

**MANDAN PUBLIC SCHOOL
DISTRICT NO. 1**

AUDIT REPORT

JUNE 30, 2016

Mandan Public School District No. 1
Mandan, North Dakota

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For The Year Ended June 30, 2016

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Mandan, North Dakota

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Mandan Public School District No. 1
Mandan, North Dakota
June 30, 2016

OFFICIALS

Dr. Tim Rector	Chairperson
Sheldon Wolf	Vice Chairperson
Lori Furaus	Board Member
Caroline Kozojed	Board Member
Lee Fleischer	Board Member
Rick Horn	Board Member
Bob Klemisch	Board Member
Marnie Piehl	Board Member
Tim Tausend	Board Member
Dr. Mike Bitz	Superintendent
Christi Schaeftbauer	Business Manager

INDEPENDENT AUDITOR'S REPORT

Governing Board
Mandan Public School District No. 1
Mandan, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mandan Public School District No. 1, Mandan, North Dakota, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

INDEPENDENT AUDITOR'S REPORT

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Mandan Public School District No. 1, Mandan, North Dakota as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Notes 1 and 3 to the financial statements, Mandan Public School District No. 1 adopted the provisions of Governmental Accounting Standards Board Statement No. 72, Fair Value Measurement and Application. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 11, the District's share of net pension liability and employer contributions – ND Teachers' Fund for Retirement on page 42, the District's share of net pension liability and employer contributions – ND Public Employees Retirement System on page 43, and the budgetary comparison information on pages 44 through 45 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.

INDEPENDENT AUDITOR'S REPORT

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Mandan Public School District No. 1's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 schedule of expenditures of federal awards 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 December 29, 2016, on our consideration of Mandan Public School District No. 1'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 Mandan Public School District No. 1's internal control over financial reporting and compliance.



Mahlum Goodhart, PC
Mandan, North Dakota
December 29, 2016

Mandan Public School District No. 1
Management's Discussion and Analysis
June 30, 2016

This section of the Mandan Public School District's annual financial report presents our discussion and analysis of the District's financial performance for the fiscal year ended June 30, 2016. The intent of the MD&A is to look at the District's financial performance as a whole. It should, therefore, be read in conjunction with the basic financial statements and related notes.

FINANCIAL HIGHLIGHTS

- The District sold a piece of land for \$266,221 resulting in a gain of \$216,221.
- New debt for the fiscal year included a \$1,165,000 bond that was used to pay off special assessments.
- During the fiscal year \$1,250,000 was prepaid to Mandan Park District for the use of the Sports Complex for 2017-2027.
- Total investments in capital assets include purchases of three buses as well as the completion of the Red Trail Elementary building.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the District's overall financial statements.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the District's operations in *more detail* than the government-wide financial statements.
 - The *governmental funds* statements tell how *general government* services were financed in the short term as well as what remains for future spending.
 - *Fiduciary fund* statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

Mandan Public School District No. 1
Management's Discussion and Analysis
June 30, 2016

The following chart summarizes the major features of the District's financial statements, including the portion of the District's government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

		Fund Statements	
Type of Statement	Government-wide	Governmental Funds	Fiduciary Funds
Scope	Entire District except fiduciary funds	The activities of the District that are not proprietary or fiduciary	Instances in which the District is the trustee or agent for someone else's resources
Required financial statements	Statement of net position Statement of activities	Balance sheet Statement of revenues, expenditures, & changes in fund balances	Statement of net position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term.	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included.	All assets and liabilities, both short-term and long-term, the Agency funds do not currently contain capital assets, although they can.
Type of revenues and expenses	All revenues and expenses during the year, regardless of when cash is received or paid.	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter.	All revenues and expenses during the year, regardless of when cash is received or paid.

Mandan Public School District No. 1
Management's Discussion and Analysis
June 30, 2016

Government-Wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private sector companies. The statement of net position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District's net position and how they have changed. Net position – the difference between the District's assets and liabilities – is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's tax base.

The government-wide financial statements of the District are included in the category: *Governmental activities* – Most of the District's basic services are included here, such as instruction, extracurricular activities, curriculum and staff development, and general administration. Property taxes and state aid finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant *funds* – not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The School Board establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The District has two kinds of funds:

- *Governmental funds* – Most of the District's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement that explains the differences between them.
- *Fiduciary* – This District is the trustee, or fiduciary, for certain funds. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

Mandan Public School District No. 1
Management's Discussion and Analysis
June 30, 2016

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net position. The District's net position was (\$2,200,312) at June 30, 2016 and (\$1,838,451) at June 30, 2015. The net position decreased by \$361,861 for the year ended June 30, 2016.

	<u>6/30/2016</u>	<u>6/30/2015</u>
ASSETS		
Current and Other Assets	\$ 15,753,451	\$ 17,117,448
Capital and Non-Current Assets	56,430,238	55,550,425
Total Assets	<u>72,183,689</u>	<u>72,667,873</u>
DEFERRED OUTFLOWS OF RESOURCES	9,765,056	3,198,316
LIABILITIES		
Current Liabilities	7,011,767	6,313,163
Long-Term Liabilities	75,535,541	67,134,201
Total Liabilities	<u>82,547,308</u>	<u>73,447,364</u>
DEFERRED INFLOWS OF RESOURCES	1,601,749	4,257,276
NET POSITION		
Net Investment in Capital Assets	22,648,384	22,327,379
Restricted	5,284,089	4,798,157
Unrestricted	<u>(30,132,785)</u>	<u>(28,963,987)</u>
Total Net Position	<u>\$ (2,200,312)</u>	<u>\$ (1,838,451)</u>

A portion of the net position is either restricted to the purposes they can be used for or they are invested in capital assets. Unrestricted net position may be used to fund District programs in the next fiscal year.

Mandan Public School District No. 1
Management's Discussion and Analysis
June 30, 2016

Changes in net position. The District's total revenues were \$47,237,854. This is an increase of 4.6% from the prior year. Property taxes constituted 21%, unrestricted state aid 65%, and operating grants and contributions 8%. The remaining 6% is comprised of charges for services, interest, and other miscellaneous sources.

The total cost of all programs and services was \$47,599,715. Regular instruction constituted 46%, title programs 3%, special education 16%, vocational education 3%, district wide services 7%, administration 3%, operations & maintenance 11%, food services 4%, transportation 3%, student activities 2%, and interest & fees 2% of total expenses for governmental activities during the fiscal year 2015-2016.

	<u>6/30/2016</u>	<u>6/30/2015</u>
Revenues		
Program Revenues		
Charges for Services	\$ 1,391,137	\$ 1,280,457
Operating Grants and Contributions	3,803,125	3,731,661
General Revenues		
Property Taxes	9,853,220	9,427,423
Coal Funding	318,172	322,365
State Aid - Unrestricted	30,838,967	29,589,166
Interest Earnings	111,403	106,701
Bond Premium	14,160	-
Unrealized Gain on Investments	-	35,021
Miscellaneous Revenue	688,449	655,274
Gain on Disposal of Assets	219,221	-
Total Revenues	<u>47,237,854</u>	<u>45,148,068</u>
Expenses		
Regular Instruction	21,828,814	19,711,216
Title Programs	1,357,199	1,445,091
Special Education	7,309,557	6,785,253
Vocational Education	1,471,082	1,389,256
District Wide Services	3,273,336	3,039,072
Administration	1,628,813	1,513,090
Operations & Maintenance	5,326,409	3,828,104
School Food Services	1,993,396	1,914,842
Transportation	1,261,642	1,153,883
Student Activities	1,164,747	1,070,920
Interest & Fees Expense	984,720	1,643,178
Total Expenses	<u>47,599,715</u>	<u>43,493,905</u>
Change in Net Position	<u>\$ (361,861)</u>	<u>\$ 1,654,163</u>

Mandan Public School District No. 1
Management's Discussion and Analysis
June 30, 2016

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following shows the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and other unrestricted revenues.

	Total Cost For Year Ended June 30, 2016	Net Cost For Year Ended June 30, 2016	Total Cost For Year Ended June 30, 2015	Net Cost For Year Ended June 30, 2015
Regular Instruction	\$ 21,828,814	\$ (21,536,469)	\$ 19,711,216	\$ (19,521,628)
Title Programs	1,357,199	(5,917)	1,445,091	(16,079)
Special Education	7,309,557	(6,352,272)	6,785,253	(5,856,206)
Vocational Education	1,471,082	(1,220,950)	1,389,256	(1,126,427)
District Wide Services	3,273,336	(3,273,336)	3,039,072	(3,039,072)
Administration	1,628,813	(1,628,813)	1,513,090	(1,513,090)
Operations & Maintenance	5,326,409	(5,326,409)	3,828,104	(3,828,104)
School Food Services	1,993,396	(183,773)	1,914,842	(221,095)
Transportation	1,261,642	(728,047)	1,153,883	(645,988)
Student Activities	1,164,747	(1,164,747)	1,070,920	(1,070,920)
Capital Outlay	-	-	-	-
Bond Issuance Costs	-	-	-	-
Interest & Fees Expense	984,720	(984,720)	1,643,178	(1,643,178)
Total Expenses	\$ 47,599,715	\$ (42,405,453)	\$ 43,493,905	\$ (38,481,787)

FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS

The purpose of the District's governmental funds is to provide information on the near-term inflows, outflows, and balances of available resources. Unassigned fund balance generally can be used as a measure of the District's net resources available for spending as of the end of the fiscal year. These funds are accounted for using the modified accrual basis of accounting. The District's governmental funds had total revenue of \$46,982,120, expenditures of \$47,567,597, and other financing sources (uses) of \$188,276 for the year ended June 30, 2016. Overall, fund balances decreased by \$397,201. The general fund had \$41,032,577 in revenue; \$41,462,302 in expenditures; \$29,630 in sales of fixed assets; and \$392,540 in transfers to other funds for the year ended June 30, 2016. The general fund balance decreased by \$792,635.

GENERAL FUND BUDGET HIGHLIGHTS

The general fund budgeted revenues and general fund budgeted expenditures were amended during the fiscal year.

Actual revenue for the year ended June 30, 2016 was \$133,101 less than budgeted. Actual expenditures for the year ended June 30, 2016 were under budget by \$1,208,024.

Mandan Public School District No. 1
Management's Discussion and Analysis
June 30, 2016

CAPITAL ASSETS

As of June 30, 2016, the Mandan Public School District had \$55,180,238 (net of depreciation) invested in capital assets. The following shows the balances as June 30, 2016.

	2016	2015
Land	\$ 1,988,873	\$ 2,038,873
Buildings and Building Improvements	51,968,382	41,056,490
Furniture & Equipment	698,943	616,076
Vehicles & Equipment	524,040	523,180
Construction in Progress	-	11,315,806
	<hr/>	<hr/>
Total Capital Assets (Net of Depreciation)	<u>\$ 55,180,238</u>	<u>\$ 55,550,425</u>

This total represents a decrease of \$370,187 (1%) in capital assets from July 1, 2015. For a detailed breakdown of the additions and deletions to capital assets, please see Note 9 to the audited financial statements which follow this analysis.

DEBT ADMINISTRATION

As of June 30, 2016, the Mandan Public School District had \$77,596,945 in outstanding debt. Of this amount, \$18,770,000 comprises general obligation bonds payable, \$9,701,854 comprises school construction loans payable for Red Trail Elementary, and \$4,060,000 comprises limited tax bonds. There is also a net pension liability of \$43,669,820 due to the implementation of GAB Statement No. 68. The remaining amount of \$1,395,271 is for accrued leave under the policies adopted by the District.

For a detailed breakdown of the long-term debt, please see Note 10 to the audited financial statements which follow this analysis.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

These indicators were taken into account when adopting the general fund budget for 2017. Amounts available for appropriation in the general fund budget are \$43,633,290.

General fund expenditures are budgeted at \$43,918,171. The District has added no major new program initiatives to the 2017 budget.

If these estimates are realized, the District's budgetary general fund balance is expected to decrease \$284,881 at the close of the 2017 fiscal year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our parents, taxpayers, and creditors with a general overview of Mandan Public Schools' finances and to show the District's accountability for the money it receives to provide the best possible education to all students enrolled in Mandan Public Schools. Anyone who has questions about information contained in this report or who is interested in receiving additional information is encouraged to contact Christi Schaeftbauer, Business Manager, Mandan Public Schools, 901 Division St. NW, Mandan, ND 58554-3000; phone 701-751-6500, fax 701-751-6674, or email Christi.Schaeftbauer@msd1.org.

Mandan Public School District No. 1
Statement of Net Position
June 30, 2016

	Governmental Activities
ASSETS	
Cash and Cash Equivalents	\$ 5,140,825
Investments	7,092,160
Due from County Treasurer	431,556
Accounts Receivable	231,823
Intergovernmental Receivable	2,319,216
Taxes Receivable	468,120
Inventories	69,751
Prepaid Expenses	1,250,000
Capital Assets	
Land	1,988,873
Buildings & Improvements	68,016,209
Furniture & Equipment	1,712,915
Vehicles	2,746,917
Less Accumulated Depreciation	(19,284,676)
Total Capital Assets	55,180,238
Total Assets	72,183,689
DEFERRED OUTFLOWS OF RESOURCES	
Derived from Pensions	9,765,056
LIABILITIES	
Salaries & Benefits Payable	4,714,936
Accounts Payable	96,419
Interest Payable	139,008
Long-Term Liabilities:	
Portion Due or Payable within One Year	
General Obligation Bonds Payable	1,255,000
State School Construction Loan Payable	526,404
Limited Tax Bonds	280,000
Portion Due or Payable after One Year	
Net Pension Liability	43,669,820
General Obligation Bonds Payable	17,515,000
State School Construction Loan Payable	9,175,450
Limited Tax Bonds	3,780,000
Compensated Absences Payable	1,395,271
Total Liabilities	82,547,308
DEFERRED INFLOWS OF RESOURCES	
Derived from Pensions	1,601,749
NET POSITION	
Net Investment in Capital Assets	22,648,384
Restricted for:	
Debt Service	4,577,584
Capital Projects	706,505
Unrestricted	(30,132,785)
TOTAL NET POSITION	\$ (2,200,312)

The accompanying notes are an integral part of this statement.

Mandan Public School District No. 1
Statement of Activities
For the year ended June 30, 2016

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue & Changes in Net Position
		Charges for Services	Operating Grants & Contributions	Governmental Activities
Governmental Activities				
Regular Instruction	\$ 21,828,814	\$ 292,345	\$ -	\$ (21,536,469)
Title Programs	1,357,199	-	1,351,282	(5,917)
Special Education	7,309,557	-	957,285	(6,352,272)
Vocational Education	1,471,082	-	250,132	(1,220,950)
District Wide Services	3,273,336	-	-	(3,273,336)
Administration	1,628,813	-	-	(1,628,813)
Operations and Maintenance	5,326,409	-	-	(5,326,409)
Food Service	1,993,396	1,098,792	710,831	(183,773)
Transportation	1,261,642	-	533,595	(728,047)
Student Activities	1,164,747	-	-	(1,164,747)
Interest & Fees on Long-Term Debt	984,720	-	-	(984,720)
Total Primary Government	\$ 47,599,715	\$ 1,391,137	\$ 3,803,125	(42,405,453)

General Revenues:

Taxes:

Property Taxes, Levied for General Purpose	6,242,226
Property Taxes, Levied for Capital Projects	2,191,236
Property Taxes, Levied for Debt Service	1,419,758
Coal Funding	318,172
State Aid	30,838,967
Earnings on Investments	111,403
Bond Premium	14,160
Miscellaneous Revenue	688,449
Gain on Disposal of Assets	219,221
Total General Revenues	42,043,592
 Change in Net Position	 (361,861)
 Net Position - Beginning of Year	 (1,838,451)
Net Position - End of Year	\$ (2,200,312)

The accompanying notes are an integral part of this statement.

Mandan Public School District No. 1
Balance Sheet - Governmental Funds
June 30, 2016

Major Funds

	General	ESG Bonds	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 828,273	\$ 2,423,657	\$ 1,888,895	\$ 5,140,825
Investments	6,300,337	223,159	568,664	7,092,160
Due from County Treasurer	333,574	-	97,982	431,556
Accounts Receivable, Net	220,824	-	10,999	231,823
Intergovernmental Receivable	2,221,178	-	98,038	2,319,216
Taxes Receivable, Net	289,456	-	178,664	468,120
Inventories	69,751	-	-	69,751
Prepaid Expenses	1,250,000	-	-	1,250,000
TOTAL ASSETS	\$ 11,513,393	\$ 2,646,816	\$ 2,843,242	\$ 17,003,451
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities:				
Salaries & Benefits Payable	\$ 4,707,335	\$ -	\$ 7,601	\$ 4,714,936
Accounts Payable	93,116	-	3,303	96,419
Total Liabilities	4,800,451	-	10,904	4,811,355
Deferred Inflows of Resources:				
Uncollected Taxes	289,456	-	178,664	468,120
Total Liabilities and Deferred Inflows of Resources	5,089,907	-	189,568	5,279,475
Fund Balances:				
Nonspendable	1,319,751	-	-	1,319,751
Restricted for Debt Service	-	223,159	1,837,629	2,060,788
Committed	-	2,423,657	620,980	3,044,637
Assigned	-	-	195,065	195,065
Unassigned	5,103,735	-	-	5,103,735
Total Fund Balances	6,423,486	2,646,816	2,653,674	11,723,976
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 11,513,393	\$ 2,646,816	\$ 2,843,242	\$ 17,003,451

The accompanying notes are an integral part of this statement.

Mandan Public School District No. 1
 Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position
 For the year ended June 30, 2016

Total Fund Balances of Governmental Funds \$ 11,723,976

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 the governmental funds.

Cost of Capital Assets	\$ 74,464,914	
Less Accumulated Depreciation	<u>(19,284,676)</u>	
Net Capital Assets		55,180,238

Deferred outflows of resources are not a financial resource available for the current period and, therefore, are not reported in the governmental funds balance sheet. 9,765,056

The net pension liability is not due and payable in the current period and, therefore, is not reported in the governmental funds balance sheet. (43,669,820)

Deferred inflows of resources are not due and payable in the current period and, therefore, are not reported in the governmental funds balance sheet. (1,601,749)

Property taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and therefore are reported as deferred revenues in the funds. 468,120

Long-term liabilities applicable to the School District's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities, both current and long-term, are reported in the statement of net position. Balances at June 30, 2016 are:

General Obligation Bonds Payable	(18,770,000)	
State School Construction Loan Payable	(9,701,854)	
Limited Tax Bonds	(4,060,000)	
Interest Payable	(139,008)	
Compensated Absences	<u>(1,395,271)</u>	
Total Long-Term Liabilities		<u>(34,066,133)</u>

Total Net Position of Governmental Activities \$ (2,200,312)

The accompanying notes are an integral part of this statement.

Mandan Public School District No. 1
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2016

	Major Funds			
	General	ESG Bonds	Other Governmental Funds	Total Governmental Funds
REVENUES				
Property Taxes & Revenue in Lieu	\$ 6,202,048	\$ -	\$ 3,628,819	\$ 9,830,867
Coal Funding	318,172	-	-	318,172
State Aid	32,165,182	-	23,959	32,189,141
Federal Aid	1,428,186	-	686,872	2,115,058
Tuition & Charges for Services	292,345	-	1,098,792	1,391,137
Special Education Joint Agreements	337,893	-	-	337,893
Investment Earnings	110,898	366	139	111,403
Other Sources	177,853	178,429	332,167	688,449
TOTAL REVENUES	41,032,577	178,795	5,770,748	46,982,120
EXPENDITURES				
Current:				
Regular Instruction	20,396,787	-	-	20,396,787
Title Programs	1,357,199	-	-	1,357,199
Special Education	7,253,342	-	-	7,253,342
Vocational Education	1,398,961	-	-	1,398,961
District Wide Services	3,273,336	-	-	3,273,336
Administration	1,454,915	-	-	1,454,915
Operation & Maintenance	3,948,008	-	-	3,948,008
Food Service	-	-	1,918,050	1,918,050
Transportation	1,296,972	-	-	1,296,972
Student Activities	1,082,782	-	-	1,082,782
Capital Outlay	-	-	1,293,875	1,293,875
Debt Service:				
Principal	-	-	1,856,192	1,856,192
Interest & Fees	-	-	1,037,178	1,037,178
TOTAL EXPENDITURES	41,462,302	-	6,105,295	47,567,597
Excess (Deficiency) of Revenues Over (Under) Expenditures	(429,725)	178,795	(334,547)	(585,477)
OTHER FINANCING SOURCES (USES)				
Bond Proceeds	-	-	1,165,000	1,165,000
Bond Premium (Discount)	-	-	14,160	14,160
Bond Issuance Costs	-	-	(18,913)	(18,913)
Special Assessment Payments	-	-	(1,241,192)	(1,241,192)
Sale of Fixed Assets	29,630	-	239,591	269,221
Transfers In (Out)	(392,540)	392,540	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(362,910)	392,540	158,646	188,276
NET CHANGE IN FUND BALANCES	(792,635)	571,335	(175,901)	(397,201)
Fund Balances - July 1, 2015	7,216,121	2,075,481	2,829,575	12,121,177
FUND BALANCES - JUNE 30, 2016	\$ 6,423,486	\$ 2,646,816	\$ 2,653,674	\$ 11,723,976

The accompanying notes are an integral part of this statement.

Mandan Public School District No. 1
 Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
 of Governmental Funds to the Statement of Activities
 For the year ended June 30, 2016

Net change in fund balances - total governmental funds \$ (397,201)

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 the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Current Year Capital Outlay	\$ 1,568,216	
Current Year Depreciation Expense	(1,888,402)	(320,186)

Governmental funds report the pension expense as accrued for actual salaries paid in the expenditures. However in the statement of activities, the pension expense is an actuarial calculation of the cost of the plan accounting for projected future benefits, plan earnings, and contributions. (282,433)

In the statement of activities, only the gain(loss) on the sale of assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balance by the book value of the assets sold. (50,000)

The proceeds of debt issuances are reporting as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, issuing debt increases long-term liabilities and does not affect the statement but the repayment reduces long-term liabilities in the statement of net position. The amount of debt issued and repaid is:

Debt Proceeds	(1,165,000)	
Debt Repayment	1,856,192	691,192

Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds.

Net Increase in Compensated Absences	(78,046)	
Net Decrease in Interest Payable	52,460	(25,586)

Some revenues reported on the statement of activities are not reported as revenues in the governmental funds since they do not represent available resources to pay current expenditures. This consists of the increase in taxes receivable. 22,353

Change in net position of governmental activities	\$ (361,861)	

The accompanying notes are an integral part of this statement.

Mandan Public School District No. 1
Statement of Fiduciary Net Position
June 30, 2016

	Private-Purpose Trust Funds Scholarships	Agency Funds
ASSETS		
Cash and Cash Equivalents	\$ 16,392	\$ 695,260
Investments	21,643	-
Accounts Receivable	-	3,241
Total Assets	\$ 38,035	\$ 698,501
 LIABILITIES AND FUND BALANCES		
Liabilities:		
Due to Employees	\$ -	\$ 121,046
Due to Student Activities Groups	-	577,455
Total Liabilities	-	\$ 698,501
 Fund Balances:		
Held in Trust for:		
Individuals	38,035	
Total Fund Balances	\$ 38,035	

The accompanying notes are an integral part of this statement.

Mandan Public School District No. 1
Statement of Changes in Fiduciary Net Position
For the year ended June 30, 2016

	Private-Purpose Trust Funds Scholarships
REVENUES	
Other Local Revenue	\$ 1,110
Total Revenues	1,110
 EXPENDITURES	
Scholarships Awarded	58,146
Total Expenditures	58,146
 CHANGE IN NET POSITION	 (57,036)
 Net Position - July 1, 2015	 95,071
 Net Position - June 30, 2016	 \$ 38,035

The accompanying notes are an integral part of this statement.

Mandan Public School District No. 1
Notes to Basic Financial Statements
June 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Mandan Public School District No. 1 complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. The more significant of the District's accounting policies are described below.

Reporting Entity

In accordance with Governmental Accounting Standards Board Statement No. 14 *The Financial Reporting Entity*, for financial reporting purposes the District's financial statements include all accounts of the District's operations. The criteria for including organizations as component units within the District's reporting entity include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the District holds the corporate powers of the organization
- the District appoints a voting majority of the organization's board
- the District is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the District
- there is a fiscal dependency by the organization on the District

The District receives funding from local, county, state and federal government sources and must comply with the concomitant requirements of these funding source entities. But, based upon the criteria of Statement No. 14, there are no component units to be included within the District as a reporting entity and the District is not includable as a component unit within another reporting entity.

Basis of Presentation

Government-wide Financial Statements:

The Statement of Net Position and the Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are supported by taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. Currently, the District does not classify any activities as business-type.

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

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures. Separate statements are presented for governmental, proprietary and fiduciary activities. The District has no proprietary activities at this time. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

Mandan Public School District No. 1
Notes to Basic Financial Statements
June 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses, and balance of current financial resources. The District has presented the following major funds:

General Fund: The General Fund is the main operating fund of the District. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

ESG Bonds Fund: This fund accounts for the financing of energy efficiency improvements.

The District reports the following fiduciary funds:

Private Purpose Trust Fund: These funds are used to account for resources legally held in trust for scholarships to students. All resources of the funds, including earnings on investments, are used for scholarships.

Agency Funds: These funds account for assets held by the District in a custodial capacity as an agent on behalf of others. The District's agency fund is used to account for various deposits of the student activity funds and employees' flex benefit funds.

Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when transactions are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in net total position. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual, i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The District considers property taxes as available if they are collected within 60 days after year end. A one-year availability period is used for recognition of all other governmental fund revenues. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

Mandan Public School District No. 1
Notes to Basic Financial Statements
June 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

The revenues susceptible to accrual are property taxes, franchise fees, licenses, charges for services, interest income and intergovernmental revenues. All other governmental fund revenues are recognized when received.

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.

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.

Encumbrance Accounting

Encumbrances are commitments related to unperformed contracts for goods and services that may be recorded for budgetary control purposes. Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are reappropriated in the next year. No reservation of fund balances is provided at year-end.

Cash and Cash Equivalents

Cash and cash equivalents consist of amounts in demand deposits, savings accounts, and certificates of deposit with a maturity of three months or less when purchased.

Investments

Investments are recorded at fair value. During the year ended June 30, 2016, the District implemented GASB Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements. This statement provides guidance for determining fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and financial derivative instruments and disclosures related to all fair value measurements. The District's implementation of this statement required no adjustment to prior periods; however, it expanded the disclosure requirements for items carried at fair value.

Inventory

Inventories are valued using the weighted-average method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Mandan Public School District No. 1
Notes to Basic Financial Statements
June 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the government-wide financial statements. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. 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 asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is not capitalized.

Capital assets are defined by the District as assets with an initial, individual cost of \$25,000 or more and over one year of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings	50 years
Furniture and Equipment	5 – 20 years
Vehicles	8 years

Accrued Compensated Absences

The District's policy permits teachers and administrative personnel to accumulate a limited amount of vacation leave not to exceed 320 hours and personal leave not to exceed 6 days. Compensation for unused vacation and personal leave will be paid to employees upon separation of employment from Mandan Public School District No. 1. A long-term liability for accrued personal and vacation leave as of June 30th has been recorded in the government-wide statements.

Compensation for unused sick leave will be granted to all employees upon termination of employment of 20 or more years. Employees may carry forward unused sick leave equal to one year of employment. The severance payment will be based on 70% of accumulated sick leave for employees with 20 to 24 years service and 100% of accumulated sick leave for employees with 25 or more years of service. Hourly employees will be paid at minimum wage. Certified staff with 20 to 24 years of service is paid \$67 per day for the 2015-2016 school year and certified staff with 25 or more years of service is paid \$92 per day for the 2015-2016 school year. A long-term liability for accrued sick leave as of June 30th has been recorded in the government-wide statements.

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 position. Bond discounts, premiums, and issuance costs are recognized in the current period.

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 and discounts on debt issuances are reported as other financing sources and uses. Issuance costs are reported as debt service expenditures.

Mandan Public School District No. 1
Notes to Basic Financial Statements
June 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the school board or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Fund Balance Classifications

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.

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 removed 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 special 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.

Deferred Inflows/Outflows of Resources

Deferred inflows of resources in the fund financial statements consist of amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable but not available and include uncollected taxes.

Mandan Public School District No. 1
Notes to Basic Financial Statements
June 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

In addition to assets, the statement of net position will sometimes report a separate section of deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. See Note 11 for additional information.

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 the North Dakota Public Employees Retirement System (NDPERS) and additions to/deductions from TFFR and NDPERS's fiduciary net position have been determined in the same bases as they are reported by TFFR and NDPERS. 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.

NOTE 2 DEPOSITS – CASH AND INVESTMENTS

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

Deposits must either be deposited with the Bank of North Dakota or in other financial institutions 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 deposits not covered by insurance or bonds.

Authorized collateral includes bills, notes, or bonds issued by the United States government, its agencies or instrumentalities, all bonds and notes guaranteed by the United States government, federal land bank bonds, bonds, notes, warrants, 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, or instrumentalities, or by any county, city, 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 entity, and bonds issued by any other state of the United States or such other securities approved by the banking board.

Custodial Credit Risk

As of June 30, 2016, the District's carrying balances of the checking, savings, and certificates of deposit were \$8,448,744 for governmental funds and \$708,053 for agency funds.

The bank balance of these deposits as of June 30, 2016 was \$9,378,954. The difference results from checks outstanding or deposits not yet processed. Of the bank balances, \$500,000 was covered by Federal Depository Insurance and \$8,878,954 was collateralized with securities held by the pledging financial institutions' agent but not in the District's name. During the fiscal year ended June 30, 2016, the board reviewed the pledge of securities twice as required by state law.

Mandan Public School District No. 1
Notes to Basic Financial Statements
June 30, 2016

NOTE 2 DEPOSITS – CASH AND INVESTMENTS-CONTINUED

Credit Risk and Interest Rate Risk

The school may invest idle funds as authorized in North Dakota Statutes, as follows:

- a. Bonds, treasury bills and notes, or other securities that are a direct 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 the type listed above.
- c. Certificates of deposit fully insured by the federal deposit insurance corporation.
- d. Obligations of the state.
- e. Commercial paper issued by a United States corporation rated in the highest quality category by at least two nationally recognized rating agencies and matures in two hundred seventy days or less.

The investments of the District, including the agency funds, consist of an investment in the MBBM investment pool, certificates of deposit, and investments at Wells Fargo and escrow accounts at US Bank. The MBBM investment pool was undertaken through a joint powers agreement with the City of Bismarck, City of Mandan, Morton County, Burleigh County, Bismarck Park District, Mandan Park District, and Mandan Public School District. The pool invests in securities authorized by state statutes. At June 30, 2016 the District's portion of MBBM had a market value of \$2,991,748, the US Bank escrow accounts had a market value of \$791,823, and the scholarship funds had a market value of \$21,643. At June 30, 2016, the following table shows the investments by investment type and maturity.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less Than 1 Year</u>	<u>1 - 6 Years</u>
U.S. Government Bonds	\$ 3,792,969	\$ 250,648	\$ 3,542,321
Certificates of Deposit	3,308,589	-	3,308,589
Total debt investments	<u>\$ 7,101,558</u>	<u>\$ 250,648</u>	<u>\$ 6,850,910</u>

Investments not subject to categorization

Money Market Funds	12,245
Total Investments	<u>\$ 7,113,803</u>

Credit risk is the risk that an issuer or other counter-party to an investment will not fulfill its obligations. The District does not have an investment policy that specifically addresses credit risk.

NOTE 3 FAIR VALUE OF FINANCIAL INSTRUMENTS

In accordance with GASB Statement No. 72, assets, deferred outflows of resources, liabilities and deferred inflows of resources are grouped at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

- Level 1: Valuation is based upon quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Mandan Public School District No. 1
Notes to Basic Financial Statements
June 30, 2016

NOTE 3 FAIR VALUE OF FINANCIAL INSTRUMENTS – CONTINUED

Level 2: Valuation is based upon quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3: Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect our own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

The following table below presents the balances of assets, deferred outflow of resources, and deferred inflow of resources measure at fair value on a recurring basis at June 30, 2016.

ASSETS	Total	Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Long-term CDs	\$ 3,308,589	\$ 3,308,589	\$ -	\$ -
Money Market	12,245	12,245	-	-
US Treasury Bonds	3,792,969	-	3,792,969	-
	<u>\$ 7,113,803</u>	<u>\$ 3,320,834</u>	<u>\$ 3,792,969</u>	<u>\$ -</u>

NOTE 4 PROPERTY TAX

Under state law, the District is limited in its ability to levy property taxes. All school tax levies are in compliance with state laws. Property taxes attach as an enforceable lien on property on January 1. A 5% reduction is allowed if paid by February 15th. The first installment is due by March 1 and the second installment is due by October 15. After the due dates, the bill becomes delinquent and penalties and interest are assessed. Taxes are collected by the county and remitted monthly to the school.

In its fund financial statements, property taxes are recorded as revenue in the period levied to the extent they are collected within 60 days of year-end. Taxes receivable consist of the past five years of uncollected current and delinquent taxes at June 30. No allowance has been established for estimated uncollectible taxes receivable.

In the government-wide financial statements, property taxes are recorded as a receivable and revenue when assessed.

NOTE 5 ACCOUNTS RECEIVABLE

Accounts receivable consists of amounts from other school districts and organizations for goods and services furnished by the District. Management has deemed all receivables to be collectible; therefore, no allowance has been established for uncollectible accounts.

NOTE 6 INTERGOVERNMENTAL RECEIVABLE

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

Mandan Public School District No. 1
Notes to Basic Financial Statements
June 30, 2016

NOTE 7 DUE FROM COUNTY TREASURER

The amount due from county treasurer consists of cash on hand for taxes collected but not remitted to the school at June 30.

NOTE 8 INVENTORIES

Inventories consist of supplies and materials of the general fund. Reported inventories are equally offset by a fund balance reserve which indicates they do not constitute “available spendable resources” even though they are a component of net current assets.

NOTE 9 SALARIES AND BENEFITS PAYABLE

Salaries and benefits payable consists of salaries earned by employees but not paid until after year-end. It also consists of benefits owed to federal, state, and private agencies for amounts withheld from teacher’s salaries as of June 30.

NOTE 10 CAPITAL ASSETS

Following is a summary of changes in capital assets and accumulated depreciation for the year ended June 30, 2016:

	June 30, 2015	Increases	Decreases	June 30, 2016
Capital assets not being depreciated				
Land	\$ 2,038,873	\$ -	\$ 50,000	\$ 1,988,873
Construction in progress	11,315,806	-	11,315,806	-
Total capital assets, not depreciated	13,354,679	-	11,365,806	1,988,873
Capital assets being depreciated				
Buildings and building improvements	55,491,436	12,524,773	-	68,016,209
Furniture and equipment	1,525,912	187,003	-	1,712,915
Vehicles	2,759,681	172,246	185,010	2,746,917
Total capital assets, being depreciated	59,777,029	12,884,022	185,010	72,476,041
Less accumulated depreciation for				
Buildings and building improvements	14,434,946	1,612,881	-	16,047,827
Furniture and equipment	909,836	104,136	-	1,013,972
Vehicles	2,236,501	171,386	185,010	2,222,877
Total accumulated depreciation	17,581,283	1,888,403	185,010	19,284,676
Total capital assets being depreciated, net	42,195,746	10,995,619	-	53,191,365
Total capital assets, net	\$ 55,550,425	\$ 10,995,619	\$ 11,365,806	\$ 55,180,238

Mandan Public School District No. 1
Notes to Basic Financial Statements
June 30, 2016

NOTE 10 CAPITAL ASSETS – CONTINUED

Depreciation expense for the year ended June 30, 2016 was \$1,888,403 and has been reported in the government-wide statement of activities. Depreciation expense was charged to functions/programs of the District as follows:

Regular Instruction	\$ 1,248,482
Special Education	56,215
Vocational Education	72,121
Administration	107,340
Operations and Maintenance	94,090
Food Service	75,346
Transportation	143,767
Student Activities	91,042
Total Depreciation Expense	\$ 1,888,403

NOTE 11 LONG-TERM DEBT

Following is a summary of long-term debt activity for the year ended June 30, 2016:

	General Obligations Bonds Payable	State School Construction Loans Payable	Limited Tax Bonds	Compensated Absences *	Total Debt
Payable, 6/30/15	\$18,665,000	\$10,223,046	\$ 4,335,000	\$ 1,317,228	\$34,540,274
Increases	1,165,000	-	-	78,043	1,243,043
Decreases	(1,060,000)	(521,192)	(275,000)	-	(1,856,192)
Payable, 6/30/16	\$18,770,000	\$ 9,701,854	\$ 4,060,000	\$ 1,395,271	\$33,927,125
Current Portion	\$ 1,255,000	\$ 526,404	\$ 280,000	\$ -	\$ 2,061,404

* The change in compensated absences is shown as a net change because changes in salary prohibit exact calculations of additions and reductions.

Debt service requirements on long-term debt at June 30, 2016 are as follows:

Year Ending June 30	State School Construction Loans					
	General Obligation Bonds		Payable		Limited Tax Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 1,255,000	\$ 678,299	\$ 526,404	\$ 97,019	\$ 280,000	\$ 211,800
2018	1,610,000	638,994	531,668	91,754	-	203,400
2019	1,660,000	578,079	536,984	86,438	-	203,400
2020	1,715,000	514,766	542,354	81,068	-	203,400
2021	1,825,000	446,341	547,778	75,644	-	203,400
2022-2026	10,380,000	1,132,842	2,822,160	294,952	3,780,000	1,220,400
2027-2031	325,000	14,125	2,966,118	151,293	-	-
2032-2033	-	-	1,228,388	18,456	-	-
Total	\$ 18,770,000	\$ 4,003,446	\$ 9,701,854	\$ 896,624	\$ 4,060,000	\$ 2,245,800

Mandan Public School District No. 1
Notes to Basic Financial Statements
June 30, 2016

NOTE 11 LONG-TERM DEBT – CONTINUED

The following is a summary of long-term debt of the District for the year ended June 30, 2016:

General Obligations Bonds Payable:

\$12,665,000 General Obligation Refunding Bonds, Series 2013, bond premium of \$1,084,964, due in annual installments of \$780,000 to \$1,570,000 starting on August 1, 2016 through August 1, 2025; interest at 3.00% to 5.00%. This issue crossover advanced refunded the General Obligation School Building Bonds of 2005.	\$ 12,665,000
\$1,420,000 General Obligation School Building Bonds of 2010, bond discount of \$17,040, due in one lump sum payment of \$1,420,000 on June 1, 2027, interest at 5.25%.	1,420,000
\$2,935,000 General Obligation Special Assessments of 2010, bond discount of \$23,480, due in declining annual installments of \$320,000 to \$145,000 through May 1, 2023; interest at 1.00% to 3.25%.	1,285,000
\$1,165,000 General Obligation Special Assessment Prepayment Bonds, Series 2016A, bond premium of \$14,160, due in annual installments of \$75,000 to \$100,000 through August 1, 2029; interest at 2.00% to 2.25%.	1,165,000
\$1,885,000 General Obligation Building Fund Refunding Bonds, Series 2011D, bond discount of \$18,662, due in annual installments of \$135,000 to \$165,000 through June 1, 2024; interest at 0.40% to 3.00%. This issue refunded the State School Constuction Loan of 2009.	1,205,000
\$1,250,000 General Obligation School Building Bonds, Series 2014, bond premium of \$18,667, due in annual installments of \$100,000 to \$140,000 through August 1, 2023; interest at 1.70% to 2.10%.	1,030,000

State School Construction Loans Payable:

\$11,250,000 State School Construction Fund Loan dated August 1, 2013, due in annual installments of \$510,922 to \$617,250 through June 1, 2033; interest at 1.0%.	9,701,854
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Limited Tax Bonds:

\$1,600,000 Limited Tax Bonds, Series 2011A dated February 9, 2011, bond premium of \$39,489, due in annual installments of \$255,000 to \$280,000 through May 1, 2017; interest at 2.00% to 3.00%.	280,000
\$2,580,000 Limited Tax Bonds, Series 2011B dated February 9, 2011, bond discount of \$25,800, due in one lump sum payment of \$2,580,000 on May 1, 2026, interest at 5.50%.	2,580,000
\$1,200,000 Limited Tax Bonds, Series 2011C dated May 4, 2011, bond discount of \$9,600, due in one lump sum payment of \$1,200,000 on May 1, 2026, interest at 5.125%.	1,200,000

Total Long-term Debt	\$ 32,531,854
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Mandan Public School District No. 1
Notes to Basic Financial Statements
June 30, 2016

NOTE 12 DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES (PENSIONS)

Details of the Deferred Outflows of Resources and Deferred Inflows of Resources on the face of the financial statements as of June 30, 2016 are as follows:

Deferred Outflows of Resources	
Derived from pension - TFFR	\$ 8,256,465
Derived from pension - NDPERS	1,508,591
Total	<u>\$ 9,765,056</u>

Deferred Inflows of Resources	
Derived from pension - TFFR	\$ 434,129
Derived from pension - NDPERS	1,167,620
Total	<u>\$ 1,601,749</u>

Note 13 of the financial statements contains details of the pension plan.

NOTE 13 PENSION PLANS

Mandan Public School District No. 1 employs the staff of Morton-Sioux Special Education Unit. Morton-Sioux Special Education Unit reimburses Mandan Public School District No. 1 for actual costs contributed to the pension plans described below. The net pension liability, deferred outflows of resources, and deferred inflows of resources for Morton-Sioux Special Education Unit's share of the amounts have not been segregated from Mandan Public School District No. 1.

1. 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.

Mandan Public School District No. 1
Notes to Basic Financial Statements
June 30, 2016

NOTE 13 PENSION PLANS – CONTINUED

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.

Mandan Public School District No. 1
Notes to Basic Financial Statements
June 30, 2016

NOTE 13 PENSION PLANS – 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 Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the District reported a liability of \$38,498,679 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 District's proportion of the net pension liability was based on the District's share of covered payroll in the pension plan relative to the covered payroll of all participating TFFR employers. At July 1, 2015, the District's proportion was 2.943650%, which was an increase of 0.122859% from its proportion measures as of July 1, 2014. For the year ended June 30, 2016, Mandan Public School District No. 1 employees comprised 96% of the total payroll and Morton-Sioux Special Education comprised the remaining 4%.

Mandan Public School District No. 1
Notes to Basic Financial Statements
June 30, 2016

NOTE 13 PENSION PLANS – CONTINUED

For the year ended June 30, 2016, the District recognized pension expense of \$2,757,286. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 252,280	\$ -
Changes of assumptions	4,322,741	-
Net difference between projected and actual earnings on pension plan investments	-	434,129
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,220,354	-
Employer contributions subsequent to the measurement date (see below)	2,461,090	-
Total	\$ 8,256,465	\$ 434,129

\$2,461,090 reported as deferred outflows of resources related to pensions resulting from District 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:

	For the year ended June 30,
2017	\$ 644,916
2018	644,916
2019	644,916
2020	1,520,910
2021	972,447
Thereafter	933,141

Actuarial Assumptions

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

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

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

Mandan Public School District No. 1
Notes to Basic Financial Statements
June 30, 2016

NOTE 13 PENSION PLANS – CONTINUED

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 percent to 7.75 percent based on the investment return assumption change as a result of the April 30, 2015 actuarial experience study.

Mandan Public School District No. 1
Notes to Basic Financial Statements
June 30, 2016

NOTE 13 PENSION PLANS – CONTINUED

Sensitivity of the Employer’s proportionate share of the net pension liability to changes in the discount rate

The following presents the District’s proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the District’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	\$ 50,877,825	\$ 38,498,679	\$ 28,174,733

Pension plan fiduciary net position

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

2. North Dakota Public Employees Retirement System (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.

NDPERS is a cost-sharing multiple-employer defined benefit 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. Effective July 1, 2015, the board was expanded to include two members of the legislative assembly appointed by the chairman of the legislative management.

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 (65). For members hired on or after January 1, 2016 the Rule of 85 will be replaced with the Rule of 90 with a minimum age of 60. The monthly 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.

Mandan Public School District No. 1
Notes to Basic Financial Statements
June 30, 2016

NOTE 13 PENSION PLANS – CONTINUED

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, life-time monthly payments in an amount equal to 50% of the member's accrued normal retirement benefit, or monthly payments in an 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.

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.

Member and Employer Contributions

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

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 24 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

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

At June 30, 2016, the District reported a liability of \$5,171,141 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 District's proportion of the net pension liability was based on the District's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At July 1, 2015, the District's proportion was 0.760481%, which is an increase of .034457% from its proportion measured as of July 1, 2014. For the year ended June 30, 2016, Mandan Public School District No. 1 employees were 98.6% of the total payroll and the remaining 1.4% was Morton-Sioux Special Education employees.

Mandan Public School District No. 1
Notes to Basic Financial Statements
June 30, 2016

NOTE 13 PENSION PLANS – CONTINUED

For the year ended June 30, 2016, the District recognized pension expense of \$535,424. At June 30, 2016, the District reported deferred outflows or resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 150,021	\$ -
Changes of assumptions	-	460,724
Net difference between projected and actual earnings on pension plan investments	597,516	706,678
Changes in proportion and differences between employer contributions and proportionate share of contributions	211,781	218
Employer contributions subsequent to the measurement date (see below)	549,273	-
Total	\$ 1,508,591	\$ 1,167,620

\$549,273 reported as deferred outflows of resources related to pensions resulting from District 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:

For the year ended June 30,	
2017	\$ (97,530)
2018	(97,530)
2019	(97,530)
2020	128,040
2021	(43,753)
Thereafter	-

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	4.50% per annum
Investment rate of return	8.00%, net of investment expenses
Cost-of-living adjustments	None

For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Mortality Table set back one year for males (no setback for females) multiplied by 125%.

Mandan Public School District No. 1
Notes to Basic Financial Statements
June 30, 2016

NOTE 13 PENSION PLANS – CONTINUED

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

As a result of the 2015 actuarial experience study, the NDPERS Board adopted several changes to the actuarial assumptions effective July 1, 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

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%	1.52%
International Fixed Income	5%	0.45%
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.

Sensitivity of the Employer's proportionate share of the net pension liability to changes in the discount rate

The following present the District's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7 percent) or 1-percentage-point higher (9 percent) than the current rate:

	<u>1% Decrease (7%)</u>	<u>Current Discount Rate (8%)</u>	<u>1% Increase (9%)</u>
Employer's proportionate share of the net pension liability	\$ 7,929,686	\$ 5,171,141	\$ 2,914,153

Mandan Public School District No. 1
Notes to Basic Financial Statements
June 30, 2016

NOTE 13 PENSION PLANS – 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. That report may be obtained by writing to NDPERS; 400 East Broadway, Suite 505; PO Box 1657; Bismarck, ND 58502-1657.

NOTE 14 RISK MANAGEMENT

The Mandan Public School District No. 1 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. The following are funds/pools established by the State for risk management issues.

In 1986 state agencies and political subdivisions of the state of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDRIF), 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 Mandan Public School District pays an annual premium to NDRIF for its general liability, automobile and inland marine insurance coverage. The coverage by NDRIF is limited to losses of \$2,000,000 per occurrence for general liability and automobile and \$8,061 for inland marine.

The District participates in the North Dakota Worker's Compensation Bureau, an Enterprise Fund of the State of North Dakota. The Bureau is a state insurance fund and a "no fault" insurance system covering the State's employers and employees financed by premiums assessed employers. The premiums are available for the payment of claims to employees injured in the course of employment.

The Mandan Public School District No. 1 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 \$2,000,000 per occurrence during a 12 month period. The State Bonding Fund currently provides political subdivisions with blanket fidelity 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 carries commercial insurance for all other risks of loss, including employee health and accident insurance and employee professional liability insurance. There have been no significant reductions in insurance coverage from the prior year and settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

NOTE 15 PREPAID EXPENSES

During the fiscal year the school district paid \$1,250,000 to the Mandan Park District for the use of the Mandan Sports Complex for the years 2017-2027.

Mandan Public School District No. 1
Notes to Basic Financial Statements
June 30, 2016

NOTE 16 TRANSFERS

For the fiscal year ended June 30, 2016, fund transfers consisted of the following:

Funds	Transfers In	Transfers Out
<i>To transfer energy savings from General Fund:</i>		
ESG Fund	\$ 392,540	
General		\$ 392,540
 <i>To fund loan payments with tax collections:</i>		
GO Building Bonds of 2008	336,857	
GO Building Bonds of 2010	78,569	
State School Construction Loan of 2009	171,264	
GO Refunding Bonds, Series 2011E	264,489	
Building		851,179

NOTE 17 FUND BALANCES

At June 30, 2016, a summary of the governmental fund balance classifications are as follows:

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Building Fund</u>	<u>Total</u>
Nonspendable					
Inventories	\$ 69,751	\$ -	\$ -	\$ -	\$ 69,751
Prepays	1,250,000				1,250,000
Restricted					
Debt Service	-	-	2,060,788	-	2,060,788
Committed					
Capital Projects	-	-	-	620,980	620,980
Debt Service	-	-	2,423,657	-	2,423,657
Assigned					
Food Service	-	195,065	-	-	195,065
Unassigned					
General Fund	6,353,735	-	-	-	6,353,735
	\$ 7,673,486	\$ 195,065	\$ 4,484,445	\$ 620,980	\$12,973,976

***REQUIRED
SUPPLEMENTARY INFORMATION***

Mandan Public School District No. 1
 Required Supplementary Information
 For the Year Ended June 30, 2016

Schedule of Employer'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)	2.943650%	2.820791%
Employer's proportionate share of the net pension liability (asset)	\$ 38,498,679	\$ 29,556,889
Employer's covered-employee payroll	\$ 18,106,534	\$ 16,362,090
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%	66.6%

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

Schedule of Employer Contributions
 ND Teachers' Fund for Retirement
 Last 10 Fiscal Years *

	2016	2015
Statutorily required contribution	\$ 2,308,472	\$ 1,758,908
Contributions in relation to the statutorily required contribution	\$ (2,308,472)	\$ (1,758,908)
Contribution deficiency (excess)	\$ -	\$ -
Employer's covered-employee payroll	\$ 18,106,534	\$ 16,362,090
Contributions as a percentage of covered-employee payroll	12.75%	10.75%

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

Data reported is measured as of 7/1/2015 and 7/1/2014.

See independent auditor's report and notes to financial statements.

Mandan Public School District No. 1
 Required Supplementary Information
 For the Year Ended June 30, 2016

Schedule of Employer's Share of Net Pension Liability
 ND Public Employees Retirement System
 Last 10 Fiscal Years *

	2016	2015
Employer's proportion of the net pension liability (asset)	0.760481%	0.726024%
Employer's proportionate share of the net pension liability (asset)	\$ 5,171,141	\$ 4,608,230
Employer's covered-employee payroll	\$ 6,774,959	\$ 6,115,873
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	76.33%	75.35%
Plan fiduciary net position as a percentage of the total pension liability	77.15%	77.70%

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

Schedule of Employer Contributions
 ND Public Employees Retirement System
 Last 10 Fiscal Years *

	2016	2015
Statutorily required contribution	\$ 514,613	\$ 435,450
Contributions in relation to the statutorily required contribution	\$ (514,351)	\$ (435,450)
Contribution deficiency (excess)	\$ 262	\$ -
Employer's covered-employee payroll	\$ 6,774,959	\$ 6,115,873
Contributions as a percentage of covered-employee payroll	7.60%	7.12%

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

Data reported is measured as of 7/1/2015 and 7/1/2014.

See independent auditor's report and notes to financial statements.

Mandan Public School District No. 1
 Budgetary Comparison Schedule
 General Fund
 For the year ended June 30, 2016

	<u>Budgeted Amounts</u>		Actual (Budgetary Basis)	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES				
Property Taxes & Revenue in Lieu	\$ 5,176,580	\$ 6,342,689	\$ 6,202,048	\$ (140,641)
Coal Funding	322,364	322,364	318,172	(4,192)
State Aid	30,586,701	32,187,408	32,165,182	(22,226)
Federal Aid	1,512,994	1,436,717	1,428,186	(8,531)
Tuition & Charges for Services	189,588	188,500	292,345	103,845
Special Education Joint Agreements	372,444	370,000	337,893	(32,107)
Investment Earnings	89,498	75,000	110,898	35,898
Other Sources	391,196	243,000	177,853	(65,147)
TOTAL REVENUES	38,641,365	41,165,678	41,032,577	(133,101)
EXPENDITURES				
Current:				
Regular Instruction	20,216,556	20,047,768	20,396,787	(349,019)
Title Programs	1,367,203	1,418,078	1,357,199	60,879
Special Education	7,016,475	7,016,475	7,253,342	(236,867)
Vocational Education	1,444,151	1,446,933	1,398,961	47,972
District Wide Services	3,377,996	3,493,126	3,273,336	219,790
Administration	1,457,865	1,457,865	1,454,915	2,950
Operation & Maintenance	5,439,603	5,439,603	3,948,008	1,491,595
Transportation	1,263,487	1,263,487	1,296,972	(33,485)
Student Activities	1,086,991	1,086,991	1,082,782	4,209
TOTAL EXPENDITURES	42,670,327	42,670,326	41,462,302	1,208,024
Excess (Deficiency) of Revenues Over (Under) Expenditures	(4,028,962)	(1,504,648)	(429,725)	1,074,923
OTHER FINANCING SOURCES (USES)				
Sale of Fixed Assets	-	-	29,630	29,630
Transfers In (Out)	-	-	(392,540)	(392,540)
Total Other Financing Sources (Uses)	-	-	(362,910)	(362,910)
NET CHANGE IN FUND BALANCES	(4,028,962)	(1,504,648)	(792,635)	712,013
Fund Balances - July 1, 2015	7,216,121	7,216,121	7,216,121	-
FUND BALANCES - JUNE 30, 2016	\$ 3,187,159	\$ 5,711,473	\$ 6,423,486	\$ 712,013

See auditor's report.

Mandan Public School District No. 1
Notes to Required Supplementary Information
June 30, 2016

NOTE 1 CHANGES OF ASSUMPTIONS – ND TEACHERS’ FUND FOR RETIREMENT

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.

NOTE 2 CHANGES OF ASSUMPTIONS – ND PUBLIC EMPLOYEES RETIREMENT SYSTEM

Amounts reported in 2016 reflect actuarial assumption changes effective July 1, 2015 based on the results of an actuarial experience study completed in 2015. This includes changes to the mortality tables, disability incidence rates, administrative expenses, salary scale, and percent married assumption.

NOTE 3 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

The District adopts an annual budget consistent with accounting principles generally accepted in the United States for the general fund, special revenue funds, debt service funds, and capital project funds. The following procedures are used in establishing the budgetary data reflected in the financial statements:

- The annual budget must be prepared and school district taxes must be levied on or before August 15 each year.
- The taxes levied must be certified to the county auditor by August 25.
- The operating budget includes proposed expenditures and means of financing them.
- Each budget is controlled by the business manager at the revenue and expenditure function/object level.
- 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.
- The balance of each appropriation becomes a part of the unappropriated fund balance at year-end.

Mandan Public School District No. 1
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2016

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE:</u>			
<u>Passed through State Department of Public Instruction:</u>			
<u>Child Nutrition Cluster</u>			
School Breakfast Program	10.553	N/A	\$ 111,012
National School Lunch Program	10.555	N/A	548,309
			<u>659,321</u>
Commodity Assistance for Schools	10.550	N/A	27,419
Fresh Fruit and Vegetable Program	10.582	N/A	27,550
			<u>27,550</u>
Total U.S. Department of Agriculture			714,290
<u>U.S. DEPARTMENT OF EDUCATION:</u>			
<u>Direct Assistance</u>			
Indian Education - Grants to Local Education Agencies	84.060	N/A	62,064
<u>Passed through State Department of Public Instruction:</u>			
<u>Title I, Part A Cluster</u>			
Title I - Grants to Local Education Agencies	84.010	N/A	960,856
Education for Homeless Children and Youth	84.196	N/A	11,000
Improving Teacher Quality - State Grants	84.367A	N/A	297,903
Title VI. Grants for State Assessments and Related Activities	84.369A	N/A	19,459
<u>Passed through the State Department of Vocational Education:</u>			
Vocational Education - Basic Grants to States	84.048	N/A	76,904
			<u>76,904</u>
Total U.S. Department of Education			<u>1,428,186</u>
Total Expenditures of Federal Awards			<u><u>\$ 2,142,476</u></u>

See auditor's report.

Mandan Public School District No. 1
Notes to Schedule of Expenditures of Federal Awards
For the Year Ending June 30, 2016

NOTE 1 PURPOSE OF SCHEDULE

The Schedule of Expenditures of Federal Awards (schedule) is a supplementary schedule to the financial statements and is presented for purposes of additional analysis. The schedule is required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

Federal Financial Assistance - Pursuant to the Uniform Guidance, federal financial assistance is defined as assistance that nonfederal entities receive or administer in the form of grants, cooperative agreements, loans, loan guarantees, property (including donated surplus property), interest subsidies, insurance, food commodities, direct appropriations and other assistance, but does not include amounts received as reimbursements for services rendered to individuals. Accordingly, nonmonetary federal assistance may be included in federal financial assistance and therefore, may be reported on the schedule. Mandan Public School District No. 1 received nonmonetary federal assistance in the form of food commodities during the year ended June 30, 2016. Federal financial assistance does not include direct federal cash assistance to individuals.

Catalog of Federal Domestic Assistance – Uniform Guidance requires the schedule to show the total expenditures for each of the federal financial assistance programs as identified in the Catalog of Federal Domestic Assistance (CFDA). The CFDA is a government wide compendium of individual federal programs.

B. Major Programs

The Uniform Guidance established the levels of expenditures to be used in defining major federal financial assistance programs. The dollar threshold to distinguish type A and type B programs was \$750,000.

C. Reporting Entity

The schedule includes all federal financial assistance programs administered by the organization.

D. Basis of Accounting

Federal financial assistance expenditures included in the schedule are reported using the modified accrual basis of accounting.

E. Elections

The District has not elected to use the 10 percent de minimis indirect cost rate.

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*

Governing Board
Mandan Public School District No. 1
Mandan, 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 Mandan Public School District No. 1 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 and have issued our report thereon dated December 29, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Mandan Public School District No. 1'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 Mandan Public School District No. 1's internal control. Accordingly, we do not express an opinion on the effectiveness of Mandan Public School District No. 1's 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.

Our 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 our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2016-001 and 2016-002 that we consider to be significant deficiencies.

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*

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mandan Public School District No. 1'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*.

Mandan Public School District No. 1's Response to Findings

Mandan Public School District No. 1's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Mandan Public School District No. 1's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and 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.



Mahlum Goodhart, PC
Mandan, North Dakota
December 29, 2016

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Governing Board
Mandan Public School District No. 1
Mandan, North Dakota

Report on Compliance for Each Major Federal Program

We have audited Mandan Public School District No. 1, Mandan, North Dakota's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Mandan Public School District No. 1's major federal programs for the year ended June 30, 2016. Mandan Public School District No. 1's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Mandan Public School District No. 1's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Mandan Public School District No. 1's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Mandan Public School District No. 1's compliance.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Opinion on Each Major Federal Program

In our opinion, Mandan Public School District No. 1 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control over Compliance

Management of Mandan Public School District No. 1, Mandan, North Dakota, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Mandan Public School District No. 1's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Mandan Public School District No. 1's internal control over compliance.

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

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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Mahlum Goodhart PC

Mahlum Goodhart, PC
Mandan, North Dakota
December 29, 2016

Mandan Public School District No. 1
 Schedule of Findings and Questioned Costs
 For the Year Ended June 30, 2016

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	
Governmental Activities	Unmodified
Major Governmental Funds	Unmodified
Aggregate Remaining Fund Information	Unmodified

Internal control over financial reporting:

Material weaknesses identified?	No
Significant deficiencies identified?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major federal programs:

Material weaknesses identified?	No
Significant deficiencies identified?	No
Type of auditor's report issued on compliance for major federal programs?	Unmodified
Any audit findings that are required to be reported in accordance with 2 CFR 200.516 (a)?	No

Identification of major programs:

<u>Child Nutrition Cluster</u>	
84.010	Title I

Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
Auditee qualified as a low-risk auditee?	Yes

Mandan Public School District No. 1
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2016

Section II - Financial Statement Findings

2016-001 Segregation of Duties

Condition – There are limited staff members for the accounting functions. Considering the size of the entity, it is not feasible to obtain proper segregation of duties and the degree of internal control is severely limited.

Criteria – A good system of internal control contemplates an adequate segregation of duties so that no individual has access to a transaction from inception to completion or can adjust and reconcile transactions.

Cause – There are a limited number of staff members available for these duties.

Effect – Inadequate segregation of duties could affect the organization's ability to timely detect misstatements in amounts that would be material to the financial statements.

Recommendation – This is not unusual in a District of your size, but the board should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from a control point of view. Under these conditions, the most effective controls lie in the board's knowledge of matters relating to the organization's operations.

Client Response – The District is aware of the limitations and has determined additional staff is not feasible. The District will monitor the condition.

2016-002 Preparation of Financial Statements

Condition – A good system of internal accounting control contemplates an adequate system for the preparation of the financial statements, including the notes to the financial statements.

Criteria – The District does not have an internal control system designed to provide for the preparation of the financial statements being audited, including the notes to the financial statements. As auditors, we were requested to draft the financial statements and the accompanying notes to the financial statements.

Cause – The preparation of financial statements and related notes is very technical and requires a significant amount of time.

Effect – Inadequate controls over financial reporting of the District results in more than a remote likelihood that the District would not be able to draft the financial statements and accompanying notes to the financial statements that are materially correct without the assistance of the auditors.

Recommendation – This is not unusual in a District of your size. It is the responsibility of management and those charged with governance to make the decision as to whether to accept the degree of risk associated with this condition because of cost or other considerations.

Client Response – The District has decided to accept the degree of risk associated with the District not preparing its own financial statements due to the time and expense necessary to have staff prepare the statements prior to the annual audit.

Section III – Federal Award Findings

No matters were reported.

Mandan Public School District No. 1
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2016

Section IV – Prior Audit Findings

2015-001 Segregation of Duties

Condition – There are limited staff members for the accounting functions. Considering the size of the entity, it is not feasible to obtain proper segregation of duties and the degree of internal control is severely limited.

Criteria – A good system of internal control contemplates an adequate segregation of duties so that no individual has access to a transaction from inception to completion or can adjust and reconcile transactions.

Cause – There are a limited number of staff members available for these duties.

Effect – Inadequate segregation of duties could affect the organization's ability to timely detect misstatements in amounts that would be material to the financial statements.

Recommendation – This is not unusual in a District of your size, but the board should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from a control point of view. Under these conditions, the most effective controls lie in the board's knowledge of matters relating to the organization's operations.

Client Response – The District is aware of the limitations and has determined additional staff is not feasible. The District will monitor the condition.

Status of Finding – The finding is repeated in the current year. See 2016-001.

2015-002 Preparation of Financial Statements

Condition – A good system of internal accounting control contemplates an adequate system for the preparation of the financial statements, including the notes to the financial statements.

Criteria – The District does not have an internal control system designed to provide for the preparation of the financial statements being audited, including the notes to the financial statements. As auditors, we were requested to draft the financial statements and the accompanying notes to the financial statements.

Cause – The preparation of financial statements and related notes is very technical and requires a significant amount of time.

Effect – Inadequate controls over financial reporting of the District results in more than a remote likelihood that the District would not be able to draft the financial statements and accompanying notes to the financial statements that are materially correct without the assistance of the auditors.

Recommendation – This is not unusual in a District of your size. It is the responsibility of management and those charged with governance to make the decision as to whether to accept the degree of risk associated with this condition because of cost or other considerations.

Client Response – The District has decided to accept the degree of risk associated with the District not preparing its own financial statements due to the time and expense necessary to have staff prepare the statements prior to the annual audit.

Status of Finding – The finding is repeated in the current year. See 2016-001.