in which the District receives value without directly providing value in return. Non-exchange transactions include property taxes, grants, entitlements, and donations.

Under the accrual basis of accounting, property taxes are recorded as revenue in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations are recorded in the fiscal year in which all eligibility requirements have been satisfied. Under the modified accrual basis of accounting, revenue from non-exchange transactions must also be available before it is recorded in the financial records of the District.

Revenue sources susceptible to accrual include: property taxes, intergovernmental revenues and investment income.

**Unearned Revenues**

Unearned revenue arises when assets are recognized in the financial statements before the revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as unearned revenues.

**LITCHVILLE-MARION PUBLIC SCHOOL DISTRICT NO. 46**  
**MARION, NORTH DAKOTA**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
AS OF JUNE 30, 2018

**Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resource (expense/ expenditure) until that time. The District has one item reported on the statement of net position as *cost sharing defined benefit pension plan*, which represents actuarial differences within the TFFR pension plan. See Note 4 for more details.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable property taxes – delinquent*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from one source, property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The District also has one item reported on the statement of net position as *cost sharing defined benefit pension plan*, which represents the actuarial differences within the TFFR pension plan as well as amounts paid to the plans after the measurement date. See Note 4 for more details.

**Budgets and Budgetary Accounting**

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent, with the assistance of the business managers, prepares the School District budget. The budget includes proposed expenditures and the means of financing them. The budget is prepared on a modified accrual basis.
2. The School Board reviews the budget, may make revisions, and approves the final budget on or before August 15. The final budget must be filed with the county auditor by August 25 of each year.
3. 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, of each year. The budget amounts shown in the financial statements are the final authorized amounts as revised.
4. The balance of each appropriation becomes a part of the unappropriated balance at year-end.

**Cash and Cash Equivalents**

The District considers all highly liquid investments with original maturities of three months or less when purchased to be cash equivalents.

**LITCHVILLE-MARION PUBLIC SCHOOL DISTRICT NO. 46**  
**MARION, NORTH DAKOTA**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
AS OF JUNE 30, 2018

**Investments**

Investments consist solely of certificates of deposit with maturities of longer than three months.

**Capital Assets**

Capital assets are capitalized at historical cost or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their acquisition value at the date of donation. The District has established a capitalization threshold of \$5,000. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded in the District-wide financial statements but are not reported in the fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Useful lives vary from 20 to 50 years for land improvements and buildings, and 5 to 20 years for equipment and vehicles.

Capital assets not being depreciated include land. The District does not possess any material amounts of infrastructure capital assets. Items such as sidewalks and other land improvements are considered to be part of the cost of buildings or other improvable property.

**Property taxes**

Property tax levies are set by the School Board each year and are certified to the County for collection in the following year. In North Dakota, counties act as collection agents for all property taxes. The counties spread all levies over taxable property. Property taxes are attached as an enforceable lien on the real estate and become due January 1 of the year following the assessment date. A 5% reduction is allowed if paid by February 15th.

Penalty and interest are added March 1st unless the first half of the taxes has been paid. Additional penalties are added October 15th if not paid.

Property tax revenues are recognized when they become available. Available includes those property tax receivables expected to be collected within sixty days after year end. All other taxes are presented as deferred inflows of resources.

**Compensated Absences**

Compensated absences are recorded as an expenditure when taken by the employee of the District.

**Pensions**

For purposes of measuring the 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 Teachers' Fund for Retirement (TFFR) and additions to/deductions from TFFR's fiduciary net position have been determined on the same basis as they are reported by TFFR. 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.



**LITCHVILLE-MARION PUBLIC SCHOOL DISTRICT NO. 46**  
**MARION, NORTH DAKOTA**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
AS OF JUNE 30, 2018

**Fund Balance**

In the fund financial statements, governmental funds report fund balance in the classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

*Nonspendable* – consists of amounts that are not in spendable form, such as inventory and prepaid items.

*Restricted* – consists of amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions and administered by the North Dakota Department of Public Instruction.

*Committed* – consists of internally imposed constraints. These constraints are established by Resolution of the Board of Education.

*Assigned* – consists of internally imposed constraints. These constraints reflect the specific purpose for which it is the District's intended use. These constraints are established by the Board of Education and/or management.

*Unassigned* – is the residual classification for the general fund and also reflects negative residual amounts in other funds.

When both restricted and unrestricted resources are available for use, the District's preference is to first use restricted resources, and then use unrestricted resources as they are needed.

When committed, assigned or unassigned resources are available for use, the District's preference is to use resources in the following order; 1) restricted 2) committed 3) assigned and 4) unassigned.

**Net Position**

In the government-wide financial statements, equity is classified as "net position" and displayed in three components:

1. Net Investment in Capital Assets – Consists of the remaining undepreciated cost of the assets less the outstanding debt associated with the purchase or construction of the related asset.
2. Restricted Net Position – Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
3. Unrestricted Net Position – All other net position that does not meet the definition of "restricted" or "net investment in capital assets".

**Minimum Fund Balance Policy**

The Board of Education has not formally adopted a fund balance policy for the General Fund, however, the Board tries to maintain a fund balance of not less than 10% of the General Fund's current annual operating expenditure budget.

**LITCHVILLE-MARION PUBLIC SCHOOL DISTRICT NO. 46**  
**MARION, NORTH DAKOTA**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
AS OF JUNE 30, 2018

**Inter-fund Activity**

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as inter-fund transfers. Inter-fund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

**Significant Group Concentrations of Credit Risk**

As of June 30, 2018, the District's receivables consist of amounts due from other governmental units located within the State of North Dakota.

**Encumbrances**

Encumbrances, which represent commitments related to unperformed contracts for goods or services, have not been recorded in the financial statements.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from those estimates.

**NOTE 2 - CASH AND INVESTMENTS**

The District's funds are required to be deposited and invested with the designated depositories in accordance with the laws of North Dakota. North Dakota laws require all public deposits be protected by insurance, surety bond, or collateral pledged by the financial institution. Pledged collateral must equal 110% of the deposits not covered by insurance or bonds.

The District's investments consist of certificates of deposit.

**Interest Rate Risk**

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Credit Risk**

North Dakota laws restrict allowable investments for public funds in order to safeguard the principle on investments. North Dakota law authorizes political subdivisions including school districts to invest surplus funds in:

- a) Bonds, treasury bills and notes, or other securities that are a direct obligation of, or an obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities or organizations created by an act of Congress.
- b) 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.

**LITCHVILLE-MARION PUBLIC SCHOOL DISTRICT NO. 46**  
**MARION, NORTH DAKOTA**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
AS OF JUNE 30, 2018

- c) Certificates of Deposit fully insured by the federal deposit insurance corporation or the state.
- d) Obligations of the State.

**NOTE 3 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2018 was as follows:

	Balance 6-30-17	Additions	Disposals	Balance 6-30-18
<b>Governmental Activities</b>				
Land	\$ 70,724	\$ -	\$ -	\$ 70,724
Buildings	1,001,324	-	-	1,001,324
Vehicles and equipment	52,494	-	-	52,494
<b>Total</b>	<u>1,124,542</u>	<u>-</u>	<u>-</u>	<u>1,124,542</u>
<b>Less Accumulated Depreciation</b>				
Buildings	853,203	7,203	-	860,406
Vehicles and equipment	39,292	2,240	-	41,532
<b>Total</b>	<u>892,495</u>	<u>9,443</u>	<u>-</u>	<u>901,938</u>
<b>Net Capital Assets for</b>				
Governmental Activities	<u>\$ 232,047</u>	<u>\$ (9,443)</u>	<u>\$ -</u>	<u>\$ 222,604</u>

Depreciation expense is charged to the various functions in the Statement of Activities as follows:

	<u>Depreciation</u>
Transportation	\$ 2,240
Operation and maintenance	7,203
	<u>\$ 9,443</u>

**NOTE 4 - PENSION PLAN**

**North Dakota Teacher's Fund For Retirement**

The following brief description of TFFR is provided for general information purposes only. Participants should refer to NDCC Chapter 15-39.1 for more complete information.

TFFR is a cost-sharing multiple-employer defined benefit pension plan covering all North Dakota public teachers and certain other teachers who meet various membership requirements. TFFR provides for pension, death and disability benefits. The cost to administer the TFFR plan is financed by investment income and contributions.

Responsibility for administration of the TFFR benefits program is assigned to a seven-member Board of Trustees (Board). The Board consists of the State Treasurer, the Superintendent of Public Instruction, and five members appointed by the Governor. The appointed members serve five-year terms which end on June 30 of alternate years. The appointed Board members must include two active teachers, one active school administrator, and two retired members. The TFFR Board submits any necessary or desirable changes in statutes relating to the

**LITCHVILLE-MARION PUBLIC SCHOOL DISTRICT NO. 46**  
**MARION, NORTH DAKOTA**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
AS OF JUNE 30, 2018

administration of the fund, including benefit terms, to the Legislative Assembly for consideration. The Legislative Assembly has final authority for changes to benefit terms and contribution rates.

**Pension Benefits**

For purposes of determining pension benefits, members are classified within one of three categories. Tier 1 grandfathered and Tier 1 non-grandfathered members are those with service credit on file as of July 1, 2008. Tier 2 members are those newly employed and returning refunded members on or after July 1, 2008.

*Tier 1 Grandfathered*

A Tier 1 grandfathered member is entitled to receive unreduced benefits when three or more years of credited service as a teacher in North Dakota have accumulated, the member is no longer employed as a teacher and the member has reached age 65, or the sum of age and years of service credit equals or exceeds 85. TFFR permits early retirement from ages 55 to 64, with benefits actuarially reduced by 6% per year for every year the member's retirement age is less than 65 years or the date as of which age plus service equal 85. In either case, benefits may not exceed the maximum benefits specified in Section 415 of the Internal Revenue Code.

Pension benefits paid by TFFR are determined by NDCC Section 15-39.1-10. Monthly benefits under TFFR are equal to the three highest annual salaries earned divided by 36 months and multiplied by 2.00% times the number of service credits earned. Retirees may elect payment of benefits in the form of a single life annuity, 100% or 50% joint and survivor annuity, ten or twenty-year term certain annuity, partial lump-sum option or level income with Social Security benefits. Members may also qualify for benefits calculated under other formulas.

*Tier 1 Non-grandfathered*

A Tier 1 non-grandfathered member is entitled to receive unreduced benefits when three or more years of credited service as a teacher in North Dakota have accumulated, the member is no longer employed as a teacher and the member has reached age 65, or has reached age 60 and the sum of age and years of service credit equals or exceeds 90. TFFR permits early retirement from ages 55 to 64, with benefits actuarially reduced by 8% per year from the earlier of age 60/Rule of 90 or age 65. In either case, benefits may not exceed the maximum benefits specified in Section 415 of the Internal Revenue Code.

Pension benefits paid by TFFR are determined by NDCC Section 15-39.1-10. Monthly benefits under TFFR are equal to the three highest annual salaries earned divided by 36 months and multiplied by 2.00% times the number of service credits earned. Retirees may elect payment of benefits in the form of a single life annuity, 100% or 50% joint and survivor annuity, ten or twenty-year term certain annuity, partial lump-sum option or level income with Social Security benefits. Members may also qualify for benefits calculated under other formulas.

*Tier 2*

A Tier 2 member is entitled to receive unreduced benefits when five or more years of credited service as a teacher in North Dakota have accumulated, the member is no longer employed as a teacher and the member has reached age 65, or has reached age 60 and the sum of age and years of service credit equals or exceeds 90. TFFR permits early retirement from ages 55 to 64, with benefits actuarially reduced by 8% per year from the earlier of age 60/Rule of 90 or age 65. In either case, benefits may not exceed the maximum benefits specified in Section 415 of the Internal Revenue Code.

**LITCHVILLE-MARION PUBLIC SCHOOL DISTRICT NO. 46**  
**MARION, NORTH DAKOTA**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
AS OF JUNE 30, 2018

Pension benefits paid by TFFR are determined by NDCC Section 15-39.1-10. Monthly benefits under TFFR are equal to the five highest annual salaries earned divided by 60 months and multiplied by 2.00% times the number of service credits earned. Retirees may elect payment of benefits in the form of a single life annuity, 100% or 50% joint and survivor annuity, ten or twenty-year term certain annuity, partial lump-sum option or level income with Social Security benefits. Members may also qualify for benefits calculated under other formulas.

### **Death and Disability Benefits**

Death benefits may be paid to a member's designated beneficiary. If a member's death occurs before retirement, the benefit options available are determined by the member's vesting status prior to death. If a member's death occurs after retirement, the death benefit received by the beneficiary (if any) is based on the retirement plan the member selected at retirement.

An active member is eligible to receive disability benefits when: (a) a total disability lasting 12 months or more does not allow the continuation of teaching, (b) the member has accumulated five years of credited service in North Dakota, and (c) the Board of Trustees of TFFR has determined eligibility based upon medical evidence. The amount of the disability benefit is computed by the retirement formula in NDCC Section 15-39.1-10 without consideration of age and uses the member's actual years of credited service. There is no actuarial reduction for reason of disability retirement.

### **Member and Employer Contributions**

Member and employer contributions paid to TFFR are set by NDCC Section 15-39.1-09. Every eligible teacher in the State of North Dakota is required to be a member of TFFR and is assessed at a rate of 11.75% of salary as defined by NDCC Section 15-39.1-04. Every governmental body employing a teacher must also pay into TFFR a sum equal to 12.75% of the teacher's salary. Member and employer contributions will be reduced to 7.75% each when the fund reaches 100% funded ratio on an actuarial basis.

A vested member who terminates covered employment may elect a refund of contributions paid plus 6% interest or defer payment until eligible for pension benefits. A non-vested member who terminates covered employment must claim a refund of contributions paid before age 70½. Refunded members forfeit all service credits under TFFR. These service credits may be repurchased upon return to covered employment under certain circumstances, as defined by the NDCC.

**LITCHVILLE-MARION PUBLIC SCHOOL DISTRICT NO. 46**  
**MARION, NORTH DAKOTA**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
AS OF JUNE 30, 2018

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

At June 30, 2018, the District reported a liability of \$1,805,259 for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Employer's proportion of the net pension liability was based on the Employer's share of covered payroll in the pension plan relative to the covered payroll of all participating TFFR employers. At July 1, 2017, the Employer's proportion was 0.131458 percent which was an increase of 0.000979 from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the Employer recognized pension expense of \$160,155. At June 30, 2018, the Employer 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 economic experience	\$ 6,924	\$ 19,707
Changes in actuarial assumptions	128,672	-
Difference between projected and actual investment earnings	24,936	-
Changes in proportion	8,159	57,451
Contributions paid to TFFR subsequent to the measurement date	100,629	-
Total	<u>\$ 269,320</u>	<u>\$ 77,158</u>

\$100,629 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019.

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 ending June 30:	Pension Expense Amount
2019	\$ 17,537
2020	56,649
2021	32,161
2022	(10,800)
2023	(1,951)
Thereafter	(2,063)

**Actuarial Assumptions**

The total pension liability in the July 1, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Salary increases	4.25% to 14.50%, varying by service, including inflation and productivity
Investment rate of return	7.75%, net of investment expenses
Cost-of-living adjustments	None

**LITCHVILLE-MARION PUBLIC SCHOOL DISTRICT NO. 46**  
**MARION, NORTH DAKOTA**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
AS OF JUNE 30, 2018

For active and inactive members, mortality rates were based on the RP-2014 Employee Mortality Table, projected generationally using Scale MP-2014. For healthy retirees, mortality rates were based on the RP-2014 Healthy Annuitant Mortality Table set back one year, multiplied by 50% for ages under 75 and grading up to 100% by age 80, projected generationally using Scale MP-2014. For disabled retirees, mortality rates were based on the RP-2014 Disabled Mortality Table set forward four years.

The actuarial assumptions used were based on the results of an actuarial experience study dated April 30, 2015. They are the same as the assumptions used in the July 1, 2017, funding actuarial valuation for TFFR.

As a result of the April 30, 2015 actuarial experience study, the TFFR Board adopted several assumption changes, including the following:

- Investment return assumption lowered from 8% to 7.75%.
- Inflation assumption lowered from 3% to 2.75%.
- Total salary scale rates lowered by 0.25% due to lower inflation.
- Added explicit administrative expense assumption, equal to prior year administrative expense plus inflation.
- Rates of turnover and retirement were changed to better reflect anticipated future experience.
- Updated mortality assumption to the RP-2014 mortality tables with generational improvement.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equities	58.00%	6.70%
Global Fixed Income	23.00%	0.80%
Global Real Assets	18.00%	5.20%
Cash Equivalents	1.00%	0.00%

**Discount Rate**

The discount rate used to measure the total pension liability was 7.75% percent as of June 30, 2017. 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, 2017, 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, 2017. Therefore, the long-term expected rate of return on pension plan investments was applied

**LITCHVILLE-MARION PUBLIC SCHOOL DISTRICT NO. 46**  
**MARION, NORTH DAKOTA**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
AS OF JUNE 30, 2018

to all periods of projected benefit payments to determine the total pension liability as of June 30, 2017.

**Pension Liability Sensitivity**

The following presents the Employer's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease in Discount Rate 6.75%	Discount Rate 7.75%	1% Increase in Discount Rate 8.75%
District's proportionate share of the TFFR net pension liability:	\$ 2,400,124	\$ 1,805,259	\$ 1,310,052

**Pension Plan Fiduciary Net Position**

Detailed information about the pension plan's fiduciary net position is available in the separately issued TFFR financial report. Request to obtain or review this report should be addressed to the North Dakota Retirement and Investment Office, 1930 Burnt Boat Dr., Bismarck, ND 58503.

**NOTE 5 - LONG TERM LIABILITIES**

A summary of long term liabilities is as follows:

Title	Interest Rate	Original Maturity	Balance 7/1/2017	Additions	Reductions	Balance 6/30/2018	Due within One Year
Net Pension Liability			<u>\$ 1,925,932</u>	<u>\$ 465,352</u>	<u>\$ 586,025</u>	<u>\$ 1,805,259</u>	<u>\$ -</u>

**NOTE 6 - COMMITMENTS AND CONTINGENCIES**

**Grant Programs**

The District participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at June 30, 2018, may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

**NOTE 7 - RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District carries insurance for risks of loss considered necessary, including workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. The District's property insurance is through the North Dakota State Fire and Tornado Fund, the liability insurance is provided through the North Dakota Insurance Reserve Fund, employee



**LITCHVILLE-MARION PUBLIC SCHOOL DISTRICT NO. 46**  
**MARION, NORTH DAKOTA**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
AS OF JUNE 30, 2018

bond is provided by the North Dakota State Bond Fund, and workers' compensation is provided by the North Dakota Workers' Compensation Bureau. Other risks are covered by private insurance.

**NOTE 8 - CHARITABLE TRUST**

The District has been named as trustee of a Trust Fund. The proceeds received each year are to be awarded to graduates of the Litchville-Marion Public School District by said trustees.

**NOTE 9 - INTERFUND ACTIVITY**

Schedule of Transfers

Transfer to Food Service from General fund \$ 31,871

Transfer is to fund the deficit from food service for the year.

**NOTE 10 - NON-MONETARY TRANSACTIONS**

The District receives food commodities from the federal government to subsidize its hot lunch program. The market value of commodities received for the year ended June 30, 2018 was \$6,251.

**NOTE 11 - NEW PRONOUNCEMENTS**

The Governmental Accounting Standards Board (GASB) has issued several new statements, some of which have not been implemented by the District.

GASB Statement No. 83, *Certain Asset Retirement Obligations*, addresses accounting and financial reporting for certain asset retirement obligations (AROs). This Statement establishes criteria for determining the timing and pattern of recognition of a liability and corresponding deferred outflow of resources for AROs. It also establishes disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

GASB Statement No. 84, *Fiduciary Activities*, provides guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

GASB Statement No. 87, *Leases*, establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This Statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing

**LITCHVILLE-MARION PUBLIC SCHOOL DISTRICT NO. 46**  
**MARION, NORTH DAKOTA**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
AS OF JUNE 30, 2018

the relevance and consistency of information about governments' leasing activities. This Statement is effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. This Statement is effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

GASB Statement No. 90, *Majority Equity Interests*, establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement provides guidance for reporting when a government has majority equity interest in legally separate organizations. An equity interest is explicit and measurable if the government has a present or future claim to the net resources of the entity and the method for measuring the government's share of the entity's net resources is determinable. If government's holding of that equity interest meets the definition of an investment, as defined by GASB No. 72, the equity interest should be reported as an investment and measured using the equity method and not as a component unit of the government. If a government's holding of a majority interest in a legally separate organization does not meet the definition of an investment, the holding of the majority equity interest results in the government being financially accountable for the organization and therefore, the government should report the legally separate organization as a component unit. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

Management has not yet determined the effect these statements will have on the District's financial statements.

**NOTE 12 - SUBSEQUENT EVENTS**

No significant events occurred subsequent to the District's year end. Subsequent events have been evaluated through December 5, 2018, which is the date these financial statements were available to be issued.

**LITCHVILLE-MARION PUBLIC SCHOOL DISTRICT NO. 46**  
**MARION, NORTH DAKOTA**  
**BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2018**

	<b>General Fund</b>			
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>REVENUES</b>				
Property taxes	\$ 1,002,000	\$ 1,002,000	\$ 981,930	\$ (20,070)
Revenue from state sources	1,293,310	1,293,310	1,306,486	13,176
Revenue from federal sources	68,290	68,290	64,737	(3,553)
Other local sources	83,650	83,650	104,508	20,858
Interest income	1,220	1,220	1,082	(138)
<b>TOTAL REVENUES</b>	<u>2,448,470</u>	<u>2,448,470</u>	<u>2,458,743</u>	<u>10,273</u>
<b>EXPENDITURES</b>				
Current				
Regular instruction	1,262,355	1,262,355	1,277,952	(15,597)
Special education	187,470	187,470	185,966	1,504
Vocational education	59,265	59,265	49,017	10,248
Administrative and library	268,551	268,551	262,673	5,878
Transportation	202,218	202,218	227,163	(24,945)
Operation and maintenance	382,609	382,609	437,259	(54,650)
Student activities	43,151	43,151	54,985	(11,834)
<b>TOTAL EXPENDITURES</b>	<u>2,405,619</u>	<u>2,405,619</u>	<u>2,495,015</u>	<u>(89,396)</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>42,851</u>	<u>42,851</u>	<u>(36,272)</u>	<u>(79,123)</u>
<b>OTHER SOURCES (USES)</b>				
Transfers out	(28,000)	(28,000)	(31,871)	(3,871)
<b>TOTAL OTHER SOURCES (USES)</b>	<u>(28,000)</u>	<u>(28,000)</u>	<u>(31,871)</u>	<u>(3,871)</u>
<b>NET CHANGE IN FUND BALANCE</b>	14,851	14,851	(68,143)	(82,994)
<b>FUND BALANCE - JULY 1</b>	<u>688,956</u>	<u>688,956</u>	<u>688,956</u>	<u>-</u>
<b>FUND BALANCE - JUNE 30</b>	<u>\$ 703,807</u>	<u>\$ 703,807</u>	<u>\$ 620,813</u>	<u>\$ (82,994)</u>

See Notes to the Budgetary Comparison Schedule

**LITCHVILLE-MARION PUBLIC SCHOOL DISTRICT NO. 46**  
**MARION, NORTH DAKOTA**  
 NOTES TO THE BUDGETARY COMPARISON SCHEDULE  
 AS OF JUNE 30, 2018

**NOTE 1 - BUDGETING POLICIES**

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent, with the assistance of the business managers, prepares the School District budget for the general fund. The budget includes proposed expenditures and the means of financing them. The budget is prepared on a modified accrual basis.
2. The School Board reviews the budget, may make revisions, and approves the final budget on or before August 15. The final budget must be filed with the county auditor by August 25 of each year.
3. 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, of each year. The budget amounts shown in the financial statements are the final authorized amounts as revised.
4. The balance of each appropriation becomes a part of the unappropriated balance at year-end.

The District legally adopts a budget for the general fund and does not legally adopt a budget for the special revenue fund.

**NOTE 2 - EXPENDITURES IN EXCESS OF BUDGET**

	Final Budget	Actual	Excess
<b>General Fund</b>			
Regular instruction	\$ 1,262,355	\$ 1,277,952	\$ 15,597
Transportation	202,218	227,163	24,945
Operation and maintenance	382,609	437,259	54,650
Student activities	43,151	54,985	11,834

Funds sufficient to provide for the excess expenditures were made available from other functions within the fund, and the excess has no impact on the financial results of the District.

**LITCHVILLE-MARION PUBLIC SCHOOL DISTRICT NO. 46**  
**MARION, NORTH DAKOTA**  
 SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
 LAST TEN YEARS

**Teachers Fund for Retirement**

For the Fiscal Year Ended June 30	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset) (a)	District's Covered- Employee Payroll	Proportionate Share of the Net Pension Liability (asset) as a Percentage of its Covered-employee Payroll	Plan Fiduciary Net Position as a Percentage Of the Total Pension Liability
2018	0.131432%	\$ 1,805,259	\$ 887,132	203.49%	63.20%
2017	0.131458%	1,925,932	854,113	225.49%	59.20%
2016	0.130479%	1,706,476	802,581	212.62%	62.10%
2015	0.139115%	1,457,679	806,940	180.64%	66.60%

The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension liability which is June 30 of the previous fiscal year.

The District implemented GASB Statement No. 68 for its fiscal year ended June 30, 2015. Information for prior years is not available.

**LITCHVILLE-MARION PUBLIC SCHOOL DISTRICT NO. 46**  
**MARION, NORTH DAKOTA**  
SCHEDULE OF DISTRICT'S CONTRIBUTIONS TO THE TFFR PENSION PLAN  
LAST TEN YEARS

**Teachers Fund for Retirement**

Fiscal Year Ended June 30	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2018	\$ 100,629	\$ (100,629)	\$ -	\$ 789,231	12.75%
2017	113,109	(113,109)	-	887,132	12.75%
2016	108,900	(108,900)	-	854,113	12.75%
2015	102,329	(102,329)	-	802,581	12.75%

The District implemented GASB Statement No. 68 for its fiscal year ended June 30, 2015. Information for prior years is not available.

**LITCHVILLE-MARION PUBLIC SCHOOL DISTRICT NO. 46**  
**MARION, NORTH DAKOTA**  
NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2018

**NOTE 1 CHANGES OF ASSUMPTIONS**

**TFFR**

Amounts reported in 2016 and later reflect the following actuarial assumption changes based on the results of an actuarial experience study dated April 30, 2015.

- Investment return assumption lowered from 8% to 7.75%.
- Inflation assumption lowered from 3% to 2.75%.
- Total salary scale rates lowered by 0.25% due to lower inflation.
- Added explicit administrative expense assumption, equal to prior year administrative expense plus inflation.
- Rates of turnover and retirement were changed to better reflect anticipated future experience.
- Updated mortality assumption to the RP-2014 mortality tables with generational improvement.



CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

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

To the Board of Education  
Litchville-Marion Public School District No. 46  
Marion, 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, each major fund, and the aggregate remaining fund information of Litchville-Marion Public School District No. 46 as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Litchville-Marion Public School District No. 46's basic financial statements and have issued our report thereon dated December 5, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Litchville-Marion Public School District No. 46's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the effectiveness of Litchville-Marion Public School District No. 46's internal control. Accordingly, we do not express an opinion on the effectiveness of Litchville-Marion Public School District No. 46's internal control.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

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 control deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 2018-001 to be a material weakness.



A *significant deficiency* is a deficiency, or 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. We consider the deficiency described in the accompanying schedule of findings and responses as item 2018-002 to be a significant deficiency.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Litchville-Marion Public School District No. 46's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **The District's Response to Findings**

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the District's responses and, accordingly, we express no opinion on them.

### **Purpose of this Report**

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



**BRADY, MARTZ & ASSOCIATES, P.C.  
GRAND FORKS, NORTH DAKOTA**

December 5, 2018

**LITCHVILLE-MARION PUBLIC SCHOOL DISTRICT NO. 46**  
**MARION, NORTH DAKOTA**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**FOR THE YEAR ENDED JUNE 30, 2018**

**Material Weakness 2018-001**

Criteria:

To provide reasonable assurance that segregation of duties take place while also taking into account the size of the District.

Condition:

The District has one office employee, who is responsible for all accounting functions. The individual issues all checks and distributes them and does the bank reconciliations. The individual also records receipts and disbursements to the journals and maintains the general ledger. The degree of internal control is severely limited.

Cause:

Considering the size of the District, it is not feasible to maintain proper separation of duties.

Effect:

Lack of segregation of duties leads to a limited degree of internal control.

Recommendation:

The District should attempt to maintain proper separation of duties, whenever possible.

Management's Response:

We concur with the auditor's' recommendation. The District will consider the costs and benefits of this recommendation. The Superintendent reviews and signoffs on the bank statements each month.

**LITCHVILLE-MARION PUBLIC SCHOOL DISTRICT NO. 46**  
**MARION, NORTH DAKOTA**  
**SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED**  
**FOR THE YEAR ENDED JUNE 30, 2018**

**Significant Deficiency 2018-002**

**Criteria:**

An organization should design an internal control system to provide for the preparation of financial statements of the District.

**Condition:**

The District does not have an internal control system designed to provide for the preparation of the financial statements being audited.

**Cause:**

The District personnel do not have the time to draft the financial statements and notes to the financial statements.

**Effect:**

As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements.

**Recommendation:**

It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations. Management and those charged with governance should consider engaging other accountants to draft the financial statements and notes to the financial statements.

**Management's Response:**

We concur with the auditor's finding and will consider the risks and costs associated with the financial statement preparation.

**LITCHVILLE – MARION PUBLIC SCHOOL DISTRICT NO. 46  
MARION, NORTH DAKOTA**

MANAGEMENT REPORT

AS OF JUNE 30, 2018

## **AUDIT COMMITTEE LETTER**



CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

December 5, 2018

To the Audit Committee  
The Litchville – Marion Public School District No. 46

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Litchville – Marion Public School District No. 46 for the year ended June 30, 2018 and have issued our report thereon dated December 5, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 27, 2018. Professional standards also require that we communicate to you the following information related to our audit.

#### Significant Audit Findings

##### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Litchville – Marion Public School District No. 46 are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2018. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the Litchville – Marion Public School District No. 46's financial statements were:

Management's estimates include assumptions used in determining the net pension liability for cost sharing defined benefit plans. We evaluated the key factors and assumptions used to determine future liabilities for defined benefit plans in determining that they are reasonable in relation to the financial statements taken as a whole.

The estimate of the District's actuarially calculated net pension liability and the related deferred outflows and deferred inflows of resources are based on several factors including but not limited to, the discount rate and actuarial assumptions.

The financial statement disclosures are neutral, consistent, and clear.

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule summarizes an uncorrected misstatement of the financial statements. Management has determined that its effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. Management has corrected all other misstatements. Although material, entries were made primarily to convert from a cash basis to accrual basis and are included in the attached schedule.

#### *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated December 5, 2018.

#### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

#### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### Other Matters

We applied certain limited procedures to the Management's Discussion and Analysis, the Budgetary Comparison Schedule of the General Fund, Schedule of District's Contributions to the TFFR Pension Plan, and Schedule of District's Proportionate Share of Net Pension Liability, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were not engaged to report on the roster of school officials, which accompanies the financial statements but is not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

### Restriction on Use

This information is intended solely for the use of Board of Education and management of Litchville – Marion Public School District No. 46 and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



**BRADY, MARTZ & ASSOCIATES, P.C.**  
**GRAND FORKS, NORTH DAKOTA**



Client: **89620 - Litchville-Marion School District #46**  
 Engagement: **89620 - Litchville-Marion School District #46**  
 Period Ending: **6/30/2018**  
 Trial Balance: **2400.00 - TB**  
 Workpaper: **2200.01 - Adjusting Journal Entries Report**

Account	Description	W/P Ref	Debit	Credit
<b>Adjusting Journal Entries JE # 1</b>				
To adjust property taxes receivable and deferred revenue.				
1-100-0000-113	Taxes Receivable		10,773.00	
1-200-0000-521	Deferred Revenue			10,773.00
<b>Total</b>			<b>10,773.00</b>	<b>10,773.00</b>
<b>Adjusting Journal Entries JE # 2</b>				
To record prior year depreciation and additions				
9-100-0000-711	GFA - Invested in Capital Assets, Net of Related Debt		5,143.00	
9-100-0000-232	GFA - Buildings A/D			2,903.00
9-100-0000-242	GFA - Vehicles & Equipment A/D			2,240.00
<b>Total</b>			<b>5,143.00</b>	<b>5,143.00</b>
<b>Adjusting Journal Entries JE # 4</b>				
To adjust receivable for Title II per client				
1-100-0000-141	Accounts Receivable		1,236.44	
1-400-4517-400	Revenue from Federal Sources - REAP Title 2/A-Retention			1,236.44
<b>Total</b>			<b>1,236.44</b>	<b>1,236.44</b>
<b>Adjusting Journal Entries JE # 5</b>				
To adjust for prior year error in closing and correct entry for flex accounts posted to fund balance				
1-300-0000-762	Fund Balance - Unreserved - Undesignated		9,297.03	
1-500-1000-210-120	Instruction - Insurance			3,891.36
1-500-2600-430	Maintenance/Operations - Repairs			5,405.67
<b>Total</b>			<b>9,297.03</b>	<b>9,297.03</b>
<b>Adjusting Journal Entries JE # 6</b>				
To record additional accounts payable				
1-500-1000-562-140	Tuition to Beach School		2,911.86	
1-200-0000-421	Accounts Payable			2,911.86
<b>Total</b>			<b>2,911.86</b>	<b>2,911.86</b>
<b>Adjusting Journal Entries JE # 7</b>				
To adjust accumulated depreciation to actual				
		<b>4600.01</b>		
9-100-0000-711	GFA - Invested in Capital Assets, Net of Related Debt		9,443.00	
9-100-0000-232	GFA - Buildings A/D			7,203.00
9-100-0000-242	GFA - Vehicles & Equipment A/D			2,240.00
<b>Total</b>			<b>9,443.00</b>	<b>9,443.00</b>
<b>Adjusting Journal Entries JE # 8</b>				
To correct beginning fund balances				
		<b>6001.00</b>		
7-300-1000-762	Fund Balance - Unreserved		342.00	
7-300-1000-763	Fund Balance - Reserved			342.00
<b>Total</b>			<b>342.00</b>	<b>342.00</b>
<b>Adjusting Journal Entries JE # 9</b>				
To correct flex fund due to employees				
8-200-0000-455	Due to employees		3,403.00	

Client: **89620 - Litchville-Marion School District #46**  
Engagement: **89620 - Litchville-Marion School District #46**  
Period Ending: **6/30/2018**  
Trial Balance: **2400.00 - TB**  
Workpaper: **2200.01 - Adjusting Journal Entries Report**

<b>Account</b>	<b>Description</b>	<b>W/P Ref</b>	<b>Debit</b>	<b>Credit</b>
8-100-0000-602	Expenditures			3,403.00
<b>Total</b>			<b>3,403.00</b>	<b>3,403.00</b>

Client: **89620 - Litchville-Marion School District #46**  
 Engagement: **89620 - Litchville-Marion School District #46**  
 Period Ending: **6/30/2018**  
 Trial Balance: **2400.00 - TB**  
 Workpaper: **2200.03 - Passed Journal entry Report**

Account	Description	W/P Ref	Debit	Credit
<b>Passed Journal entry JE # 3</b>				
To record accrued salaries for compensated absences-government wide statements				
1-500-1000-110-340	Instruction - Certified Salary		5,928.00	
1-200-0000-421	Accounts Payable			5,928.00
<b>Total</b>			<b>5,928.00</b>	<b>5,928.00</b>

## **MANAGEMENT LETTER**



CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

To the Board of Education  
Litchville – Marion Public School District No. 46  
Marion, North Dakota

In planning and performing our audit of the financial statements of Litchville – Marion Public School District No. 46 (District) for the year ended June 30, 2018, in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, we considered the District's internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

However, during our audit we became aware of deficiencies in internal control other than material weaknesses and significant deficiencies that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. We previously communicated to you about the District's internal control in our letter dated December 5, 2018. This letter does not affect our report dated December 5, 2018, on the financial statements of Litchville – Marion Public School District No. 46.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various personnel of the District, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of the Board of Education and management and should not be used for any other purpose. We did not audit the District's responses included in this letter, and accordingly, express no opinion on them.

We wish to take this opportunity to thank the Board of Education and management for the opportunity to provide these services and to extend our thanks to your personnel for their cooperation and assistance during our engagement.

If you have any questions in regard to our audit, please do not hesitate to contact us.

A handwritten signature in cursive script that reads "Brady Martz".

**BRADY, MARTZ & ASSOCIATES, P.C.**  
**GRAND FORKS, NORTH DAKOTA**

December 5, 2018

**Litchville – Marion Public School District No. 46**  
**Management Letter Memorandum**  
**For the Year Ended June 30, 2018**

**1. Observation:**

Noted invoices, bank statements, bank reconciliations and journal entries are not being formally approved by someone different than the person preparing them. The District noted that the board president reviews invoices when signing checks but does not formally sign off on them.

**Recommendation:**

We recommend the District to have the superintendent review and sign off on all invoices, bank statements, bank reconciliations and journal entries to help mitigate segregation of duties.

**2. Observation:**

Noted vendor totals are included in the board minutes but no check numbers.

**Recommendation**

We recommend the District add check numbers or ranges to ensure no gaps in checks from month to month.