

FINANCIAL STATEMENTS

**VALLEY-EDINBURG PUBLIC SCHOOL
DISTRICT NO. 118
EDINBURG, NORTH DAKOTA**

For the Year Ended June 30, 2019

**Mortenson & Rygh
Certified Public Accountants
1203 Park Street East
Park River, North Dakota 58270**

VALLEY-EDINBURG PUBLIC SCHOOL DISTRICT NO. 118
 Edinburg, North Dakota
Table of Contents
 Year Ended June 30, 2019

SCHOOL OFFICIALS.....	1
BASIC FINANCIAL STATEMENTS	1
STATEMENT OF NET POSITION – MODIFIED CASH BASIS	1
STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS.....	1
BALANCE SHEET – MODIFIED CASH BASIS - GOVERNMENTAL FUNDS	1
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION	1
STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCE –	1
MODIFIED CASH BASIS - GOVERNMENTAL FUNDS.....	1
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES	1
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES – FIDUCIARY FUND - MODIFIED CASH BASIS	1
NOTES TO THE FINANCIAL STATEMENTS.....	1
REQUIRED SUPPLEMENTARY INFORMATION	1
BUDGET COMPARISON SCHEDULE MODIFIED CASH BASIS - GENERAL FUND	1
BUDGET COMPARISON SCHEDULE MODIFIED CASH BASIS - SPECIAL RESERVE FUND	1
BUDGET COMPARISON SCHEDULE MODIFIED CASH BASIS - BUILDING FUND	1
SCHEDULE OF DISTRICT’S SHARE OF NET PENSION LIABILITY ND TEACHERS’ FUND FOR RETIREMENT.....	1
SCHEDULE OF DISTRICT’S CONTRIBUTIONS ND TEACHERS’ FUND FOR RETIREMENT.....	1
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION	1
SUPPLEMENTARY INFORMATION.....	1
STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCE GENERAL FUND – MODIFIED CASH BASIS	1
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.....	1
SCHEDULE OF FINDINGS AND RESPONSES	1

VALLEY-EDINBURG PUBLIC SCHOOL DISTRICT NO. 118

Edinburg, North Dakota

School Officials

Year Ended June 30, 2019

Andrew Gullickson.....President
Jackson Hall.....Vice President

Dan Johnson.....Board Member
Caitlin Evenson.....Board Member
Katie Skoog.....Board Member
Darrel Pastorek.....Board Member
Nick Otto.....Board Member

Mitch Jorgensen.....Superintendent

April Howatt.....Business Manager

INDEPENDENT AUDITOR’S REPORT

To the School Board
Valley-Edinburg Public School District No. 118

We have audited the accompanying modified cash basis financial statements of the governmental activities and each major fund of the Valley Edinburg Public School District No. 118, Edinburg, North Dakota, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the School District’s basic financial statements as listed in the table of contents.

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

Our responsibility is to express opinions on these financial statements based on our 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 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 modified cash basis financial position of the governmental activities and each major fund of the Valley Edinburg Public School District No. 118 as of June 30, 2019, and the respective changes in financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

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

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information, the Schedule of the District's Share of Net Pension Liability of the ND Teachers' Fund for Retirement, and the Schedule of the District's Contributions to the ND Teachers' Fund for Retirement as indicated 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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Valley Edinburg Public School District No. 118, Edinburg, North Dakota's basic financial statements. The detailed statement of receipts, disbursements, and changes in fund balance – General Fund – modified cash basis is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The detailed statement of receipts, disbursements, and changes in fund balance – General Fund – modified cash basis are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and

certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the detailed statement of receipts, disbursements, and changes in fund balance – General Fund – modified cash basis is fairly stated in all material respects in relation to the basic financial statements as a whole.

The list of school officials 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 them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 19, 2019, on our consideration of the Valley Edinburg Public School District No. 118, Edinburg, North Dakota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Valley Edinburg Public School District No. 118, Edinburg, North Dakota's internal control over financial reporting and compliance.



Mortenson & Rygh
Certified Public Accountants
Park River, North Dakota

August 19, 2019

BASIC FINANCIAL STATEMENTS

VALLEY-EDINBURG PUBLIC SCHOOL DISTRICT NO. 118
Edinburg, North Dakota
Statement of Net Position – Modified Cash Basis
June 30, 2019

	<u>Total Governmental Funds</u>
ASSETS:	
CURRENT ASSETS	
Cash and Cash Equivalents	\$ 1,451,998
Total Current Assets	<u>1,451,998</u>
Capital Assets, net of Accumulated Depreciation	<u>1,487,840</u>
Total Other Assets	1,487,840
Total Assets	<u>\$ 2,939,838</u>
LIABILITIES AND NET POSITION:	
LIABILITIES	
Current Liabilities	<u>\$ -</u>
Total Liabilities	<u>-</u>
NET POSITION	
Net Investments in Capital Assets	1,487,840
Restricted for:	
Capital Projects	108,677
Food Service	2,128
Special Reserve	147,275
Unrestricted	<u>1,193,918</u>
Total Net Position	<u>2,939,838</u>
Total Liabilities & Net Position	<u>\$ 2,939,838</u>

The notes to the financial statements are an integral part of this statement.

VALLEY-EDINBURG PUBLIC SCHOOL DISTRICT NO. 118
Edinburg, North Dakota
Statement of Activities – Modified Cash Basis
For the Year Ended June 30, 2019

Functions:	Disbursements	Program Receipts			Net (Disbursements)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Receipts and
					Total
					Change in Net Assets
Regular Instruction	\$ 1,676,980	\$ -	\$ 71,296	\$ -	\$ (1,605,683)
Special Education	487,943	-	89,893	-	(398,049)
Vocational Education	87,983	-	-	-	(87,983)
Federal Programs	127,952	-	127,952	-	-
Extracurricular Activities	99,121	-	-	-	(99,121)
Drivers Education	4,509	1,380	-	-	(3,129)
Student Support Services:					
Board of Education	68,680	-	-	-	(68,680)
Superintendent	229,134	-	-	-	(229,134)
Business Office	80,517	-	-	-	(80,517)
Operation and Maintenance	416,483	-	-	-	(416,483)
Transportation	274,158	-	172,713	-	(101,445)
School Lunch Services	149,828	43,509	48,222	-	(58,097)
Total District	\$ 3,703,287	\$ 44,889	\$ 510,077	\$ -	\$ (3,148,322)

General Receipts:

Property Taxes Levied for:

General Purposes	\$ 952,883
Special Reserve	40,938
Building Fund	166,540
Federal & State Aid not restricted to special purposes	2,160,140
Interest Income	8,316
Miscellaneous Receipts	21,394
Total General Receipts	3,350,209
Change in Net Position	201,888
Net Position - July 1	2,737,951
Net Position - June 30	\$ 2,939,838

The notes to the financial statements are an integral part of this statement.

VALLEY-EDINBURG PUBLIC SCHOOL DISTRICT NO. 118
 Edinburg, North Dakota
Balance Sheet – Modified Cash Basis - Governmental Funds
 June 30, 2019

	General	Special Reserve Fund	Building Fund	Food Service Funds	Total
ASSETS:					
Current Assets:					
Cash	\$ 1,193,918	\$ 147,275	\$ 108,677	\$ 2,128	\$ 1,451,998
Total Assets	\$ 1,193,918	\$ 147,275	\$ 108,677	\$ 2,128	\$ 1,451,998
LIABILITIES AND FUND BALANCE:					
Liabilities:					
Current Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -
Total Liabilities	-	-	-	-	-
Fund Balance:					
Non-spendable for:					
Other Assets	-	-	-	-	-
Restricted for:					
Special Reserve Fund	-	147,275	-	-	147,275
Capital Project Fund	-	-	108,677	-	108,677
Committed to:					
Food Service Fund	-	-	-	2,128	2,128
Unassigned	1,193,918	-	-	-	1,193,918
Total Fund Balance	1,193,918	147,275	108,677	2,128	1,451,998
Total Liabilities & Fund Balance	\$ 1,193,918	\$ 147,275	\$ 108,677	\$ 2,128	\$ 1,451,998

The notes to the financial statements are an integral part of this statement.

VALLEY-EDINBURG PUBLIC SCHOOL DISTRICT NO. 118
 Edinburg, North Dakota
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
 June 30, 2019

Total *Fund Balance* for Governmental Funds \$ 1,451,998

Total *net position* reported for governmental activities in the statement of net positioning is different because:

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

Cost of Capital Assets	2,607,163	
Less: Accumulated Depreciation	<u>(1,119,323)</u>	1,487,840

Total <i>Net Position</i> of Governmental Activities		<u>\$ 2,939,838</u>
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The notes to the financial statements are an integral part of this statement.

VALLEY-EDINBURG PUBLIC SCHOOL DISTRICT NO. 118
Edinburg, North Dakota
Statement of Receipts, Disbursements and Changes in Fund Balance –
Modified Cash Basis - Governmental Funds
For the Year Ended June 30, 2019

	General	Special Reserve Fund	Building Fund	Food Service Funds	Total
Receipts:					
Local Sources	\$ 971,656	\$ 40,938	\$ 166,540	\$ -	\$ 1,179,134
State Sources	2,494,042	-	-	-	2,494,042
Federal Sources	127,952	-	-	48,222	176,174
School Lunch Sales	-	-	-	43,509	43,509
Other Sources	12,316	-	-	-	12,316
Total Revenues	\$ 3,605,966	\$ 40,938	\$ 166,540	\$ 91,731	\$ 3,905,175
Disbursements:					
Current:					
Regular Instruction Programs	1,609,320	-	-	-	1,609,320
Special Education	487,943	-	-	-	487,943
Vocational Education	87,983	-	-	-	87,983
Federal Programs	127,952	-	-	-	127,952
Extracurricular Activities	98,832	-	-	-	98,832
Drivers Education	4,509	-	-	-	4,509
Student Support Services:					
Board of Education	68,680	-	-	-	68,680
Superintendent	229,134	-	-	-	229,134
Business Office	80,517	-	-	-	80,517
Operation and Maintenance	241,121	-	94,742	-	335,863
Transportation	200,471	-	-	-	200,471
Food Service	-	-	-	147,030	147,030
Capital Outlay	151,879	-	109,282	2,798	263,959
Total Disbursements	\$ 3,388,339	\$ -	\$ 204,025	\$ 149,828	\$ 3,742,192
Excess Receipts over (under) Disbursements					
before Interfund Transfers	217,627	40,938	(37,485)	(58,097)	162,983
Other Financing Sources (Uses):					
Interfund Transfers In	-	-	-	50,000	50,000
Interfund Transfers (Out)	(50,000)	-	-	-	(50,000)
Net Change in Fund Balances	167,627	40,938	(37,485)	(8,097)	162,983
Fund Balance - July 1	1,026,291	106,337	146,162	10,225	1,289,016
Fund Balance - June 30	\$ 1,193,918	\$ 147,275	\$ 108,677	\$ 2,128	\$ 1,451,998

The notes to the financial statements are an integral part of this statement.

VALLEY-EDINBURG PUBLIC SCHOOL DISTRICT NO. 118
 Edinburg, North Dakota
**Reconciliation of the Governmental Funds Statement of Receipts, Disbursements and
 Changes in Fund Balances to the Statement of Activities**
 For the Year Ended June 30, 2019

Net change in Fund Balance - Total Governmental Funds \$ 162,983

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$25,000 *are* capitalized and the cost 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 period.

Capital Outlays	176,719	
Depreciation	<u>(137,814)</u>	38,905

Change in <i>Net Position</i> of Governmental Activities	<u>\$ 201,888</u>
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The notes to the financial statements are an integral part of this statement.

VALLEY-EDINBURG PUBLIC SCHOOL DISTRICT NO. 118
Edinburg, North Dakota
Statement of Assets and Liabilities – Fiduciary Fund - Modified Cash Basis
June 30, 2019

Assets:	
Cash and Investments	<u>\$45,463</u>
Liabilities	
Due to Student Groups	<u>\$45,463</u>

The notes to the financial statements are an integral part of this statement.

VALLEY-EDINBURG PUBLIC SCHOOL DISTRICT NO. 118
Edinburg, North Dakota
Notes to the Financial Statements
June 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Financial Reporting Entity

The district's Board of Education is the basic level of government, which has financial accountability responsibility and control over all activities related to the public school education in the district's boundaries. The board receives funding from local, state, and federal government sources and must comply with the requirements of these funding source entities. However, the Board is not included in any other governmental "reporting entity" as defined by the related Governmental Account Standards Board Statement 14, since the board members are elected by the public and have decision making authority, the authority to levy taxes, the power to designate management, the ability to significantly influence operation and primary accountability for fiscal matters. In addition, there are no component units as defined in Governmental Accounting Standards Board Statement 14, which are included in the district's reporting entity.

The district's basic financial statements include all of the district's operations. The basic financial statements presented herein do not include agencies which have been formed under applicable state laws or separate and distinct units of government apart from Valley-Edinburg Public School District No. 118.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the district. For the most part, the effect of interfund activity has been removed from these statements.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to students or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues, as are internally dedicated resources.

Separate financial statements are provided for governmental funds and a fiduciary fund, even though the latter is excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

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

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

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

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

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

D. Basis of Presentation – Fund Accounting

The accounts of the district are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which are comprised of each fund's assets, liabilities, reserves, fund equity, revenues and expenditures, as appropriate. The various funds are summarized by type in the fund financial statements. Government resources are allocated to and for individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The following fund types are used by the district:

GOVERNMENTAL FUND TYPES

The District reports the following major governmental funds:

General Fund (a major governmental fund) – The general fund is the primary operating fund of the district. It is used to account for all financial resources except those required to be accounted for in another fund. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from this fund.

Special Reserve Fund – The district may levy a tax sufficient to establish, maintain or replenish the special revenue fund for the use and benefit of the school district.

Building Fund – This fund has its own mill levy dedicated to major construction projects. Levy funds can also be used for property insurance premiums covering school district property.

Food Service Fund – This fund accounts for the receipts and disbursements of funds attributable to the hot lunch program.

FIDUCIARY FUND TYPE

Agency Funds – Agency funds are used to account for assets held by the school district in trust or as an agent for student body groups.

E. Cash and Cash Equivalents

Cash includes amounts in demand deposits, money market accounts and certificates of deposit with maturity of three months or less. These amounts must be deposited in a financial institution situated and doing business within this state.

F. Capital Assets

Capital assets, which include land, buildings and improvements and furniture and equipment, are reported in the government-wide financial statements. The district defines capital assets as assets with an initial, individual cost of more than \$25,000 (amount not rounded) and an estimated useful life in excess of five years. 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.

Major outlays for capital assets and improvements are capitalized as projects and constructed. Buildings and improvements and furniture and equipment of the district are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Building Improvements	40
Buses	10
Furniture & equipment	10
Vehicles	5
Computer & electronic equipment	5

G. Long-Term Obligations

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. There were no long-term obligations on June 30, 2018.

H. Net Position/Fund Balance

Equity is classified in the government-wide financial statements as net position and displayed in three components:

Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Fund Financial Statement

Prior to GASB Statement 54, in the fund financial statements, the governmental funds reported reservations of fund balances for amounts that were not available for appropriation or were legally restricted by outside parties for use for a specific purpose. Designations of fund balances represented tentative management plans that were subject to change. GASB Statement No. 54 established new fund balance classifications that comprise a hierarchy that shows, from highest to lowest, the level or form of constraints on fund balance resources and the extent to which the district is bound to honor them. The district first determines and reports non-spendable balances, then restricted, then committed, and so forth. The district’s governmental fund balances have been restated to reflect the below classifications. Fund balance classifications are summarized as follows:

Non-spendable fund balance – This category includes fund balance amounts that cannot be spent because they are either (a) not in spendable form, or (b) legally or contractually required to be maintained intact.

Restricted fund balance – This category includes net fund resources that are subject to external constraints that have been placed on the use of resources either (a) imposed by creditors, grantors, contributors, or laws regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance – This category includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision making authority, the board. The commitment can only be removed through the same action. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.

Assigned fund balance – This category includes Governmental Fund balance that the district intends to be used for a specific purpose but are neither restricted nor committed. This intent is expressed by written approval of the district’s administration comprised of the Board.

Unassigned fund balance – This category included the residual balances in the governmental fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purpose within the General Fund.

I. Interfund Transactions

Quasi-external transactions are accounted for as receipts or disbursements. Transactions that constitute reimbursements to a fund for receipts/disbursements initially made from it that are properly applicable to another fund, are recorded as disbursements in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and 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.

J. Short-Term Interfund Receivable/Payables

During the course of operation, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as “*due from other funds*” or “*due to other funds*” on the balance sheet. Short-term interfund loans are classified as “*interfund receivable/payables*”. There were no outstanding balances at year end.

K. Use of Estimates in Preparing Financial Statements

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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 LEGAL COMPLIANCE – BUDGETS

Budget Amendments

The following amendments were made to the budget during the year ended June 30, 2019:

<u>Budget Amendments</u>	<u>Original Budget</u>	<u>Amendment</u>	<u>Amended Budget</u>
Major Funds:			
General Fund Expenditures	\$ 3,572,456	\$ 49	\$ 3,572,505

NOTE 3 DEPOSITS AND INVESTMENTS

In accordance with North Dakota statutes, the district maintains deposits in financial institutions situated and doing business within the state. Deposits, other than with the Bank of North Dakota, must be fully insured or secured with a pledge of securities equal to 110% of the uninsured balance.

State statutes authorize the school district to invest 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,
- c) Certificates of Deposit fully insured by the federal deposit insurance corporation or pledge of governmental securities,
- d) Obligations of the state.

The school district's deposits at balance sheet date were entirely covered by federal depository insurance or pledge of governmental securities. Securities pledged were held by the district’s agent in the district’s name (Category II assets).

Custodial Credit Risk – This is the risk that deposits would be lost in the event of a bank failure. Deposits that exceed federal agency insurance limits are collateralized as stated above in accordance with state law. The district requires depository banks to furnish the district with periodic assurance of collateral coverage of district deposits.

Concentration of credit risk – The risk of loss due to the magnitude of investments in a single issuer. The district only invests in Certificates of Deposit wherein the issuer collateralizes the certificate with governmental securities.

Interest rate risk – The risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The district only invests in Certificates of Deposit which are always purchased and redeemable at face value.

At year ended June 30, 2018, the district's carrying amount of deposits totaled \$1,342,850 and the bank balances totaled \$1,416,451. Of the bank balances, \$527,369 was covered by Federal Depository Insurance. The remaining bank balances totaling \$889,082 were collateralized with securities held by the pledging financial institution's agent in the government's name.

NOTE 4 PROPERTY TAXES

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. Budgets are adopted on the modified accrual basis. Annual appropriated budgets are adopted for the general fund. All annual appropriations lapse at year-end. See Note 2 for explanation of filing date requirements.

NOTE 5 PENSION PLAN

Summary of Significant Accounting Policies

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.

General Information about the Pension Plan

North Dakota Teachers' 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 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.

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.

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

At June 30, 2019, the Employer reported a liability of \$3,187,563 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018 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 June 30, 2018, the Employer's proportion was 0.239152 percent, which was a decrease of 0.013232 from its proportion

measured as of June 30, 2017.

For the year ended June 30, 2019, the Employer recognized pension expense of \$271,772. At June 30, 2019, 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 experience	\$ 8,651	\$ 86,693
Net difference between projected and actual earnings on pension plan investments	-	11,020
Changes of assumptions	175,597	-
Changes in proportion and differences between Employer contributions and proportionate share	181,585	262,643
*Employer contributions subsequent to the measurement date of July 1, 2018	200,336	-
Total	\$ 566,169	\$ 360,356

\$200,336 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended 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 ended June 30:

2019	\$ 95,552
2020	50,993
2021	(27,176)
2022	(26,065)
2023	(54,346)
Thereafter	(33,481)
Total	\$ 5,477

Actuarial assumptions. The total pension liability in the July 1, 2018 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

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, 2018, 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 pension plan's target asset allocation as of July 1, 2018 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equities	58%	6.70%
Global Fixed Income	23%	1.50%
Global Real Assets	18%	5.10%
Cash Equivalents	1%	0.00%

Discount Rate

The discount rate used to measure the total pension liability was 7.75% percent as of June 30, 2018. 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, 2018, 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 July 1, 2018. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2018.

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

The following presents the Employer's proportionate share of the net pension liability calculated using the discount rate of 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 (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Employer's proportionate share of the net pension liability	4,304,133	3,187,563	2,258,924

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued TFFR financial report. TFFR's Comprehensive Annual Financial Report (CAFR) is located at www.nd.gov/rio/sib/publications/cafr/default.htm.

Payables to the Pension Plan

As of June 30, 2019, the district had no accrued payable to the pension plan.

NOTE 6 RISK MANAGEMENT

The Valley-Edinburg Public School District No. 118 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.

In 1986, state agencies and political subdivisions joined together to form the North Dakota Insurance Reserve Fund (NDRF), 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 NDRF for its general liability, auto, and inland marine insurance coverage. The coverage by NDRF is limited to losses of one million dollars per occurrence.

The Valley-Edinburg Public School District No. 118 also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The district pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of one million dollars per occurrence during a twelve-month period.

The State Bonding Fund currently provides the school district with blanket fidelity bond coverage in the amount of \$350,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage. The school district also participates in the North Dakota Worker's Compensation Bureau. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

NOTE 7 CAPITAL ASSETS

Capital Asset activity for the year ended June 30, 2019, was as follows:

Governmental Activities	Balance July 1, 2018	Additions	(Deletions)	Balance June 30, 2019
Non-depreciated assets				
Land	\$ 5,400	\$ -	\$ -	\$ 5,400
Total non-depreciated assets	5,400	-	-	5,400
Depreciable assets				
Buildings	1,518,327	94,419	-	1,612,746
Buses & Vehicles	626,946	82,300	-	709,246
Equipment	279,771	-	-	279,771
Total depreciable assets	2,425,044	176,719	-	2,601,763
Less: accumulated depreciation				
Buildings	(417,857)	(43,225)	-	(461,082)
Buses & Vehicles	(370,660)	(73,687)	-	(444,347)
Equipment	(192,992)	(20,902)	-	(213,894)
Total accumulated depreciation	(981,509)	(137,814)	-	(1,119,323)
Net depreciable assets	1,443,535	38,905	-	1,482,440
Net governmental activities	\$ 1,448,935	\$ 38,905	\$ -	\$ 1,487,840

Depreciation expense of \$73,687 has been charged to transportation and \$64,127 has been charged to operations and maintenance on the schedule of activities.

NOTE 8 GRANTS

The district receives significant financial assistance from federal and state governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the district's independent auditors and other governmental auditors. Any disallowed claims resulting from such an audit could become a liability of the General Fund or other applicable fund. Based on prior experience, the district administration believes such disallowance, if any, would be immaterial.

NOTE 9 COMPENSATED ABSENCES

The district does not account for compensated absences as the amount of liability cannot be readily ascertained.

NOTE 10 INTERFUND TRANSFERS

The district made cash transfers during the year for cash management requirements. The operating transfers were as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ -	\$ (50,000)
Special Reserve Fund	-	-
Building Fund	-	-
Food Service Fund	50,000	-
	<u>\$ 50,000</u>	<u>\$ (50,000)</u>

NOTE 11 RELATED PARTY TRANSACTIONS

During 2018, the School District hired Pastorek Construction to remodel a daycare center at the Hoople location. Pastorek Construction is owned and operated by Darrel Pastorek, a member of the school board. The remodel project was completed in December 2018, and the District paid approximately \$63,195 to Pastorek Construction for the project.

NOTE 12 SUBSEQUENT EVENTS

As of August 19, 2019, the date the financial statements were available to be issued, the district was not aware of any subsequent events that need to be disclosed in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

VALLEY-EDINBURG PUBLIC SCHOOL DISTRICT NO. 118
 Edinburg, North Dakota
Budget Comparison Schedule Modified Cash Basis - General Fund
 For the Year Ended June 30, 2019

	Original Budget	Final Budget	Actual	Variance
Revenues:				
Local Sources	\$ 930,374	\$ 928,374	\$ 979,972	\$ 51,598
State Sources	2,470,933	2,470,933	2,494,042	23,109
Federal Sources	134,231	134,280	127,952	(6,328)
Other Sources	4,000	6,000	4,000	(2,000)
Total Revenues	\$ 3,539,538	3,539,587	3,605,966	66,380
Expenditures:				
Regular Instruction Programs	1,693,650	1,815,125	1,609,320	205,805
Special Education	490,950	490,950	487,943	3,007
Vocational Education	88,000	88,000	87,983	17
Federal Programs	134,231	134,280	127,952	6,328
Extracurricular Activities	108,750	108,750	98,832	9,918
Drivers Education	-	4,850	4,509	341
Student Support Services	1,056,875	930,550	971,801	(41,251)
Food Service	-	-	-	-
Total Expenditures	3,572,456	3,572,505	3,388,339	184,166
Excess Revenues over (under) Expenditures	(32,918)	(32,918)	217,627	250,545
Transfers In	32,000	32,000	-	-
Transfers (Out)	(50,000)	(50,000)	(50,000)	-
Net Change in Fund Balances	(18,000)	(50,918)	167,627	-
Fund Balance - July 1	1,026,291	1,026,291	1,026,291	-
Fund Balance - June 30	\$ 975,373	\$ 975,373	\$ 1,193,918	-

The notes to the required supplementary information are an integral part of this statement.

VALLEY-EDINBURG PUBLIC SCHOOL DISTRICT NO. 118
 Edinburg, North Dakota
Budget Comparison Schedule Modified Cash Basis - Special Reserve Fund
 For the Year Ended June 30, 2019

	Original Budget	Original & Final Budget	Actual	Variance
Revenues:				
Local Sources	\$ 41,469	\$ 41,469	\$ 40,938	\$ (531)
Total Revenues	41,469	41,469	40,938	(531)
Expenditures:				
Student Support Services	-	-	-	-
Total Expenditures	-	-	-	-
Excess Revenues over (under) Expenditures	41,469	41,469	40,938	(531)
Transfers In	-	-	-	
Transfers (Out)	(32,000)	(32,000)	-	
Net Change in Fund Balances	9,469	9,469	40,938	
Fund Balance - July 1	106,337	106,337	106,337	
Fund Balance - June 30	\$ 115,806	\$ 115,806	\$ 147,275	

The notes to the required supplementary information are an integral part of this statement.

VALLEY-EDINBURG PUBLIC SCHOOL DISTRICT NO. 118
 Edinburg, North Dakota
Budget Comparison Schedule Modified Cash Basis - Building Fund
 For the Year Ended June 30, 2019

	Original Budget	Original & Final Budget	Actual	Variance
Revenues:				
Local Sources	\$ 171,231	\$ 171,231	\$ 166,540	\$ (4,691)
Total Revenues	171,231	171,231	166,540	(4,691)
Expenditures:				
Student Support Services	173,000	173,000	204,025	(31,025)
Total Expenditures	173,000	173,000	204,025	(31,025)
Excess Revenues over (under) Expenditures	(1,769)	(1,769)	(37,485)	(35,716)
Net Change in Fund Balances	(1,769)	(1,769)	(37,485)	
Fund Balance - July 1	146,162	146,162	146,162	
Fund Balance - June 30	<u>\$ 144,393</u>	<u>\$ 144,393</u>	<u>\$ 108,677</u>	

The notes to the required supplementary information are an integral part of this statement.

VALLEY-EDINBURG PUBLIC SCHOOL DISTRICT NO. 118

Edinburg, North Dakota

Schedule of District's Share of Net Pension Liability

ND Teachers' Fund for Retirement

Last 10 Fiscal Years*

Year Ended June 30	Employer's Proportion	Employer's Proportionate	Employer's	Employer's Proportionate		Plan Fiduciary
	Of the Net Pension Liability (Asset)	Share Of the Net Pension Liability (Asset)	Covered Employee Payroll	Liability (Asset) as a % of its covered-employee Payroll	Net Position As a % of the Total Pension Liability	
2015	0.241673%	2,532,305	1,401,830	180.6%	66.60%	
2016	0.235013%	3,073,630	1,445,576	212.6%	62.10%	
2017	0.262239%	3,841,953	1,703,831	225.5%	59.20%	
2018	0.252384%	3,466,561	1,703,521	203.5%	63.20%	
2019	0.239152%	3,187,563	1,625,781	196.1%	65.50%	

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

Amounts presented for each fiscal year have a measurement date of the previous fiscal year end.

The notes to the required supplementary information are an integral part of this statement.

VALLEY-EDINBURG PUBLIC SCHOOL DISTRICT NO. 118

Edinburg, North Dakota

**Schedule of District's Contributions
ND Teachers' Fund for Retirement**

Last 10 Fiscal Years*

Year Ended June 30	Statutorily		Contributions in Relation		Contribution Deficiency (Excess)	Employer's Covered		Contributions as a % of Covered Employee Payroll
	Required	Contribution	to the Statutorily	Contribution		Payroll	Payroll	
2015	150,696	150,696	0	0	1,401,830	10.75%		
2016	184,302	184,302	0	0	1,445,576	12.75%		
2017	217,239	217,239	0	0	1,703,831	12.75%		
2018	217,199	217,199	0	0	1,703,521	12.75%		
2019	207,287	207,287	0	0	1,625,781	12.75%		

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

Amounts presented for each fiscal year have a measurement date of the previous fiscal year end.

The notes to the required supplementary information are an integral part of this statement.

VALLEY-EDINBURG PUBLIC SCHOOL DISTRICT NO. 118
 Edinburg, North Dakota
Notes to the Required Supplementary Information
 For the Year Ended June 30, 2019

NOTE 1 BUDGETS

Budgets are prepared on the cash basis of accounting which does not differ significantly from the modified cash method used for financial reporting.

The District’s board follows the procedures established by North Dakota law for the budgetary process. The business manager prepares an annual school district budget and property tax levy. The budget is prepared by funds, function and activity, and includes information on the past year, current year and requested appropriations for the next year.

The county treasurer collects all property taxes levied in the county, acting as agent for the various taxing authorities in the county. Collected taxes are remitted to the taxing authorities monthly unless the amount is insignificant.

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

- Administration prepares the District’s budget using a modified accrual basis of accounting. The board reviews the budget and makes any necessary revisions. On or before July 31, the board adopts the final budget. The final budget and property tax levy request is sent to the county auditor by August 15.
- The budget may be amended during the year for any receipts and appropriations not anticipated at the time the budget was prepared except no amendment changing the taxes levied can be made after October 10.
- At year-end, the balance of each appropriation becomes a part of the unappropriated fund balance.

The following fund’s expenditures exceeded budgeted amounts for the year ended June 30, 2019. There was no corrective action.

<u>Fund</u>	<u>Budgeted Expenditures</u>	<u>Actual Expenditures</u>	<u>Variance</u>
Building Fund	\$ 173,000	\$ 204,025	\$ (31,025)

NOTE 2 ND TEACHERS’ FUND FOR RETIREMENT

As stated in Note 1 C in the notes to the financial statements, the District uses a modified cash basis of accounting. If the District used the accrual basis of accounting, a net pension liability of \$3,187,563 to the ND Teachers’ Fund for Retirement would be presented on the statement of net position.

Changes of benefit terms.

There were no changes to benefits for the year ended June 30, 2018, the most recent measurement date.

Changes of assumptions.

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.

SUPPLEMENTARY INFORMATION

VALLEY-EDINBURG PUBLIC SCHOOL DISTRICT NO. 118

Edinburg, North Dakota

**Statement of Receipts, Disbursements and Changes in Fund Balance General Fund –
Modified Cash Basis**

For the Year Ended June 30, 2019

	<u>General Fund</u>
RECEIPTS:	
LOCAL SOURCES	
General Fund Property Taxes	\$ 952,883
Drivers Education Program	1,380
Miscellaneous Local Revenues	17,394
Total Local Sources	<u>971,656</u>
STATE SOURCES	
Per Pupil Aid	2,160,140
Transportation Aid	172,713
Special Ed Joint Agreement	89,893
Vocational Education Joint Agreement	71,296
Total State Sources	<u>2,494,042</u>
FEDERAL SOURCES	
Title I Program Aid	103,174
REAP	14,778
Other Federal Aid	10,000
Total Federal Sources	<u>127,952</u>
OTHER SOURCES	
ITV Reimbursement	4,000
Interest Income	8,316
Total Other Sources	<u>12,316</u>
TOTAL RECEIPTS	<u><u>\$ 3,605,966</u></u>

The notes to the financial statements are an integral part of this statement.

VALLEY-EDINBURG PUBLIC SCHOOL DISTRICT NO. 118
 Edinburg, North Dakota
Statement of Receipts, Disbursements and Changes in Fund Balance General Fund –
Modified Cash Basis(cont'd)
 For the Year Ended June 30, 2019

	General Fund
Excess Revenues over (under) Expenditures before Interfund Transfers	<u>\$ 217,627</u>
Sale of Capital Assets	-
Interfund Transfers In	-
Interfund Transfers Out	(50,000)
Excess Revenues over (under) Expenditures after Interfund Transfers	<u>\$ 167,627</u>
Fund Balance July 1	1,026,291
Fund Balance June 30	<u>\$ 1,193,918</u>

The notes to the financial statements are an integral part of this statement.

Accounting For Success

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 Valley-Edinburg Public School District No. 118
Edinburg, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the Valley-Edinburg Public School District No. 118, North Dakota as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Valley-Edinburg Public School District No. 118, North Dakota’s basic financial statements and have issued our report thereon dated August 19, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Valley-Edinburg Public School District No. 118, North Dakota’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Valley-Edinburg Public School District No. 118, North Dakota’s internal control. Accordingly, we do not express an opinion on the effectiveness of Valley-Edinburg Public School District No. 118, North Dakota’s internal control.

Our consideration of 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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been 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 or 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. We consider finding 2019-1, described in the accompanying schedule of findings and responses, to be a material weakness.

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PARK RIVER

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(701) 284-7616

LANGDON

817 3rd Street
FM Mall
Langdon, ND 58249
(701) 256-3559

STEPHEN

413 5th Street
P.O. BOX 45
Stephen, MN 56757
(218) 478-2880

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. We consider finding 2019-2, described in the accompanying schedule of findings and responses, to be a significant deficiency.

Compliance and Other Matters

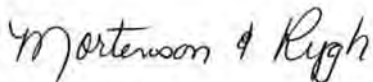
As part of obtaining reasonable assurance about whether Valley-Edinburg Public School District No. 118, North Dakota's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Valley-Edinburg Public School District No. 118, North Dakota's Response to Findings

Valley-Edinburg Public School District No. 118, North Dakota's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Valley-Edinburg Public School District No. 118, North Dakota's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.



Mortenson & Rygh
Certified Public Accountants
Park River, North Dakota

August 19, 2019

VALLEY-EDINBURG SCHOOL DISTRICT NO. 118
Edinburg, North Dakota
Schedule of Findings and Responses
June 30, 2019

FINDINGS RELATED TO INTERNAL CONTROL OVER FINANCIAL REPORTING:

2019-1 Segregation of Duties

Condition:

Valley-Edinburg Public School District has one business manager responsible for most accounting functions.

Effect:

Without adequate fraud risk programs and controls the Valley-Edinburg Public School District No. 118 exposes itself to risk of loss of assets, potential liabilities, and damage to reputation, whether due to error or fraud.

Cause:

There is no segregation of duties as one employee is responsible to collect monies, deposit monies, issue checks, send checks to vendors, record receipts and disbursements in journals, maintain the general ledger, and prepare financial statements. This increases the risk of misstatement of the Valley-Edinburg Public School District No. 118 financial condition.

Criteria:

The guidance relating to internal control is contained in Internal Control – Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). This framework includes discussions about the importance of adequate risk assessment, code of conduct, and background investigations. Proper internal accounting control dictates that sufficient accounting personnel should exist so that incompatible duties of employees are properly segregated. The segregation of duties would provide better control over the assets of the Valley Edinburg Public School District No. 118.

Recommendation:

Due to the size and funding limitations of the entity, we understand that it is not feasible to obtain proper segregation of duties. However, if at any time, it becomes economically feasible and appropriate to add sufficient staff to segregate duties, we recommend that the Valley Edinburg Public School District No. 118 do so. We further recommend that the school district implement any controls possible to separate the functions of approval, posting of transactions, reconciliation, and custody of assets.

Client Response:

The school board president agrees with the recommendation. The school board president does approve and sign all checks from all bank accounts before release. The financial statements are also reviewed by the school board.

2019-2 Financial Statement Preparation

Condition:

Mortenson & Rygh assist the school district's management in preparing financial statements and disclosures that are presented in accordance with the modified cash basis of accounting.

Effect:

Without the assistance of the auditors, the financial statements could be misstated or omit material financial statement disclosures.

Cause:

The school district's internal control system is not designed to provide for the preparation of the financial statements and accompanying notes to the financial statements.

Criteria:

As a matter of internal control, management should be responsible and capable of preparing financial statements in conformity with generally accepted account principles.

Recommendation:

Due to the size and funding limitations of the school district, we understand that it is not feasible for the school district to prepare its own financial statements. We recommend that management be aware of this condition and be prepared and able to provide all necessary information and schedules to complete the financial statements and disclosures. We further recommend that a responsible official review a current appropriate disclosure checklist or other guidance to ensure the financial statements contain all necessary disclosures.

Client Response:

The school board is aware of this condition, and will consider the risks and costs associated with the financial statement preparation. The school district will continue to request that Mortenson & Rygh assist with preparation of financial statements.