

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

**FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016**

VALLEY CITY PUBLIC SCHOOL DISTRICT
Table of Contents

	Page

School Officials	1
Independent Auditor's Report	2-3
BASIC FINANCIAL STATEMENTS	
Statement of Net Assets	4
Statement of Activities	5
Balance Sheet- Governmental Funds	6
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets	7
Statement of Revenues, Expenditures and Changes in Fund Balances- Governmental Funds	8
Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	9
Statement of Net Assets- Proprietary Funds	10
Statement of activities- Proprietary Funds	11
Statement of Cash Flows	12
Statement of Fiduciary Assets and Liabilities	13
Notes to Combined Financial Statement	14-35
SUPPLEMENTARY FINANCIAL INFORMATION	
Balance Sheet- All Funds	36
Statement of Revenue and Expenditures	37

VALLEY CITY PUBLIC SCHOOL DISTRICT
LIST OF OFFICIALS
JUNE 30, 2016

BOARD OF EDUCATION:

OFFICE

Joyce Braunagel
Patrick Callahan
Ryan Mathias
Val Moritz
Rich Schueneman

President
Vice-president

ADMINISTRATION:

Dean Koppelman
Linda Heit

Superintendent
Business Manager

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

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

I have audited the accompanying modified cash basis financial statements of the governmental activities, each major fund and aggregate remaining fund information of Valley City Public School District as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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, 2016, and the changes in the modified cash basis 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

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

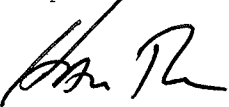
Other Information

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 basis 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 basis 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 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 1, 2016, 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 1, 2016

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

VALLEY CITY PUBLIC SCHOOL
STATEMENT OF NET POSITION- MODIFIED CASH BASIS
JUNE 30, 2016

	GOVERNMENTAL ACTIVITIES
ASSETS	
Cash and investments	4,444,391.50
Capital assets (net of accumulated depreciation)	6,458,095.58
Total Assets	10,902,487.08
LIABILITIES	
Long-term liabilities:	
Due within one year:	
Bonds payable	195,775.37
Notes payable	51,324.85
Due after one year:	
Bonds payable	1,234,224.63
Notes payable	186,653.13
Total liabilities	1,667,977.98
NET POSITION	
Net investment in capital assets	4,790,117.60
Restricted for:	
Capital projects	896,277.92
Debt service	1,267,945.74
Unrestricted	2,280,167.84
Total Net Position	9,234,509.10

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, 2016

		Program Revenues		Net (expense) Revenue & Changes in Net Position
	Expenses	Charges for Services	Operating grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction				
Regular	8,319,245.12		425,458.87	(7,893,786.25)
Special Education	345,917.03		65,738.39	(280,178.64)
Vocational Education	280,207.81		49,636.55	(230,571.26)
Support Services				-
Administrative	1,265,401.10			(1,265,401.10)
Operation & maintenance	1,099,465.11			(1,099,465.11)
Pupil Transportation Services	442,576.07		182,751.50	(259,824.57)
Extracurricular	444,244.18			(444,244.18)
Food Service	752,968.21	428,119.91	296,302.72	(28,545.58)
Debt Service				
Interest expense	55,055.59			(55,055.59)
Capital outlays	120,753.13			(120,753.13)
 Total Governmental Activities	 13,125,833.35	 428,119.91	 1,019,888.03	 (11,677,825.41)
General Revenues				
Taxes:				
Property taxes, levied for general purposes				3,345,090.62
Property taxes levied for debt service				235,042.63
Other tax revenue				453,168.94
State aid not restricted to specific program:				
Per pupil aid				8,270,430.80
Interest income and other revenue				158,349.22
 Total General Revenues				 12,462,082.21
 Change in Net Position				 784,256.80
 Net Position- July 1				 8,450,252.29
 Net Position- June 30				 9,234,509.09

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

VALLEY CITY PUBLIC SCHOOL
BALANCE SHEET- GOVERNMENTAL FUNDS- MODIFIED CASH BASIS
JUNE 30, 2016

	GENERAL	BUILDING	DEBT SERVICE	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS					
Cash and investments	1,817,226.77	896,277.92	1,267,945.74	462,941.07	4,444,391.50
Total Assets	1,817,226.77	896,277.92	1,267,945.74	462,941.07	4,444,391.50
 LIABILITIES					
Total liabilities	-	-	-	-	-
FUND BALANCE					
Restricted for Capital Projects		896,277.92			896,277.92
Restricted for Debt Service			1,267,945.74	-	1,267,945.74
Restricted for other purposes				462,941.07	462,941.07
Unassigned	1,817,226.77			-	1,817,226.77
Total fund balance	1,817,226.77	896,277.92	1,267,945.74	462,941.07	4,444,391.50
Total liabilities and fund balance	1,817,226.77	896,277.92	1,267,945.74	462,941.07	4,444,391.50

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, 2016

Total Fund Balances for Governmental Funds	4,444,391.50
--	--------------

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	23,758,717.08	
Less accumulated depreciation	17,300,621.50	
Net capital assets		6,458,095.58

-

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	(1,430,000.00)
Leases payable	(87,172.95)
Q-zab loan	(150,805.03)

Total Net Position of Governmental Activities	9,234,509.10
---	--------------

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, 2016

	GENERAL	BUILDING	DEBT SERVICE	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Property taxes	2,888,872.62	356,123.68	234,904.70	100,232.25	3,580,133.25
Other local sources	109,570.82	1,003.13	460,692.36	468,371.76	1,039,638.07
State sources	8,568,557.24	-		7,075.22	8,575,632.46
Federal sources	425,458.87			289,227.50	714,686.37
Total Revenues	11,992,459.55	357,126.81	695,597.06	864,906.73	13,910,090.15
Current:					
Instruction					
Regular	8,319,245.12				8,319,245.12
Special Education	345,917.03				345,917.03
Vocational Education	280,207.81				280,207.81
Support Services					
Administrative	1,281,026.10				1,281,026.10
Operation & maintenance	853,696.24				853,696.24
Pupil Transportation Services	442,576.07				442,576.07
Extracurricular	444,244.18				444,244.18
Food Service				752,968.21	752,968.21
Debt Service					
Principal		55,664.03	948,104.88	-	1,003,768.91
Interest expense		7,328.91	47,726.68	-	55,055.59
Capital outlays		120,753.13			120,753.13
Total Expenditures	11,966,912.55	183,746.07	995,831.56	752,968.21	13,899,458.39
Excess revenues (expenditures)	25,547.00	173,380.74	(300,234.50)	111,938.52	10,631.76
Other Financing Sources (Uses):					
Transfers in	125,000.00				125,000.00
Transfers out				(125,000.00)	(125,000.00)
Total other financing sources and uses	125,000.00	-	-	(125,000.00)	-
Net change in fund balances	150,547.00	173,380.74	(300,234.50)	(13,061.48)	10,631.76
Fund balance- beginning	1,666,679.76	722,897.18	1,568,180.24	476,002.55	4,433,759.73
Fund balance- ending	1,817,226.76	896,277.92	1,267,945.74	462,941.07	4,444,391.49

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, 2016

Net Change in Fund Balances- Total Governmental Funds	10,631.76
---	-----------

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	15,625.00	
Current year depreciation expense	245,768.87	(230,143.87)

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.	55,664.03
	948,104.88

-

Change in Net Position of Governmental Activities	784,256.80
---	------------

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

VALLEY CITY PUBLIC SCHOOL	
STATEMENT OF NET POSITION- MODIFIED CASH BASIS	
PROPRIETARY FUND	INTERNAL
JUNE 30, 2016	SERVICE
	FUND
ASSETS	
Cash and investments	221,279.58
Total Assets	221,279.58
LIABILITIES	
Accounts payable	
Claims payable	55,333.62
Total liabilities	55,333.62
NET POSITION	
Unrestricted	165,945.96
Total Net Position	165,945.96

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, 2016

OPERATING REVENUE	
Charges for services	1,515,669.06
OPERATING EXPENSES	
Reinsurance expense	462,850.05
Administration	96,077.16
Claims	1,066,084.15
Total operating expenses	1,625,011.36
Operating income (loss)	(109,342.30)
NON-OPERATING REVENUE (EXPENSE)	
Interest income	280.24
Other	
Total non-operating rev (exp)	280.24
Income (loss) before transfers	(109,062.06)
Transfers in	
Transfers out	
Change in Net Position	(109,062.06)
Net Position- beginning	275,008.02
Net Position- ending	165,945.96

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, 2016

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from general fund	1,066,018.76
Receipts from teachers	449,650.30
Payments for insurance	(1,642,771.66)
Other receipts	

Net cash provided by (used in) operating activities (127,102.60)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Transfers to other funds
Transfers from other funds

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

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Purchase of capital assets
Debt proceeds

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

CASH FLOWS FROM INVESTING ACTIVITIES

Interest and dividends 280.24

Net cash provided by (used in) investing activities 280.24

Net increase (decrease) in cash and cash equivalents (126,822.36)

Balance- beginning of year 348,101.94

Balance- end of year 221,279.58

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

Operating income (loss) (109,342.30)

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

Depreciation expense

Change in assets and liabilities:

Claims payable (17,760.30)

Miscellaneous receipts (expense)

Net cash provided by operating activities (127,102.60)

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, 2016

	AGENCY FUNDS
ASSETS	
Cash and investments	221,279.58
Total Assets	221,279.58
LIABILITIES	
Due to Student Groups	221,279.58
Total liabilities	221,279.58

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, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

Based on these criteria, there are no component units.

B. BASIS OF PRESENTATION, BASIS OF ACCOUNTING

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

VALLEY CITY PUBLIC SCHOOL DISTRICT
Notes to Financial Statements- Continued

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

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

The District reports the following major governmental funds:

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

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

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

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

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

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

VALLEY CITY PUBLIC SCHOOL DISTRICT
Notes to Financial Statements- Continued

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

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

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

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

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

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

VALLEY CITY PUBLIC SCHOOL DISTRICT
Notes to Financial Statements- Continued

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

D. Budgets

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

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

E. Cash, Cash Equivalents and Investments

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

F. Capital Assets

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

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

VALLEY CITY PUBLIC SCHOOL DISTRICT
Notes to Financial Statements- Continued

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

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

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

G. Long-Term Obligations

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

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

H. Fund Balance

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

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

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

VALLEY CITY PUBLIC SCHOOL DISTRICT
Notes to Financial Statements- Continued

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

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

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

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

I. Interfund Transactions

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

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

VALLEY CITY PUBLIC SCHOOL DISTRICT
Notes to Financial Statements- Continued

J. COMPENSATED ABSENCES

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

K. Net Assets

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

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

NOTE 2: LEGAL COMPLIANCE - BUDGETS

BUDGET AMENDMENTS

The school board amended the district budget for 2016 as follows:

	Original Budget	Amendment	Amended Budget
GENERAL FUND			
Revenue	11,726,100	432,196	12,158,296
Expenditures	11,573,614	432,196	12,005,810

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, 2016, 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: PROPERTY TAXES

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

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

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

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

VALLEY CITY PUBLIC SCHOOL DISTRICT
Notes to Financial Statements- Continued

NOTE 5: CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended June 30, 2016:

	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	15,625		73,598
Total Cap Assets Being Depreciated	23,743,092	15,625		23,758,817
Less accumulated depreciation for:				
Buildings & Improve	17,005,337	235,750		17,241,086
Vehicles & Equip	49,516	10,019		59,535
Total Accumulated Dep	17,054,853	245,769		17,300,621
Total Cap Assets Being Depreciated, Net	6,688,239			6,458,096
Governmental Activities Capital Assets, Net	6,688,239			6,458,096

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

Governmental Activities:	
School Food Services	2,395
Operations and Maint	235,750
Unallocated	7,624
Total Dep Exp-Gov Activities	245,769

NOTE 6: LONG-TERM DEBT

Changes in Long-Term Liabilities - During the year ended June 30, 2016, the following changes occurred in liabilities reported in long-term debt:

VALLEY CITY PUBLIC SCHOOL DISTRICT
Notes to Financial Statements- Continued

	Payable 2015	Increases	Decreases	Payable 2016	Due Within One Year
Bonds Payable	2,378,105		948,105	1,430,000	225,000
Lease payable	113,570		26,398	87,173	25,191
Qzab loan	180,072		29,267	150,805	28,982
TOTAL	2,671,747		1,003,770	1,667,978	

Debt payable at June 30, 2016, is comprised of the following individual issues:

Bonds Payable:

General Obligation School Refunding Bond of 2016 due in annual installments of \$85,000 to \$150,000 including interest at .5-1.9% through August 2023 1,065,000

Refunding Bond of 2008 due in annual installments of \$95,000 to \$125,000 including interest at 2.75-3.60% through May 2019 365,000

Total Long-Term Debt 1,430,000

The annual long-term debt service requirements for bonds payable, as of June 30, 2016, are as follows:

GOVERNMENTAL ACTIVITIES			
Year Ending	Long-Term Debt		
June 30	Principal	Interest	
2017	225,000	27,482	
2018	240,000	22,470	
2019	250,000	16,770	
2020	130,000	10,735	
2021	140,000	8,845	
2022-2024	445,000	12,183	
TOTAL	1,430,000	98,485	

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, 2016 are shown below:

2017	31,921
2018	31,921
2019	<u>31,921</u>
	95,763
Less amount representing interest	<u>8,590</u>
Principal balance remaining	87,173
	=====

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 7: 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 ½. 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, 2016, 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, 2015 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, 2015, 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, 2015. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at rates equal to those based on the July 1, 2015, Actuarial Valuation Report. For this, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members as of June 30, 2015. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2015.

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, 2016.

Actuarial assumptions. The total pension liability in the July 1, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	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, 2015, 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, 2015. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at rates equal to those based on the July 1, 2015, Actuarial Valuation Report. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members as of June 30, 2015. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2015.

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 8: 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	73,094
Incurred claims including IBNR's	1,056,322
Less claims paid	1,074,082
Balance, end of the year	55,334

VALLEY CITY PUBLIC SCHOOL DISTRICT
Notes to Financial Statements- Continued

NOTE 9. DESIGNATED FUND BALANCE

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

Designated for Debt Service	1,258,652
-----------------------------	-----------

NOTE 10: TRANSFERS

The District transfers funds from the special reserve fund to the general fund for operating costs. The 2016 amount was \$125,000.

VALLEY CITY PUBLIC SCHOOL
BALANCE SHEET
JUNE 30, 2016

	GENERAL	FOOD SERVICE	HEALTH INSURANCE	SPECIAL RESERVE	BUILDING	DEBT SERVICE	TRUST & AGENCY	SCHOLARSHIP	GENERAL LTD	2016	2015
CASH IN BANK	1,817,226.77	95,673.75	221,279.58	339,702.80	896,277.92	1,267,945.74	281,823.21	70,977.38		4,990,907.15	5,577,853.18
INVESTMENTS										-	-
PROPERTY TAX REC	141,469.58			5,143.14	19,722.31	12,731.60				179,066.63	179,066.63
DUE FROM OTHER GOVT	-									-	113,535.21
ACCOUNTS RECEIVABLE		27,564.52								27,564.52	-
AMOUNT AVAILABLE									1,267,945.74	1,267,945.74	1,568,180.24
AMT TO BE PROVIDED									400,032.24	400,032.24	1,103,566.65
FIXED ASSETS										-	-
TOTAL ASSETS	1,958,696.35	123,238.27	221,279.58	344,845.94	916,000.23	1,280,677.34	281,823.21	70,977.38	1,667,977.98	6,865,516.28	8,542,201.91
DUE TO STUDENT GROUPS											
ACCRUED EXPENSES	-		55,333.62				281,823.21	70,977.38		352,800.59	363,241.49
DEFERRED REVENUE	141,469.58	-	-	5,143.14	19,722.31	12,731.60				55,333.62	619,379.15
ACCRUED VACATION										179,066.63	179,066.63
BONDS PAYABLE										-	-
CERTIFICATE OF INDEBT									1,430,000.00	1,430,000.00	2,378,104.88
LEASE PAYABLE									87,172.95	87,172.95	113,570.47
									150,805.03	150,805.03	180,071.54
TOTAL LIABILITIES	141,469.58	-	55,333.62	5,143.14	19,722.31	12,731.60	281,823.21	70,977.38	1,667,977.98	2,255,178.82	3,833,434.16
FUND BALANCE- DESIGNATED						1,267,945.74				1,267,945.74	1,568,180.24
RESERVED										-	-
UNRESERVED	1,817,226.77	123,238.27		339,702.80	896,277.92					3,176,445.76	2,865,579.49
RETAINED EARNINGS			165,945.96		-					165,945.96	275,008.02
INVEST IN FIX ASSETS										-	-
TOTAL FUND EQUITY	1,817,226.77	123,238.27	165,945.96	339,702.80	896,277.92	1,267,945.74		-		4,610,337.46	4,708,767.75
TOT LIAB & FUND EQ	1,958,696.35	123,238.27	221,279.58	344,845.94	916,000.23	1,280,677.34	281,823.21	70,977.38	1,667,977.98	6,865,516.28	8,542,201.91

VALLEY CITY PUBLIC SCHOOL
INCOME STATEMENT
JUNE 30, 2016

	GENERAL	FOOD SERVICE	SPECIAL RESERVE	BUILDING	DEBT SVC	2016	2015	2014	2013
REVENUES									
TAXES	2,888,872.62		100,232.25	356,123.68	234,904.70	3,580,133.25	3,390,518.58	3,319,243.58	4,308,779.96
OTHER LOCAL	109,570.82	467,956.04	415.72	1,003.13	460,692.36	1,039,638.07	1,024,479.91	1,028,924.93	903,690.38
STATE	8,568,557.24	7,075.22		-		8,575,632.46	8,401,796.94	9,007,168.38	7,311,409.82
FEDERAL	425,458.87	289,227.50				714,686.37	654,166.76	664,226.84	705,953.47
TOTAL REV	11,992,459.55	764,258.76	100,647.97	357,126.81	695,597.06	13,910,090.15	13,470,962.19	14,019,563.73	13,229,833.63
EXPENSES									
INSTRUCTION	8,319,245.12					8,319,245.12	7,861,447.47	7,831,267.31	7,991,314.19
SPECIAL EDUCATIC	345,917.03					345,917.03	332,439.10	1,253,697.48	1,131,689.24
VOCATIONAL ED	280,207.81					280,207.81	249,413.98	247,759.46	235,126.56
ADMINISTRATION	1,281,026.10					1,281,026.10	1,158,676.69	1,144,143.85	1,133,820.85
PLANT	853,696.24					853,696.24	882,489.73	853,894.34	875,506.76
TRANSPORTATION	442,576.07					442,576.07	390,324.92	377,076.93	363,199.49
EXTRACURRICULA	444,244.18					444,244.18	407,230.28	424,539.20	325,255.66
FOOD SERVICE		752,968.21				752,968.21	717,923.04	694,810.30	745,145.54
CAPITAL OUTLAY				120,753.13		120,753.13	175,699.45	149,372.14	303,932.62
DEBT SERVICE				62,992.94	995,831.56	1,058,824.50	437,385.76	421,255.76	326,198.39
TOTAL EXP	11,966,912.55	752,968.21	-	183,746.07	995,831.56	13,899,458.39	12,613,030.42	13,397,816.77	13,431,189.30
EXCESS REV (EXP)	25,547.00	11,290.55	100,647.97	173,380.74	(300,234.50)	10,631.76	857,931.77	621,746.96	(201,355.67)
TRANSFERS IN	125,000.00					125,000.00	125,000.00	450,000.00	
TRANSFERS OUT						(125,000.00)	(125,000.00)	(450,000.00)	
DEBT PROCEEDS			(125,000.00)			-	-	-	-
EXCESS REV (EXP)	150,547.00	11,290.55	(24,352.03)	173,380.74	(300,234.50)	10,631.76	857,931.77	621,746.96	(201,355.67)
FUND BAL- BEG	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	2,954,081.04	3,155,436.71
FUND BAL- END	1,817,226.76	123,238.27	339,702.80	896,277.92	1,267,945.74	4,444,391.49	4,433,759.77	3,575,828.00	2,954,081.04

VALLEY CITY PUBLIC SCHOOL DISTRICT

REPORTS IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

JUNE 30, 2016

VALLEY CITY PUBLIC SCHOOL DISTRICT
Table of Contents

	Page

Report on Internal Control over Financial Reporting and on Compliance and other matters based on an Audit of Financial Statements performed in Accordance with Government Auditing Standards	1-2
Schedule of Findings and Responses	3-4

Harold J. Rotunda

Certified Public Accountant

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

Independent Auditor's Report

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

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Valley City Public School District as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise basic financial statements, and have issued my report thereon dated December 1, 2016.

Internal Control Over Financial Reporting

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

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

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified. I did identify one deficiency in internal control, described in the accompanying schedule of findings that I consider to be a significant deficiency (2016-1).

Compliance and Other Matters

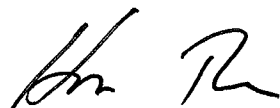
As part of obtaining reasonable assurance about whether Valley City Public School District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements; noncompliance with which could have a 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*.

District's Response to Findings

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

Purpose of this Report

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



Harold Rotunda, CPA
December 1, 2016

VALLEY CITY PUBLIC SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2016

Section I - Summary of Auditor's Results

Financial Statements

Type of Report Issued?

Governmental Activities

Unmodified

Major Funds

Unmodified

Aggregate Remaining Fund Information

Unmodified

Internal Control over financial reporting:

Material weaknesses identified? _____ Yes X No

Significant deficiencies identified not

Considered to be material weaknesses X Yes _____ No

Noncompliance material to financial statements

Noted? _____ Yes X No

Section II- Financial Statement Findings

Finding No. 2016-1

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

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.

VALLEY CITY PUBLIC SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2016

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.

Client 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.