

FINANCIAL STATEMENTS

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

For the Year Ended June 30, 2016

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

VALLEY-EDINBURG PUBLIC SCHOOL DISTRICT NO. 118
Edinburg, North Dakota
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VALLEY-EDINBURG PUBLIC SCHOOL DISTRICT NO. 118

Edinburg, North Dakota

School Officials

Year Ended June 30, 2016

Dan Johnson..... President
Andrew Gullickson..... Vice President

Fred Hall Board Member
Janne Myrdal..... Board Member
Darrel Pastorek..... Board Member
Nick Otto..... Board Member
Duane Jonasson..... Board Member

Mitch Jorgensen..... Superintendent

Eileen Rinde..... Business Manager



Accounting For Success

INDEPENDENT AUDITOR’S REPORT

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

We have audited the accompanying modified cash basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Valley Edinburg Public School District No. 118, Edinburg, North Dakota, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School District’s basic financial statements as listed in the table of contents.

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

<p>CAVALIER</p> <p>206 Dakota Street West P.O. BOX 33 Cavalier, ND 58220 (701) 265-8644</p>	<p>PARK RIVER</p> <p>1203 Park Street East P.O. BOX 287 Park River, ND 58270 (701) 284-7616</p>	<p>LANGDON</p> <p>817 3rd Street FM Mall Langdon, ND 58249 (701) 256-3559</p>	<p>STEPHEN</p> <p>413 5th Street P.O. BOX 45 Stephen, MN 56757 (218) 478-2880</p>
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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Valley Edinburg Public School District No. 118 as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

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

Other Matters

Required Supplementary Information

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

Accounting principles generally accepted in the United States of America require that the budgetary comparison information, the Schedule of the District's Share of Net Pension Liability of the ND Teachers' Fund for Retirement, and the Schedule of the District's Contributions to the ND Teachers' Fund for Retirement on pages 28-30 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 24, 2016, on our consideration of the Valley Edinburg Public School District No. 118, Edinburg, North Dakota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Valley Edinburg Public School District No. 118, Edinburg, North Dakota's internal control over financial reporting and compliance.



Mortenson & Rygh
Certified Public Accountants
Park River, North Dakota
August 24, 2016

BASIC FINANCIAL STATEMENTS

VALLEY-EDINBURG PUBLIC SCHOOL DISTRICT NO. 118
 Edinburg, North Dakota
Statement of Net Position – Modified Cash Basis
 June 30, 2016

	Total Governmental Funds
ASSETS:	
CURRENT ASSETS	
Cash and Cash Equivalents	\$ 1,430,286
Total Current Assets	1,430,286
Capital Assets, net of Accumulated Depreciation	1,518,512
Total Other Assets	1,518,512
Total Assets	\$ 2,948,798
LIABILITIES AND NET POSITION:	
LIABILITIES	
Current Liabilities	\$ -
Total Liabilities	-
NET POSITION	
Net Investments in Capital Assets	1,518,512
Restricted for:	
Capital Projects	141,706
Food Service	53,086
Special Reserve	187,864
Unrestricted	1,047,629
Total Net Position	2,948,798
Total Liabilities & Net Position	\$ 2,948,798

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

VALLEY-EDINBURG PUBLIC SCHOOL DISTRICT NO. 118
Edinburg, North Dakota
Statement of Activities – Modified Cash Basis
For the Year Ended June 30, 2016

Functions:	Disbursements	Program Receipts			Net (Disbursements)
		Charges for	Operating	Capital	Receipts and
			Services	Grants and	Grants and
			Contributions	Contributions	Total
					Governmental
					Activities
Regular Instruction	\$ 1,912,954	\$ -	\$ -	\$ -	\$ (1,912,954)
Special Education	813,885	-	321,038	-	(492,847)
Vocational Education	33,016	-	-	-	(33,016)
Federal Programs	78,042	-	78,042	-	0
Extracurricular Activities	164,917	-	-	-	(164,917)
Student Support Services:					
Board of Education	79,143	-	-	-	(79,143)
Superintendent	220,166	-	-	-	(220,166)
Business Office	83,161	-	-	-	(83,161)
Operation and Maintenance	365,511	-	-	-	(365,511)
Transportation	270,682	-	167,908	-	(102,774)
School Lunch Services	193,258	62,363	49,165	-	(81,729)
Total District	\$ 4,214,735	\$ 62,363	\$ 616,153	\$ -	\$ (3,536,219)

General Receipts:

Property Taxes Levied for:

General Purposes	\$ 837,655
Special Reserve	477
Building Fund	132,968
Federal & State Aid not restricted to special purposes	2,159,332
Interest Income	2,246
Miscellaneous Receipts	12,635
Loss on Property Held for Resale	(32,753)
Total General Receipts	3,112,559

Change in Net Position (423,659)

Net Position - July 1 3,340,158

Prior Period Adjustment 32,299

Net Position as Restated - July 1 3,372,456

Net Position - June 30 \$ 2,948,798

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

VALLEY-EDINBURG PUBLIC SCHOOL DISTRICT NO. 118
Edinburg, North Dakota
Balance Sheet – Modified Cash Basis - Governmental Funds
June 30, 2016

	General	Special Reserve Fund	Building Fund	Food Service Funds	Total
ASSETS:					
Current Assets:					
Cash	\$ 1,047,629	\$ 187,864	\$ 141,706	\$ 53,086	\$ 1,430,286
Other Assets	-	-	-	-	-
Total Assets	\$ 1,047,629	\$ 187,864	\$ 141,706	\$ 53,086	\$ 1,430,286
LIABILITIES AND FUND BALANCE:					
Liabilities:					
Current Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -
Total Liabilities	-	-	-	-	-
Fund Balance:					
Restricted for:					
Capital Project Fund		-	141,706	-	141,706
Committed to:					
Food Service Fund	-	-	-	53,086	53,086
Special Reserve Fund	-	187,864	-	-	187,864
Unassigned	1,047,629	-	-	-	1,047,629
Total Fund Balance	1,047,629	187,864	141,706	53,086	1,430,286
Total Liabilities & Fund Balance	\$ 1,047,629	\$ 187,864	\$ 141,706	\$ 53,086	\$ 1,430,286

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

VALLEY-EDINBURG PUBLIC SCHOOL DISTRICT NO. 118
 Edinburg, North Dakota
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
 June 30, 2016

Total *Fund Balance* for Governmental Funds \$ 1,430,286

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

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

Cost of Capital Assets	2,266,919	
Less: Accumulated Depreciation	<u>(748,407)</u>	1,518,512

Total <i>Net Position</i> of Governmental Activities		<u><u>\$ 2,948,798</u></u>
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The notes to the financial statements are an integral part of this statement.

VALLEY-EDINBURG PUBLIC SCHOOL DISTRICT NO. 118
Edinburg, North Dakota
Statement of Receipts, Disbursements and Changes in Fund Balance –
Modified Cash Basis - Governmental Funds
For the Year Ended June 30, 2016

	General	Special Reserve Fund	Building Fund	Food Service Funds	Total
Receipts:					
Local Sources	\$ 844,790	\$ 477	\$ 132,968	\$ -	\$ 978,234
State Sources	2,648,278	-	-	43,797	2,692,074
Federal Sources	78,042	-	-	5,369	83,410
School Lunch Sales	-	-	-	52,794	52,794
Other Sources	6,246	-	1,500	9,569	17,316
Total Revenues	\$ 3,577,355	\$ 477	\$ 134,468	\$ 111,529	\$ 3,823,829
Disbursements:					
Current:					
Regular Instruction Programs	1,912,954	-	-	-	1,912,954
Special Education	813,885	-	-	-	813,885
Vocational Education	33,016	-	-	-	33,016
Federal Programs	78,042	-	-	-	78,042
Extracurricular Activities	164,917	-	-	-	164,917
Student Support Services:					
Board of Education	79,143	-	-	-	79,143
Superintendent	220,166	-	-	-	220,166
Business Office	83,161	-	-	-	83,161
Operation and Maintenance	270,022	-	20,181	-	290,203
Transportation	208,379	-	-	-	208,379
Food Service	67,139	-	-	92,728	159,867
Capital Outlay	96,543	-	259,288	33,391	389,222
Total Disbursements	\$ 4,027,366	\$ -	\$ 279,469	\$ 126,119	\$ 4,432,954
Excess Receipts over (under) Disbursements before Interfund Transfers	(450,011)	477	(145,002)	(14,590)	(609,126)
Other Financing Sources (Uses):					
Interfund Transfers In	9,569	-	-	-	9,569
Interfund Transfers (Out)	-	-	-	(9,569)	(9,569)
Loss on Property Held for Resale	(32,753)	-	-	-	(32,753)
Net Change in Fund Balances	(473,195)	477	(145,002)	(24,159)	(641,879)
Fund Balance - July 1	1,492,792	187,387	282,441	77,246	2,039,866
Restatement	28,032	-	4,267	-	32,299
Fund Balance as Restated - July 1	1,520,824	187,387	286,708	77,246	2,072,165
Fund Balance - June 30	\$ 1,047,629	\$ 187,864	\$ 141,706	\$ 53,086	\$ 1,430,286

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

VALLEY-EDINBURG PUBLIC SCHOOL DISTRICT NO. 118
Edinburg, North Dakota
**Reconciliation of the Governmental Funds Statement of Receipts, Disbursements and
Changes in Fund Balances to the Statement of Activities**
For the Year Ended June 30, 2016

Net change in Fund Balance - Total Governmental Funds \$ (641,879)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$25,000 *are* capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

	Capital Outlays	347,531	
	Depreciation	(125,561)	
	Loss on Disposal	(3,750)	218,220
Change in <i>Net Position</i> of Governmental Activities		\$	(423,659)

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

VALLEY-EDINBURG PUBLIC SCHOOL DISTRICT NO. 118
Edinburg, North Dakota
Statement of Assets and Liabilities – Fiduciary Fund - Modified Cash Basis
June 30, 2016

Assets:	
Cash and Investments	<u><u>\$23,470</u></u>
Liabilities	
Due to Student Groups	<u><u>\$23,470</u></u>

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

VALLEY-EDINBURG PUBLIC SCHOOL DISTRICT NO. 118
Edinburg, North Dakota
Notes to the Financial Statements
June 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Financial Reporting Entity

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

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

B. Government-Wide and Fund Financial Statements

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

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

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

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

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

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

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

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

D. Basis of Presentation – Fund Accounting

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

GOVERNMENTAL FUND TYPES

The District reports the following major governmental funds:

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

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

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

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

FIDUCIARY FUND TYPE

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

E. Cash and Cash Equivalents

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

F. Capital Assets

Capital assets, which include land, buildings and improvements and furniture and equipment, are reported in the government-wide financial statements. The district defines capital assets as assets with an initial, individual cost of more than \$25,000 (amount not rounded) and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

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

G. Long-Term Obligations

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. There were no long-term obligations on June 30, 2016.

H. Net Position/Fund Balance

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

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

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

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

Fund Financial Statement

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

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

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

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

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

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

I. Interfund Transactions

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

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

J. Short-Term Interfund Receivable/Payables

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

K. Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

L. Memorandum Only – Total Columns

Total columns to the financial statements are captioned “*memorandum only*” to indicate that they are presented only to facilitate financial analysis. Data in these columns does not present financial position, results of operations or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE 2 LEGAL COMPLIANCE – BUDGETS

Budget Amendments

The district’s governing board approved the following amendments to the district’s budget:

For the Year Ended June 30, 2016

Budget Amendments:	Original Budget	Amendment	Amended Budget
Major Funds:			
General Fund Expenditures	\$ 4,099,736	\$ 23,546	\$ 4,123,282

NOTE 3 DEPOSITS AND INVESTMENTS

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

State statutes authorize the school district to invest in:

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

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

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

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

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

At year ended June 30, 2016, the district's carrying amount of deposits totaled \$1,430,286 and the bank balances totaled \$1,544,509. Of the bank balances, \$500,000 was covered by Federal Depository Insurance. The remaining bank balances totaling \$1,044,509 were collateralized with securities held by the pledging financial institution's agent in the government's name.

NOTE 4 PROPERTY TAXES

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

Most property owners choose to pay property taxes and special assessments in a single payment on or before February 15 and receive the discount on the property taxes. Budgets are adopted on the modified accrual basis. Annual appropriated budgets are adopted for the general fund. All annual appropriations lapse at year-end. See Note 2 for explanation of filing date requirements.

NOTE 5 NORTH DAKOTA TEACHER'S FUND FOR RETIREMENT (TFFR)

Summary of Significant Accounting Policies

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

General Information about the Pension Plan

North Dakota Teachers' Fund for Retirement

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

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

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

Pension Benefits

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

Tier 1 Grandfathered

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

Pension benefits paid by TFFR are determined by NDCC Section 15-39.1-10. Monthly benefits under TFFR are equal to the three highest annual salaries earned divided by 36 months and multiplied by 2.00% times the number of service credits earned. Retirees may elect payment of benefits in the form of a single

life annuity, 100% or 50% joint and survivor annuity, ten or twenty-year term certain annuity, partial lump-sum option or level income with Social Security benefits. Members may also qualify for benefits calculated under other formulas.

Tier 1 Non-grandfathered

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

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

Tier 2

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

Pension benefits paid by TFFR are determined by NDCC Section 15-39.1-10. Monthly benefits under TFFR are equal to the five highest annual salaries earned divided by 60 months and multiplied by 2.00% times the number of service credits earned. Retirees may elect payment of benefits in the form of a single life annuity, 100% or 50% joint and survivor annuity, ten or twenty-year term certain annuity, partial lump-sum option or level income with Social Security benefits. Members may also qualify for benefits calculated under other formulas.

Death and Disability Benefits

Death benefits may be paid to a member's designated beneficiary. If a member's death occurs before retirement, the benefit options available are determined by the member's vesting status prior to death. If a member's death occurs after retirement, the death benefit received by the beneficiary (if any) is based on the retirement plan the member selected at retirement.

An active member is eligible to receive disability benefits when: (a) a total disability lasting 12 months or more does not allow the continuation of teaching, (b) the member has accumulated five years of credited service in North Dakota, and (c) the Board of Trustees of TFFR has determined eligibility based upon medical evidence. The amount of the disability benefit is computed by the retirement formula in NDCC Section 15-39.1-10 without consideration of age and uses the member's actual years of credited service. There is no actuarial reduction for reason of disability retirement.

Member and Employer Contributions

Member and employer contributions paid to TFFR are set by NDCC Section 15-39.1-09. Every eligible teacher in the State of North Dakota is required to be a member of TFFR and is assessed at a rate of

11.75% of salary as defined by NDCC Section 15-39.1-04. Every governmental body employing a teacher must also pay into TFFR a sum equal to 12.75% of the teacher's salary. Member and employer contributions will be reduced to 7.75% each when the fund reaches 100% funded ratio on an actuarial basis.

A vested member who terminates covered employment may elect a refund of contributions paid plus 6% interest or defer payment until eligible for pension benefits. A non-vested member who terminates covered employment must claim a refund of contributions paid before age 70½. Refunded members forfeit all service credits under TFFR. These service credits may be repurchased upon return to covered employment under certain circumstances, as defined by the NDCC.

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

As stated in Note 1 C above, the District uses a modified cash basis of accounting, so the following ND Teachers' Fund for Retirement liabilities are not presented in the basic financial statements. If the District used the accrual or modified accrual basis of accounting, the following pension liabilities would be presented.

At June 30, 2016, the Employer reported a liability of \$3,073,630 for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Employer's proportion of the net pension liability was based on the Employer's share of covered payroll in the pension plan relative to the covered payroll of all participating TFFR employers. At July 1, 2015, the Employer's proportion was 0.235013 percent, which was a decrease of 0.0067 percent from its proportion measured as of July 1, 2014.

For the year ended June 30, 2016, the Employer recognized pension expense of \$192,870. At June 30, 2016, the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differs to cover expected total expenses	\$ 294	\$ -
Changes in assumptions	3516	-
Net difference to cover projected total earnings on pension investments	-	3466
Changes in proportionate share of Employer contributions and proportionate share of contributions	-	65
*Employer contributions subsequent to measurement date of July 1, 2015	273	-
Total	\$ 3245	\$ 1031

\$217,238 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension

liability in the year ended June 30, 2017.

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

Year ended June 30:	
2017	\$ 24,224
2018	24,224
2019	24,224
2020	94,161
2021	50,373
Thereafter	47,238
Total	<u>\$ 264,444</u>

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

Inflation	2.75%
Salary increases	4.25% to 14.50%, varying by service, including
Investment rate of return	7.75%, net of investment expenses
Cost-of-living adjustments	None

For active and inactive members, mortality rates were based on the RP-2014 Employee Mortality Table, projected generationally using Scale MP-2014. For healthy retirees, mortality rates were based on the RP-2014 Healthy Annuitant Mortality Table set back one year, multiplied by 50% for ages under 75 and grading up to 100% by age 80, projected generationally using Scale MP-2014. For disabled retirees, mortality rates were based on the RP-2014 Disabled Mortality Table set forward four years.

The actuarial assumptions used were based on the results of an actuarial experience study dated April 30, 2015. They are the same as the assumptions used in the July 1, 2015, funding actuarial valuation for TFFR.

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

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of

pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Fund's target asset allocation are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equities	57%	7.5%
Global Fixed Income	22%	1.3%
Global Real Assets	20%	5.4%
Cash Equivalents	1%	0.0%

Discount Rate. The discount rate used to measure the total pension liability was 7.75% percent as of June 30, 2015. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at rates equal to those based on the July 1, 2015, Actuarial Valuation Report. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members as of June 30, 2015. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2015. The discount rate used to measure the total pension liability changed from 8% to 7.75% based on the investment return assumption change as a result of the April 30, 2015 actuarial experience study.

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Employer's proportionate share of the net pension liability	4,061,947	3,073,630	2,249,394

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

NOTE 6 RISK MANAGEMENT

The Valley-Edinburg Public School District No. 118 is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

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

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

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

NOTE 7 CAPITAL ASSETS

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

Governmental Activities	Balance		Balance	
	June 30, 2015	Additions	(Deletions)	June 30, 2016
Non-depreciated assets				
Land	\$ 5,400	\$ -	\$ -	\$ 5,400
Construction in Progress	-	4,936	-	4,936
Total non-depreciated assets	5,400	4,936	-	10,336
Depreciable assets				
Buildings	1,085,532	263,564	-	1,349,096
Buses & Vehicles	561,505	79,030	(12,820)	627,716
Equipment	294,521	-	(14,750)	279,771
Total depreciable assets	1,941,558	342,595	(27,570)	2,256,583
Less: accumulated depreciation				
Buildings	(297,244)	(36,621)	-	(333,865)
Buses & Vehicles	(220,350)	(62,303)	12,820	(269,833)
Equipment	(129,072)	(26,637)	11,000	(144,709)
Total accumulated depreciation	(646,666)	(125,561)	23,820	(748,407)
Net depreciable assets	1,294,892	217,034	(3,750)	1,508,176
Net governmental activities	\$ 1,300,292	\$ 221,970	\$ (3,750)	\$ 1,518,512

Depreciation expense of \$62,303 has been charged to transportation and \$63,258 has been charged to operations and maintenance on the schedule of activities.

NOTE 8 GRANTS

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

NOTE 9 FORMATION OF THE DISTRICT

Effective July 1, 2010 the Edinburg School District merged with the Valley School District forming the Valley-Edinburg School District with all assets and liabilities of both districts being assumed by the new entity. All employees were effectively terminated and most were rehired by the new district. Because of duplication between the districts, some employees were not rehired. The merger was made due to declining enrollments in both districts. The ending balances of both districts became the beginning balances in the accounting records of the new district. All fixed assets were recorded by the new district at their historical cost less applicable depreciation. Neither district had any debt outstanding.

NOTE 10 COMPENSATED ABSENCES

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

NOTE 11 OPERATING TRANSFERS

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

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
General Fund	\$ 9,569	\$ -
Food Service Fund	-	9,569
	<u>\$ 9,569</u>	<u>\$ 9,569</u>

NOTE 12 SALE OF PROPERTY HELD FOR RESALE

One June 2, 2015 the district purchased a home to help facilitate the move and transition of the newly hired superintendent. The superintendent intended to purchase the home from the district, contingent upon the sale of his prior residence.

On April 22, 2016 the superintendent purchased the house from the district for the appraised value of \$120,000. The District recognized a loss on the sale of \$32,753.

NOTE 13 RESTATEMENTS

A prior period adjustment was necessary in order to adjust the District's receipts for the fiscal year ended June 30, 2016. Revenue received in July, 2015 should have been received in the prior year to be in conformity with the District's accounting practices.

The following prior period adjustments were made to the District's beginning fund balance & beginning net position:

<u>Fund</u>	<u>Increase (Decrease)</u>
General Fund	\$28,032
Building Fund	<u>4,267</u>
Total	<u>\$32,299</u>

REQUIRED SUPPLEMENTARY INFORMATION

VALLEY-EDINBURG PUBLIC SCHOOL DISTRICT NO. 118
Edinburg, North Dakota
Budget Comparison Schedule Modified Cash Basis - General Fund
For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance
Revenues:				
Local Sources	\$ 901,088	\$ 898,533	\$ 837,655	\$ (60,878)
State Sources	2,650,835	2,650,835	2,648,278	(2,557)
Federal Sources	74,633	80,600	78,042	(2,558)
Other Sources	6,600	6,600	13,381	6,781
Total Revenues	3,633,156	3,636,567	3,577,355	(59,211)
Expenditures:				
Regular Instruction Programs	1,872,087	1,879,576	1,912,954	(33,378)
Special Education	815,215	815,215	813,885	1,330
Vocational Education	32,000	32,000	33,016	(1,016)
Federal Programs	74,543	80,600	78,042	2,558
Extracurricular Activities	160,460	170,460	164,917	5,543
Student Support Services	1,089,183	1,089,183	957,414	131,769
Food Service	56,250	56,250	67,139	(10,889)
Total Expenditures	4,099,736	4,123,282	4,027,366	95,916
Excess Revenues over (under) Expenditures	(466,580)	(486,715)	(450,011)	(36,704)
Transfers In (Out)	-	-	9,569	
Loss on Property Held for Resale	-	-	(32,753)	
Fund Balance - July 1	1,492,792	1,492,792	1,492,792	
Restatements	28,032	28,032	28,032	
Fund Balance as Restated - July 1	1,520,824	1,520,824	1,520,824	
Fund Balance - June 30	\$ 1,054,244	\$ 1,034,109	\$ 1,047,629	

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

VALLEY-EDINBURG PUBLIC SCHOOL DISTRICT NO. 118
 Edinburg, North Dakota
Budget Comparison Schedule Modified Cash Basis - Special Reserve Fund
 For the Year Ended June 30, 2016

	Original & Final Budget	Actual	Variance
<hr/>			
Revenues:			
Local Sources	\$ -	\$ 477	\$ 477
<hr/>			
Total Revenues	-	477	477
<hr/>			
Expenditures:			
Student Support Services	-	-	-
<hr/>			
Total Expenditures	-	-	-
<hr/>			
Excess Revenues over (under) Expenditures	-	477	477
<hr/>			
Transfers In (Out)	-	-	
<hr/>			
Fund Balance - July 1	187,387	187,387	
<hr/>			
Fund Balance - June 30	<u>\$ 187,387</u>	<u>\$ 187,864</u>	

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

VALLEY-EDINBURG PUBLIC SCHOOL DISTRICT NO. 118
 Edinburg, North Dakota
Budget Comparison Schedule Modified Cash Basis - Building Fund
 For the Year Ended June 30, 2016

	Original & Final Budget	Actual	Variance
Revenues:			
Local Sources	\$ 138,438	\$ 132,968	\$ (5,470)
Total Revenues	138,438	132,968	(5,470)
Expenditures:			
Student Support Services	269,650	279,469	(9,819)
Total Expenditures	269,650	279,469	(9,819)
Excess Revenues over (under) Expenditures	(131,213)	(146,502)	(15,289)
Transfers In (Out)	-	-	
Fund Balance - July 1	282,441	282,441	
Fund Balance - June 30	\$ 151,229	\$ 135,939	

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

VALLEY-EDINBURG PUBLIC SCHOOL DISTRICT NO. 118
 Edinburg, North Dakota
Schedule of District's Share of Net Pension Liability
ND Teachers' Fund for Retirement
 Last 10 Fiscal Years*

	2016	2015
Employer's proportion of the net pension liability (asset)	0.235013%	0.241673%
Employer's proportionate share of the net pension liability (asset)	\$ 3,073,630	\$ 2,532,305
Employer's covered-employee payroll	\$ 1,445,576	\$ 1,401,830
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	212.62%	180.64%
Plan fiduciary net position as a percentage of the total pension liability	62.1%	66.60%

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

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

VALLEY-EDINBURG PUBLIC SCHOOL DISTRICT NO. 118

Edinburg, North Dakota

Schedule of District's Contributions

ND Teachers' Fund for Retirement

Last 10 Fiscal Years*

	2016		2015
Statutorily required contribution	\$ 184,302		\$ 150,696
Contributions in relation to the statutorily required contribution	\$ (184,302)		\$ (150,696)
Contribution deficiency (excess)	\$ -		\$ -
Employer's covered-employee payroll	\$ 1,445,576		\$ 1,401,830
Contributions as a percentage of covered-employee payroll	12.75%		10.75%

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

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

VALLEY-EDINBURG PUBLIC SCHOOL DISTRICT NO. 118
 Edinburg, North Dakota
Notes to the Required Supplementary Information
 For the Year Ended June 30, 2016

NOTE 1 BUDGETS

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

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

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

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

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

The following fund’s expenditures exceeded budgeted amounts for the year ended June 30, 2016.

Fund	Budget	Actual	Variance
Building Fund	\$269,650	\$279,469	\$(9,819)

No corrective action by the governing board is planned.

NOTE 2 ND TEACHERS’ FUND FOR RETIREMENT

As stated in Note 1 C in the notes to the financial statements, the District uses a modified cash basis of accounting. If the District used the accrual basis of accounting, a net pension liability of \$3,073,630 to the ND Teachers’ Fund for Retirement would be presented on the statement of net position.

Changes of Assumptions

Amounts reported in 2016 reflect the following actuarial assumption changes effective July 1, 2015, based on the results of an actuarial experience study dated April 30, 2015.

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

SUPPLEMENTARY INFORMATION

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

VALLEY-EDINBURG PUBLIC SCHOOL DISTRICT NO. 118

Edinburg, North Dakota

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

For the Year Ended June 30, 2016

RECEIPTS:

LOCAL SOURCES

General Fund Property Taxes	\$	837,655
Miscellaneous Local Revenues		7,135
Sale Of Fixed Assets		<u>0</u>
Total Local Sources		844,790

STATE SOURCES

Per Pupil Aid		2,159,332
Transportation Aid		167,908
Special Ed Joint Agreement		<u>321,038</u>
Total State Sources		2,648,278

FEDERAL SOURCES

Title I Program Aid		47,575
Other Federal Aid		<u>30,466</u>
Total Federal Sources		78,042

OTHER SOURCES

ITV Reimbursement		4,000
Interest Income		<u>2,246</u>
Total Other Sources		6,246

TOTAL RECEIPTS

\$ 3,577,355

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

VALLEY-EDINBURG PUBLIC SCHOOL DISTRICT NO. 118

Edinburg, North Dakota

**Statement of Receipts, Disbursements and Changes in Fund Balance General Fund –
Modified Cash Basis(cont'd)**

For the Year Ended June 30, 2016

	General Fund
EXPENSES	
KINDERGARTEN:	
Kindergarten Salaries & Benefits	\$ 57,119
Total Kindergarten	<u>57,119</u>
ELEMENTARY:	
Elementary Salaries & Benefits	612,215
Elementary Counseling Salaires & Benefits	13,014
Elementary Travel	7,439
Elementary Supplies	16,709
Elementary Workbooks & Textbooks	2,597
Elementary Library	727
Elementary Furniture & Equipment	743
Elementary Other Costs	5,572
Total Elementary	<u>659,018</u>
JR. HIGH:	
Jr. High Salaries & Benefits	243,357
Jr. High Counseling Salaries & Benefits	8,475
Jr. High Supplies	6,713
Jr. High Workbooks & Textbooks	2,403
Jr. High Library	471
Jr. High Other Cost	3,985
Total Jr. High	<u>265,403</u>
SR. HIGH:	
Sr. High Salaries & Benefits	438,823
Sr. High Counseling Salaries & Benefits	69,542
Sr. High Tuition	29,198
Sr. High Travel	9,121
Sr. High Supplies	8,834
Sr. High Music & Speech	2,114
Sr. High Workbooks & Textbooks	12,632
Sr. High Library	2,690
Sr. High Equipment	8,822
Sr. High Other Objects	3,816
Sr. High Other Costs	5,961
Total Sr. High	<u>591,551</u>

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

VALLEY-EDINBURG PUBLIC SCHOOL DISTRICT NO. 118

Edinburg, North Dakota

Statement of Receipts, Disbursements and Changes in Fund Balance General Fund –
Modified Cash Basis(cont'd)
For the Year Ended June 30, 2016

ELEMENTARY PRINCIPAL	
Elementary Princ. Salary & Benefits	36,503
Total Elementary Principal	<u>36,503</u>
MIDDLE/JUNIOR HIGH SCHOOL PRINCIPAL	
Jr. High Princ. Salary & Benefits	67,783
Junior High Princ. Dues & Fees	400
Total Middle/Jr High School Principal	<u>68,183</u>
HIGH SCHOOL PRINCIPAL	
Sr. High Princ. Salary & Benefits	94,915
Sr. High Princ. Dues & Fees	483
Total Sr. High Principal	<u>95,398</u>
OTHER REGULAR INSTRUCTION	
Technology Levy Salary	70,530
Technology Levy Repairs & Maintenance	3,211
Technology Levy Supplies	15,507
Technology Levy Equipment	47,785
Technology Levy Miscellaneous	2,747
Total Other Regular Instruction	139,779
Total Regular Instruction	\$ <u>1,912,954</u>
SPECIAL EDUCATION PROGRAMS	
Pre-Kindergarten Salaries & Benefits	30,701
Learning Disabled Salaries & Benefits	317,473
Special Education Tuition	465,711
Total Special Education Programs	<u>813,885</u>
VOCATIONAL EDUCATION	
Voc Ed Tuition	33,016
Total Vocational Education	<u>33,016</u>
FEDERAL PROGRAMS	
Title I Salaires & Benefits	43,877
Title I Professional Development	3,698
Other Federal Program Salaries & Benefits	30,466
Total Federal Programs	78,042

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

VALLEY-EDINBURG PUBLIC SCHOOL DISTRICT NO. 118

Edinburg, North Dakota

Statement of Receipts, Disbursements and Changes in Fund Balance General Fund –

Modified Cash Basis(cont'd)

For the Year Ended June 30, 2016

EXTRACURRICULAR ACTIVITIES	
Extra Curricular Salaries & Benefits	83,925
Extra Curricular Travel	1,004
Extra Curricular Sports Co-op Tuition	10,642
Extra Curricular Supplies	2,080
Extra Curricular Equipment	66,366
Extra Curricular Dues & Fees	900
Total Extra Curricular	<u>164,917</u>
STUDENT SUPPORT SERVICES:	
BOARD OF EDUCATION	
Official/Admin Salaries	9,653
Social Security	746
Copier Lease Payment	24,011
Other Professional Services	12,294
Pstg,Boxrent,Adv,Printing,Misc	2,707
Board Of Ed Travel	1,355
Board Of Ed Supplies	12,934
Board Of Ed Dues & Fees	15,443
Total Board of Education	<u>79,143</u>
SUPERINTENDENT	
Salaries	99,042
Secretary Salary	43,270
Supt. Office Health Insurance	29,784
Social Security	10,475
Teacher Retirement	12,325
Supt. Office Telephone	12,649
Supt. Office Postage	2,709
Travel	3,712
Supplies	336
Dues & Fees	1,364
Supt. Office Miscellaneous	4,500
Total Superintendent	<u>220,166</u>
BUSINESS OFFICE	
Business Manager Salaries	41,460
Group Health Insurance	7,582
Social Security	3,062
Business Office Unemployment Compensation	506
Business Office Workman's Compensation	6,567
Business Office Audit	6,805
Technical Services	17,179
Total Business Office	<u>83,161</u>

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

VALLEY-EDINBURG PUBLIC SCHOOL DISTRICT NO. 118

Edinburg, North Dakota

**Statement of Receipts, Disbursements and Changes in Fund Balance General Fund –
Modified Cash Basis(cont'd)
For the Year Ended June 30, 2016**

OPERATION & MAINTENANCE	
Operation & Main. Salaries & Benefits	137,080
Operation & Main. Utilities	64,741
Operation & Main. Repairs	53,227
Operation & Main. Supplies	27,639
Operation & Main. Other Equipment	4,324
Operation & Main. Miscellaneous	523
Total Operation & Maintenance	<u>287,534</u>
TRANSPORTATION	
Transportation Salaries & Benefits	137,762
Transportation Physicals	1,011
Transportation Repairs	17,377
Transportation Bus Insurance	8,903
Transportation Tires	2,388
Transportation Equipment	79,030
Transportation Gas, Fuel & Oil	40,937
Total Transportation	<u>287,409</u>
OTHER STUDENT SUPPORT	
Food Service Salaries	57,570
Food Service Seconds & Extras	9,569
Total Other Support Expenditures	<u>67,139</u>
TOTAL EXPENSES	<u>4,027,366</u>
Excess Revenues over (under) Expenditures before Interfund Transfers	<u>(450,011)</u>
Interfund Transfers In (Out)	9,569
Loss on Property Held for Resale	(32,753)
Excess Revenues over (under) Expenditures after Interfund Transfers	<u>\$ (473,195)</u>
Fund Balance July 1	1,492,792
Restatements	28,032
Fund Balance as Restated July 1	1,520,824
Fund Balance June 30	<u>\$ 1,047,629</u>

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

Accounting For Success

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Valley-Edinburg Public School District No. 118, North Dakota as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Valley-Edinburg Public School District No. 118, North Dakota’s basic financial statements and have issued our report thereon dated August 24, 2016.

Internal Control over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. We consider deficiency 2016-1 described in the accompanying schedule of findings and responses to be a material weakness.

CAVALIER

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(701) 265-8644

PARK RIVER

1203 Park Street East
P.O. BOX 287
Park River, ND 58270
(701) 284-7616

LANGDON

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

STEPHEN

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

Compliance and Other Matters

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

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

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

Purpose of this Report

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



Mortenson & Rygh
Certified Public Accountants
Park River, North Dakota

August 24, 2016

VALLEY-EDINBURG SCHOOL DISTRICT NO. 118
Edinburg, North Dakota
Schedule of Findings and Responses
June 30, 2016

FINDINGS RELATED TO INTERNAL CONTROL OVER FINANCIAL REPORTING:

2016-1 Segregation of Duties

Condition:

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

Effect:

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

Cause:

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

Criteria:

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

Recommendation:

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

Client Response:

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