

**VALLEY CITY PUBLIC SCHOOL DISTRICT
VALLEY CITY, NORTH DAKOTA**

**FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018**

VALLEY CITY PUBLIC SCHOOL DISTRICT
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VALLEY CITY PUBLIC SCHOOL DISTRICT
LIST OF OFFICIALS
JUNE 30, 2018

BOARD OF EDUCATION:

OFFICE

Joyce Braunagel
Patrick Callahan
Ryan Mathias
Val Moritz
Rich Schueneman

President
Vice-president

ADMINISTRATION:

Josh Johnson
Linda Heit

Superintendent
Business Manager

Harold J. Rotunda
Certified Public Accountant
INDEPENDENT AUDITOR'S REPORT

School Board
Valley City Public School District
Valley City, North Dakota

I have audited the accompanying modified cash basis financial statements of the governmental activities, each major fund and aggregate remaining fund information of Valley City Public School District 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 the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with U.S. generally accepted auditing standards 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 in 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Valley City Public School District as of June 30, 2018, and the changes in the modified cash basis financial position and cash flows, where applicable, thereof for the years then ended, in conformance with the modified cash basis of accounting.

Emphasis of Matter

As Discussed in Note 11 to the financial statements, the 2017 **financial statements have been restated to correct misstatements. My opinion is not modified with respect to this matter.**

Basis of Accounting

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, I have also issued reports dated October 27, 2022, on my considerations of the District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control over financial reporting and compliance.

West Fargo, North Dakota
October 27, 2022

VALLEY CITY PUBLIC SCHOOL
STATEMENT OF NET POSITION- MODIFIED CASH BASIS
JUNE 30, 2018

	GOVERNMENTAL ACTIVITIES
ASSETS	
Cash and investments	6,032,406.05
Capital assets (net of accumulated depreciation)	6,622,890.71
Total Assets	12,655,296.76
LIABILITIES	
Accounts Payable	-
Long-term liabilities:	
Due within one year:	
Bonds payable	-
Notes payable	59,194.34
Due after one year:	
Bonds payable	2,715,000.00
Notes payable	62,630.89
Total liabilities	2,836,825.23
NET POSITION	
Net investment in capital assets	3,786,065.48
Restricted for:	
Capital projects	2,515,787.50
Debt service	804,052.89
Unrestricted	2,712,565.66
Total Net Position	9,818,471.53

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

VALLEY CITY PUBLIC SCHOOL
STATEMENT OF ACTIVITIES- MODIFIED CASH BASIS
YEAR ENDED JUNE 30, 2018

		Program Revenues		Net (expense) Revenue & Changes in Net Position
	Expenses	Charges for Services	Operating grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction				
Regular	8,275,138.26		438,566.12	(7,836,572.14)
Special Education	339,861.27		6,289.38	(333,571.89)
Vocational Education	284,907.56		38,694.90	(246,212.66)
Support Services				-
Administrative	1,344,258.66			(1,344,258.66)
Operation & maintenance	1,409,599.12			(1,409,599.12)
Pupil Transportation Services	452,024.24		140,406.40	(311,617.84)
Extracurricular	478,488.92			(478,488.92)
Food Service	820,902.08	418,512.03	377,272.20	(25,117.85)
Debt Service				
Interest expense	24,514.70			(24,514.70)
				-
				-
Total Governmental Activities	13,429,694.81	418,512.03	1,001,229.00	(12,009,953.78)
General Revenues				
Taxes:				
Property taxes, levied for general purposes				3,637,050.93
Property taxes levied for debt service				2,362.87
Other tax revenue				-
State aid not restricted to specific program:				
Per pupil aid				8,234,628.38
Interest income and other revenue				129,158.97
Total General Revenues				12,003,201.15
Change in Net Position				(6,752.63)
Net Position- July 1				9,439,098.84
Prior period adjustment				386,125.32
Net Position- July 1, as restated				9,825,224.16
Net Position- June 30				9,818,471.53

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

JUNE 30, 2018

FUND BALANCE					
Restricted for Capital Projects		2,515,787.50			2,515,787.50
Restricted for Debt Service			804,052.89	-	804,052.89
Restricted for other purposes				350,282.57	350,282.57
Unassigned	1,968,654.01			-	1,968,654.01
Total fund balance	1,968,654.01	2,515,787.50	804,052.89	350,282.57	5,638,776.97
Total liabilities and fund balance	1,968,654.01	2,515,787.50	804,052.89	350,282.57	5,638,776.97

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

VALLEY CITY PUBLIC SCHOOL
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE
SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2018

Total Fund Balances for Governmental Funds	5,638,776.97
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Total net position reported for governmental activities in the statement of net position is different because:

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

Cost of capital assets	24,405,974.52	
Less accumulated depreciation	17,783,083.80	
Net capital assets		6,622,890.72

Long-term liabilities applicable to the District's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities- both current and long-term are reported in the statement of net position. Balances at year end are:

Bonds payable	(2,715,000.00)
Leases payable	(30,444.06)
Q-zab loan	(91,381.17)

An internal service fund is used by the District to charge the cost of medical insurance to individual functions. The assets and liabilities of internal service funds are included in governmental activities in the statement of net assets. Internal Service Fund net position is:

393,629.07

Total Net Position of Governmental Activities	9,818,471.53
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The accompanying notes are an integral part of these financial statements.

VALLEY CITY PUBLIC SCHOOL
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES- GOVERNMENTAL FUNDS- MODIFIED CASH BASIS
YEAR ENDED JUNE 30, 2018

	GENERAL	BUILDING	DEBT SERVICE	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Property taxes	3,125,505.78	402,551.76	2,362.87	108,993.39	3,639,413.80
Other local sources	105,585.61	3,332.88	2,516.47	425,892.09	537,327.05
State sources	8,420,019.06	-		6,384.06	8,426,403.12
Federal sources	438,566.12			370,888.14	809,454.26
Total Revenues	12,089,676.57	405,884.64	4,879.34	912,157.68	13,412,598.23
Current:					
Instruction					
Regular	8,275,138.26				8,275,138.26
Special Education	339,861.27				339,861.27
Vocational Education	284,907.56				284,907.56
Support Services					
Administrative	1,344,258.66				1,344,258.66
Operation & maintenance	934,718.78				934,718.78
Pupil Transportation Services	452,024.24				452,024.24
Extracurricular	478,488.92				478,488.92
Food Service				820,902.08	820,902.08
Debt Service					
Principal		58,895.74	240,000.00	-	298,895.74
Interest expense		4,097.20	20,417.50	-	24,514.70
Capital outlays		757,008.99			757,008.99
Total Expenditures	12,109,397.69	820,001.93	260,417.50	820,902.08	14,010,719.20
Excess revenues (expenditures)	(19,721.12)	(414,117.29)	(255,538.16)	91,255.60	(598,120.97)
Other Financing Sources (Uses):					
Transfers in	125,000.00				125,000.00
Transfers out				(125,000.00)	(125,000.00)
Bond proceeds		2,002,840.20		-	2,002,840.20
Total other financing sources and uses	125,000.00	2,002,840.20	-	(125,000.00)	2,002,840.20
Net change in fund balances	105,278.88	1,588,722.91	(255,538.16)	(33,744.40)	1,404,719.23
Fund balance- beginning	1,863,375.13	927,064.59	1,059,591.05	384,026.97	4,234,057.74
Fund balance- ending	1,968,654.01	2,515,787.50	804,052.89	350,282.57	5,638,776.97

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

VALLEY CITY PUBLIC SCHOOL
RECONCILIATION OF GOVERNMENTAL STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018

Net Change in Fund Balances- Total Governmental Funds	1,404,719.23
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The change in net position reported for governmental activities in the statement of activities is different because:

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

Current year capital outlay	527,634.80	
Current year depreciation expense	245,506.15	282,128.65

Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Bonds payable issued	(2,000,000.00)
Bonds payable payment	240,000.00
Leases payable	29,035.99
Q-zab loan	29,859.75

An internal service fund is used by the District's management to charge the cost of health insurance to individual functions. The change in net position of internal service funds reported with governmental activities.	7,503.75
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Change in Net Position of Governmental Activities	(6,752.63)
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The accompanying notes are an integral part of these financial statements.

VALLEY CITY PUBLIC SCHOOL	
STATEMENT OF NET POSITION- MODIFIED CASH BASIS	
PROPRIETARY FUND	INTERNAL
JUNE 30, 2018	SERVICE
	FUND
ASSETS	
Cash and investments	393,629.07
Total Assets	393,629.07
LIABILITIES	
NET POSITION	
Unrestricted	393,629.07
Total Net Position	393,629.07

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

VALLEY CITY PUBLIC SCHOOL
 STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION- MODIFIED CASH BASIS
 PROPRIETARY FUNDS
 YEAR ENDED JUNE 30, 2018

OPERATING REVENUE

Contributions to Self-insurance	1,463,918.73
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OPERATING EXPENSES

Health Insurance Claims	1,457,798.57
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Total operating expenses	1,457,798.57
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Operating income (loss)	6,120.16
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NON-OPERATING REVENUE (EXPENSE)

Interest income	1,383.59
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Total non-operating rev (exp)	1,383.59
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Income (loss) before transfers	7,503.75
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Transfers in
 Transfers out

Change in Net Position	7,503.75
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Net Position- beginning	386,125.32
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Net Position- ending	393,629.07
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The accompanying notes are an integral part of these financial statements.

VALLEY CITY PUBLIC SCHOOL
STATEMENT OF CASH FLOWS- MODIFIED CASH BASIS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES

Received from user charges	1,463,918.73
Payments for Health Insurance Claims	(1,551,531.31)

Net cash provided by (used in) operating activities (87,612.58)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Transfers to other funds
Transfers from other funds

Net cash provided by (used in) noncapital financing activities -

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Purchase of capital assets
Debt proceeds

Net cash provided by (used in) capital and related financing activities -

CASH FLOWS FROM INVESTING ACTIVITIES

Interest and dividends 1,383.59

Net cash provided by (used in) investing activities 1,383.59

Net increase (decrease) in cash and cash equivalents (86,228.99)

Balance- beginning of year 479,858.06

Balance- end of year 393,629.07

Reconciliation of operating income (loss) to net cash provided by operating activities:

Operating income (loss) 6,120.16

Adjustments to reconcile operating income to net cash provided (used) by operating activities:

Depreciation expense

Change in assets and liabilities:

Claims payable (93,732.74)

Miscellaneous receipts (expense)

Net cash provided by operating activities (87,612.58)

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

VALLEY CITY PUBLIC SCHOOL
 STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
 FIDUCIARY FUNDS
 JUNE 30, 2018

	AGENCY FUNDS
ASSETS	
Cash and investments	398,392.51
Total Assets	398,392.51
LIABILITIES	
Due to Student Groups	398,392.51
Total liabilities	398,392.51

VALLEY CITY PUBLIC SCHOOL DISTRICT
VALLEY CITY, NORTH DAKOTA

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Valley City Public School District (District) have been prepared on a modified cash basis of accounting. The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. Reporting Entity

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

Based on these criteria, there are no component units.

B. BASIS OF PRESENTATION, BASIS OF ACCOUNTING

Government-wide statements: The statement of net assets and the statement of activities display information about the primary government, the District. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

VALLEY CITY PUBLIC SCHOOL DISTRICT
Notes to Financial Statements- Continued

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

Fund Financial Statements: The fund financial statements provide information about the district's funds including its fiduciary funds. Separate statements for each fund category - governmental, proprietary and fiduciary - are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The District reports the following major governmental funds:

General Fund. The General Fund is the primary operating fund of the District and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Building fund. The Building fund is used to account for building construction and repairs.

Debt service. The Debt Service Fund is used to account for taxes dedicated to debt payments and the related principal and interest.

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

Government-wide Financial Statements. In the government-wide Statement of Net Assets and the Statement of Activities, activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting as defined below.

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

VALLEY CITY PUBLIC SCHOOL DISTRICT
Notes to Financial Statements- Continued

All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements presents sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

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

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

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

The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position and cash flows. All assets and liabilities (whether current or noncurrent, financial or nonfinancial) associated with their activities are reported. Proprietary fund equity is classified as net assets.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to district and employees for health insurance costs. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

VALLEY CITY PUBLIC SCHOOL DISTRICT
Notes to Financial Statements- Continued

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

D. Budgets

Based upon available financial information and requests by the school board, the superintendent and business manager prepares the district budget. The budget is prepared for the general fund on the modified cash basis of accounting. The budget includes the proposed expenditures and the means of financing them. All annual appropriations lapse at year-end.

District taxes must be levied by the governing board on or before the fifteenth day of August. The taxes levied must be certified to the county auditor by August 25. The governing body of the district may amend its tax levy and budget for the current fiscal year on or before the tenth day of October of each year, but the certification must be filed with the county auditor by October 10. The current budget, except for property taxes, may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared.

E. Cash, Cash Equivalents and Investments

Cash and cash equivalents include amounts in demand deposits and money market accounts and certificates of deposits with maturity of less than 90 days. Investments consist of certificates of deposits, with a maturity date in excess of 90 days, stated at cost.

F. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

VALLEY CITY PUBLIC SCHOOL DISTRICT
Notes to Financial Statements- Continued

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the district is depreciated using the straight line method over the following estimated useful lives:

ASSETS	YEARS
Permanent Buildings	50
Temporary or Wood Structures	20
Vehicles	10
Equipment	10

G. Long-Term Obligations

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

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

H. Fund Balance

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The non-spendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form - inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

Restricted - This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

VALLEY CITY PUBLIC SCHOOL DISTRICT
Notes to Financial Statements- Continued

Committed - These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances of the school board-the District's highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the school board removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned - This classification reflects the amounts constrained by the District's "intent" to be used for specific purposes, but are neither restricted nor committed. The school board and superintendent have the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as non-spendable and are neither restricted nor committed.

Unassigned - This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, the District's preference is to first use restricted resources, then unrestricted resources-committed, assigned, and unassigned-in order as needed.

I. Interfund Transactions

In the governmental fund statements, transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund, are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed.

All other interfund transactions, except reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers. In the government-wide financial statements, interfund transactions have been eliminated.

VALLEY CITY PUBLIC SCHOOL DISTRICT
Notes to Financial Statements- Continued

J. COMPENSATED ABSENCES

Vested or accumulated vacation leave is reported in government-wide statement of net assets. Compensation for unused vacation leave will be granted for all 12 month employees upon termination of employment with the school district based on the current rate of pay.

K. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets net of debt, consists of the remaining un-depreciated cost of the asset less the outstanding debt associated with the purchase or construction of the related asset.

Net assets are reported as restricted when external creditors, grantors, or other governmental organizations imposed specific restrictions on the District. External restrictions may be imposed through state or local laws, and grant or contract provisions. Restricted net assets includes: amounts restricted for debt service, capital projects and self funded health insurance.

NOTE 2: LEGAL COMPLIANCE - BUDGETS

BUDGET AMENDMENTS

The school board amended the district budget for 2018 as follows:

	Original Budget	Amendment	Amended Budget
GENERAL FUND			
Revenue	11,850,275	440,549	12,290,824
Expenditures	11,687,418	440,549	12,127,967

EXPENDITURES OVER APPROPRIATIONS

The district did not overspend the general fund budget. No remedial action is required.

NOTE 3 DEPOSITS AND INVESTMENTS

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

VALLEY CITY PUBLIC SCHOOL DISTRICT
Notes to Financial Statements- Continued

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

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

At June 30, 2018, the District's carrying amount of deposits was \$5,093,820. Of the bank balances, \$750,000 was covered by Federal Depository Insurance. The remaining balance of \$4,343,820 was collateralized with securities held by the pledging financial institution's agent in the government's name.

Credit Risk

State statutes authorize the District to invest in: (1) 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. (2) Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are the type listed above. (3) Certificates of Deposit fully insured by the federal deposit insurance corporation or the state. (4) Obligations of the state.

Concentration of Credit Risk

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

VALLEY CITY PUBLIC SCHOOL DISTRICT
Notes to Financial Statements- Continued

NOTE 4: PROPERTY TAXES

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

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

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

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

VALLEY CITY PUBLIC SCHOOL DISTRICT
Notes to Financial Statements- Continued

NOTE 5: CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended June 30, 2018:

	Balance July 1	Increases	Decreases	Balance June 30
Governmental Activities				
Capital assets, not being depreciated				
Construction in progress		527,635		527,635
Total Cap Assets not Depreciated		527,635		527,635
Capital assets, being depreciated				
Bldgs and Improvements	23,767,825			23,767,825
Vehicles & Equipment	110,515			110,515
Total Cap Assets Being Depreciated	23,878,340			23,878,340
Less accumulated depreciation for:				
Buildings & Improve	17,480,971	239,885		17,720,857
Vehicles & Equip	56,606	5,621		62,227
Total Accumulated Dep	17,537,578	245,506		17,783,084
Total Cap Assets Being Depreciated, Net	6,340,762			6,095,256
Governmental Activities Capital Assets, Net	6,340,762			6,622,891

Depreciation Expense was charged to functions/programs of the district as follows:

Governmental Activities:	
School Food Services	44,163
Operations and Maintenance	201,343
Unallocated	
Total Dep Exp-Gov Activities	245,506

NOTE 6: LONG-TERM DEBT

Changes in Long-Term Liabilities - During the year ended June 30, 2018, the following changes occurred in liabilities reported in long-term debt:

VALLEY CITY PUBLIC SCHOOL DISTRICT
Notes to Financial Statements- Continued

	Payable 2017	Increases	Decreases	Payable 2018	Due Within One Year
Bonds Payable	955,000	2,000,000	240,000	2,715,000	
Lease payable	59,480		29,036	30,444	30,444
Qzab loan	121,241		29,860	91,381	28,750
TOTAL	1,135,721	2,000,000	298,896	2,836,825	

Debt payable at June 30, 2018, is comprised of the following:

Bonds Payable:

General Obligation School Refunding Bond of 2015
due in annual installments of \$85,000 to \$150,000
including interest at .5-1.9% through August 2023 715,000

Limited Tax Building Fund Bond of 2018
due in annual installments of \$70,000 to \$140,000
including interest at 3.0-3.5% through August 2037 2,000,000
2,715,000

The annual long-term debt service requirements for bonds payable, as of June 30, 2018, are as follows:

Year Ending June 30	Long-Term Debt	GOVERNMENTAL ACTIVITIES	
		Principal	Interest
2019			41,132
2020	200,000		75,760
2021	220,000		71,620
2022	230,000		66,932
2023	235,000		61,875
2024-2028	620,000		247,375
2029-2033	560,000		156,084
2034-2037	650,000		57,835
TOTAL	2,715,000		780,613

Lease payable

The District is obligated to the following capital lease agreements at June 30, 2018 are shown below:

2019	<u>31,921</u>
Less amount representing interest	<u>1,477</u>
Principal balance remaining	30,444
	=====

The District has a Qzab lease with Dacotah Bank. The lease proceeds were used to make repairs to the school building. The lease interest rate is 1%. The District is required to make annual payments of \$31,072, until May 2021.

VALLEY CITY PUBLIC SCHOOL DISTRICT
Notes to Financial Statements- Continued

NOTE 7: PENSION PLANS

North Dakota Teachers Fund for Retirement TFFR

The school district contributes to the North Dakota Teachers Fund for retirement (TFFR), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Dakota. TFFR provides for retirement, disability and survivor benefits to plan members and beneficiaries. Benefit and contribution provisions are administered in accordance with chapter 15-39.1 of the North Dakota Century Code. TFFR issues a publicly available financial report that includes financial statements and required supplementary information for TFFR. Detailed information about the report may be obtained on the NDPERS website <http://ndpers.nd.gov/about/financial/annual-report-archive/>.

Plan members are required to contribute 11.75% of their annual covered salary and the District is required to contribute 12.75% of the teacher's salary. The contributions requirements of plan members and the District are established and may be amended by the State legislature. The District's contributions to TFFR for the fiscal years ended June 30, 2018, 2017 and 2016 were \$1,256,035, \$1,267,048, and \$1,237,369, respectively.

North Dakota Public Employees Retirement System

The District participates in the North Dakota Public Employees Retirement System (PERS) administered by the State of North Dakota. Following is a brief description of the plan:

PERS is a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Dakota. PERS provides for retirement, disability and death benefits to plan members and beneficiaries. If an active employee dies with less than three years of credited service, a death benefit equal to the value of the employee's accumulated contributions, plus interest, is paid to the employee's beneficiary. If the employee has earned more than three years of credited service, the surviving spouse will be entitled to a single payment refund, lifetime monthly payments in an amount equal to 50% of the employees accrued normal retirement benefit, 60 monthly payments equal to the employee's accrued normal retirement benefit calculated as if the employee were age 65 the day before death occurred or monthly payments in an amount equal to the employee's accrued 100% joint and survivor retirement benefit if the member had reached normal retirement age prior to death. If the surviving spouse dies before the employee's accumulated pension benefits are paid, the balance will be paid to the surviving spouse's designated beneficiary.

VALLEY CITY PUBLIC SCHOOL DISTRICT
Notes to Financial Statements- Continued

Eligible employees, who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits that are equal to 25% of their final average salary with a minimum benefit of \$100. To qualify under this section, the employee must meet the criteria established by the Retirement Board for being considered totally disabled.

Employees are entitled to unreduced monthly pension benefits equal to 2% of their final average salary for each year of service beginning when the sum of age and years of credited service equal or exceed 85, or at the normal retirement age (65). The plan permits early retirement at ages 55-64, with three or more years of service.

Benefit and contribution provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code. This state statute requires that 7% of the participants annual covered salary be contributed to the plan by either the employee or by the employer under a "salary reduction" agreement. The District had agreed to pay 100% of the member assessments in lieu of a salary increase. The District is required to contribute 7.12% of each participant's salary as the employer's share. The District is required to contribute 1.14% of each participating covered wage to a prefunded retiree health insurance program. The required contributions are determined using an entry age normal actuarial funding method and are included in state statute. The North Dakota Retirement Board was created by the State Legislature and is the governing authority of PERS. The District's contributions to PERS for the fiscal years ending June 30, 2018, 2017, and 2016 were \$175,464, \$168,926, and \$160,304, respectively, equal to the required contributions for the year.

PERS issues a publicly available financial report that includes financial statements and required supplementary information for PERS. That report may be obtained on the NDPERS website <http://ndpers.nd.gov/about/financial/annual-report-archive/>

NOTE 8. DESIGNATED FUND BALANCE

Fund equity in the various funds has been designated for the following purposes:

Restricted for Debt Service	804,053
Restricted for Capital projects	2,515,787

VALLEY CITY PUBLIC SCHOOL DISTRICT
Notes to Financial Statements- Continued

NOTE 9: RISK MANAGEMENT

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

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

The State Bonding Fund currently provides the District with a commercial blanket bond coverage in the amount of \$2,000,000 for its employees. The State Bonding fund does not currently charge any premium for this coverage.

The district has workers compensation with the Workforce, Safety and Insurance and purchases commercial insurance for personal property, building, inland marine, and boiler and machinery.

The District has retained risk for employee health and dental insurance up to a maximum of \$20,000 per year per individual. They have purchased a stop loss policy for amounts in excess of 120% of expected claims.

NOTE 10: TRANSFERS

The District transfers funds from the special reserve fund to the general fund for operating costs. The 2019 amount was \$125,000.

NOTE 11: PRIOR PERIOD ADJUSTMENT

Prior period adjustment was made to net position to correct ending balances in the prior period related to the following:

Net Position June 30, 2017 as previously reported	\$9,439,099
Internal Service Fund balance	<u>386,125</u>
Net Position June 30, 2017 as restated	<u>\$9,825,224</u> =====

VALLEY CITY PUBLIC SCHOOL DISTRICT

REPORTS IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

JUNE 30, 2018

VALLEY CITY PUBLIC SCHOOL DISTRICT
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Harold J. Rotunda

Certified Public Accountant

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

Independent Auditor's Report

School Board
Valley City Public School District
Valley City, North Dakota

I 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 Valley City Public School District as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise basic financial statements, and have issued my report thereon dated October 27, 2022.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered Valley City Public School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, I do not express an opinion on the effectiveness of internal control.

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

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified. I did identify deficiencies in internal control, described in the accompanying schedule of findings that I consider to be a significant deficiency (2018-1 and 2018-2).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Valley City Public School District's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

District's Response to Findings

Valley City Public School District's response to the finding identified in my audit is described in the accompanying schedule of findings. Valley City Public School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the result 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.

Harold Rotunda, CPA
October 27, 2022

VALLEY CITY PUBLIC SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2018

Section I - Summary of Auditor's Results

Financial Statements

Type of Report Issued?

Governmental Activities

Unmodified

Major Funds

Unmodified

Aggregate Remaining Fund Information

Unmodified

Internal Control over financial reporting:

Material weaknesses identified?

Yes

X

No

Significant deficiencies identified not

Considered to be material weaknesses

X

Yes

No

Noncompliance material to financial statements

Noted?

Yes

X

No

Section II- Financial Statement Findings

2018-001 Segregation of Duties

Criteria

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

Condition

The Business Manager of the District is responsible for all accounting functions involved. The employee handles in some capacity all income of monies, prepares the receipts documents, prepares the deposits, issues all checks and distributes them, receives the bank statements and does the reconciliations. The employee also records the receipts and disbursements to the journals and maintains the general ledger. Considering the size of the District, it is not feasible to obtain proper segregation of duties and the degree of internal control is severely limited.

Cause

The Business Manager is the main employee of the District, they are unable to completely segregate the accounting functions.

Effect

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

Recommendation

The District should separate the duties when it becomes feasible.

VALLEY CITY PUBLIC SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEARS ENDED JUNE 30, 2018

Management's Response

Some procedures to promote segregation of duties have been implemented. Funds are counted by other individuals prior to being given to the Business Manager to receipt and deposit at the various financial institutions. The Superintendent reviews bills before payments are made. The Board reviews and approves all checks written. The District will segregate other duties when feasible.

2018-002 Financial Statement Preparation

Criteria

An appropriate system of internal controls requires that a District make a determination that financial statements and the underlying general ledger accounts are properly stated in compliance with the modified cash basis of accounting. This requires the District's personnel to maintain a working knowledge of current modified cash basis of accounting required financial statement disclosures.

Condition

The District's auditor prepared the financial statements for the years ended. In addition, adjusting entries were proposed to bring the financial statements into compliance with the modified cash basis of accounting (MCB). An appropriate system of internal controls requires that a District must make a determination that financial statements and the underlying general ledger accounts are properly stated in compliance with MCB. This requires the District's personnel to maintain a working knowledge of current accounting principles in accordance with MCB.

Cause

The District does not have the resources to prepare full modified cash basis financial statements.

Effect

The District currently does not maintain the working knowledge of current accounting principles for the modified cash basis and required financial statement disclosures to make a determination that financial statements are properly stated in compliance with the modified cash basis.

Recommendation

Compensating controls could be provided through client preparation of the financial statement preparation and/or review function.

Management's Response

Management agrees that it is currently not cost-effective.