

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

**FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015**

VALLEY CITY PUBLIC SCHOOL DISTRICT

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VALLEY CITY PUBLIC SCHOOL DISTRICT
LIST OF OFFICIALS
JUNE 30, 2015

BOARD OF EDUCATION:

Joyce Braunagel
Patrick Callahan
Ryan Mathias
Val Moritz
Richard Ross

OFFICE

President
Vice-president

ADMINISTRATION:

Dean Koppelman
Linda Heit

Superintendent
Business Manager

Harold J. Rotunda

Certified Public Accountant

INDEPENDENT AUDITOR'S REPORT

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

I have audited the accompanying modified cash basis financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Valley City Public School District as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Valley City Public School District as of June 30, 2015, and the changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with U.S. generally accepted accounting principles.

Basis of Accounting

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

Other Matters

Required Supplementary Information

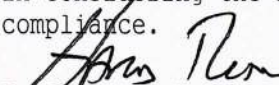
Accounting principles generally accepted in the United States of America require that the management discussion and analysis and budgetary comparison information on pages 4-9 and 34 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, 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. I 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 I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Valley City Public School District's basic financial statements. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements. The combining fund financial statements are the responsibility of management and was 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 my opinion, the combining fund financial statements and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basis financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, I have also issued reports dated December 28, 2015, on my considerations of the District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control over financial reporting and compliance.


West Fargo, North Dakota
December 28, 2015

405 West Main Avenue Box 816 West Fargo, ND 58078 Phone/fax (701)281-0483 Cell (701) 212-3908

VALLEY CITY SCHOOL DISTRICT
VALLEY CITY, NORTH DAKOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Valley City School District (District), I offer readers of the financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2015. I encourage readers to consider the information presented here in conjunction with additional information that I have furnished. The intent of this discussion and analysis is to look at the District's financial performance as a whole.

Financial Highlights

* The assets of District exceeded its liabilities at the close of the most recent fiscal year by \$8,629,319 (Net Assets). Of this amount, \$2,142,682 (Unrestricted Net Assets) may be used to meet ongoing obligations.

* The District's total net assets increased by \$882,090 as a result of the current year's operation.

* The District's total revenues from all sources were \$13,467,056. Total expenses were \$12,584,966.

* At the close of the current fiscal year, The District's governmental funds reported combined ending fund balances of \$4,433,608, a net increase of \$857,932 in comparison with the prior year. Approximately 48%, \$2,142,682, is available for spending through an unreserved fund balance.

Overview of the 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
3. Notes to the Financial Statements

These financial statements are organized so the reader can understand the District as a whole.

VALLEY CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS-CONTINUED

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 Assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or declining.

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

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges.

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. 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 three groups: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near term inflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year.

VALLEY CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS-CONTINUED

Proprietary funds-When the District charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. For example, proprietary fund capital assets are capitalized and depreciated and principal payments on long-term debt are recorded as a reduction to the liability. In fact, the District's proprietary (enterprise) fund financial statements are essentially the same as the business-type activities I report in the government-wide statements but the fund statements provide more detail and additional information, such as cash flows. The District has one enterprise fund.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of specific groups. Fiduciary funds are not reflected in the government-wide financial statement because the resources of these funds are not available to support the District.

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

As noted earlier, net assets may serve over time as a useful indicator of the district's financial position. The district's net assets of \$7,747,229 are segregated into three categories. Invested in capital assets (net of related debt), restricted assets and unrestricted. Net assets invested in capital assets, net of related debt, represents 47% of the District's net assets. 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 are not used to liquidate these liabilities. Restricted net assets represent 28% of the District's resources that are subject to external restrictions on how they may be used. Unrestricted net assets represent the remaining 25% of resources. The unrestricted net assets are available to meet the District's ongoing obligations.

VALLEY CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS-CONTINUED
NET POSITION

Assets	2015	2014
Current and other assets	5,159,112	4,238,078
Capital assets (net of depreciation)	<u>6,688,239</u>	<u>7,030,602</u>
Total Assets	<u>11,847,351</u>	<u>11,268,680</u>
	=====	=====
Liabilities		
Current Liabilities	546,285	726,378
Long Term Liabilities	<u>2,671,747</u>	<u>2,795,073</u>
Total Liabilities	<u>3,218,032</u>	<u>3,521,451</u>
Net Position		
Net investment in capital assets	4,016,493	3,988,428
Restricted	2,291,077	1,811,273
Unrestricted	<u>2,321,749</u>	<u>1,947,528</u>
Total Net Assets	<u>8,629,319</u>	<u>7,747,229</u>

Governmental activities increased the District's net assets by \$882,090. Key elements of this increase are as follows:

	2015	2014
Revenues		
Program Revenues:		
Charges for Services	434,373	432,468
Operating Grants and Contributions	923,756	1,817,512
General Revenues		
Taxes	3,831,911	3,722,322
State Aid	8,075,857	7,853,883
Interest and Other Revenue	<u>201,159</u>	<u>131,815</u>
Total Revenues	<u>13,467,056</u>	<u>13,958,000</u>
Expenses		
Instruction	8,276,638	9,332,725
Support Services:		
General Administrative Services	1,158,677	1,144,144
Operations and Maintenance	882,490	853,894
Pupil Transportation Services	390,325	377,077
Extracurricular Services	407,230	424,539
Other Capital Outlays	342,362	149,372
Food Services	717,923	694,810
Interest on Long-Term Debt	66,959	75,062
Depreciation-Unallocated	<u>342,362</u>	<u>342,362</u>
Total Expenses	<u>12,584,966</u>	<u>13,393,985</u>
Increase (Decrease) in Net Assets	882,090	564,015

VALLEY CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS-CONTINUED

Property taxes constituted 28%, state aid 60% and other revenues made up the remaining 12% of the total revenues of the governmental activities of the district for the 2015 fiscal year. Instruction comprises 66% of the District's governmental expenses, while support services account for 34%.

Capital Asset and Debt administration

Capital Assets

As of June 30, 2015, the District had \$6,688,239 invested in capital assets. This investment includes land, buildings and improvements, equipment and vehicles, and construction in progress.

CAPITAL ASSETS (NET OF DEPRECIATION)

	2015	2014
Equipment	8,456	17,482
Buildings and Improvements	6,679,783	7,013,120
Construction in progress		
Total	<u>6,688,239</u>	<u>7,030,602</u>

Long-Term Debt

At the end of the current fiscal year, the District had \$2,671,747 in outstanding debt. Of this amount, \$2,725,919 is long-term debt. The remaining \$316,254 is a current liability due within one year. The District reduced its existing debt obligation by \$346,194 from June 30, 2014.

OUTSTANDING GENERAL LONG-TERM DEBT

	2015	2014
Bonds Payable	2,378,105	2,694,359
Lease payable	113,570	138,761
Qzab loan	180,072	209,053
Compensated Absences		
Total	<u>2,671,747</u>	<u>3,042,173</u>

General and Building Fund Highlights

The State changed the funding formula increasing state aid and reducing property taxes. Property tax revenue decreased \$1,027,978 or 28% and state aid increased \$1,695,483 or 23%. The overall increase in revenue was 6%. The expenditures were consistent with last year.

VALLEY CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS-CONTINUED

Differences between the original and final amended budget were relatively minor. Revenues were increased by \$462,491, and expenses were increased by \$462,491. During the year, however, revenues exceeded the final budgetary estimates by \$ 22,028 and expenditures were less than the final budgetary estimate by \$118,358.

The Building Fund paid for the building repairs. The costs were comparable to last year. Debt service revenue and expense were consistent with last year.

Economic Factors and Next Year's Budget

During the past twenty years, the burden for financing education in North Dakota has steadily shifted from state sources to local sources. The only real local source of revenue is property tax. As such, the continued growth of local taxable valuation is critical to the district's ability to finance the ever increasing cost of education. Over the past ten years, the taxable value of real property in the district has increased an average of 2.2%. It is projected to increase approximately 5.0% for 2015-2015.

In addition this district set the following long term objectives related to our operations.

1. This district will strive to maintain a salary and benefit package that attracts and retains the quality staff they have in the district. The teacher compensation package for all staff places the district in good position compared to other districts in the state.
2. This district will monitor existing debt and refinance when rates are favorable. Over the past several years all of the existing debt that could be refinanced has been restructured to realize cost savings.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all their citizens, taxpayers, investors, and creditors. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: Valley City Public School District Linda Heit, Business Manager, 460 Central Avenue N Valley City, North Dakota

VALLEY CITY PUBLIC SCHOOL
STATEMENT OF NET POSITION- MODIFIED CASH BASIS
JUNE 30, 2015

	GOVERNMENTAL ACTIVITIES
ASSETS	
Cash and investments	4,866,509.75
Accounts receivable	
Taxes receivable	179,066.63
Intergovernmental receivable	113,535.21
Due from County Treasurer	
Capital assets (net of accumulated depreciation)	6,688,239.44
Total Assets	11,847,351.03
LIABILITIES	
Accounts Payable	-
Salaries and benefits payable	546,285.23
Deferred revenue	
Long-term liabilities:	
Due within one year:	
Bonds payable	195,775.37
Notes payable	51,324.85
Due after one year:	
Bonds payable	2,182,329.51
Notes payable	242,317.16
Total liabilities	3,218,032.12
NET POSITION	
Net investment in capital assets	4,016,492.55
Restricted for:	
Capital projects	722,897.18
Debt service	1,568,180.24
Unrestricted	2,321,748.94
Total Net Position	8,629,318.91

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

VALLEY CITY PUBLIC SCHOOL
STATEMENT OF ACTIVITIES- MODIFIED CASH BASIS
YEAR ENDED JUNE 30, 2015

		Program Revenues		Net (expense) Revenue & Changes in Net Position
	Expenses	Charges for Services	Operating grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction				
Regular	7,861,447.47		404,142.01	(7,457,305.46)
Special Education	332,439.10		65,047.27	(267,391.83)
Vocational Education	249,413.98		23,182.40	(226,231.58)
Support Services				
Administrative	1,158,676.69			(1,158,676.69)
Operation & maintenance	882,489.73			(882,489.73)
Pupil Transportation Services	390,324.92		173,527.00	(216,797.92)
Extracurricular	407,230.28			(407,230.28)
Food Service	717,923.04	434,372.52	257,857.75	(25,692.77)
Debt Service				
Interest expense	66,959.21			(66,959.21)
Capital outlays	175,699.49			(175,699.49)
Depreciation- Operation	342,362.25			(342,362.25)
Depreciation- Instruction	-			-
Depreciation- Food service	-			-
Total Governmental Activities	12,584,966.16	434,372.52	923,756.43	(11,226,837.21)
General Revenues				
Taxes:				
Property taxes, levied for general purposes				3,151,570.12
Property taxes levied for debt service				235,042.63
Other tax revenue				445,298.08
State aid not restricted to specific program:				
Per pupil aid				8,075,857.28
Interest income and other revenue				201,159.30
Total General Revenues				12,108,927.41
Change in Net Position				882,090.20
Net Position- July 1				7,747,228.72
Net Position- June 30				8,629,318.92

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

VALLEY CITY PUBLIC SCHOOL
BALANCE SHEET- GOVERNMENTAL FUNDS- MODIFIED CASH BASIS
JUNE 30, 2015

	GENERAL	BUILDING	DEBT SERVICE	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS					
Cash and investments	2,099,429.78	722,897.18	1,568,180.24	476,002.55	4,866,509.75
Accounts receivable					-
Taxes receivable	141,469.58	19,722.31	12,731.60	5,143.14	179,066.63
Intergovernmental receivable	113,535.21				113,535.21
Due from County Treasurer					-
Total Assets	2,354,434.57	742,619.49	1,580,911.84	481,145.69	5,159,111.59
LIABILITIES					
Accounts Payable	-				-
Salaries and benefits payable	546,285.23				546,285.23
Total liabilities	546,285.23	-	-	-	546,285.23
DEFERRED INFLOWS OF RESOURCES					
Uncollected taxes	141,469.58	19,722.31	12,731.60	5,143.14	179,066.63
Total liabilities and deferred inflows of resources	687,754.81	19,722.31	12,731.60	5,143.14	725,351.86
FUND BALANCE					
Restricted for Capital Projects		722,897.18			722,897.18
Restricted for Debt Service			1,568,180.24	-	1,568,180.24
Restricted for other purposes				476,002.55	476,002.55
Unassigned	1,666,679.76			-	1,666,679.76
Total fund balance	1,666,679.76	722,897.18	1,568,180.24	476,002.55	4,433,759.73
Total liabilities, deferred inflows and fund balance	2,354,434.57	742,619.49	1,580,911.84	481,145.69	5,159,111.59

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

VALLEY CITY PUBLIC SCHOOL
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE
SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2015

Total Fund Balances for Governmental Funds	4,433,759.73
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Total net position reported for governmental activities in the statement of net position is different because:

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

Cost of capital assets	23,743,092.08	
Less accumulated depreciation	17,054,852.63	
Net capital assets		6,688,239.45

Property taxes will be collected after year end, but are not available soon enough to pay for the current period's expenditures and therefore are reported as deferred revenues in the funds.

179,066.63

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

Bonds payable	(2,378,104.88)
Leases payable	(113,570.47)
Q-zab loan	(180,071.54)

Total Net Position of Governmental Activities	8,629,318.92
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The accompanying notes are an integral part of these financial statements.

VALLEY CITY PUBLIC SCHOOL
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES- GOVERNMENTAL FUNDS- MODIFIED CASH BASIS
YEAR ENDED JUNE 30, 2015

	GENERAL	BUILDING	DEBT SERVICE	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Property taxes	2,693,609.41	366,749.09	235,042.63	95,117.45	3,390,518.58
Other local sources	96,105.60	875.36	448,872.93	478,626.02	1,024,479.91
State sources	8,352,613.94	41,350.00		7,833.00	8,401,796.94
Federal sources	404,142.01			250,024.75	654,166.76
Total Revenues	11,546,470.96	408,974.45	683,915.56	831,601.22	13,470,962.19
Current:					
Instruction					
Regular	7,861,447.47				7,861,447.47
Special Education	332,439.10				332,439.10
Vocational Education	249,413.98				249,413.98
Support Services					
Administrative	1,158,676.69				1,158,676.69
Operation & maintenance	882,489.73				882,489.73
Pupil Transportation Services	390,324.92				390,324.92
Extracurricular	407,230.28				407,230.28
Food Service				717,923.04	717,923.04
Debt Service					
Principal		54,172.48	316,254.07	-	370,426.55
Interest expense		8,825.46	58,133.75	-	66,959.21
Capital outlays		175,699.49			175,699.49
Total Expenditures	11,282,022.17	238,697.43	374,387.82	717,923.04	12,613,030.46
Excess revenues (expenditures)	264,448.79	170,277.02	309,527.74	113,678.18	857,931.73
Other Financing Sources (Uses):					
Transfers in	125,000.00				125,000.00
Transfers out				(125,000.00)	(125,000.00)
Bond proceeds				-	-
Total other financing sources and uses	125,000.00	-	-	(125,000.00)	-
Net change in fund balances	389,448.79	170,277.02	309,527.74	(11,321.82)	857,931.73
Fund balance- beginning	1,277,230.97	552,620.16	1,258,652.50	487,324.37	3,575,828.00
Fund balance- ending	1,666,679.76	722,897.18	1,568,180.24	476,002.55	4,433,759.73

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

VALLEY CITY PUBLIC SCHOOL
 RECONCILIATION OF GOVERNMENTAL STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2015

Net Change in Fund Balances- Total Governmental Funds	857,931.73
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The change in net position reported for governmental activities in the statement of activities is different because:

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

Current year capital outlay	-	
Current year depreciation expense	342,362.25	(342,362.25)

Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	54,172.48
	316,254.07
	-

Some revenues reported on the statement of activities are not reported as revenues in the governmental funds since they do not represent available resources to pay current expenditures. This consists of the following:

Taxes receivable	(3,905.83)
Accrued vacation	
Bond proceeds	

Change in Net Position of Governmental Activities	882,090.20
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The accompanying notes are an integral part of these financial statements.

VALLEY CITY PUBLIC SCHOOL
STATEMENT OF NET POSITION- MODIFIED CASH BASIS
PROPRIETARY FUND
JUNE 30, 2015

INTERNAL
SERVICE
FUND

ASSETS

Cash and investments	348,101.94
Accounts receivable	
Taxes receivable	
Intergovernmental receivable	
Due from County Treasurer	

Total Assets	348,101.94
--------------	------------

LIABILITIES

Accounts payable	
Claims payable	73,093.92
Deferred revenue	

Total liabilities	73,093.92
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NET POSITION

Unrestricted	275,008.02
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Total Net Position	275,008.02
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The accompanying notes are an integral part of these financial statements.

VALLEY CITY PUBLIC SCHOOL
 STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION- MODIFIED CASH BASIS
 PROPRIETARY FUNDS
 YEAR ENDED JUNE 30, 2015

OPERATING REVENUE	
Charges for services	1,472,693.73
OPERATING EXPENSES	
Reinsurance expense	412,426.99
Administration	81,329.16
Claims	958,462.56
Total operating expenses	1,452,218.71
Operating income (loss)	20,475.02
NON-OPERATING REVENUE (EXPENSE)	
Interest income	224.84
Other	
Total non-operating rev (exp)	224.84
Income (loss) before transfers	20,699.86
Transfers in	
Transfers out	
Change in Net Position	20,699.86
Net Position- beginning	254,308.16
Net Position- ending	275,008.02

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

VALLEY CITY PUBLIC SCHOOL
STATEMENT OF CASH FLOWS- MODIFIED CASH BASIS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from general fund	1,072,223.63
Receipts from teachers	400,470.10
Payments for insurance	(1,415,554.29)
Other receipts	
Net cash provided by (used in) operating activities	57,139.44

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Transfers to other funds	
Transfers from other funds	
Net cash provided by (used in) noncapital financing activitie	-

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Purchase of capital assets	
Debt proceeds	
Net cash provided by (used in) capital and related financing :	-

CASH FLOWS FROM INVESTING ACTIVITIES

Interest and dividends	224.84
Net cash provided by (used in) investing activities	224.84
Net increase (decrease) in cash and cash equivalents	57,364.28
Balance- beginning of year	290,737.66
Balance- end of year	348,101.94

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

Operating income (loss)	20,475.02
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	
Change in assets and liabilities:	
Claims payable	(36,664.42)
Miscellaneous receipts (expense)	

Net cash provided by operating activities (16,189.40)

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

VALLEY CITY PUBLIC SCHOOL
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
JUNE 30, 2015

AGENCY
FUNDS

ASSETS

Cash and investments	363,241.49
Accounts receivable	
Taxes receivable	
Intergovernmental receivable	
Due from County Treasurer	

Total Assets	363,241.49
--------------	------------

LIABILITIES

Accounts Payable	
Due to Student Groups	363,241.49
Deferred revenue	

Total liabilities	363,241.49
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NET POSITION

Total Net Position	-
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The accompanying notes are an integral part of these financial statements.

VALLEY CITY PUBLIC SCHOOL DISTRICT
VALLEY CITY, NORTH DAKOTA

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Valley City Public School District (District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the district's accounting policies are described below.

A. Reporting Entity

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

Based on these criteria, there are no component units.

B. BASIS OF PRESENTATION, BASIS OF ACCOUNTING

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

VALLEY CITY PUBLIC SCHOOL DISTRICT
Notes to Financial Statements- Continued

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

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

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

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

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

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

Government-wide, Proprietary and Fiduciary Fund Financial Statements. The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

VALLEY CITY PUBLIC SCHOOL DISTRICT
Notes to Financial Statements- Continued

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. All revenues are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

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

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

VALLEY CITY PUBLIC SCHOOL DISTRICT
Notes to Financial Statements- Continued

D. Budgets

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

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

E. Cash and Investments

Cash includes amounts in demand deposits and money market accounts.

Investments consist of certificates of deposits stated at cost and government securities stated at fair value.

F. Capital Assets

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

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

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

VALLEY CITY PUBLIC SCHOOL DISTRICT
Notes to Financial Statements- Continued

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

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

G. Long-Term Obligations

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

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

H. Fund Balance

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

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

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

VALLEY CITY PUBLIC SCHOOL DISTRICT
Notes to Financial Statements- Continued

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

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

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

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

I. Interfund Transactions

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

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

VALLEY CITY PUBLIC SCHOOL DISTRICT
Notes to Financial Statements- Continued

J. COMPENSATED ABSENCES

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

K. Net Assets

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

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

NOTE 2: LEGAL COMPLIANCE - BUDGETS

BUDGET AMENDMENTS

The school board amended the district budget for 2015 as follows:

	Original Budget	Amendment	Amended Budget
GENERAL FUND			
Revenue	11,694,980	462,491	12,157,471
Expenditures	11,788,245	462,491	12,250,736

EXPENDITURES OVER APPROPRIATIONS

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

NOTE 3 DEPOSITS AND INVESTMENTS

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

VALLEY CITY PUBLIC SCHOOL DISTRICT
Notes to Financial Statements- Continued

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

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

At June 30, 2015, the District's carrying amount of deposits was \$5,577,853. Of the bank balances, \$750,000 was covered by Federal Depository Insurance. The remaining balance of \$4,827,853 was collateralized with securities held by the pledging financial institution's agent in the government's name.

Credit Risk

State statutes authorize the District to invest in:(1) Bonds, treasury bills and notes, or other securities that are a direct obligation of, or an obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of Congress.(2) Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are the type listed above.(3) Certificates of Deposit fully insured by the federal deposit insurance corporation or the state.(4) Obligations of the state.

Concentration of Credit Risk

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

VALLEY CITY PUBLIC SCHOOL DISTRICT
Notes to Financial Statements- Continued

NOTE 4: TAXES RECEIVABLE

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

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

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

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

NOTE 5: ACCOUNTS RECEIVABLE

Accounts receivable consists of amounts on open account from other districts and organizations for goods and services furnished by the district. No allowance has been established for uncollectible accounts.

NOTE 6: INTERGOVERNMENTAL RECEIVABLE

Intergovernmental receivables consist of reimbursements due for expenses in the operation of various school programs. These amounts consist of a mix of State and Federal dollars.

VALLEY CITY PUBLIC SCHOOL DISTRICT
Notes to Financial Statements- Continued

NOTE 7: CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended June 30, 2015:

	Balance July 1	Increases	Decreases	Balance June 30
Governmental Activities				
Capital assets, not being depreciated				
Construction in progress				
Total Cap Assets not Depreciated				
Capital assets, being depreciated				
Bldgs and Improvements	23,685,119			23,685,119
Vehicles & Equipment	57,973			57,973
Total Cap Assets				
Being Depreciated	23,743,092			23,743,092
Less accumulated depreciation for:				
Buildings & Improve	16,672,000	333,337		17,005,337
Vehicles & Equip	40,490	9,025		49,516
Total Accumulated Dep	16,712,490	342,362		17,054,853
Total Cap Assets				
Being Depreciated, Net	7,030,602			6,688,239
Governmental Activities				
Capital Assets, Net	7,030,602			6,688,239

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

Governmental Activities:	
School Food Services	2,395
Operations and Maint	333,337
Unallocated	6,630
Total Dep Exp-Gov Activities	342,362

NOTE 8: ACCOUNTS PAYABLE

Accounts payable consists of amounts on open account for goods and services received prior to June 30 and chargeable to the appropriations for the year then ended, but paid for subsequent to that date.

NOTE 9: LONG-TERM DEBT

Changes in Long-Term Liabilities - During the year ended June 30, 2015, the following changes occurred in liabilities reported in long-term debt:

VALLEY CITY PUBLIC SCHOOL DISTRICT
Notes to Financial Statements- Continued

	Payable 2014	Increases	Decreases	Payable 2015	Due Within One Year
Bonds Payable	2,694,359		316,254	2,378,105	316,254
Lease payable	138,761		25,191	113,570	25,191
Qzab loan	209,053		28,981	180,072	28,982
TOTAL	3,042,173		346,195	2,671,747	

Debt payable at June 30, 2015, is comprised of the following individual issues:

Bonds Payable:

General Obligation School Refunding Bond of 2015
due in annual installments of \$85,000 to \$150,000
including interest at .5-1.9% through August 2023 1,165,000

General Obligation School Construction loan of
1999 due in annual installments of \$52,557
including interest at 3.91% through June 2019 191,184

Refunding Bond of 2008 due in annual installments
of \$95,000 to \$125,000 including interest at
2.75-3.60% through May 2019 475,000

General Obligation School construction loan of
2003 due in annual installments of \$74,210
including interest at 1.86% through June 2015 546,921

Total Long-Term Debt 2,378,105

The annual long-term debt service requirements for bonds payable,
as of June 30, 2015, are as follows:

Year Ending June 30	Long-Term Debt	GOVERNMENTAL ACTIVITIES	
		Principal	Interest
2016	319,120	49,768	
2017	337,074	42,177	
2018	355,118	34,119	
2019	368,258	23,500	
2020	198,937	16,009	
2021-2024	799,598	29,060	
TOTAL	2,378,105	194,633	

VALLEY CITY PUBLIC SCHOOL DISTRICT
Notes to Financial Statements- Continued

Lease payable

The District is obligated to the following capital lease agreements at June 30, 2015 are shown below:

2016	31,921
2017	31,921
2018	31,921
2019	<u>31,921</u>
	127,684
Less amount representing interest	<u>14,114</u>
Principal balance remaining	113,570
	=====

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

NOTE 10: PENSION PLANS

North Dakota Teachers Fund for Retirement TFFR
Summary of Significant Accounting Policies

General Information about the 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.

VALLEY CITY PUBLIC SCHOOL DISTRICT
Notes to Financial Statements- Continued

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.

VALLEY CITY PUBLIC SCHOOL DISTRICT
Notes to Financial Statements- Continued

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 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 50 and the sum of age and years of service credit equals or exceeds 90. TFFR permits early retirement from ages 55 to 65, 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.

VALLEY CITY PUBLIC SCHOOL DISTRICT
Notes to Financial Statements- Continued

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 70 $\frac{1}{2}$. 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 Expense Related to Pensions

For the year ended June 30, 2015, the Employer recognized pension expense of \$1,153,506.

VALLEY CITY PUBLIC SCHOOL DISTRICT
Notes to Financial Statements- Continued

Actuarial assumptions. The total pension liability in the July 1, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	4.50% to 14.75%, varying by
service,	including inflation and
productivity	
Investment rate of return	8.00%, net of investment expenses
Cost-of-living adjustments	None

For inactive members and healthy retirees, mortality rates are based on 80% of GRS Table 378 and 75% of GRS Table 379. For active members, mortality rates are based on the post-retirement mortality rates multiplied by 60% for males and 40% for females. For disabled retirees, mortality rates are based on the RP-2000 Disabled-Life tables for Males and Females multiplied by 80% and 95%, respectively.

The actuarial assumptions used were based on the results of an actuarial experience study dated January 21, 2010. They are the same as the assumptions used in the July 1, 2014, funding actuarial valuation for TFFR.

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 weighing 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:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Global Equities	57%	7.53%
Global Fixed Income	22%	1.40%
Global Real Assets	20%	5.38%
Cash Equivalents	1%	0.00%

VALLEY CITY PUBLIC SCHOOL DISTRICT
Notes to Financial Statements- Continued

Discount Rate. The discount rate used to measure the total pension liability was 8 percent as of June 30, 2014. 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, 2014, Actuarial Valuation Report. For this, 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, 2014. 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, 2014.

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

NORTH DAKOTA PUBLIC EMPLOYEE RETIREMENT SYSTEM (NDPERS)

The Valley City School District participates in the North Dakota Public Employees Retirement System (NDPERS) - Main System. The following brief description of NDPERS is provided for general information purposes only. Participants should refer to NDCC Chapter 54-52 for more complete information.

A. DESCRIPTION OF PENSION PLAN

NDPERS is a cost-sharing multiple-employer defined benefits pension plan that covers substantially all employees of the State of North Dakota, its agencies and various participating political subdivisions. NDPERS provides for pension, death and disability benefits. The cost to administer the plan is financed through the contributions and investment earnings of the plan.

Responsibility for administration of the NDPERS defined benefit pension plan is assigned to a Board comprised of seven members. The Board consists of a Chairman, who is appointed by the governor, one member appointed by the Attorney General; one member appointed by the State Health Officer, three members elected by the active membership of the NDPERS system; and one member elected by the retired public employees.

VALLEY CITY PUBLIC SCHOOL DISTRICT
Notes to Financial Statements- Continued

B. PENSION BENEFITS

Benefits are set by statute. NDPERS has no provision or policies with respect to automatic and ad hoc post-retirement benefit increases. Members of the Main System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85) or at normal retirement age of (65). The annual pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. The plan permits early retirement at ages 55-64 with three or more years of service.

Members may elect to receive the pension benefits in the form of a single life, joint and survivor, term-certain annuity, or partial lump sum with ongoing annuity. Members may elect to receive the value of their accumulated contributions, plus interest, as a lump sum distribution upon retirement or termination, or they may elect to receive their benefits in the form of an annuity. For each member electing an annuity, total payment will not be less than the members' accumulated contributions plus interest.

C. DEATH AND DISABILITY BENEFITS

Death and disability benefits are set by statute. If an active member dies with less than three years of service for the Main System, a death benefit equal to the value of the member's accumulated contributions, plus interest, is paid to the member's beneficiary. If the member has earned more than three years of credited service for the Main System, the surviving spouse will be entitled to a single payment refund, lifetime monthly payments in an amount equal to 50% of the member's accrued normal retirement benefit, or monthly payments in amount equal to the member's accrued 100% Joint and Survivor retirement benefit if the member had reached normal retirement age prior to date of death. If the surviving spouse dies before the member's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

Eligible members who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits equal to 25% of their final average salary with a minimum benefit of \$100. To qualify under this section, the member has to become disabled during the period of eligible employment and apply for benefits within one year of termination. The definition of disabled is set by the NDPERS in the North Dakota Administrative Code.

VALLEY CITY PUBLIC SCHOOL DISTRICT
Notes to Financial Statements- Continued

D. REFUNDS OF MEMBER ACCOUNT BALANCE

Upon termination, if a member of the Main System is not vested (is not 65 or does not have three years of service), they will receive the accumulated member contributions and vested employer contributions, plus interest, or may elect to receive this amount at a later date. If the member has vested, they have the option of applying for a refund or can remain as a terminated vested participant. If a member terminated and withdrew their accumulated member contribution and is subsequently reemployed, they have the option of repurchasing their previous service.

The member's account balance includes the vested employer contributions equal to the member's contributions to an eligible deferred compensation plan. The minimum member contribution is \$25 and the maximum may not exceed the following:

1 to 12 months of service - Greater of one percent of monthly salary or \$25
13 to 25 months of service - Greater of two percent of monthly salary or \$25
25 to 36 months of service - Greater of three percent of monthly salary or \$25
Longer than 36 months of service - Greater of four percent of monthly salary or \$25

E. MEMBER AND EMPLOYER CONTRIBUTIONS

Member and employer contributions paid to NDPERS are set by statute and are established as a percent of covered compensation. Member contribution rates are 7% and employer contribution rates are 7.12% of covered compensation.

F. PENSION EXPENSE RELATED TO PENSIONS

\$150,211 reported as expense related to pensions resulting from Employer contributions for the year ended June 30, 2015.

Actuarial assumptions. The total pension liability in the July 1, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Salary increases	3.85% per annum for four years, then 4.50% per annum
Investment rate of return	8.00%, net of investment expenses
Cost-of-living adjustments	None

VALLEY CITY PUBLIC SCHOOL DISTRICT
Notes to Financial Statements- Continued

For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table with ages set back three years. For disabled retirees, mortality rates were based on the RP-2000 Disabled Retiree Mortality Table with ages set back one year for males (not set back for females).

The actuarial assumptions used were based on the results of an actuarial experience study completed in 2010. They are the same as the assumptions used in the July 1, 2014, funding actuarial valuation for NDPERS. 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:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	31%	6.90%
International Equity	21%	7.55%
Private Equity	5%	11.30%
Domestic Fixed Income	17%	1.55%
International Fixed Income	5%	0.90%
Global Real Assets	20%	5.38%
Cash equivalents	1%	0.00%

Discount rate. The discount rate used to measure the total pension liability was 8 percent as of June 30, 2014. 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, 2014, 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, 2014. 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, 2014.

VALLEY CITY PUBLIC SCHOOL DISTRICT
Notes to Financial Statements- Continued

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

NOTE 11: RISK MANAGEMENT

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

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

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

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

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

Claims, which have been incurred at year-end but not reported, have been recorded as a claim reserve payable in the amount of \$36,429. Blue Cross Blue Shield, the plan administrator, has calculated this reserve requirement. Changes in the claim reserve payable during the year were as follows-

Balance, beginning of the year	58,860
Incurred claims including IBNR's	719,443
Less claims paid	741,874
Balance, end of the year	36,429

VALLEY CITY PUBLIC SCHOOL DISTRICT
Notes to Financial Statements- Continued

NOTE 12. DESIGNATED FUND BALANCE

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

Designated for Debt Service	1,258,652
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VALLEY CITY PUBLIC SCHOOL
BUDGTARY COMPARISON SCHEDULE- GENERAL FUND- MODIFIED CASH BASIS
YEAR ENDED JUNE 30, 2015

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE POSITIVE (NEGATIVE)
Property taxes	2,562,379.40	2,562,379.40	2,693,609.41	131,230.01
Other local sources	105,500.00	105,500.00	96,105.60	(9,394.40)
State sources	9,027,100.92	9,027,100.92	8,352,613.94	(674,486.98)
Federal sources	-	462,490.89	404,142.01	(58,348.88)
Total Revenues	11,694,980.32	12,157,471.21	11,546,470.96	(611,000.25)
Current:				
Instruction				
Regular	7,387,093.69	7,849,584.58	7,861,447.47	(11,862.89)
Special Education	1,265,449.21	1,265,449.21	332,439.10	933,010.11
Vocational Education	254,848.00	254,848.00	249,413.98	5,434.02
Support Services				-
Administrative	1,187,947.64	1,187,947.64	1,158,676.69	29,270.95
Operation & maintenance	866,903.25	866,903.25	882,489.73	(15,586.48)
Pupil Transportation Services	397,500.00	397,500.00	390,324.92	7,175.08
Extracurricular	428,503.52	428,503.52	407,230.28	21,273.24
	-	-	-	-
Capital outlays				
Debt Service				
Principal				
Interest expense				
Total Expenditures	11,788,245.31	12,250,736.20	11,282,022.17	968,714.03
Excess revenues (expenditures)	(93,264.99)	(93,264.99)	264,448.79	357,713.78
Other Financing Sources (Uses):				
Transfers in	450,000.00	450,000.00	125,000.00	(325,000.00)
Transfers out			-	
Bond proceeds			-	
Total other financing sources and uses	450,000.00	450,000.00	125,000.00	(325,000.00)
Net change in fund balances	356,735.01	356,735.01	389,448.79	32,713.78
Fund balance- beginning	1,277,230.97	1,277,230.97	1,277,230.97	-
Fund balance- ending	1,633,965.98	1,633,965.98	1,666,679.76	32,713.78

Budgets are prepared on the same basis and using the same accounting practices as are used to account and prepare financial reports for the funds. Budgets presented in this report for comparison to actual amounts are presented in accordance with the modified cash basis. All appropriations lapse at year end. Encumbrance accounting is not utilized by the District. The budget is adopted through formal approval by the Board. Any revisions to the budget must be approved by the Board.

VALLEY CITY PUBLIC SCHOOL
BALANCE SHEET
JUNE 30, 2015

	GENERAL	FOOD SERVICE	HEALTH INSURANCE	SPECIAL RESERVE	BUILDING	DEBT SERVICE	TRUST & AGENCY	SCHOLARSHIP	GENERAL LTD	2015	2014
CASH IN BANK	2,099,429.78	111,947.72	348,101.94	364,054.83	722,897.18	1,568,180.24	292,264.11	70,977.38		5,577,853.18	4,501,269.70
INVESTMENTS											
PROPERTY TAX REC	141,469.58			5,143.14	19,722.31	12,731.60				179,066.63	182,972.46
DUE FROM OTHER GOVT	113,535.21									113,535.21	146,495.02
ACCOUNT'S RECEIVABLE											
AMOUNT AVAILABLE											
AMT TO BE PROVIDED									1,568,180.24	1,568,180.24	1,258,652.50
FIXED ASSETS									1,103,566.65	1,103,566.65	1,783,520.94
TOTAL ASSETS	2,354,434.57	111,947.72	348,101.94	369,197.97	742,619.49	1,580,911.84	292,264.11	70,977.38	2,671,746.89	8,542,201.91	7,872,910.62
DUE TO STUDENT GROUPS											
ACCRUED EXPENSES	546,285.23		73,093.92				292,264.11			363,241.49	301,921.14
DEFERRED REVENUE	141,469.58	-	-	5,143.14	19,722.31	12,731.60				619,379.15	515,707.42
ACCRUED VACATION										179,066.63	182,972.46
BONDS PAYABLE											
CERTIFICATE OF INDEBT									2,378,104.88	2,378,104.88	2,694,358.95
LEASE PAYABLE									113,570.47	113,570.47	209,053.17
									180,071.54	180,071.54	138,761.32
TOTAL LIABILITIES	687,754.81	-	73,093.92	5,143.14	19,722.31	12,731.60	292,264.11	70,977.38	2,671,746.89	3,833,434.16	4,042,774.46
FUND BALANCE-											
DESIGNATED						1,568,180.24				1,568,180.24	1,258,652.50
RESERVED											
UNRESERVED	1,666,679.76	111,947.72		364,054.83	722,897.18					2,865,579.49	2,317,175.50
RETAINED EARNINGS			275,008.02		-					275,008.02	254,308.16
INVEST IN FIX ASSETS											
TOTAL FUND EQUITY	1,666,679.76	111,947.72	275,008.02	364,054.83	722,897.18	1,568,180.24	-	-	-	4,708,767.75	3,830,136.16
TOT LIAB & FUND EQ	2,354,434.57	111,947.72	348,101.94	369,197.97	742,619.49	1,580,911.84	292,264.11	70,977.38	2,671,746.89	8,542,201.91	7,872,910.62

VALLEY CITY PUBLIC SCHOOL
INCOME STATEMENT
JUNE 30, 2015

	GENERAL	FOOD SERVICE	SPECIAL RESERVE	BUILDING	DEBT SVC	2015	2014
REVENUES							
TAXES	2,693,609.41		95,117.45	366,749.09	235,042.63	3,390,518.58	3,319,243.58
OTHER LOCAL	96,105.60	478,158.75	467.27	875.36	448,872.93	1,024,479.91	1,028,924.93
STATE	8,352,613.94	7,833.00		41,350.00		8,401,796.94	9,007,168.38
FEDERAL	404,142.01	250,024.75				654,166.76	664,226.84
TOTAL REV	11,546,470.96	736,016.50	95,584.72	408,974.45	683,915.56	13,470,962.19	14,019,563.73
EXPENSES							
INSTRUCTION	7,861,447.47					7,861,447.47	7,831,267.31
SPECIAL EDUCATIC	332,439.10					332,439.10	1,253,697.48
VOCATIONAL ED	249,413.98					249,413.98	247,759.46
ADMINISTRATION	1,158,676.69					1,158,676.69	1,144,143.85
PLANT	882,489.73					882,489.73	853,894.34
TRANSPORTATION	390,324.92					390,324.92	377,076.93
EXTRACURRICULA	407,230.28					407,230.28	424,539.20
FOOD SERVICE		717,923.04				717,923.04	694,810.30
CAPITAL OUTLAY				175,699.49		175,699.49	149,372.14
DEBT SERVICE				62,997.94	374,387.82	437,385.76	421,255.76
TOTAL EXP	11,282,022.17	717,923.04	-	238,697.43	374,387.82	12,613,030.46	13,397,816.77
EXCESS REV (EXP)	264,448.79	18,093.46	95,584.72	170,277.02	309,527.74	857,931.73	621,746.96
TRANSFERS IN	125,000.00					125,000.00	450,000.00
TRANSFERS OUT			(125,000.00)			(125,000.00)	(450,000.00)
DEBT PROCEEDS						-	-
EXCESS REV (EXP)	389,448.79	18,093.46	(29,415.28)	170,277.02	309,527.74	857,931.73	621,746.96
FUND BAL- BEG	1,277,230.97	93,854.26	393,470.11	552,620.16	1,258,652.50	3,575,828.00	2,954,081.04
FUND BAL- END	1,666,679.76	111,947.72	364,054.83	722,897.18	1,568,180.24	4,433,759.73	3,575,828.00

VALLEY CITY PUBLIC SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2015

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Expenses</u>
U.S. Department of Agriculture-		
Passed through North Dakota		
Department of Public Instruction:		
National school lunch	10.555	\$180,016
National school breakfast	10.553	45,817
Food distribution	10.550	<u>24,192</u>
Total child nutrition cluster		250,025
 Fresh fruit and vegetable	 10.582	 <u>38,000</u>
 Total Department of Agriculture		 <u>288,025</u>
U.S. Department of Education-		
Passed through North Dakota		
Department of Public Instruction:		
ECIA- Title I	84.010	298,480
EESA- Title II	84.164	105,662
		<u> </u>
 Total Department of Public Instruction		 <u>404,142</u>
 Total federal expenditures		 \$ 692,167 =====

NOTE: The accompanying schedule of expenditures of federal awards is prepared on the modified accrual basis of accounting.

Harold J. Rotunda

Certified Public Accountant

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

Independent Auditor's Report

To the Governing Board
Valley City Public School District
Valley City, North Dakota

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Valley City Public School District as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise basic financial statements, and have issued my report thereon dated December 28, 2015.

Internal Control Over Financial Reporting

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

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

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified. I did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that I consider to be significant deficiencies [2015-1].

Compliance and Other Matters

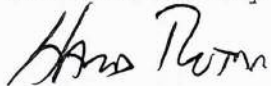
As part of obtaining reasonable assurance about whether Valley City Public School District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a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

Valley City Public School District's Responses to Findings

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

Purpose of this Report

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



Harold Rotunda, CPA

December 28, 2015

Harold J. Rotunda

Certified Public Accountant

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

Independent Auditor's Report

To the Governing Board
Valley City Public School District
Valley City, North Dakota

Report on Compliance for Each Major Federal Program

I have audited Valley City Public School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Valley City Public School District's major federal programs for the year ended June 30, 2015. Valley City Public School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

My responsibility is to express an opinion on compliance for each of Valley City Public School District's major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Valley City Public School District's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for each major federal program. However, my audit does not provide a legal determination of Valley City Public School District's compliance.

Opinion on Each Major Federal Program

In my opinion, Valley City Public School District complied in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.


Report on Internal Control Over Compliance

Management of Valley City Public School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered Valley City Public School District's internal control, over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of Valley City Public School District's internal control over compliance.

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

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weakness or significant deficiencies. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of my testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in cursive script, appearing to read "Harold Rotunda".

Harold Rotunda, CPA
December 28, 2015

VALLEY CITY PUBLIC SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015

Section I - Summary of Auditor's Results

Financial Statements

Type of Report Issued?

Governmental Activities	Unmodified
Major Funds	Unmodified
Aggregate Remaining Fund Information	Unmodified

Internal Control over financial reporting:

Material weaknesses identified?	_____	Yes	<u> X </u>	No
Significant deficiencies identified not Considered to be material weaknesses?	<u> X </u>	Yes	_____	No
Noncompliance material to financial statements Noted?	_____	Yes	<u> X </u>	No

Federal Awards

Internal Control over major programs:

Material weaknesses identified?	_____	Yes	<u> X </u>	No
Reportable conditions identified not considered To be material weaknesses?	_____	Yes	<u> X </u>	None

Type of auditor's report issued on compliance for
 Major programs: _____ Unmodified

Any audit findings disclosed that are required to be
 Reported in accordance with Circular A-133,
 Section 510(a)? _____ Yes X No

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program Or Cluster</u>
---------------------	---

84.010	Title I
84.164	Title II

Dollar threshold used to distinguish between Type
 A and B programs: \$300,000

Auditee qualified as low-risk auditee? _____ Yes X No

VALLEY CITY PUBLIC SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015

Section II- Financial Statement Findings

Finding No. 2015-1

Condition

The limited number of staff prevents a proper segregation of duties.

Criteria

A good system of internal accounting control contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.

Effect of Condition

Inadequate segregation of duties could adversely affect the District's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

Recommendation

While I recognize that the District office staff may not be large enough to permit complete segregation of duties in all respects for an effective system of internal accounting control, all accounting functions should be reviewed to determine if additional segregation is feasible and to improve the efficiency and effectiveness of the District.

Response

At the present time, the District has segregated the duties of all key accounting personnel in the most efficient manner possible, given its limited staff. Due to cost constraints, there will be no further administrative employees added.

Section III - Federal Award Findings and Questioned Costs

No matters were reported.