

**MIDWAY PUBLIC SCHOOL DISTRICT NO. 128  
INKSTER, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

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**MIDWAY PUBLIC SCHOOL DISTRICT NO. 128**  
**ROSTER OF SCHOOL OFFICIALS - UNAUDITED**  
**JUNE 30, 2016**

Brian Schanilec	President
Brad Becker	Vice-President
Kelli Snobeck	Board Member
Chad Thorvilson	Board Member
Jared Peterka	Board Member
Roger Abbe	Superintendent
Wanita Cost	Business Manager



CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

## INDEPENDENT AUDITOR'S REPORT

To the Board of Education  
Midway Public School District No. 128  
Inkster, North Dakota

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Midway Public School District No. 128, which comprise the governmental activities, each major fund, and the aggregate remaining fund information as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Midway Public School District No. 128, 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.

## **Other Matters**

### *Required Supplementary Information*

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

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining non-major fund statements, listed in the table of contents as supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining non-major fund statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining non-major fund statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2016 on our consideration of the District'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 the District's internal control over financial reporting and compliance.



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

October 14, 2016

**MIDWAY PUBLIC SCHOOL DISTRICT NO. 128**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED**  
**FOR THE YEAR ENDED JUNE 30, 2016**

The discussion and analysis of Midway Public School District's financial performance provides an overall review of the District's financial activities for the year ended June 30, 2016. The intent of this discussion and analysis is to look at the District's financial performance as a whole. Readers should also review the basic financial statements and related notes to enhance their understanding of the District's financial performance.

### **Financial Highlights**

Key financial highlights for 2016 are as follows:

- Net position of the District decreased \$226,936 as a result of the current year's operations.
- Governmental net position totaled \$(1,000,688).
- Total revenues from all sources were \$3,696,112.
- Total expenses were \$3,923,048.
- The District's general fund had \$3,548,411 in total revenues and other financing sources and \$3,640,115 in expenditures. Overall, the general fund balance decreased by \$91,704 for the year ended June 30, 2016.

### **Using this Annual Report**

This annual report consists of a series of financial statements and related footnotes. These statements are organized so the reader can understand Midway Public School District No. 128 as a financial whole. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The Statement of Net Position and Statement of Activities provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term, as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other non-major funds presented in total in one column.

### **Reporting the School District as a Whole**

#### **Statement of Net Position and the Statement of Activities**

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did the District do financially during the year ended June 30, 2016?" The Statement of Net Position and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

**MIDWAY PUBLIC SCHOOL DISTRICT NO. 128**  
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED - CONTINUED  
FOR THE YEAR ENDED JUNE 30, 2016

These two statements report the District's net position and changes in that position. This change in net position is important because it tells the reader that, for the District as a whole, the financial position of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, and some not. Non-financial factors include the District's property tax base, current property tax laws in North Dakota, facility condition, required educational programs and other factors.

In the Statement of Net Position and the Statement of Activities, the District reports governmental activities. Governmental activities are the activities where most of the District's programs and services are reported including, but not limited to, instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.

### **Reporting the School District's Most Significant Funds**

#### **Fund Financial Statements**

Fund financial statements provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the General Fund and Building Fund.

#### **Governmental Funds**

The School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in the future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

#### **Financial Analysis of the District as a Whole**

Recall that the Statement of Net Position provides the perspective of the District as a whole.

Table 1 provides a summary of the District's net position as of June 30, 2016.

The District's net position of \$1,000,688 is segregated into three separate categories. Net Investment in Capital Assets represents -56% of the District's entire net position. It should be noted that these assets are not available for future spending. The restricted net position represents -10% of total net position. The remaining unrestricted net position represents 166% of the District's net position. The unrestricted net position is available to meet the District's ongoing obligations.



**MIDWAY PUBLIC SCHOOL DISTRICT NO. 128**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED - CONTINUED**  
**FOR THE YEAR ENDED JUNE 30, 2016**

Table 1  
Statement of Net Position

	2016	2015
Assets		
Current Assets	\$ 1,468,072	\$ 1,620,815
Capital Assets (Net of Accumulated Depreciation)	560,514	634,576
Total Assets	2,028,586	2,255,391
Deferred Outflows of Resources		
Cost Sharing Defined Benefit Plans	584,731	245,997
Liabilities		
Current Liabilities	145,717	65,405
Long-Term Liabilities	3,273,248	2,863,744
Total Liabilities	3,418,965	2,929,149
Deferred Inflows of Resources		
Cost Sharing Defined Benefit Plan	195,040	345,990
Net Position		
Net Investment in Capital Assets	560,514	634,576
Restricted	97,908	195,181
Unrestricted	(1,659,110)	(1,603,509)
Total Net Position	\$(1,000,688)	\$ (773,752)

**MIDWAY PUBLIC SCHOOL DISTRICT NO. 128**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED - CONTINUED**  
**FOR THE YEAR ENDED JUNE 30, 2016**

Table 2 shows the changes in net position for fiscal year ended June 30, 2016.

	<u>2016</u>	<u>2015</u>
Revenues		
Program Revenues:		
Charges for Services	\$ 242,024	\$ 242,584
Operating Grants and Contributions	483,787	471,716
General Revenues		
Property Taxes	856,832	759,592
State Aid	2,015,905	2,050,414
Unrestricted Investment Earnings	24,232	(1,862)
Other General Revenues	<u>73,332</u>	<u>-</u>
Total Revenues	<u>3,696,112</u>	<u>3,522,444</u>
 Expenses		
Business Support Services	96,149	100,719
Instructional Support Services	178,294	176,500
Administration	280,639	301,921
Operations and Maintenance	496,387	398,591
Transportation	317,375	310,842
Regular Instruction	1,933,850	1,798,027
Special Education	309,424	307,756
Vocational Education	67,090	71,285
Extra-Curricular Activities	81,081	85,300
Food Services	<u>162,759</u>	<u>168,337</u>
Total Expenses	<u>3,923,048</u>	<u>3,719,278</u>
 Increase (Decrease) in Net Position	 <u>\$ (226,936)</u>	 <u>\$ (196,834)</u>

Property taxes constituted 23% and 21%, state aid 55% and 55%, operating grants and contributions 13% and 13%, and charges for services made up 7% and 7% of the total revenues of governmental activities of the District for fiscal years 2016 and 2015, respectively.

Regular instruction comprised 49% and 48% of District expenses for 2016 and 2015, respectively.

**MIDWAY PUBLIC SCHOOL DISTRICT NO. 128**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED - CONTINUED**  
**FOR THE YEAR ENDED JUNE 30, 2016**

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 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.

Table 3

	Total Cost for Year Ended 6/30/2016	Net Cost for Year Ended 6/30/2016	Total Cost for Year Ended 6/30/2015	Net Cost for Year Ended 6/30/2015
Business Support Services	\$ 96,149	\$ (96,149)	\$ 100,719	\$ (100,719)
Instructional Support Services	178,294	(178,294)	176,500	(176,500)
Administration	280,639	(280,639)	301,921	(301,921)
Operations and Maintenance	496,387	(496,387)	398,591	(398,591)
Transportation	317,375	(173,818)	310,842	(165,510)
Regular Instruction	1,933,850	(1,533,739)	1,798,027	(1,399,724)
Special Education	309,424	(293,351)	307,756	(290,124)
Vocational Education	67,090	(28,163)	71,285	(38,024)
Extra-Curricular Activities	81,081	(81,081)	85,300	(85,300)
Food Services	162,759	(35,616)	168,337	(48,565)
	<u>\$ 3,923,048</u>	<u>\$ (3,197,237)</u>	<u>\$ 3,719,278</u>	<u>\$ (3,004,978)</u>

Business support services and administration include expenses associated with administrative and financial supervision of the District.

Instructional support services include activities involved with assisting staff with the content and process of teaching to pupils.

Operation and maintenance of plant activities involve maintaining the school grounds, buildings and equipment in an effective working condition.

Pupil transportation includes activities involved with the conveyance of students to and from school, as well as to and from school activities, as provided by state law.

Instruction expenses include activities directly dealing with the teaching of pupils and the interaction between teacher and pupil.

Special education includes costs that support the education of students with other needs.

Vocational education includes expenditures that support the teaching of vocational type instruction.

**MIDWAY PUBLIC SCHOOL DISTRICT NO. 128**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED - CONTINUED**  
**FOR THE YEAR ENDED JUNE 30, 2016**

Extra-curricular activities include expenses related to student activities provided by the District, which are designed to provide opportunities for pupils to participate in school events, public events, or a combination of these for the purposes of motivation, enjoyment and skill improvement.

Food services include expenses directly dealing with providing breakfast and lunch service to students and staff of the District.

Interest on long-term debt involves the transactions associated with the payment of interest and other related charges to debt of the District.

**Financial Analysis of the District's Governmental Funds**

The focus 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 may be used as a measure of the District's net resources available for spending at the end of the fiscal year. These funds are accounted for by using the modified accrual basis of accounting. The District's governmental funds had total revenues and other financing sources of \$3,685,522 and \$3,528,693 and expenditures of \$3,875,173 and \$3,700,408 for the years ended June 30, 2016 and 2015, respectively. As of June 30, 2016 and 2015, the unassigned fund balance of the District's general fund was \$1,254,536 and \$1,346,240, respectively.

**General Fund Budgeting Highlights**

During the course of the 2016 fiscal year, the District received \$17,120 less revenues and incurred \$2,511 less expenditures than budgeted. These shortfalls are primarily the result of less tax revenue received than anticipated.

**Capital Assets**

As of June 30, 2016 and 2015, the District had \$634,576 and \$560,514, respectively, invested in net capital assets. Table 4 shows total capital asset balances, net of accumulated depreciation, as of June 30, 2016 and 2015. See Note 5 for details.

Table 4

	<u>2016</u>	<u>2015</u>
Land	\$ 25,000	\$ 25,000
Buildings and Improvements	292,096	339,210
Vehicles	194,350	195,691
Equipment	<u>49,068</u>	<u>74,675</u>
Total	<u>\$ 560,514</u>	<u>\$ 634,576</u>

**MIDWAY PUBLIC SCHOOL DISTRICT NO. 128**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED - CONTINUED**  
**FOR THE YEAR ENDED JUNE 30, 2016**

**Debt Administration**

As of June 30, 2016, the District has \$3,351,591 in outstanding debt. The District increased its debt by \$463,497 from June 30, 2015. See Note 6 for details. See below for a description of the District's debt:

	<u>Balance</u> <u>6/30/2015</u>	<u>Additions</u>	<u>Retirement</u>	<u>Balance</u> <u>6/30/2016</u>
Compensated Absences	\$ 71,353	\$ 15,275	\$ 14,755	\$ 71,873
Early Retirement	37,402	-	11,523	25,879
Net Pension Liability	<u>2,779,339</u>	<u>1,261,759</u>	<u>787,259</u>	<u>3,253,839</u>
	<u>\$ 2,888,094</u>	<u>\$ 1,277,034</u>	<u>\$ 813,537</u>	<u>\$ 3,351,591</u>

**For the Future**

Midway Public School will continue to dedicate funding to support a comprehensive range of educational programs, co-curricular programs, and support programs (e.g.- transportation, food service, etc.) while maintaining a healthy interim fund for the future. Competitive salaries and ongoing professional development will also be high priorities for funding. Grants will continue to be pursued to support local, state, and federal funding.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. You may request a copy of this report by contacting Wanita Cost, Business Manager, Midway Public School District, 3202 33<sup>rd</sup> Avenue NE, Inkster, ND 58244.

**MIDWAY PUBLIC SCHOOL DISTRICT NO. 128**  
**STATEMENT OF NET POSITON**  
**AS OF JUNE 30, 2016**

Assets:	
Current Assets:	
Cash	\$ 719,154
Investments	529,783
Due from Other Governments	166,334
Property Taxes Receivable	<u>52,801</u>
Total Current Assets	<u>1,468,072</u>
Non-Current Assets:	
Capital Assets	2,673,175
Less Accumulated Depreciation	<u>(2,112,661)</u>
Total Non-Current Assets	<u>560,514</u>
 Total Assets	 <u>2,028,586</u>
Deferred Outflows of Resources	
Cost Sharing Defined Benefit Pension Plan - TFFR	525,717
Cost Sharing Defined Benefit Pension Plan - NDPERS	<u>59,014</u>
Total Deferred Outflows of Resources	<u>584,731</u>
Liabilities:	
Current Liabilities:	
Accounts Payable	35,928
Accrued Liabilities	31,446
Compensated Absences	71,873
Early Retirement Payable	<u>6,470</u>
Total Current Liabilities	<u>145,717</u>
Non-Current Liabilities:	
Early Retirement	19,409
Net Pension Liability	<u>3,253,839</u>
Total Non-Current Liabilities	<u>3,273,248</u>
 Total Liabilities	 <u>3,418,965</u>
Deferred Inflows of Resources:	
Cost Sharing Defined Benefit Pension Plan - TFFR	148,430
Cost Sharing Defined Benefit Pension Plan - NDPERS	<u>46,610</u>
Total Deferred Inflows of Resources	<u>195,040</u>
Net Position:	
Net Investment in Capital Assets	560,514
Restricted for Capital Projects	78,828
Restricted for Scholarships	19,080
Unrestricted	<u>(1,659,110)</u>
 Total Net Position	 <u>\$ (1,000,688)</u>

See Notes to the Basic Financial Statements

**MIDWAY PUBLIC SCHOOL DISTRICT NO. 128**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2016**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenues and Changes in Net Position Governmental Activities
		Charges for Services	Operating Grants /Contributions	
<b>Governmental Activities:</b>				
Business Support Services	\$ 96,149	\$ -	\$ -	\$ (96,149)
Instructional Support Services	178,294	-	-	(178,294)
Administration	280,639	-	-	(280,639)
Operations and Maintenance	496,387	-	-	(496,387)
Transportation	317,375	-	143,557	(173,818)
Regular Instruction	1,933,850	190,921	209,190	(1,533,739)
Special Education	309,424	-	16,073	(293,351)
Vocational Education	67,090	-	38,927	(28,163)
Extra-Curricular Activities	81,081	-	-	(81,081)
Food Services	162,759	51,103	76,040	(35,616)
<b>Total Governmental Activities</b>	<b>\$ 3,923,048</b>	<b>\$ 242,024</b>	<b>\$ 483,787</b>	<b>(3,197,237)</b>
<b>General Revenues:</b>				
Property Taxes, Levied for General Purpose				792,410
Property Taxes, Levied for Capital Projects				64,422
Aids and Payments from the State				2,015,905
Unrestricted Investment Earnings (Loss)				24,232
Other General Revenues				73,332
<b>Total General Revenues</b>				<b>2,970,301</b>
Change in Net Position				(226,936)
Net Position Beginning of Year				(773,752)
Net Position End of Year				<b>\$ (1,000,688)</b>

See Notes to the Basic Financial Statements

**MIDWAY PUBLIC SCHOOL DISTRICT NO. 128**  
**BALANCE SHEET – GOVERNMENTAL FUNDS**  
**AS OF JUNE 30, 2016**

	General Fund	Capital Projects Building Fund	Other Non-Major Governmental Funds	Total Governmental Funds
<b>Assets:</b>				
Cash	\$ 592,383	\$ 107,691	\$ 19,080	\$ 719,154
Investments	529,783	-	-	529,783
Due from Other Governments	163,816	2,518	-	166,334
Property Taxes Receivable	48,254	4,547	-	52,801
Total Assets	\$ 1,334,236	\$ 114,756	\$ 19,080	\$ 1,468,072
 <b>Liabilities, Deferred Inflows of Resources and Fund Balances:</b>				
<b>Liabilities:</b>				
Accounts Payable	\$ -	\$ 35,928	\$ -	\$ 35,928
Accrued Liabilities	31,446	-	-	31,446
Total Liabilities	31,446	35,928	-	67,374
 <b>Deferred Inflows of Resources</b>				
Unavailable Revenue - Delinquent Taxes	48,254	4,547	-	52,801
Total Deferred Inflows of Resources	48,254	4,547	-	52,801
 <b>Fund Balances:</b>				
Restricted	-	74,281	19,080	93,361
Unassigned	1,254,536	-	-	1,254,536
Total Fund Balances	1,254,536	74,281	19,080	1,347,897
 Total Liabilities, Deferred Inflows of Resources, and Fund Balances	 \$ 1,334,236	 \$ 114,756	 \$ 19,080	 \$ 1,468,072

See Notes to the Basic Financial Statements



**MIDWAY PUBLIC SCHOOL DISTRICT NO. 128**  
**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE**  
**DISTRICT-WIDE STATEMENT OF NET POSITION**  
**AS OF JUNE 30, 2016**

Total fund balance-governmental funds \$ 1,347,897

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

Capital assets used in governmental activities are not financial resources and therefore, are not reported as assets in governmental funds.

Cost	\$ 2,673,175	
Accumulated Depreciation	<u>(2,112,661)</u>	
Net		560,514

Net deferred outflows/(inflows) of resources relating to the cost sharing of defined benefit plans in the governmental activities are not financial resources and, therefore, are not reported as deferred outflows/(inflows) of resources in the governmental funds. 389,691

Property taxes receivable will be collected during the year, but are not available soon enough to pay for the current period's expenditures, and therefore, are deferred in the funds. 52,801

Long-term liabilities are not due and payable in the current period and therefore, are not reported as liabilities in the funds. These long-term liabilities consisted of the following:

Early Retirement Payable	(25,879)	
Compensated Absences	(71,873)	
Net Pension Liability	<u>(3,253,839)</u>	<u>(3,351,591)</u>

Total net position-governmental activities \$ (1,000,688)

See Notes to the Basic Financial Statements

**MIDWAY PUBLIC SCHOOL DISTRICT NO. 128**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	General Fund	Capital Projects Building Fund	Other Non-Major Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Local Property Tax Levies	\$ 782,495	\$ 63,748	\$ -	\$ 846,243
Other Local and County Revenues	242,024	-	-	242,024
Revenue From State Sources	2,184,067	-	-	2,184,067
Revenue From Federal Sources	315,624	-	-	315,624
Interest	8,953	10	21	8,984
Gain/(Loss) on Fair Value Investments	15,248	-	-	15,248
<b>TOTAL REVENUES</b>	<b>3,548,411</b>	<b>63,758</b>	<b>21</b>	<b>3,612,190</b>
<b>EXPENDITURES</b>				
Current:				
Business Support Services	96,149	-	-	96,149
Instructional Support Services	178,294	-	-	178,294
Administration	280,639	-	-	280,639
Operations and Maintenance	269,955	226,432	-	496,387
Transportation	269,789	-	-	269,789
Regular Instruction	1,878,690	-	1,000	1,879,690
Special Education	309,424	-	-	309,424
Vocational Education	67,090	-	-	67,090
Extra - Curricular Activities	81,081	-	-	81,081
Food Services	162,759	-	-	162,759
Capital Outlay	46,245	7,626	-	53,871
<b>TOTAL EXPENDITURES</b>	<b>3,640,115</b>	<b>234,058</b>	<b>1,000</b>	<b>3,875,173</b>
Excess (Deficiency) of Revenues Over Expenditures	(91,704)	(170,300)	(979)	(262,983)
<b>OTHER FINANCING SOURCES</b>				
Insurance Recovery	-	73,332	-	73,332
<b>TOTAL OTHER FINANCING SOURCES</b>	<b>-</b>	<b>73,332</b>	<b>-</b>	<b>73,332</b>
Net Change in Fund Balance	(91,704)	(96,968)	(979)	(189,651)
Fund Balance - Beginning of Year	1,346,240	171,249	20,059	1,537,548
Fund Balance - End of Year	<b>\$ 1,254,536</b>	<b>\$ 74,281</b>	<b>\$ 19,080</b>	<b>\$ 1,347,897</b>

See Notes to the Basic Financial Statements

**MIDWAY PUBLIC SCHOOL DISTRICT NO. 128**  
**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 balance- total governmental funds \$ (189,651)

Amounts reported for governmental activities in the statement of activities are 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 as depreciation expense. In the current period, these amounts are:

Capital Outlay	\$ 53,871	
Depreciation Expense	<u>(127,933)</u>	
Excess of depreciation expense over capital outlay		(74,062)

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

These revenues consist of:

Net change in unavailable property taxes	10,590
--	--------

Change in net pension liability	(474,500)
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Some items reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. These items consisted of the (increase)/decrease in:

Early Retirement	\$ 11,523	
Compensated Absences	<u>(520)</u>	11,003

Changes in deferred outflows and inflows of resources related to net pension liability	<u>489,684</u>
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Net change in net position of governmental activities	<u><u>\$ (226,936)</u></u>
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See Notes to the Basic Financial Statements

**MIDWAY PUBLIC SCHOOL DISTRICT NO. 128**  
**STATEMENT OF NET POSITION – FIDUCIARY FUND**  
**AS OF JUNE 30, 2016**

Assets:	
Cash	<u>\$ 70,919</u>
Total Assets	<u>70,919</u>
Liabilities:	
Due to Student Groups	<u>70,919</u>
Total Liabilities	<u>70,919</u>
Net Position	<u>\$ -</u>

See Notes to the Basic Financial Statements

**MIDWAY PUBLIC SCHOOL DISTRICT NO. 128**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**AS OF JUNE 30, 2016**

**NOTE 1 DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY**

The Midway Public School District operates the public school located near the City of Inkster, North Dakota. There is a combined elementary school and junior/senior high school.

Reporting Entity - Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of an organization's governing body and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources. Component units may also include organizations that are fiscally dependent on the District. Fiscal dependence can include the District's approval of the budget, issuance of debt, and/or levying of taxes for the organization.

Based on these criteria, there are no component units to be included within the District's reporting entity.

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The District's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles. The District's significant accounting policies are described below.

***Basis of Presentation***

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

**Government-wide Financial Statements:**

The government-wide financial statements consist of a statement of net position and a statement of activities. These statements display information about the District as a whole.

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

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

The Government-wide financial statements do not include fiduciary funds of component units that are fiduciary in nature.

**MIDWAY PUBLIC SCHOOL DISTRICT NO. 128**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED**  
**AS OF JUNE 30, 2016**

**Fund Financial Statements:**

In order to aid financial management and to demonstrate legal compliance, the District segregates transactions related to certain functions or activities in separate funds. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The focus of the governmental fund financial statements is on major funds. Each major fund is presented as a separate column in the fund financial statements. Non-major funds are aggregated and presented in a single column. The fiduciary fund is reported by type.

***Fund Accounting***

The District's funds consist of the following:

**Governmental Funds:**

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

**General Fund:**

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

**Capital Projects:**

The Capital Projects fund is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for acquiring school sites, constructing and equipping new school facilities and renovating existing facilities. The building fund is included in this category.

The District's non-major funds are as follows:

**Special Revenue:**

Special Revenue funds are used to account for the proceeds of certain specific revenue sources that are legally restricted to expenditures for specified purposes. Included in this category are the transactions for the scholarship fund.

**Fiduciary Funds:**

The District's only fiduciary fund is an agency fund. The agency fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations. The District's agency fund consists of the following:

**Student Activity Fund:**

The fund accounts for the financial transactions related to the District's student activity programs.

**MIDWAY PUBLIC SCHOOL DISTRICT NO. 128**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED**  
**AS OF JUNE 30, 2016**

***Measurement Focus and Basis of Accounting***

**Measurement Focus:**

*Government-wide Financial Statements:*

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

*Fund Financial Statements:*

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

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

Fiduciary funds also use the economic resources measurement focus.

**Basis of Accounting:**

The basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements.

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

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

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

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

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

**MIDWAY PUBLIC SCHOOL DISTRICT NO. 128**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED**  
**AS OF JUNE 30, 2016**

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

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

Major revenue sources susceptible to accrual include: property taxes and intergovernmental revenues.

**Unearned Revenues:**

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

On the governmental fund financial statements, receivables that will not be collected during the availability period have been reported as unearned revenue.

**Expenses and Expenditures:**

Governmental funds accounting measurement focus is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recorded in the fiscal year in which the related fund liability is incurred. Under the accrual basis of accounting, expenses are recorded when incurred.

**Budgets and Budgetary Accounting:**

The District's Board follows the procedures established by North Dakota law for the budgetary process. The governing body of each School District, annually on or before the last day of July must levy taxes. The governing body of the School District may amend its tax levy and budget for the current fiscal year on or before the tenth day of October of each year. Taxes for School District purposes must be based upon an itemized budget statement which must show the complete expenditure by program of the District for the current fiscal year and the sources of the revenue from which it is to be financed. The School Board, in levying taxes, is limited by the amount necessary to be raised for the purpose of meeting the appropriations included in the school budget of the current fiscal year, and the sum necessary to be provided as an interim fund, together with a tax sufficient in amount to pay the interest on the bonded debt of the District and to provide a sinking fund to pay and discharge the principal thereon at maturity.

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

1. The administration prepares the District's budget. The budget includes proposed expenditures and the means of financing them. The budget is prepared on the modified accrual basis of accounting.



**MIDWAY PUBLIC SCHOOL DISTRICT NO. 128**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED**  
**AS OF JUNE 30, 2016**

2. The Board reviews the budget, may make revisions, and adopts the final budget on or before August 15 of each year. The budget is then filed with the county auditor by August 25 of each year.
3. The budget may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared, except no amendment changing the taxes levied can be made after October 10 of each year. The budget amounts shown in the financial statements are the final authorized amounts.
4. All appropriations lapse at the close of the Districts' fiscal year. The balance of the appropriation reverts back to each respective fund and is available for future appropriation.

**Cash and Cash Equivalents:**

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

**Investments:**

Investments are recorded at market value. North Dakota State authorizes school districts to invest their surplus funds in: a) Bonds, treasury bills and notes, or other securities that are a direct obligation of, or an obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentality's, or organizations created by an act of Congress, b) Securities sold under agreements to repurchase, written by a financial institution in which the underlying securities for the agreement to repurchase are of the type listed above, c) Certificates of Deposit fully insured by the Federal Deposit Insurance Corporation of the state, d) Obligations of the state.

**Fair Value Measurements:**

The Organization accounts for all assets and liabilities that are being measured and reported on a fair value basis in accordance with GAAP. GAAP defines fair value, establishes a framework for measuring fair value and expands disclosure about fair value measurements.

When fair value measurements are required, various data is used in determining those values. This statement requires that assets and liabilities that are carried at fair value must be classified and disclosed in the following levels based on the nature of the data used.

- Level 1: Quoted market prices in active markets for identical assets or liabilities.
- Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.
- Level 3: Unobservable inputs that are not corroborated by market data.

**MIDWAY PUBLIC SCHOOL DISTRICT NO. 128**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED**  
**AS OF JUNE 30, 2016**

**Capital Assets:**

General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported as assets in the fund financial statements. All capital assets are recorded at cost (or estimated historical cost). The assets are updated for additions and retirements during the District's fiscal year. The District has established a capitalization threshold of \$2,500. Donated fixed assets are recorded at their fair market values at the date received. The District does not have any infrastructure assets. Improvements that significantly extend the useful life of the asset are also capitalized.

The District's land and construction in progress costs are capitalized but are not depreciated. All the remaining capital assets are depreciated over their estimated useful lives on a straight-line basis. The District has established the following useful lives:

Buildings and Improvements	25 to 50 years
Equipment and Fixtures	3 to 10 years
Vehicles	8 years

**Compensated Absences:**

Vacation pay applies to full-time non-certified staff and is recorded as an expenditure when paid. Certified staff shall receive 10 days of sick leave per year and this may accumulate up to a maximum of 100 days per teacher. Upon termination from the District, the teachers shall receive half the current substitute daily pay rate for unused sick leave up to 100 days. Non-certified employees on nine-month contracts can accumulate up to a maximum of 30 days of sick pay and are paid \$25 per day of unused sick days upon termination. Non-certified employees on a twelve-month contract may accumulate 60 days of sick pay and are paid \$25 per day of unused sick time upon termination.

**Accrued Liabilities and Long-term Obligations:**

All payables, accrued liabilities and long-term obligations are reported in the District's government wide financial statements. The District's governmental fund financials report only those obligations that will be paid from current financial resources.

**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 North Dakota Public Employee Retirement System (NDPERS) and Teachers' Fund for Retirement (TFFR) and additions to/deductions from NDPERS and TFFR's fiduciary net position have been determined on the same basis as they are reported by NDPERS and TFFR. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**MIDWAY PUBLIC SCHOOL DISTRICT NO. 128**  
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED  
AS OF JUNE 30, 2016

**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) non-spendable form – pre-paid items or 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 removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

*Assigned* – This classification reflects the amounts constrained by the District’s “intent” to be used for specific purposes, but are neither restricted nor committed. The school board or 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 externally restricted resources first, then unrestricted resources—committed, assigned, and unassigned—in order as needed.

**Net Position**

Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources in the District’s financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any long-term debt attributable to the acquisition, construction, or improvement of those assets. Restricted Net Position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.

Unrestricted Net Position is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

**MIDWAY PUBLIC SCHOOL DISTRICT NO. 128**  
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED  
AS OF JUNE 30, 2016

**Deferred Outflows/Inflows of Resources**

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

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

**Inter-fund Activity:**

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

**Estimates:**

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

**Revenue Recognition - Property Taxes:**

Taxes receivable consist of current and delinquent uncollected taxes at June 30, 2016.

Property taxes attach as an enforceable lien on property January 1. A five percent reduction is allowed if paid by February 15. Penalty and interest are added March 1 if the first half-of-the taxes have not been paid. Additional penalties are added October 15, if not paid. Taxes are collected by the county and usually remitted monthly to the School District.

**MIDWAY PUBLIC SCHOOL DISTRICT NO. 128**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED**  
**AS OF JUNE 30, 2016**

Property tax revenue in the governmental funds is recognized in compliance with National Council of Government Accounting (NCGA) Interpretation 3, "Revenue Recognition - Property Taxes". This interpretation states that property tax revenue is recorded when it becomes available. Available means when due, or past due and receivable within the current period and collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Such time thereafter shall not exceed 60 days. Property tax revenue is recorded as revenue in the year the tax is levied in the government - wide financial statements. Property taxes are limited by state laws. All School District tax levies are in compliance with state laws.

**Significant Group Concentrations of Credit Risk**

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

**NOTE 3 CASH AND INVESTMENTS**

**A. Deposits**

In accordance with North Dakota laws, the District maintains deposits at a depository authorized by the School Board. The depository is a member of the Federal Reserve System.

North Dakota laws require that all public deposits be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal at least 110 percent of the deposits not covered by insurance or bonds.

Authorized collateral includes the legal investments described below, as well as certain first mortgage notes, and certain other state or local government obligations. North Dakota laws require that securities pledged as collateral be held in safekeeping by the District treasurer or in a financial institution other than that furnishing the collateral.

At June 30, 2016, the carrying amount of the District's deposits was \$790,073 and the bank balance was \$890,943. The entire bank balance was covered by Federal Depository Insurance or by collateral held by the District's Agent in the District's name in amounts sufficient to meet North Dakota legal requirements.

**B. Investments**

The District may also invest idle funds as authorized by North Dakota laws, as follows:

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

**MIDWAY PUBLIC SCHOOL DISTRICT NO. 128**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED**  
**AS OF JUNE 30, 2016**

As of June 30, 2016, the District had the following investments and maturities:

	6/30/2016				Fair Value Measurements Using			Rating	Agency
		Less than One Year	1-5 Years	6-10 Years	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
<b>Investments by Fair Value Level</b>									
Cash & Cash Alternatives									
Client Interest									
Program	\$ 745	\$ 745	\$ -	\$ -	\$ 745	\$ -	\$ -		
Certificates of Deposit (various banks)	295,068	110,094	136,133	48,841	295,068	-	-	n/a	n/a
Debt Securities									
Federal Farm Credit									
Banks Debenture	46,965	-	-	46,965	-	46,965	-	Aaa	Moody's
Federal Farm Credit									
Banks Debenture	45,914	-	45,914	-	-	45,914	-	Aaa	Moody's
Federal Farm Credit									
Banks Debenture	48,175	-	-	48,175	-	48,175	-	Aaa	Moody's
Federal Home Loan									
Mortgage	46,285	46,285	-	-	-	46,285	-	Aaa	Moody's
Federal National									
Mortgage	46,631	-	-	46,631	-	46,631	-	AA+	S&P
<b>Total Investments by Fair Value Level</b>	<b>\$ 529,783</b>	<b>\$ 157,124</b>	<b>\$ 182,047</b>	<b>\$ 190,612</b>	<b>\$ 295,813</b>	<b>\$ 233,970</b>	<b>\$ -</b>		

**MIDWAY PUBLIC SCHOOL DISTRICT NO. 128**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED**  
**AS OF JUNE 30, 2016**

**NOTE 4 DUE FROM OTHER GOVERNMENTAL UNITS**

Midway School District's accounts receivable at June 30, 2016 consisted of \$166,334 due from various sources as listed below:

Career and Tech Education	\$ 18,072
Title I	82,000
ESP	10,465
Grand Forks and Walsh County	32,486
Various	23,311
	<u>\$ 166,334</u>

**NOTE 5 CAPITAL ASSETS**

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

	Balance 7/1/2015	Additions	Disposals	Balance 6/30/2016
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 25,000	\$ -	\$ -	\$ 25,000
Capital Assets Being Depreciated:				
Buildings and Improvements	1,641,204	-	-	1,641,204
Vehicles	611,518	46,245	-	657,763
Equipment	341,582	7,626	-	349,208
Total	<u>2,594,304</u>	<u>53,871</u>	<u>-</u>	<u>2,648,175</u>
Less Accumulated Depreciation				
Land				
Buildings and Improvements	1,301,994	47,114	-	1,349,108
Vehicles	415,827	47,586	-	463,413
Equipment	266,907	33,233	-	300,140
Total	<u>1,984,728</u>	<u>127,933</u>	<u>-</u>	<u>2,112,661</u>
Net Capital Assets Being Depreciated	<u>609,576</u>	<u>(74,062)</u>	<u>-</u>	<u>535,514</u>
Net Capital Assets for Governmental Activities	<u>\$ 634,576</u>	<u>\$ (74,062)</u>	<u>\$ -</u>	<u>\$ 560,514</u>

In the governmental activities section of the statement of activities, depreciation expense was charged to the following governmental functions:

Elementary and Secondary Regular Instruction	\$ 80,347
Transportation	47,586
Total	<u>\$ 127,933</u>

**MIDWAY PUBLIC SCHOOL DISTRICT NO. 128**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED**  
**AS OF JUNE 30, 2016**

**NOTE 6 LONG-TERM DEBT**

A summary of the long-term debt is as follows:

	<u>Balance 6/30/2015</u>	<u>Additions</u>	<u>Retirement</u>	<u>Balance 6/30/2016</u>	<u>Amount Due in One Year</u>
Compensated Absences	\$ 71,353	\$ 15,275	\$ 14,755	\$ 71,873	\$ 71,873
Early Retirement	37,402	-	11,523	25,879	6,470
Net Pension Liability	<u>2,779,339</u>	<u>1,261,759</u>	<u>787,259</u>	<u>3,253,839</u>	<u>-</u>
	<u>\$ 2,888,094</u>	<u>\$ 1,277,034</u>	<u>\$ 813,537</u>	<u>\$ 3,351,591</u>	<u>\$ 78,343</u>

Compensated absences, early retirement, and net pension liability are generally liquidated by the general fund.

**NOTE 7 FUND BALANCES**

**A. Classifications**

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

	<u>General Fund</u>	<u>Scholarships</u>	<u>Capital Projects</u>	<u>Total</u>
Restricted:				
Scholarships	\$ -	\$ 19,080	\$ -	\$ 19,080
Capital Projects	-	-	74,281	74,281
Unassigned	<u>1,254,536</u>	<u>-</u>	<u>-</u>	<u>1,254,536</u>
Total Fund Balances	<u>\$ 1,254,536</u>	<u>\$ 19,080</u>	<u>\$ 74,281</u>	<u>\$ 1,347,897</u>

**B. Minimum Fund Balance Policy**

The Board of Education has formally adopted a fund balance policy for the General Fund, and tries to maintain a year-end target fund balance of 25% of the General Fund's current annual operating expenditure budget for cash flow timing needs (working capital) and contingencies.

**NOTE 8 DEFINED BENEFIT PENSION PLANS – STATEWIDE**

Substantially, all employees of the District are required by state law to belong to pension plans administered by the Teacher's Fund for Retirement (TFFR) or the North Dakota Public Employee Retirement System (NDPERS), both of which are administered on a statewide basis.

Disclosures relating to these plans follow:

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

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



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

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

***Pension Benefits***

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

*Tier 1 Grandfathered*

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

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

*Tier 1 Non-grandfathered*

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

**MIDWAY PUBLIC SCHOOL DISTRICT NO. 128**  
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Pension benefits paid by TFFR are determined by NDCC Section 15-39.1-10. Monthly benefits under TFFR are equal to the three highest annual salaries earned divided by 36 months and multiplied by 2.00% times the number of service credits earned. Retirees may elect payment of benefits in the form of a single life annuity, 100% or 50% joint and survivor annuity, ten or twenty-year term certain annuity, partial lump-sum option or level income with Social Security benefits. Members may also qualify for benefits calculated under other formulas.

*Tier 2*

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

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

**Death and Disability Benefits**

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

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

**Contributions**

Member and employer contributions paid to TFFR are set by NDCC Section 15-39.1-09. Every eligible teacher in the State of North Dakota is required to be a member of TFFR and is assessed at a rate of 11.75% of salary as defined by NDCC Section 15-39.1-04. Every governmental body employing a teacher must also pay into TFFR a sum equal to 12.75% of the teacher's salary. Member and employer contributions will be reduced to 7.75% each when the fund reaches 100% funded ratio on an actuarial basis.

A vested member who terminates covered employment may elect a refund of contributions paid plus 6% interest or defer payment until eligible for pension benefits. A non-vested member who terminates covered employment must claim a refund of contributions paid before age 70½.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED**  
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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 Costs**

At June 30, 2016, the District reported a liability of \$2,853,295 for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The Employer's proportion of the net pension liability was based on the Employer's share of covered payroll in the pension plan relative to the covered payroll of all participating TFFR employers. At July 1, 2015, the Employer's proportion was 0.218166 percent which was a decrease of 0.011704 percent from its proportion measured at July 1, 2014.

For the year ended June 30, 2016, the Employer recognized pension expense of \$169,904. At June 30, 2016, the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 18,698	\$ -
Changes in actuarial assumptions	320,376	-
Difference between projected and actual investment earnings	-	32,175
Changes in proportion	-	116,255
Contributions paid to TFFR subsequent to the measurement date	186,643	-
Total	\$ 525,717	\$ 148,430

\$186,643 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30:	Pension Expense Amount
2017	\$ 13,347
2018	13,347
2019	13,347
2020	78,271
2021	37,622
Thereafter	34,710

**MIDWAY PUBLIC SCHOOL DISTRICT NO. 128**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED**  
**AS OF JUNE 30, 2016**

**Actuarial Assumptions**

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

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

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

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

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

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

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

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Global Equities	57.00%	7.53%
Global Fixed Income	22.00%	1.28%
Global Real Assets	20.00%	5.38%
Cash Equivalents	1.00%	0.00%

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**Discount Rate**

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

**Pension Liability Sensitivity**

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

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
	6.75%	7.75%	8.75%
School's proportionate share of the TFFR net pension liability:	\$ 3,770,765	\$ 2,853,295	\$ 2,088,145

**Pension Plan Fiduciary Net Position** - Detailed information about the pension plan's fiduciary net position is available in the separately issued TFFR financial report.

**North Dakota Public Employees' Retirement 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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED**  
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**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). The annual pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. The plan permits early retirement at ages 55-64 with three or more years of service.

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

**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.

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:

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

**Member and Employer Contributions**

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

**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 \$400,544 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 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 June 30, 2015, the District's proportion was 0.058905 percent which was an increase of 0.0005 percent from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the District recognized pension expense of \$38,304. 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 economic experience	\$ 11,620	\$ -
Changes in actuarial assumptions	-	35,687
Difference between projected and actual investment earnings	-	8,456
Changes in proportion	3,073	2,467
Contributions paid to NDPERS subsequent to the measurement date	44,321	-
<b>Total</b>	<b>\$ 59,014</b>	<b>\$ 46,610</b>

\$44,321 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 ending June 30, 2017.

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

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Year ending June 30:	Pension Expense Amount
2017	\$ (10,723)
2018	(10,723)
2019	(10,723)
2020	6,749
2021	(6,504)
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%.

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	31.00%	6.90%
International Equity	21.00%	7.55%
Private Equity	5.00%	11.30%
Domestic Fixed Income	17.00%	1.52%
International Fixed Inc.	5.00%	0.45%
Global Real Assets	20.00%	5.38%
Cash Equivalents	1.00%	0.00%



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**Discount Rate**

The discount rate used to measure the total pension liability was 8.00 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 District'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 8.00 percent, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7.00 percent) or 1 percentage point higher (9.00 percent) than the current rate:

	1% Decrease in Discount Rate 7.00%	Discount Rate 8.00%	1% Increase in Discount Rate 9.00%
School's proportionate share of the NDPERS net pension liability:	\$ 614,214	\$ 400,544	\$ 225,723

**Pension Plan Fiduciary Net Position**

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

**NOTE 9 RISK MANAGEMENT**

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

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

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The District also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The District pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of one million dollars per occurrence during a 12 month period. The State Bonding Fund currently provides the District 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 participates in the North Dakota Worker's Compensation Bureau and purchases commercial insurance for employee health and accident insurance.

Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

**NOTE 10 CONTINGENT LIABILITIES**

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

**NOTE 11 NONMONETARY TRANSACTIONS**

The District receives food commodities from the federal government to subsidize its hot lunch program. The market value of commodities received for the year ended June 30, 2016 was \$10,528.

**NOTE 12 NEW PRONOUNCEMENTS**

GASB Statement No. 72, *Fair Value Measurement and Application*, addresses accounting and financial reporting issues related to fair value measurements. The Statement provides guidance for determining fair value measurement for reporting purposes and for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this Statement are effective for financial statement periods beginning after June 15, 2015. Earlier application is encouraged.

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68 for pension plans and pensions that are within their respective scopes. The requirements of this Statement that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68 are effective for financial statements for fiscal years beginning after June 15, 2016, and the requirements of this Statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of this Statement for pension

**MIDWAY PUBLIC SCHOOL DISTRICT NO. 128**  
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plans that are within the scope of Statement 67 or for pensions that are within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2015. Earlier application is encouraged.

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

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

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

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

GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.

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GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This Statement is effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.

GASB Statement No. 80, *Blending Requirements for Certain Component Units, an Amendment of GASB Statement No. 14*, amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criteria require blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organization Are Component Units*. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. Earlier application is encouraged.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, provides recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. Earlier application is encouraged.

GASB Statement No. 82, *Pension Issues - an Amendment of GASB Statements No. 67 and No. 73*, provides further guidance regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement amends GASB Statements No. 67 and No. 68 to require the presentation of covered payroll to be defined as the payroll on which contributions to a pension plan are based, rather than the payroll of employees that are provided with pensions through the pension plan. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Earlier application is encouraged.

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

**MIDWAY PUBLIC SCHOOL DISTRICT NO. 128**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED**  
**AS OF JUNE 30, 2016**

**NOTE 13 EARLY RETIREMENT BENEFITS**

The District offers an early retirement incentive program to early retirees who have taught and/or administered for 20 years, of which, the last six consecutive years were in the Midway School District No. 128. The program allows the retiree to participate in the District's medical insurance plan for a total of 48 months or until age 65, whichever comes first. During this time, the District will pay an amount, not to exceed the cap in the teacher's negotiated agreement, towards the teacher's medical policy. A liability of \$25,879 has been recorded as a liability for benefits that have been applied for. See Note 6.

**NOTE 14 SUBSEQUENT EVENTS**

No significant events occurred subsequent to the District's year end. Subsequent events have been evaluated through October 14, 2016, which is the date these financial statements were available to be issued.

**MIDWAY PUBLIC SCHOOL DISTRICT NO. 128**  
**BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND**  
**AS OF JUNE 30, 2016**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Local Property Tax Levies	\$ 807,161	\$ 807,161	\$ 782,495	\$ (24,666)
Other Local and County Revenues	276,182	276,182	242,024	(34,158)
Revenue From State Sources	2,186,962	2,186,962	2,184,067	(2,895)
Revenue From Federal Sources	284,226	284,226	315,624	31,398
Interest	11,000	11,000	8,953	(2,047)
Gain/(Loss) on Fair Value Investments	-	-	15,248	15,248
<b>TOTAL REVENUES</b>	<u>3,565,531</u>	<u>3,565,531</u>	<u>3,548,411</u>	<u>(17,120)</u>
<b>EXPENDITURES</b>				
Business Support Services	105,116	105,116	96,149	(8,967)
Instructional Support Services	175,953	175,953	178,294	2,341
Administration	301,613	301,613	280,639	(20,974)
Operations and Maintenance	296,004	296,004	269,955	(26,049)
Transportation	316,549	316,549	269,789	(46,760)
Regular Instruction	1,855,582	1,855,582	1,878,690	23,108
Special Education	277,846	277,846	309,424	31,578
Vocational Education	83,646	83,646	67,090	(16,556)
Extra - Curricular Activities	75,948	75,948	81,081	5,133
Food Services	154,369	154,369	162,759	8,390
Capital Outlay	-	-	46,245	46,245
<b>TOTAL EXPENDITURES</b>	<u>3,642,626</u>	<u>3,642,626</u>	<u>3,640,115</u>	<u>(2,511)</u>
Excess (Deficiency) of Revenues Over Expenditures	(77,095)	(77,095)	(91,704)	(14,609)
Fund Balances - Beginning	<u>1,346,240</u>	<u>1,346,240</u>	<u>1,346,240</u>	<u>-</u>
Fund Balances - Ending	<u>\$ 1,269,145</u>	<u>\$ 1,269,145</u>	<u>\$ 1,254,536</u>	<u>\$ (14,609)</u>

See Note to the Budgetary Comparison Schedule

**MIDWAY PUBLIC SCHOOL DISTRICT NO. 128**  
**NOTE TO THE BUDGETARY COMPARISON SCHEDULE**  
**FOR THE YEAR ENDED JUNE 30, 2016**

**NOTE 1 BUDGETARY COMPARISON**

The District's Board follows the procedures established by North Dakota law for the budgetary process. The governing body of each School District, annually on or before the last day of July must levy taxes. The governing body of the School District may amend its tax levy and budget for the current fiscal year on or before the tenth day of October of each year. Taxes for School District purposes must be based upon an itemized budget statement which must show the complete expenditure by program of the District for the current fiscal year and the sources of the revenue from which it is to be financed. The School Board, in levying taxes, is limited by the amount necessary to be raised for the purpose of meeting the appropriations included in the school budget of the current fiscal year, and the sum necessary to be provided as an interim fund, together with a tax sufficient in an amount to pay the interest on the bonded debt of the District and to provide a sinking fund to pay and discharge the principal thereon at maturity.

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

1. The administration prepares the District's budget. The budget includes proposed expenditures and the means of financing them. The budget is prepared on the modified accrual basis of accounting.
2. The Board reviews the budget, may make revisions, and adopts the final budget on or before August 15<sup>th</sup> of each year. The budget is then filed with the county auditor by August 25<sup>th</sup> of each year.
3. The budget may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared, except no amendment changing the taxes levied can be made after October 10<sup>th</sup> of each year. The budget amounts shown in the financial statements are the final authorized amounts.
4. All appropriations lapse at the close of the District's fiscal year. The balance of the appropriation reverts back to each respective fund and is available for future appropriation.

**MIDWAY PUBLIC SCHOOL DISTRICT NO. 128**  
**SCHEDULE OF DISTRICT'S CONTRIBUTIONS TO THE TFFR AND NDPERS PENSION PLANS**  
**LAST TEN YEARS**

**Teachers Fund for Retirement**

Fiscal Year Ended June 30	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2016	\$ 186,643	\$ (186,643)	\$ -	\$ 1,466,564	12.73%
2015	171,398	(171,398)	-	1,341,951	12.77%

**North Dakota Public Employees Retirement System**

Fiscal Year Ended June 30	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2016	\$ 44,321	\$ (44,321)	\$ -	\$ 536,835	8.26%
2015	44,163	(44,163)	-	524,776	8.42%

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



**MIDWAY PUBLIC SCHOOL DISTRICT NO. 128**  
**SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF NET PENSION LIABILITY**  
**LAST TEN YEARS (PRESENTED PROSPECTIVELY)**

**Teachers Fund for Retirement**

For the Fiscal Year Ended June 30	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset) (a)	District's Covered- Employee Payroll	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2016	0.218166%	\$ 2,853,295	\$ 1,341,951	212.62%	62.10%
2015	0.229870%	2,408,630	1,333,369	180.64%	66.60%

**North Dakota Public Employees Retirement System**

For the Fiscal Year Ended June 30	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset) (a)	District's Covered- Employee Payroll	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2016	0.0589%	\$ 400,544	\$ 524,776	76.33%	77.15%
2015	0.0584%	370,709	534,674	75.35%	77.70%

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

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

**MIDWAY PUBLIC SCHOOL DISTRICT NO. 128**  
**BALANCE SHEET – NON-MAJOR GOVERNMENTAL FUNDS**  
**AS OF JUNE 30, 2016**

Assets	<u>Scholarship</u>	<u>Total Non-Major Gov't Funds</u>
Cash	\$ 19,080	\$ 19,080
Total Assets	<u>\$ 19,080</u>	<u>\$ 19,080</u>
Fund Balances		
Restricted	\$ 19,080	\$ 19,080
Total Fund Balances	<u>\$ 19,080</u>	<u>\$ 19,080</u>

**MIDWAY PUBLIC SCHOOL DISTRICT NO. 128**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – NON**  
**MAJOR GOVERNMENTAL FUNDS**  
**FOR THEY YEAR ENDED JUNE 30, 2016**

	<u>Scholarship</u>	<u>Total Non-Major Governmental Funds</u>
REVENUES		
Interest	\$ 21	\$ 21
TOTAL REVENUES	<u>21</u>	<u>21</u>
EXPENDITURES		
Regular Instruction	<u>1,000</u>	<u>1,000</u>
TOTAL EXPENDITURES	<u>1,000</u>	<u>1,000</u>
Excess (Deficiency) of Revenues Over Expenditure	<u>(979)</u>	<u>(979)</u>
Fund Balance - Beginning of Year	<u>20,059</u>	<u>20,059</u>
Fund Balance - End of Year	<u>\$ 19,080</u>	<u>\$ 19,080</u>



CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

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

To the Board of Education  
Midway Public School District No. 128  
Inkster, 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 Midway Public School District No. 128 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 October 14, 2016.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Midway Public School District No. 128's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies 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 responses that we consider to be significant deficiencies. See findings 2016-001 and 2016-002.

### **Compliance And Other Matters**

As part of obtaining reasonable assurance about whether Midway Public School District No. 128's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance 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 non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

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

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

### **Purpose Of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



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

October 14, 2016

**MIDWAY PUBLIC SCHOOL DISTRICT NO. 128**  
**SCHEDULE OF FINDINGS & RESPONSES**  
**FOR THE YEAR ENDED JUNE 30, 2016**

**2016-001 Finding**

**Criteria**

To provide reasonable assurance that segregation of duties take place while also taking into account the size of the District.

**Condition**

The organization has one employee who is responsible for all accounting functions involved. The employee handles all income monies, prepares the receipts documents, prepares the deposits, issues all checks and distributes them, receives the bank statements and does the reconciliations. The employee also records the receipts and disbursements to the journals and maintains the general ledger. Considering the size of the entity, it is not feasible to obtain proper separation of duties and the degree of internal control is severely limited.

**Cause**

There is only one business manager and due to the District's size, they are unable to hire more staff.

**Effect**

Lack of segregation of duties leads to a limited degree of internal control.

**Recommendation**

The District should separate the duties when it becomes feasible.

**Management's Response**

The Superintendent reviews the bank reconciliations and bank statements.

**MIDWAY PUBLIC SCHOOL DISTRICT NO. 128**  
**SCHEDULE OF FINDINGS & RESPONSES - CONTINUED**  
**FOR THE YEAR ENDED JUNE 30, 2016**

**2016-002 Finding**

**Criteria**

The District does not identify all journal entries required to maintain a general ledger and prepare full-disclosure financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP).

**Condition**

The District's personnel prepare periodic financial information for internal use that meets the needs of management and the Board of Education. For the year ended June 30, 2016, the District's personnel assisted in the preparation of the year-end journal entries. However, the District does not have internal resources to identify all journal entries required to maintain a general ledger and prepare full-disclosure financial statements for external reporting. The Board of Education is aware of this significant deficiency and addresses it by obtaining our assistance in the preparation of the District's annual financial statements.

**Cause**

The District does not have the resources to prepare full accrual financial statements.

**Effect**

The Superintendent is aware of the deficiency and addresses it by reviewing and approving the adjusting journal entries and the completed statements prior to distribution to end users.

**Recommendation**

For entities of the District's size, it generally is not practical to obtain the internal expertise needed to handle all aspects of the external financial reporting. The District should establish an internal control policy to document the annual review of the financial statements, disclosures and schedules.

**Management's Response**

The District will continue to have the auditor prepare the financial statements; however, the District has established an internal control policy to document the annual review of the financial statements.