

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

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2016

## TABLE OF CONTENTS

	Page
<b>ROSTER OF SCHOOL OFFICIALS</b>	<b>1</b>
<b>INDEPENDENT AUDITOR'S REPORT</b>	<b>2</b>
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	
<b>FINANCIAL STATEMENTS</b>	
Statement of Net Position - Governmental Activities	10
Statement of Activities - Governmental Activities	11
Balance Sheet - Governmental Funds	12
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position	13
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	14
Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	15
Statement of Net Position - Fiduciary Funds	16
Statement of Changes in Net Position - Fiduciary Funds	17
Notes to Financial Statements	18
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
Budgetary Comparison Schedule for the General Fund	33
Notes to Budgetary Comparison Schedule	34
Schedule of District's Proportionate share of the Net Pension Liability	35
Schedule of District's Contributions to the TFFR Pension Plan	36
Note to the Required Supplementary Information	37
<b>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 <i>GOVERNMENT AUDITING STANDARDS</i></b>	<b>38</b>
<b>SCHEDULE OF FINDINGS AND RESPONSES</b>	<b>40</b>

**LITCHVILLE-MARION PUBLIC SCHOOL DISTRICT NO. 46**  
**MARION, NORTH DAKOTA**  
ROSTER OF SCHOOL DISTRICT OFFICIALS  
AT JUNE 30, 2016

Duane Formo	Board Member
Jamie Smith	Board Member
David Holweg, Jr.	Board Member
Joy Karlgaard	Board Member
Kyle Severance	Board Member
LaRinda Velure	Board Member
Steve Larson	Superintendent
Cindy Vogel	Business Manager



CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Litchville-Marion Public School District No.46 as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Litchville-Marion Public School District No. 46, as of June 30, 2016, and the respective changes in financial position for the year ended in accordance with accounting principles generally accepted in the United States of America.

## Other matters

### *Required Supplementary Information*

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

### *Other Information*

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

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2016 on our consideration of the Litchville-Marion Public School District No. 46's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 Litchville-Marion Public School District No. 46's internal control over financial reporting and compliance.



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

October 4, 2016

**LITCHVILLE-MARION PUBLIC SCHOOL DISTRICT NO. 46**  
**MARION, NORTH DAKOTA**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE YEAR ENDED JUNE 30, 2016

As management of the Litchville-Marion Public School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

### **FINANCIAL HIGHLIGHTS**

- The beginning General Fund balance for the District on July 1, 2015 was \$946,295 .
- The General Fund had \$2,408,558 in revenue and \$2,430,720 , in expenditures.
- The ending General Fund balance for the District on June 30, 2016 was \$896,843 .
- The ending General Fund cash balance for the District on June 30, 2016 was \$870,827 .
- The District holds in trust \$237,857 ; the interest earned from this trust is paid out in scholarships.
- The District continues to improve the design and operation of internal control systems by implementing proper separation of duties for office personnel. This provides for proper checks and balances within the financial accounting system.

### **OVERVIEW OF FINANCIAL STATEMENTS**

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

#### Government-Wide Financial Statements

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

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

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

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

**LITCHVILLE-MARION PUBLIC SCHOOL DISTRICT NO. 46**  
**MARION, NORTH DAKOTA**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) -CONTINUED  
FOR THE YEAR ENDED JUNE 30, 2016

Fund Financial Statements

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

Notes to the Financial Statements

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

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$98,040 as of June 30, 2016.

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

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

**LITCHVILLE-MARION PUBLIC SCHOOL DISTRICT NO. 46**  
**MARION, NORTH DAKOTA**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) -CONTINUED  
FOR THE YEAR ENDED JUNE 30, 2016

**Net Position for the period ended June 30, 2016 and 2015**

The District has provided a table below that consists of net position for the years ended June 30, 2016 and 2015.

	<u>6/30/2016</u>	<u>6/30/2015</u>
<b>ASSETS</b>		
Cash	\$ 870,827	\$ 926,119
Investments	237,857	237,658
Federal Receivables	23,569	26,617
Property Taxes Receivable	29,881	18,887
Due from Employees	<u>2,446</u>	<u>2,486</u>
Total Current Assets	<u>1,164,580</u>	<u>1,211,767</u>
Capital Assets		
Land	70,724	70,724
Buildings	1,001,324	1,001,324
Vehicles and equipment	52,494	52,494
Less: Accumulated Depreciation	<u>(887,352)</u>	<u>(872,841)</u>
Total Capital Assets, Net of Depreciation	<u>237,190</u>	<u>251,701</u>
<b>TOTAL ASSETS</b>	<u>1,401,770</u>	<u>1,463,468</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Cost Sharing Defined Benefit Pension Plan-TFFR	<u>311,690</u>	<u>113,475</u>
<b>LIABILITIES</b>		
Net Pension Liability	<u>1,706,476</u>	<u>1,457,649</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Cost Sharing Defined Benefit Pension Plan-TFFR	<u>105,024</u>	<u>165,596</u>
<b>NET POSITION</b>		
Net Investment in Capital Assets	237,190	251,701
Restricted permanent fund	237,857	237,855
Unrestricted (deficit)	<u>(573,087)</u>	<u>(535,888)</u>
<b>TOTAL NET POSITION</b>	<u>\$ (98,040)</u>	<u>\$ (46,332)</u>



**LITCHVILLE-MARION PUBLIC SCHOOL DISTRICT NO. 46**  
**MARION, NORTH DAKOTA**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) -CONTINUED  
FOR THE YEAR ENDED JUNE 30, 2016

The following presents comparative changes in net position for the years ended June 30, 2016 and 2015:

	<u>6/30/16</u>	<u>6/30/15</u>
<b>REVENUES</b>		
Charges for services	\$ 54,445	\$ 53,732
Operating grants and contributions	1,470,498	1,505,600
Property taxes	897,928	839,037
Other income	73,508	66,816
Interest income	1,528	2,010
<b>TOTAL REVENUES</b>	<u>2,497,907</u>	<u>2,467,195</u>
<b>EXPENSES</b>		
Regular instruction	1,252,306	1,091,675
Special education	190,790	180,280
Vocational education	11,428	11,051
Administrative and library	294,956	346,553
Transportation	199,159	223,996
Operation and maintenance	425,155	389,900
Student activities	61,447	72,510
Other	-	706
School food services	114,374	107,661
<b>TOTAL EXPENSES</b>	<u>2,549,615</u>	<u>2,424,332</u>
<b>CHANGE IN NET POSITION</b>	<u>\$ (51,708)</u>	<u>\$ 42,863</u>

**Capital Assets**

As of June 30, 2016, the District had \$237,190 invested in capital assets. Following are the balances as of June 30, 2016.

	<u>Balance 6-30-15</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 6-30-16</u>
<b>Governmental Activities</b>				
Land	\$ 70,724	\$ -	\$ -	\$ 70,724
Buildings	1,001,324	-	-	1,001,324
Vehicles and equipment	52,494	-	-	52,494
<b>Total</b>	<u>1,124,542</u>	<u>-</u>	<u>-</u>	<u>1,124,542</u>
<b>Less Accumulated Depreciation</b>				
Buildings	838,798	11,502	-	850,300
Vehicles and equipment	34,043	3,009	-	37,052
<b>Total</b>	<u>872,841</u>	<u>14,511</u>	<u>-</u>	<u>887,352</u>
<b>Net Capital Assets for</b>				
Governmental Activities	<u>\$ 251,701</u>	<u>\$ (14,511)</u>	<u>\$ -</u>	<u>\$ 237,190</u>

**LITCHVILLE-MARION PUBLIC SCHOOL DISTRICT NO. 46**  
**MARION, NORTH DAKOTA**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) -CONTINUED  
FOR THE YEAR ENDED JUNE 30, 2016

**Comments on General Fund Budgetary Comparison**

- The District's general fund revenues for the fiscal year ended June 30, 2016 were \$2,408,558 .
- General fund actual revenues were higher than budgeted revenues by \$2,806 .
- The District's general fund expenditures for the fiscal year ended June 30, 2016 were \$2,430,720
- General fund actual expenditures were lower than budgeted expenses by \$63,250 .
- General fund budget expenditures to actual varied slightly but compared reasonably to the budgeted amounts as anticipated.

**Instructional Expenditures**

Instructional expenditures account for approximately \$1,464,514 or 60 % of total governmental fund expenditures. Regular Instruction accounts for 86 % of the instructional expenditures. Special Education and federal programs accounts for 13 % and Vocational Programs accounts for 1 % of the instructional expenditures.

**Non-Instructional Expenditures**

Non-Instructional or central support services expenditures account for approximately \$966,206 or 40 % of total governmental expenditures. Non-instructional expenditures consist of transportation (including repairs, fuel, supplies, and drivers), maintenance & operations (including utilities, repairs, insurance, supplies, electricity, heating oil, equipment and custodians), administration and library (including unemployment, worker's comp, contracted services, communications, board, library, exec. administration and office staff expenses), student activities, food services and debt service.

**BUDGETARY IMPLICATIONS**

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

Declining enrollment and funding formulas continue to be monitored closely. A printout from the North Dakota Department of Public Instruction shows 130 Districts with a higher mill levy than Litchville Marion and 19 districts with a lower mill levy, Litchville – Marion is at 60.68.

Federal Funding continues to decrease. We are able to pay portions of Title I staff salaries and benefits with funds and the district assumes the remainder. Professional Development, Title I Elementary Para and other supplies are paid for with Federal REAP funds. We had carryover in the 2015-2016 budget to be used in 2016-2017.

Retirements or job openings of certified staff allowed us to fill positions within or hire staff by hiring with less years' experience to bring our salary and benefit lines down.

We continue to look at the usage of both buildings, with the way our classes and extra rooms are needed, the board has determined eliminating one building is not an option at this time. Repairs are done to both buildings as the need arises.

**LITCHVILLE-MARION PUBLIC SCHOOL DISTRICT NO. 46**  
**MARION, NORTH DAKOTA**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) -CONTINUED  
FOR THE YEAR ENDED JUNE 30, 2016

We have one full time high school principal and our Superintendent is also the part time Elementary Principal. This change occurred in the fall of 2015.

We are anticipating future retirements and are closely monitoring the budget with a small increase in our mill levy.

**Contacting the District's Financial Management**

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

**LITCHVILLE-MARION PUBLIC SCHOOL DISTRICT NO. 46**  
**MARION, NORTH DAKOTA**  
STATEMENT OF NET POSITION – GOVERNMENTAL ACTIVITIES  
AS OF JUNE 30, 2016

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Cash	\$ 870,827
Investments	237,857
Federal Receivables	23,569
Property Taxes Receivable	29,881
Due from Employees	2,446
Total Current Assets	1,164,580
Capital Assets	
Land - not being depreciated	70,724
Buildings	1,001,324
Vehicles and equipment	52,494
Less: Accumulated Depreciation	(887,352)
Total Capital Assets, Net of Depreciation	237,190
<b>TOTAL ASSETS</b>	<b>1,401,770</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Cost Sharing Defined Benefit Pension Plan-TFFR	311,690
<b>LIABILITIES</b>	
Long-Term Liabilities	
Net Pension Liability	1,706,476
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Cost Sharing Defined Benefit Pension Plan-TFFR	105,024
<b>NET POSITION</b>	
Net Investment in Capital Assets	237,190
Restricted permanent fund	237,857
Unrestricted (deficit)	(573,087)
<b>TOTAL NET POSITION</b>	<b>\$ (98,040)</b>

See Notes to the Financial Statements

**LITCHVILLE-MARION PUBLIC SCHOOL DISTRICT NO. 46**  
**MARION, NORTH DAKOTA**  
STATEMENT OF ACTIVITIES – GOVERNMENTAL ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2016

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Position</u>
<b>GOVERNMENTAL ACTIVITIES</b>				
Instruction:				
Regular instruction	\$ 1,252,306	\$ -	\$ -	\$ (1,252,306)
Special education & federal programs	190,790	-	76,272	(114,518)
Vocational education	11,428	-	-	(11,428)
Support Services:				
Administrative and library	294,956	-	-	(294,956)
Transportation	199,159	-	124,447	(74,712)
Operation and maintenance	425,155	-	-	(425,155)
Student Activities	61,447	-	-	(61,447)
School food services	114,374	54,445	31,639	(28,290)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<u>\$ 2,549,615</u>	<u>\$ 54,445</u>	<u>\$ 232,358</u>	<u>(2,262,812)</u>
<b>GENERAL REVENUES</b>				
Property taxes				897,928
State aid not restricted to a specific function				1,238,140
Interest income				1,528
Other revenues				73,508
<b>TOTAL GENERAL REVENUES</b>				<u>2,211,104</u>
<b>Change in Net Position</b>				(51,708)
<b>Net position-beginning</b>				<u>(46,332)</u>
<b>Net position-ending</b>				<u>\$ (98,040)</u>

See Notes to the Financial Statements

**LITCHVILLE-MARION PUBLIC SCHOOL DISTRICT NO. 46**  
**MARION, NORTH DAKOTA**  
BALANCE SHEET – GOVERNMENTAL FUNDS  
AS OF JUNE 30, 2016

	<u>General Fund</u>	<u>Food Service Fund</u>	<u>Permanent Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash	\$ 870,827	\$ -	\$ -	\$ 870,827
Investments	-	-	237,857	237,857
Federal Receivables	23,569	-	-	23,569
Property Taxes Receivable	29,881	-	-	29,881
Due from Employees	2,446	-	-	2,446
<b>TOTAL ASSETS</b>	<u>\$ 926,723</u>	<u>\$ -</u>	<u>\$ 237,857</u>	<u>\$ 1,164,580</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable property taxes-delinquent	\$ 29,880	\$ -	\$ -	\$ 29,880
<b>FUND BALANCES</b>				
Restricted permanent fund-scholarships	-	-	237,857	237,857
Unassigned	896,843	-	-	896,843
<b>TOTAL FUND BALANCES</b>	<u>896,843</u>	<u>-</u>	<u>237,857</u>	<u>1,134,700</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<u>\$ 926,723</u>	<u>\$ -</u>	<u>\$ 237,857</u>	<u>\$ 1,164,580</u>

See Notes to the Financial Statements

**LITCHVILLE-MARION PUBLIC SCHOOL DISTRICT NO. 46**  
**MARION, NORTH DAKOTA**  
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
STATEMENT OF NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2016

Total fund balances - governmental funds		\$ 1,134,700
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Land	\$ 70,724	
Buildings	1,001,324	
Vehicles and equipment	52,494	
Less: accumulated depreciation	<u>(887,352)</u>	237,190
Net deferred outflows (inflows) of resources relating to the cost sharing of defined benefit plans in the governmental activities are not financial resources and therefore, are not reported as deferred outflows (inflows) of resources in the governmental funds.		
		206,666
Property taxes receivable will be collected during the year, but are not available soon enough to pay for the current periods expenditures, and therefore are deferred in the funds.		
		29,880
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds.		
Net Pension Liability		<u>(1,706,476)</u>
Total net position - governmental activities		<u>\$ (98,040)</u>

**LITCHVILLE-MARION PUBLIC SCHOOL DISTRICT NO. 46**  
**MARION, NORTH DAKOTA**  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2016

	<b>General Fund</b>	<b>Food Service Fund</b>	<b>Permanent Fund</b>	<b>Total Governmental Funds</b>
<b>REVENUES</b>				
Property taxes	\$ 894,665	\$ -	\$ -	\$ 894,665
Revenue from state sources	1,362,587	955	-	1,363,542
Revenue from federal sources	76,272	30,684	-	106,956
Other local sources	73,508	54,445	-	127,953
Interest income	1,526	-	2	1,528
<b>TOTAL REVENUES</b>	<u>2,408,558</u>	<u>86,084</u>	<u>2</u>	<u>2,494,644</u>
<b>EXPENDITURES</b>				
Current				
Regular instruction	1,262,296	-	-	1,262,296
Special education & federal programs	190,790	-	-	190,790
Vocational education	11,428	-	-	11,428
Administrative and library	294,956	-	-	294,956
Transportation	196,150	-	-	196,150
Operation and maintenance	413,653	-	-	413,653
Student activities	61,447	-	-	61,447
School food services	-	114,374	-	114,374
<b>TOTAL EXPENDITURES</b>	<u>2,430,720</u>	<u>114,374</u>	<u>-</u>	<u>2,545,094</u>
<b>EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES</b>	<u>(22,162)</u>	<u>(28,290)</u>	<u>2</u>	<u>(50,450)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	27,290	-	27,290
Transfers out	(27,290)	-	-	(27,290)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(27,290)</u>	<u>27,290</u>	<u>-</u>	<u>-</u>
<b>Net change in fund balance</b>	(49,452)	(1,000)	2	(50,450)
<b>FUND BALANCE, BEGINNING OF YEAR</b>	<u>946,295</u>	<u>1,000</u>	<u>237,855</u>	<u>1,185,150</u>
<b>FUND BALANCE, END OF YEAR</b>	<u>\$ 896,843</u>	<u>\$ -</u>	<u>\$ 237,857</u>	<u>\$ 1,134,700</u>

See Notes to the Financial Statements



**LITCHVILLE-MARION PUBLIC SCHOOL DISTRICT NO. 46**  
**MARION, NORTH DAKOTA**  
RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES TO THE  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2016

Total net change in fund balances - governmental funds \$(50,450)

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

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

Capital outlays	\$ -	
Depreciation expense	<u>(14,511)</u>	(14,511)

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

Net change in unavailable property taxes	3,263
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Changes in deferred outflows and inflows of resources related to net pension liability	258,787
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Changes in net pension liability	<u>(248,797)</u>
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Change in net position - governmental activities	<u><u>\$(51,708)</u></u>
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**LITCHVILLE-MARION PUBLIC SCHOOL DISTRICT NO. 46**  
**MARION, NORTH DAKOTA**  
**STATEMENT OF NET POSITION – FIDUCIARY FUNDS**  
**AS OF JUNE 30, 2016**

	<b>Student Activities Fund</b>	<b>Scholarship Fund</b>	<b>Flex Fund</b>	<b>Total Fiduciary Funds</b>
<b>ASSETS</b>				
Cash	\$ 29,538	\$ 1,209	\$ 12,858	\$ 43,605
<b>LIABILITIES</b>				
Due to Other Funds	29,538	-	-	29,538
Due to Employees	-	-	12,858	12,858
<b>TOTAL LIABILITIES</b>	<u>29,538</u>	<u>-</u>	<u>12,858</u>	<u>42,396</u>
<b>NET POSITION</b>				
Restricted for Scholarships	-	1,209	-	1,209
<b>TOTAL NET POSITION</b>	<u>\$ -</u>	<u>\$ 1,209</u>	<u>\$ -</u>	<u>\$ 1,209</u>

See Notes to the Financial Statements

**LITCHVILLE-MARION PUBLIC SCHOOL DISTRICT NO. 46**  
**MARION, NORTH DAKOTA**  
STATEMENT OF CHANGES IN NET POSITION – FIDUCIARY FUNDS  
AS OF JUNE 30, 2016

	<b>Scholarship Fund</b>
<b>ADDITIONS</b>	
Contributions:	
Other	\$ 632
Investment earnings:	
Interest	808
<b>TOTAL ADDITIONS</b>	<b>1,440</b>
<b>DEDUCTIONS</b>	
Scholarships awarded	4,249
<b>TOTAL DEDUCTIONS</b>	<b>4,249</b>
<b>Change in net position</b>	(2,809)
<b>Net position—beginning of the year</b>	4,018
<b>Net position—end of the year</b>	\$ 1,209

See Notes to the Financial Statements

**LITCHVILLE-MARION PUBLIC SCHOOL DISTRICT NO. 46**  
**MARION, NORTH DAKOTA**  
NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2016

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

**Reporting Entity**

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

**Basis of Presentation**

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

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

**Government-wide Financial Statements**

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

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

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

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

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

**LITCHVILLE-MARION PUBLIC SCHOOL DISTRICT NO. 46**  
**MARION, NORTH DAKOTA**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
AS OF JUNE 30, 2016

## **Fund Financial Statements**

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

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

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

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

## **Governmental Funds**

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

### General Fund

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

### Food Service

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

### Permanent Fund

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

**LITCHVILLE-MARION PUBLIC SCHOOL DISTRICT NO. 46**  
**MARION, NORTH DAKOTA**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
AS OF JUNE 30, 2016

**Non-major Governmental Funds**

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

**Fiduciary Funds**

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

Student Activity Fund

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

Scholarship fund

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

Flex fund

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

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

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

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

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

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

**Unearned revenues**

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

**LITCHVILLE-MARION PUBLIC SCHOOL DISTRICT NO. 46**  
**MARION, NORTH DAKOTA**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
AS OF JUNE 30, 2016

### **Deferred Outflows/Inflows of Resources**

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

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

### **Budgets and Budgetary Accounting**

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

1. The Superintendent, with the assistance of the business managers, prepares the School District budget. The budget includes proposed expenditures and the means of financing them. The budget is prepared on a modified accrual basis.
2. The School Board reviews the budget, may make revisions, and approves the final budget on or before August 15. The final budget must be filed with the county auditor by August 25 of each year.
3. The budget may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared, except no amendment changing the taxes levied can be made after October 10, of each year. The budget amounts shown in the financial statements are the final authorized amounts as revised.
4. The balance of each appropriation becomes a part of the unappropriated balance at year-end.

### **Cash and Cash Equivalents**

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

**LITCHVILLE-MARION PUBLIC SCHOOL DISTRICT NO. 46**  
**MARION, NORTH DAKOTA**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
AS OF JUNE 30, 2016

**Federal Receivable**

Federal receivables consist of the final amounts due for the fiscal year for Federal grant programs. Management has determined that an allowance for doubtful accounts is not necessary.

**Capital Assets**

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

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

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

**Property taxes**

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

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

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

**Compensated Absences**

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

**Pensions**

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



**LITCHVILLE-MARION PUBLIC SCHOOL DISTRICT NO. 46**  
**MARION, NORTH DAKOTA**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
AS OF JUNE 30, 2016

**Net Position/Fund Balance**

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

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

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

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

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

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

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

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

**Minimum Fund Balance Policy**

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

**Inter-fund Activity**

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

**Significant Group Concentrations of Credit Risk**

As of June 30, 2016, the District's receivables consist of amounts due from other governmental units located within the State of North Dakota.

**LITCHVILLE-MARION PUBLIC SCHOOL DISTRICT NO. 46**  
**MARION, NORTH DAKOTA**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
AS OF JUNE 30, 2016

**Encumbrances**

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

**Use of Estimates**

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

**NOTE 2 - CASH AND INVESTMENTS**

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

**Interest Rate Risk**

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

**Credit Risk**

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

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

**LITCHVILLE-MARION PUBLIC SCHOOL DISTRICT NO. 46**  
**MARION, NORTH DAKOTA**  
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
 AS OF JUNE 30, 2016

**NOTE 3 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2016 was as follows:

	Balance 6-30-15	Additions	Disposals	Balance 6-30-16
<b>Governmental Activities</b>				
Land	\$ 70,724	\$ -	\$ -	\$ 70,724
Buildings	1,001,324	-	-	1,001,324
Vehicles and equipment	52,494	-	-	52,494
<b>Total</b>	<u>1,124,542</u>	<u>-</u>	<u>-</u>	<u>1,124,542</u>
<b>Less Accumulated Depreciation</b>				
Buildings	838,798	11,502	-	850,300
Vehicles and equipment	34,043	3,009	-	37,052
<b>Total</b>	<u>872,841</u>	<u>14,511</u>	<u>-</u>	<u>887,352</u>
<b>Net Capital Assets for</b>				
Governmental Activities	<u>\$ 251,701</u>	<u>\$ (14,511)</u>	<u>\$ -</u>	<u>\$ 237,190</u>

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

	<u>Depreciation</u>
Transportation	\$ 3,009
Operation and maintenance	11,502
	<u>\$ 14,511</u>

**NOTE 4 - PENSION PLAN**

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

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

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

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

**LITCHVILLE-MARION PUBLIC SCHOOL DISTRICT NO. 46**  
**MARION, NORTH DAKOTA**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
AS OF JUNE 30, 2016

**Pension Benefits**

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

*Tier 1 Grandfathered*

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

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

*Tier 1 Non-grandfathered*

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

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

*Tier 2*

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

**LITCHVILLE-MARION PUBLIC SCHOOL DISTRICT NO. 46**  
**MARION, NORTH DAKOTA**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
AS OF JUNE 30, 2016

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, 2016, the District reported a liability of \$1,706,476 for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Employer's proportion of the net pension liability was based on the Employer's share of covered payroll in the pension plan relative to the covered payroll of all participating TFFR employers. At July 1, 2015, the Employer's proportion was 0.130479 percent which was a decrease of 0.008636 from its proportion measured as of June 30, 2014.

**LITCHVILLE-MARION PUBLIC SCHOOL DISTRICT NO. 46**  
**MARION, NORTH DAKOTA**  
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
 AS OF JUNE 30, 2016

For the year ended June 30, 2016, the Employer recognized pension expense of \$98,906 . At June 30, 2016, the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 11,182	\$ -
Net Investment Income	-	-
Changes in actuarial assumptions	191,608	-
Difference between projected and actual investment earnings	-	19,243
Changes in proportion	-	85,781
Contributions paid to TFFR subsequent to the measurement date	108,900	-
<b>Total</b>	<b>\$ 311,690</b>	<b>\$ 105,024</b>

\$108,900 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30:	Pension Expense Amount
2017	\$ 5,274
2018	5,274
2019	5,274
2020	44,103
2021	19,792
Thereafter	18,049

### Actuarial Assumptions

The total pension liability in the July 1, 2015 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, 2015, funding actuarial valuation for TFFR.

**LITCHVILLE-MARION PUBLIC SCHOOL DISTRICT NO. 46**  
**MARION, NORTH DAKOTA**  
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
 AS OF JUNE 30, 2016

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

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

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

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Global Equities	57.00%	7.53%
Global Fixed Income	22.00%	1.30%
Global Real Assets	20.00%	5.40%
Cash Equivalents	1.00%	0.00%

**Discount Rate**

The discount rate used to measure the total pension liability was 7.75% percent as of June 30, 2015. 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, 2015, Actuarial Valuation Report. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members as of June 30, 2015. 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, 2015. The discount rate used to measure the total pension liability changed from 8% to 7.75% based on the investment return assumption change as a result of the April 30, 2015 actuarial experience study.

**LITCHVILLE-MARION PUBLIC SCHOOL DISTRICT NO. 46**  
**MARION, NORTH DAKOTA**  
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
 AS OF JUNE 30, 2016

**Pension Liability Sensitivity**

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

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
	6.75%	7.75%	8.75%
School's proportionate share of the TFFR net pension liability:	\$ 2,255,189	\$ 1,706,476	\$ 1,248,861

**Pension Plan Fiduciary Net Position**

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

**NOTE 5 – LONG TERM LIABILITIES**

A summary of long term liabilities is as follows:

Title	Interest Rate	Original Maturity	Balance 7/1/2015	Additions	Reductions	Balance 6/30/2016	Due within One Year
Net Pension Liability			<u>\$ 1,457,679</u>	<u>\$ 633,738</u>	<u>\$ 384,941</u>	<u>\$ 1,706,476</u>	<u>\$ -</u>

**NOTE 6 - COMMITMENTS AND CONTINGENCIES**

**Grant Programs**

The District participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at June 30, 2016, may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

**NOTE 7 - RISK MANAGEMENT**

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



**LITCHVILLE-MARION PUBLIC SCHOOL DISTRICT NO. 46**  
**MARION, NORTH DAKOTA**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
AS OF JUNE 30, 2016

**NOTE 8 – CHARITABLE TRUST**

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

**NOTE 9 – INTERFUND ACTIVITY**

Schedule of Transfers

Transfer to Food Service from General fund	<u>\$ 27,290</u>
--	------------------

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

**NOTE 10 - NON-MONETARY TRANSACTIONS**

The District receives food commodities from the federal government to subsidize its hot lunch program. The market value of commodities received for the year ended June 30, 2016 was \$6,097.

**NOTE 11 - NEW PRONOUNCEMENTS**

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

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement is effective for financial statements for fiscal years beginning after June 15, 2016. Earlier application is encouraged.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement is effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, is to identify, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement is effective for reporting periods beginning after June 15, 2015. Earlier application is permitted

**LITCHVILLE-MARION PUBLIC SCHOOL DISTRICT NO. 46**  
**MARION, NORTH DAKOTA**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
AS OF JUNE 30, 2016

GASB Statement No. 77, *Tax Abatement Disclosures*, Financial statements prepared by state and local governments in conformity with generally accepted accounting principles provide citizens and taxpayers, legislative and oversight bodies, municipal bond analysts, and others with information they need to evaluate the financial health of governments, make decisions, and assess accountability. This information is intended, among other things, to assist these users of financial statements in assessing (1) whether a government's current-year revenues were sufficient to pay for current-year services (known as interperiod equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government's financial resources come from and how it uses them, and (4) a government's financial position and economic condition and how they have changed over time. This Statement is effective for financial statements for periods beginning after December 15, 2015. Earlier application is encouraged.

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

**NOTE 12 - SUBSEQUENT EVENTS**

No significant events occurred subsequent to the District's year end. Subsequent events have been evaluated through October 4, 2016, which is the date these financial statements were available to be issued.

**LITCHVILLE-MARION PUBLIC SCHOOL DISTRICT NO. 46**  
**MARION, NORTH DAKOTA**  
 BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND  
 FOR THE YEAR ENDED JUNE 30, 2016

	<b>General Fund</b>			
	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>
<b>REVENUES</b>				
Property taxes	\$ 887,500	\$ 887,500	\$ 894,665	\$ 7,165
Revenue from state sources	1,369,790	1,369,790	1,362,587	(7,203)
Revenue from federal sources	79,984	84,012	76,272	(7,740)
Other local sources	63,200	63,200	73,508	10,308
Interest income	1,250	1,250	1,526	276
<b>TOTAL REVENUES</b>	<b>2,401,724</b>	<b>2,405,752</b>	<b>2,408,558</b>	<b>2,806</b>
<b>EXPENDITURES</b>				
Current				
Regular instruction	1,283,889	1,283,889	1,262,296	21,593
Special education	177,704	181,733	190,790	(9,057)
Vocational education	11,428	11,428	11,428	-
Administrative and library	298,100	298,100	294,956	3,144
Transportation	232,777	232,777	196,150	36,627
Operation and maintenance	416,871	416,871	413,653	3,218
Student activities	69,172	69,172	61,447	7,725
<b>TOTAL EXPENDITURES</b>	<b>2,489,941</b>	<b>2,493,970</b>	<b>2,430,720</b>	<b>63,250</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(88,217)</b>	<b>(88,218)</b>	<b>(22,162)</b>	<b>66,056</b>
<b>OTHER SOURCES (USES)</b>				
Transfers out	(27,290)	(27,290)	(27,290)	-
<b>TOTAL OTHER SOURCES (USES)</b>	<b>(27,290)</b>	<b>(27,290)</b>	<b>(27,290)</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>\$(115,507)</b>	<b>(115,508)</b>	<b>(49,452)</b>	<b>66,056</b>
<b>FUND BALANCE - JULY 1</b>		<b>946,295</b>	<b>946,295</b>	<b>-</b>
<b>FUND BALANCE - JUNE 30</b>		<b>\$ 830,787</b>	<b>\$ 896,843</b>	<b>\$ 66,056</b>

See Notes to the Budgetary Comparison Schedule

**LITCHVILLE-MARION PUBLIC SCHOOL DISTRICT NO. 46**  
**MARION, NORTH DAKOTA**  
NOTES TO THE BUDGETARY COMPARISON SCHEDULE  
AS OF JUNE 30, 2016

**NOTE 1 -BUDGETING POLICIES**

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

1. The Superintendent, with the assistance of the business managers, prepares the School District budget for the general fund. The budget includes proposed expenditures and the means of financing them. The budget is prepared on a modified accrual basis.
2. The School Board reviews the budget, may make revisions, and approves the final budget on or before August 15. The final budget must be filed with the county auditor by August 25 of each year.
3. The budget may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared, except no amendment changing the taxes levied can be made after October 10, of each year. The budget amounts shown in the financial statements are the final authorized amounts as revised.
4. The balance of each appropriation becomes a part of the unappropriated balance at year-end.

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

	Final Budget	Actual	Excess
<b>General Fund</b>			
Special education	\$ 181,733	\$ 190,790	\$ 9,057

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

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

**Teachers Fund for Retirement**

For the Fiscal Year Ended June 30	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Penion Liability (Asset) (a)	District's Covered- Employee Payroll	Proportionate Share of the Net Pension Liability (asset) as a Percentage of its Covered-employee Payroll	Plan Fiduciary Net Position as a Percentage Of the Total Pension Liability
2016	0.130479%	\$ 1,706,476	\$ 802,581	212.62%	62.10%
2015	0.139115%	1,457,679	806,940	180.64%	66.60%

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

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

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

**Teachers Fund for Retirement**

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

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

**LITCHVILLE-MARION PUBLIC SCHOOL DISTRICT NO. 46**  
**MARION, NORTH DAKOTA**  
NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2016

**NOTE 1 CHANGES OF ASSUMPTIONS**

**TFFR**

Amounts reported in 2016 reflect actuarial assumption changes effective July 1, 2015 based on the results of an actuarial experience study completed in 2015.

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



CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Litchville-Marion Public School District No. 46 as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Litchville-Marion Public School District No. 46's basic financial statements and have issued our report thereon dated October 4, 2016.

**Internal Control Over Financial Reporting**

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency or combination of control deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 2016-001 to be a material weakness.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses as item 2016-002 to be a significant deficiency.



## **Compliance and Other Matters**

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

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

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

## **Purpose of this Report**

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



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

October 4, 2016

**LITCHVILLE-MARION PUBLIC SCHOOL DISTRICT NO. 46**  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2016

**Material Weakness 2016-001**

Condition:

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

Cause of Condition:

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

Recommendation:

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

Response:

We concur with the auditor's' recommendation. The District will consider the costs and benefits of this recommendation.

**Significant Deficiency 2016-002**

Criteria:

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

Condition:

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

Cause:

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

Effect:

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

Recommendation:

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

Response:

We concur with the auditors finding and will consider the risks and costs associated with the financial statement preparation