

**MINOT PUBLIC SCHOOL DISTRICT NO. 1
MINOT, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

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CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

To the President and Board Members
Minot Public School District No. 1
Minot, North Dakota

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 misstatements, 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement 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 Minot Public School District No. 1 as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 19 to the financial statements, the District has recorded a prior period adjustment to its July 1, 2015 financial statements to remove unearned revenue associated with its federal Impact Aid grant. The District has retroactively restated the previously report net position in regards to this matter.

Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of employer contributions, schedule of employer's proportionate share of net pension liability, and notes to the required supplementary information shown on pages 4-12 and 52-56 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 accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and is not a required part of the

basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 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 the 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.

Bismarck, North Dakota

December 30, 2016

MINOT PUBLIC SCHOOL DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2016

The discussion and analysis of Minot Public School District No. 1'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 increased by \$7,837,932.
- Governmental net position totaled \$52,302,033.
- The District's general fund had \$99,301,634 in total revenues and \$96,965,801 in expenditures before any other financing sources or uses. Overall, the general fund balance increased by \$1,716,972 for the year ended June 30, 2016, and now totals \$20,448,479.

The annual report consists of a series of financial statements and related footnotes. These statements are organized so the reader can understand Minot Public School District No. 1 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, present 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.

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. They include, but are not limited to the following: instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.

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, changing enrollment, other factors and especially flood recovery costs.

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, liabilities and deferred inflows/outflows of resources using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

MINOT PUBLIC SCHOOL DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
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.

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, Capital Projects Fund and the Minot Air Force Base District #160 General 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.

MINOT PUBLIC SCHOOL DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED
 June 30, 2016

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. As the table illustrates, net position improved by 17.63% during the past fiscal year. As indicated in the financial highlights, the District's net position improved by \$7,837,932 (including a prior period adjustment) for the year ended June 30, 2016. Net position may serve over time as a useful indicator of the District's financial position.

The District's June 30, 2016 net position of \$52,302,033 is segregated into three separate categories: 1) net position invested in Capital Assets (net of related debt), 2) restricted net position (resources that are subject to external restrictions on how they must be spent) and 3) unrestricted net position. Table 1 shows a comparison of assets, liabilities and net position between fiscal year ended June 30, 2016 and fiscal year ended June 30, 2015.

Table 1 Net Position

	<u>2016</u>	<u>2015</u>	<u>% Change</u> <u>2014-2015</u>
Assets			
Current assets	\$ 48,475,634	\$ 69,558,041	-30.31%
Capital assets (net of depreciation)	<u>167,905,057</u>	<u>137,367,899</u>	22.23%
Total assets	<u>\$ 216,380,691</u>	<u>\$ 206,925,940</u>	4.57%
Deferred Outflows of Resources	<u>\$ 17,584,020</u>	<u>\$ 7,239,080</u>	142.90%
Liabilities			
Current liabilities	\$ 16,898,937	\$ 18,034,455	-6.30%
Long-term liabilities	<u>161,443,908</u>	<u>141,567,544</u>	14.04%
Total liabilities	<u>\$ 178,342,845</u>	<u>\$ 159,601,999</u>	11.74%
Deferred Inflows of Resources	<u>\$ 3,319,833</u>	<u>\$ 10,098,920</u>	-67.13%
Net Position			
Net investment in capital assets	\$ 102,857,832	\$ 75,631,133	36%
Restricted	11,428,238	22,848,344	-49.98%
Unrestricted	<u>(61,984,037)</u>	<u>(54,015,376)</u>	14.75%
	<u>\$ 52,302,033</u>	<u>\$ 44,464,101</u>	17.63%

MINOT PUBLIC SCHOOL DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED
June 30, 2016

Table 2 shows the changes in net position for fiscal year ended June 30, 2016 in comparison to the year ended June 30, 2015.

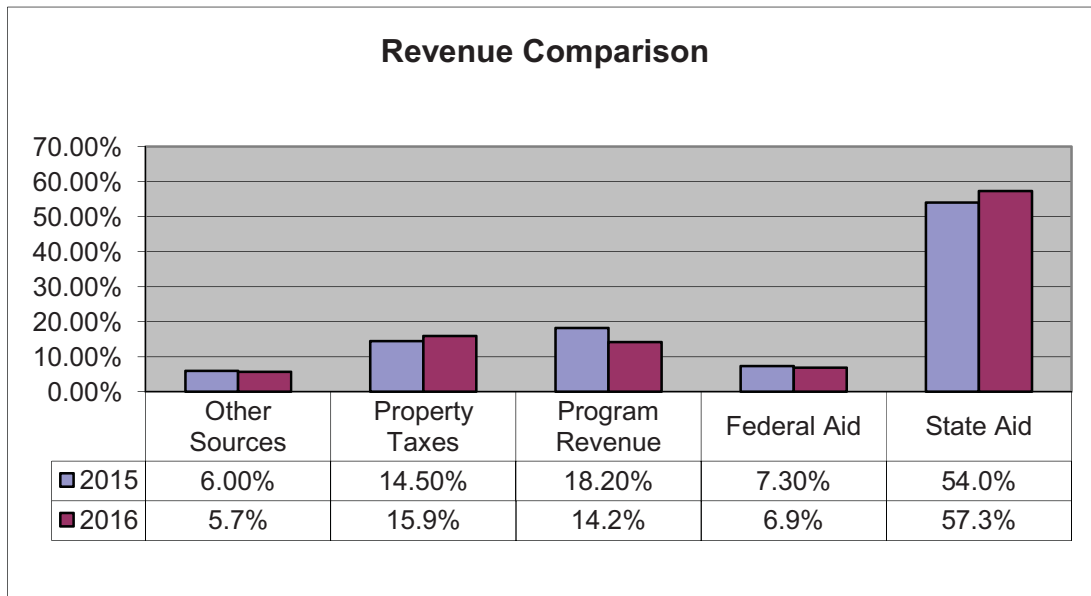
Table 2 Changes in Net Position

Revenues	<u>2016</u>	<u>2015</u>	<u>Variance</u> <u>2016-2015</u>
Program Revenues:			
Charges for services	\$ 4,786,097	\$ 4,922,062	\$ (135,965)
Operating grants and contributions	11,578,837	10,874,180	704,657
Capital grants and contributions	16,672	4,907,725	(4,891,053)
General Revenues:			
Taxes	18,460,999	16,463,777	1,997,222
State aid	66,229,479	61,539,870	4,689,609
Impact aid	7,823,720	8,053,832	(230,112)
Other federal aid	227,658	214,225	13,433
Other	6,445,719	6,839,842	(394,123)
Total revenues	<u>\$ 115,569,181</u>	<u>\$ 113,815,513</u>	<u>\$ 1,753,668</u>
Expenses			
Instruction:			
Regular	\$ 43,181,397	\$ 40,151,594	\$ 3,029,803
Special education	14,337,046	12,961,172	1,375,874
Career & technical education	2,802,519	2,693,004	109,515
Federal	3,198,573	3,201,878	(3,305)
Tuition	1,859,830	1,176,849	682,981
Support services:			
Pupil services	2,587,351	2,493,484	93,867
Instructional staff services	4,116,864	3,967,454	149,410
General administration services	3,172,921	3,108,949	63,972
School administration services	5,930,869	5,573,067	357,802
Business services	593,325	558,940	34,385
Operations and maintenance	8,215,938	11,348,651	(3,132,713)
Pupil transportation	2,017,396	1,919,521	97,875
Head start	3,738,908	3,566,049	172,859
Adult learning center	448,722	480,841	(32,119)
Interest expense	1,708,712	1,075,132	633,580
Non education services:			
Enterprise services	380,439	375,383	5,056
Food services	4,540,941	4,276,454	264,487
Community services	2,094,637	1,975,482	119,155
Extracurricular activities	1,753,760	1,644,915	108,845
Services provided another LEA	129,778	128,969	809
Other facilities costs	2,530,918	2,367,093	163,825
Total expenses	<u>109,340,844</u>	<u>105,044,881</u>	<u>4,295,963</u>
Increase in Net Position	<u>\$ 6,228,337</u>	<u>\$ 8,770,632</u>	<u>\$ (2,542,295)</u>

MINOT PUBLIC SCHOOL DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED
 June 30, 2016

As indicated in table 2, revenue for year ended June 30, 2016 was \$115,569,181 compared to \$113,815,513 for year ended June 30, 2015. The difference, \$1,753,668 constituted an increase of approximately 1.54%.

Property taxes constituted 15.9%, state aid 57.3%, federal aid 6.9%, program revenue 14.2% and other sources 5.7% of the total revenues of governmental activities of the District for fiscal year 2016. A comparison of the year ended June 30, 2016 and June 30, 2015 is shown below.



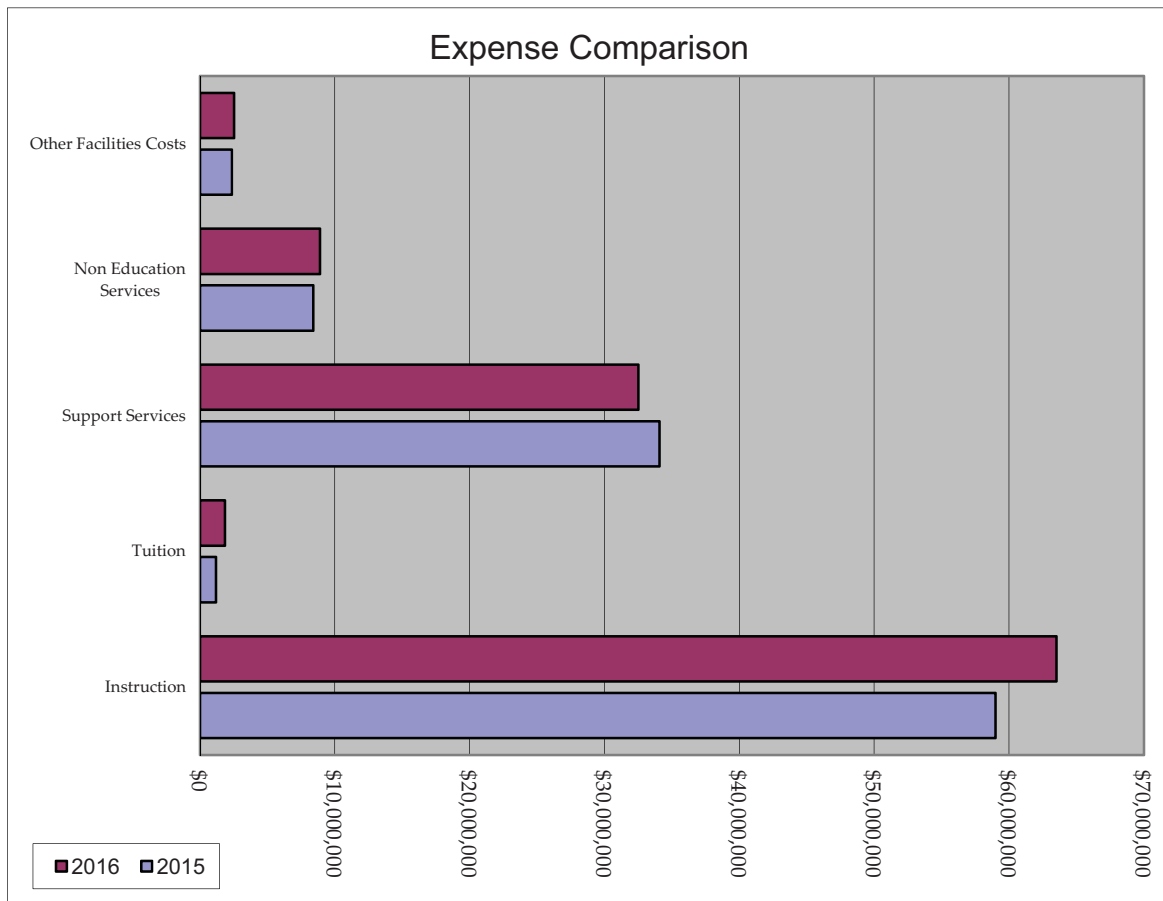
MINOT PUBLIC SCHOOL DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED
 June 30, 2016

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 <u>6/30/2016</u>	Net Cost for Year Ended <u>6/30/2016</u>
Instruction	\$ 63,519,535	\$ 58,064,938
Tuition	1,859,830	1,859,830
Support services	32,531,106	27,899,549
Non education services	8,899,455	2,620,675
Other facilities costs	<u>2,530,918</u>	<u>2,514,246</u>
Total expenses	<u>\$ 109,340,844</u>	<u>\$ 92,959,238</u>

The following chart shows a comparison of cost of services for years ended June 30, 2016 and June 30, 2015. Total expenses increased to \$109,340,844 for year ended June 30, 2016 from \$105,044,881 for year ended June 30, 2015, an increase of approximately 4.1%.



MINOT PUBLIC SCHOOL DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED
June 30, 2016

Instruction expenses include activities dealing directly with the teaching of pupils and the interaction between teacher and pupil including regular education, special education, career and technical education and federal programs. Instruction comprised 58.1% of district expenses in 2016 compared to 56.2% in 2015.

Tuition expenses are the costs to reimburse other educational agencies for instructional services to students residing in the Minot Public School District's legal boundaries.

Support Services includes pupil's services, instructional staff services, general administration services, school administration services, business services, operation and maintenance of plant, pupil transportation services, Head Start, Adult Learning Center and interest expense.

Non Education Services include Enterprise Services, Food Services, Community Services, Extracurricular activities and Services provided another LEA.

Other facilities costs include costs associated with construction services provided by contractors hired by 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 using the modified accrual basis of accounting. The District's governmental funds had total revenues of \$121,780,591 and expenditures of \$151,118,146 for the year ended June 30, 2016 in comparison to year ended June 30, 2015 which had governmental revenue of \$119,337,319 and governmental expenditures of \$123,483,022. As of June 30, 2016, the unassigned fund balance of the District's general fund was \$20,098,220 and total unassigned fund balance for all of the District's governmental funds was \$10,745,978, compared to June 30, 2015 which had an unassigned fund balance of the District's general fund of \$18,366,764 and an unassigned fund balance for all District governmental funds of \$18,365,376. There was an increase in the District's net position and a decrease in the unassigned fund balance.

The most significant variance in any one individual fund took place in the Capital Projects Fund.

For the 2015-2016 school year there was a projected balanced budget (revenue equaled expenditures) with anticipated Revenue of \$98,310,000 and anticipated Expenditures of \$98,310,000. In actuality the General Fund did experience a surplus totaling \$2,444,402 for year ended June 30, 2016.

MINOT PUBLIC SCHOOL DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED
 June 30, 2016

General Fund Budgeting Highlights

The most significant variations between the final budget amounts and the actual budget amounts were in the following areas:

REVENUE:	<u>Final Budget</u>	<u>Actual</u>	<u>Reason</u>
Property Taxes	\$18,443,000	\$19,373,337	Delay in final payment from County for the 12% of State sponsored tax relief.

EXPENDITURE:	<u>Final Budget</u>	<u>Actual</u>	<u>Reason</u>
Regular Instruction	\$42,110,730	\$41,203,394	Lower than expected payroll costs.

With total variances, between budget and actual, of less than 1% in expenditures, it can be accurately stated that the district did a good job in their expenditure budget process. In regard to the revenue projections, the total variances between the revenue budget and actual was 1.77%.

The actual revenue for the year ended June 30, 2016 was over budget projections by approximately \$1.7 million. The actual expenditures for the year ended June 30, 2016 were under budget by approximately \$1.3 million not including transfers out. The most significant revenue variance was in Local Sources Revenue and the most significant expenditure variance was in Regular Instruction.

Capital Assets

As of June 30, 2016, the District had \$167,905,057 invested in capital assets. Table 4 shows balances as of June 30, 2016 and June 30, 2015. The third column shows the variances between those years. See note 7 to the financial statements.

Table 4

Capital Assets (Net of Depreciation) at June 30th

	<u>2016</u>	<u>2015</u>	<u>Variance</u>
Land	\$ 4,725,335	\$ 4,725,335	\$ -
Construction in progress	38,628,498	11,734,540	26,893,958
Land improvements	14,932,657	15,293,458	(360,801)
Buildings and improvements	105,810,278	101,604,625	4,205,653
Furniture and equipment	<u>3,808,289</u>	<u>4,009,941</u>	<u>(201,652)</u>
Totals	<u>\$ 167,905,057</u>	<u>\$ 137,367,899</u>	<u>\$ 30,537,158</u>

The District's Net Capital Assets for Governmental Activities increased \$30,537,158 with additions of \$42,286,693 (the largest was in Construction in Progress) and deductions of \$11,749,535 (the largest deduction was in Construction in Progress).

As indicated in table 4, the School District's capital assets net of depreciation increased \$30,537,158 or in other words 22.2% as indicated on Table 1.

MINOT PUBLIC SCHOOL DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED
JUNE 30, 2016

Debt Administration

As of June 30, 2016, the District had \$64,036,918 in outstanding long-term debt compared to \$60,952,276 as of June 30, 2015. Of the \$64,036,918 in outstanding debt, \$2,730,947 is due within one year in comparison to \$2,180,359 in the previous year. The district issued \$8,570,000 in new debt in the fiscal year which ended June 30, 2016. The bond rates for the existing debt instruments range from 1.75% to 2.85% for the 2011 Refunding issuance, 2.0% to 3.125% for the 2011 G.O. issuance 1.5% to 2% for the 2012 G.O. issuance and 2.57% for the 2012B issuance, 2.75% to 3.50% for 2014 G.O. issuance, 1.72% for the 2014B G.O. issuance, 2.0% to 4.0% for the 2015 G.O. issuance, 2%-3% for the 216 G.O. issuance and 2% for the 2016B Lease Revenue Refunding issuance. See note 10 to the financial statements.

Table 5

Outstanding Debt at June 30, 2016

2011 Lease revenue refunding bonds	1,815,000
2011 General obligation bonds	7,000,000
2012 General obligation bonds	825,000
2012B General obligation bonds	8,384,143
2014 General obligation bonds	9,945,000
2014B General obligation bonds	18,292,775
2015 General obligation bonds	9,205,000
2016A General Obligation Bonds	5,260,000
2016B Lease Revenue Refunding Bonds	<u>3,310,000</u>
Total	<u>\$ 64,036,918</u>

For the Future

The 2016-2017 preliminary budget includes a projected deficit of \$600,000 which is, for the most part, attributable to a decrease in the Average Daily Membership for 2015-2016 which is the basis for our increase in 2016-2017 state aid.

The School Board and Administration continues to keep a very close eye on student enrollment in the District. With a decrease of approximately 200 students in the 2015-2016 school year, the District has many challenges ahead including but not limited to building and staffing demands. Since many of the District's major revenue sources, state aid and federal aid just to name two, are based on average daily membership, enrollment or average daily attendance, any substantial change in student numbers significantly impacts those major sources of revenue and with the declining price of oil, the population in the area will decrease and as a result, so could student enrollment.

On April 8, 2014 the Minot P.S.D. #1 patrons approved a \$39.5 million bond referendum which included the following building projects: 1) a new elementary school in S.E. Minot, 2) an addition at Perkett Elementary, 3) an addition at Edison Elementary and 4) safety and security projects throughout the district. Those projects are complete and the buildings are being utilized. Long-term debt has increased as buildings were built to accommodate the additional students over the

MINOT PUBLIC SCHOOL DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED
JUNE 30, 2016

previous seven years. However, the district's reserves remain strong. Those reserves could, however, be strained in the future with the uncertainty of enrollment numbers in the district and the potential for less students and therefore less revenue.

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 and/or a copy of the Minot Air Force Base District No. 160 report by contacting Scott Moum, Business Manager, Minot Public School District, 215 2nd St SE, Minot ND 58701, or email at Scott.Moum@minot.k12.nd.us.

MINOT PUBLIC SCHOOL DISTRICT NO. 1
STATEMENT OF NET POSITION
JUNE 30, 2016

	Governmental Activities
ASSETS	
Current assets:	
Cash and equivalents	\$ 31,111,884
Taxes receivable	2,053,785
Due from other governmental agencies (net of allowance of \$448,465)	14,806,772
Inventories	152,934
Other assets	350,259
Total current assets	48,475,634
Non-current assets:	
Capital assets	222,022,562
Less: accumulated depreciation	(54,117,505)
Total non-current assets	167,905,057
Total assets	216,380,691
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflow - pension	17,584,020
LIABILITIES	
Current liabilities	
Accounts payable and accrued expenses	12,874,109
Accrued interest	651,915
Compensated absences	543,939
Current portion of bonds and notes payable	2,730,947
Unearned revenue	98,027
Total current liabilities	16,898,937
Non-current liabilities	
Net pension liability	99,127,630
Unamortized bond premium	1,010,307
Non-current portion of bonds and notes payable	61,305,971
Total non-current liabilities	161,443,908
Total liabilities	178,342,845
DEFERRED INFLOWS OF RESOURCES	
Deferred inflow - pension	3,319,833
NET POSITION	
Net investment in capital assets	102,857,832
Restricted for:	
Capital projects	125,839
MAFB District #160	5,342,906
Debt service	1,097,496
Unavailable tax revenue - debt service	296,248
Self funded health insurance	4,565,749
Unrestricted	(61,984,037)
Total net position	\$ 52,302,033

See Notes to the Financial Statements

MINOT PUBLIC SCHOOL DISTRICT NO. 1
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

Functions/Programs	Program Revenue			Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants/ Contributions	
Governmental Activities				
Instruction:				
Regular	\$ 43,181,397	\$ 267,675	\$ 56,646	\$ -
Special education	14,337,046	748,041	925,227	-
Vocational education	2,802,519	-	687,996	-
Federal	3,198,573	-	2,769,012	-
Total instruction	<u>63,519,535</u>	<u>1,015,716</u>	<u>4,438,881</u>	<u>-</u>
Tuition:	1,859,830	-	-	-
Support services:				
Pupil services	2,587,351	-	36,326	-
Instructional staff services	4,116,964	-	-	-
General administration services	3,172,921	-	-	-
School administration services	5,930,869	-	-	-
Business services	593,325	-	-	-
Operations and maintenance	8,215,938	-	-	-
Pupil transportation services	2,017,396	-	398,116	-
Head start	3,738,908	-	3,747,644	-
Adult learning center	448,722	8,163	441,308	-
Interest expense	1,708,712	-	-	-
Total support services	<u>32,531,106</u>	<u>8,163</u>	<u>4,623,394</u>	<u>-</u>
Non-education services:				
Enterprise services	380,439	-	-	-
Food services	4,540,941	2,188,364	1,712,411	-
Community services	2,094,637	1,307,940	804,151	-
Extracurricular	1,753,660	265,914	-	-
Services provided another LEA	129,778	-	-	-
Total non-education services	<u>8,899,455</u>	<u>3,762,218</u>	<u>2,516,562</u>	<u>-</u>
Other facilities costs:	2,530,918	-	-	16,672
Total governmental activities	<u>\$ 109,340,844</u>	<u>\$ 4,786,097</u>	<u>\$ 11,578,837</u>	<u>\$ 16,672</u>
General revenues:				
Taxes:				
Property taxes, levied for general purposes				15,671,780
Property taxes, other				1,287,169
Other taxes				1,502,050
State aid not restricted for specific purpose:				
Per pupil aid and other state aid				66,229,479
Federal aid not restricted for a specific purpose:				
Impact aid				7,823,720
Other federal aid				227,658
Interest income and other revenues				6,445,719
Total general revenues				<u>99,187,575</u>
Change in net position				6,228,337
Total net position, beginning of year, as previously reported				44,464,101
Prior period adjustment - see note 19				1,609,595
Net position - beginning of year, restated				<u>46,073,696</u>
Net position - ending				<u>\$ 52,302,033</u>

See Notes to the Financial Statements

MINOT PUBLIC SCHOOL DISTRICT NO. 1
BALANCE SHEET GOVERNMENTAL FUNDS
JUNE 30, 2016

	General Fund	Capital Projects - MPSPD	MAFB District #160	Other Governmental Funds	Total Governmental Funds
Cash and cash equivalents	\$ 18,760,614	\$ -	\$ 4,975,712	\$ 2,158,808	\$ 25,895,134
Taxes receivable	1,676,338	6,752	-	370,695	2,053,785
Due from other funds	6,455,718	-	-	-	6,455,718
Receivable from other governments	3,213,315	-	382,296	375,993	3,971,604
Inventories	-	-	-	152,934	152,934
Other assets	350,259	-	-	-	350,259
Total assets	\$ 30,456,244	\$ 6,752	\$ 5,358,008	\$ 3,058,430	\$ 38,879,434

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES

Liabilities:					
Accounts payable and accrued liabilities	\$ 6,003,926	\$ 2,708,787	\$ 15,102	\$ 825,060	\$ 9,552,875
Due to other funds	2,670,234	6,455,718	-	-	9,125,952
Unearned revenue	-	-	-	98,027	98,027
Total liabilities	8,674,160	9,164,505	15,102	923,087	18,776,854
Deferred inflows of resources:					
Unavailable tax revenue	1,333,605	5,400	-	296,248	1,635,253

Fund balances:					
Nonspendable					
Inventory	-	-	-	152,934	152,934
Other assets	350,259	-	-	-	350,259
Restricted					
Debt service	-	-	-	1,749,411	1,749,411
Minot Air Force Base District No. 160	-	-	5,342,906	-	5,342,906
Capital projects funds	-	-	-	125,839	125,839
Unassigned	20,098,220	(9,163,153)	-	(189,089)	10,745,978
Total fund balances	20,448,479	(9,163,153)	5,342,906	1,839,095	18,467,327

Total liabilities, deferred inflows of resources, and fund balances	\$ 30,456,244	\$ 6,752	\$ 5,358,008	\$ 3,058,430	\$ 38,879,434
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See Notes to the Financial Statements

MINOT PUBLIC SCHOOL DISTRICT NO. 1
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE
DISTRICT-WIDE STATEMENT OF NET POSITION
JUNE 30, 2016

Total fund balance, governmental funds	\$	18,467,327
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>		
<p>Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position.</p>		167,905,057
<p>Certain assets are not available to pay current period expenditures and therefore are reported as unavailable revenue in the fund financial statement, but are reported in the governmental activities of the Statement of Net Position.</p>		10,835,167
<p>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 unavailable in the governmental funds.</p>		1,635,255
<p>The assets and liabilities of certain internal service funds are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Position.</p>		4,565,749
<p>Net deferred outflows/(inflows) of resources relating to the cost sharing of defined benefit plans in the governmental activities that are not financial resources, and therefore are not reported as deferred outflows/(inflows) of resources in the governmental funds.</p>		
Difference between projected and actual investment earnings		(3,319,833)
Difference between projected and actual earnings and contributions paid		17,584,020
<p>Certain short-term liabilities are not recognized as an expenditure in the governmental funds until they are due. All liabilities both current and long-term are reported in the Statement of Net Position.</p>		(543,939)
<p>Certain long-term liabilities are not due and payable in the current period, and therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year-end consist of:</p>		
Net pension liability		(99,127,630)
Bonds, notes payable and accrued interest		(64,688,833)
Unamortized bond premium		(1,010,307)
Net position of governmental activities in the Statement of Net Position	\$	52,302,033

See Notes to the Financial Statements

MINOT PUBLIC SCHOOL DISTRICT NO. 1
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE – GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	General Fund	Capital Projects - MPSD	MAFB District #160	Other Governmental Funds	Total Governmental Funds
REVENUES					
Local sources					
Property taxes	\$ 18,229,612	\$ 75,242	\$ -	\$ -	\$ 18,304,854
Other local sources	7,555,023	-	3,752	3,017,341	10,576,116
County sources	1,583,333	-	-	-	1,583,333
State sources	65,804,174	592,331	-	332,770	66,729,275
Federal sources	4,118,201	762,052	8,051,378	5,484,409	18,416,040
Other sources	2,011,291	100,493	-	4,059,189	6,170,973
Total revenues	<u>99,301,634</u>	<u>1,530,118</u>	<u>8,055,130</u>	<u>12,893,709</u>	<u>121,780,591</u>
EXPENDITURES					
Instruction:					
Regular	41,171,464	-	12,830	-	41,184,294
Special education	14,372,290	-	-	-	14,372,290
Vocational education	2,888,659	-	-	-	2,888,659
Federal	3,526,671	-	-	-	3,526,671
Total instruction	<u>61,959,084</u>	<u>-</u>	<u>12,830</u>	<u>-</u>	<u>61,971,914</u>
Tuition:	<u>1,859,830</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,859,830</u>
Support services:					
Pupil services	2,678,844	-	5,003,750	-	7,682,594
Instructional staff services	2,555,668	-	-	-	2,555,668
General administration services	3,119,787	-	47,529	-	3,167,316
School administration services	5,964,239	-	-	-	5,964,239
Business services	604,918	-	14,800	-	619,718
Operations and maintenance	8,275,512	-	1,659,100	-	9,934,612
Pupil transportation services	1,872,095	-	136,565	-	2,008,660
Lease payments	715,344	-	-	-	715,344
Head start	-	-	-	3,741,946	3,741,946
Adult learning center	-	-	-	448,723	448,723
Other	-	-	-	3,211	3,211
Total support services	<u>25,786,407</u>	<u>-</u>	<u>6,861,744</u>	<u>4,193,880</u>	<u>36,842,031</u>

See Notes to the Financial Statements

MINOT PUBLIC SCHOOL DISTRICT NO. 1
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE – GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	General Fund	Capital Projects - MPSD	MAFB District #160	Other Governmental Funds	Total Governmental Funds
Debt service:					
Principal	-	-	-	5,485,359	5,485,359
Interest	-	-	-	1,460,822	1,460,822
Total debt service	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,946,181</u>	<u>6,946,181</u>
Non-education services:					
Enterprise services	381,553	-	-	-	381,553
Food service	-	-	-	4,513,729	4,513,729
Community services	1,775,474	-	-	-	1,775,474
Extra curricular	1,731,779	-	-	-	1,731,779
Services provided another LEA	129,778	-	-	-	129,778
Total non education services	<u>4,018,584</u>	<u>-</u>	<u>-</u>	<u>4,513,729</u>	<u>8,532,313</u>
Capital outlays	<u>3,341,896</u>	<u>31,474,395</u>	<u>-</u>	<u>149,586</u>	<u>34,965,877</u>
Total expenditures	<u>96,965,801</u>	<u>31,474,395</u>	<u>6,874,574</u>	<u>15,803,376</u>	<u>151,118,146</u>
Excess of revenues over (under) expenditures	<u>2,335,833</u>	<u>(29,944,277)</u>	<u>1,180,556</u>	<u>(2,909,667)</u>	<u>(29,337,555)</u>
OTHER FINANCING SOURCES (USES)					
Proceeds from long-term debt	-	5,260,000	-	3,310,000	8,570,000
Proceeds from bond premiums	-	334,758	-	-	334,758
Proceeds from sale of capital assets	14,646	-	-	-	14,646
Transfers in	-	-	-	766,421	766,421
Transfers out	(633,507)	-	(132,914)	-	(766,421)
Total other financing sources and uses	<u>(618,861)</u>	<u>5,594,758</u>	<u>(132,914)</u>	<u>4,076,421</u>	<u>8,919,404</u>
Net change in fund balances	1,716,972	(24,349,519)	1,047,642	1,166,754	(20,418,151)
Fund balances - beginning as previously stated	<u>18,731,507</u>	<u>15,186,366</u>	<u>2,685,669</u>	<u>672,341</u>	<u>37,275,883</u>
Prior period adjustment - See Note 19	-	-	1,609,595	-	1,609,595
Fund balance - beginning - as restated	18,731,507	15,186,366	4,295,264	672,341	38,885,478
Fund balances - ending	<u>\$ 20,448,479</u>	<u>\$ (9,163,153)</u>	<u>\$ 5,342,906</u>	<u>\$ 1,839,095</u>	<u>\$ 18,467,327</u>

See Notes to the Financial Statements

MINOT PUBLIC SCHOOL DISTRICT NO. 1
RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES WITH THE DISTRICT-WIDE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

Net change in fund balances - total governmental funds:	\$ (20,418,151)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period. This is the amount by which the capital outlays that were capitalized \$34,965,877 exceeded depreciation \$4,413,726 in the current period.	
	30,552,151
Net effect of loss on disposal of assets that is recognized in the Statement of Activities but not in the governmental funds and proceeds of sale of fixed assets recorded in governmental funds and not the Statement of Activities.	(14,993)
Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned. This amount is the net change in these items.	(762,133)
Governmental funds report bond proceeds as current financial resources that increase fund balance. In contrast, the Statement of Activities treats such issuance of debt as a liability.	(8,570,000)
Repayment of long-term debt is reported as an expenditure in governmental funds. However, the repayment reduces long-term liabilities in the statement of net assets.	5,485,359
Some expenses reported in the Statement of Activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:	
Net change in accrued interest not reflected on governmental funds	(352,130)
Net change in compensated absences and early retirement obligations	20,259
Net change in net pension liability	(17,116,493)
Changes in deferred inflows relating to net pension liability	6,779,087
Changes in deferred outflows relating to net pension liability	10,344,940
Internal service funds are used by the District to account for its self funded health insurance plan. The net revenue of the internal service fund is reported with governmental activities.	506,258
Governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This is the amount by which premiums and discounts exceed current year amortization.	(225,817)
Change in net position of governmental activities	\$ 6,228,337

See Notes to the Financial Statements

MINOT PUBLIC SCHOOL DISTRICT NO. 1
STATEMENT OF NET POSITION – PROPRIETARY FUND
AS OF JUNE 30, 2016

	<u>Internal Service Fund</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 5,216,749
Due from other funds	2,670,234
Total assets	<u>7,886,983</u>
 LIABILITIES	
Current liabilities:	
Accounts payable	651,000
Unearned health insurance premiums	2,670,234
Total liabilities	<u>3,321,234</u>
 NET POSITION	
Restricted - self funded health insurance	<u>\$ 4,565,749</u>

See Notes to the Financial Statements

MINOT PUBLIC SCHOOL DISTRICT NO. 1
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2016

	Internal Service Fund
REVENUES	
Premium revenue	\$ 11,347,092
OPERATING EXPENSES	
Stop loss premiums and administrative fees	3,543,551
Insurance claims	7,484,230
Total operating expenses	11,027,781
Operating income	319,311
NON-OPERATING REVENUES	
Interest and investment revenue	186,947
Change in net position	506,258
Total net position - beginning of year	4,059,491
Total net position - end of year	\$ 4,565,749

See Notes to the Financial Statements

MINOT PUBLIC SCHOOL DISTRICT NO. 1
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2016

	Internal Service Fund
Cash flows from operating activities	
Cash received from charges to other funds	\$ 11,347,092
Cash paid to insurance claims and stop loss premiums	<u>(11,097,781)</u>
Net cash provided by operating activities	<u>249,311</u>
 Cash flows from investing activities	
Interest on investments	<u>186,947</u>
Net cash provided by investing activities	<u>186,947</u>
Net change in cash and cash equivalents	436,258
Cash and cash equivalents - beginning of year	<u>4,780,491</u>
Cash and cash equivalents - end of year	<u><u>\$ 5,216,749</u></u>
 Reconciliation of operating loss to net cash provided by operating activities:	
Operating income	\$ 319,311
Adjustments to reconcile operating income to net cash provided by operating activities:	
Change in assets and liabilities:	
Accounts payable and accrued liabilities	<u>(70,000)</u>
Net cash used by operating activities	<u><u>\$ 249,311</u></u>

See Notes to the Financial Statements

MINOT PUBLIC SCHOOL DISTRICT NO. 1
STATEMENT OF ASSETS AND LIABILITIES - FIDUCIARY FUND
AS OF JUNE 30, 2016

	<u>Agency Fund</u>
ASSETS	
Cash and cash equivalents	\$ 1,486,350
Accounts receivable	298,644
	<hr/>
Total assets	<u>\$ 1,784,994</u>
 LIABILITIES	
Due to student activity groups/starbase/cooperative	<u>\$ 1,784,994</u>

See Notes to the Financial Statements

MINOT PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Principal Activity

The Minot Public School District operates the public schools in the City of Minot, North Dakota. There are twelve elementary schools, three middle schools and two high schools. Two elementary schools and one middle school are located on the Minot Air Force Base, a U.S. Air Force installation.

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 the above criteria, the Minot Air Force Base District No. 160 and the Minot School District Building Authority are included in the District's reporting entity as blended component units.

The Minot Air Force Base School District No. 160 contracts with the Minot Public School District to provide educational services for the pupils that reside in the Minot Air Force Base District. A copy of the Minot Air Base District No. 160 financial statements may be obtained through a request of the District's management.

The Minot School District Building Authority leases various facilities and capital improvements to the Minot Public School District. The Building Authority does not prepare external financial statements.

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. Minot Public School District No. 1'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.

MINOT PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2016

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 or component units that are fiduciary in nature.

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. Nonmajor 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 Districts' 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 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 required to be accounted for in another fund.

Capital projects fund – This fund accounts for the acquisition and construction of the District's major capital facilities.

Minot Air Force Base District #160 fund – This fund accounts for the activity at the Minot Air Force Base School District which is included as a blended component unit.

MINOT PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2016

Internal Service Funds

The reporting focus of internal service funds is on services provided by one fund of the District to another fund on a cost reimbursement basis. The District's only internal service fund consists of the following:

Self-funded Health Insurance Fund – The fund accounts for the financial transactions related to the District's self-funded health insurance plan.

Fiduciary Funds

The reporting focus of fiduciary funds is on net position and changes in net position. 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 funds consist of the following:

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

Starbase Fund – The fund accounts for the financial transactions related to the Starbase programs.

Mid-Dakota Education Cooperative – The fund accounts for the financial transactions related to the Mid-Dakota Education Cooperative.

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 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 in which the governmental activities of the government-wide financial statements are prepared. Due to the difference, the District's financial statements include reconciliations 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.

MINOT PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2016

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 internal service fund also uses the accrual basis of accounting.

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.

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.

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, intergovernmental revenues and investment income.

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.

Receivables from Other Governments

Intergovernmental receivables consist of reimbursements due for expenses in the operation of various programs, credits from the State and federal dollars in regards to flood reimbursements. The amount consists of a mix of state and federal dollars. Management has set up an allowance of \$448,465 which it feels may not be collectible in relation to prior year flood reimbursements they continue to collect on.

MINOT PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2016

Investments

Investments are recorded at fair value. North Dakota state statute 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.

Inventories and Prepays

Inventories in governmental funds consist of expendable supplies held for consumption. They are stated at cost determined on a first-in, first-out basis. They are recorded as expenditures at the time individual inventory items are used.

Prepays represent payments made to vendors that benefit future reporting periods. The prepaid items are recognized as expenses/expenditures in the year the services are consumed.

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 \$5,000. 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. Interest associated with construction in progress is capitalized as part of the asset's original cost. 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:

Land Improvements	20 years
Buildings and Improvements	50 years
Equipment and Fixtures	5 to 20 years
Vehicles	8 years

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.

MINOT PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2016

Unearned Grant Revenue/Unavailable Revenues

Unearned grant revenue/unavailable 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 grant revenue/unavailable revenue.

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

Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the vesting method. Although employees accrue sick leave on an annual basis, this accrual vests only if the employee is eligible for and elects to take advantage of the District's early retirement policy. The liability includes the employees who are currently eligible to receive termination benefits. The amount is based on accumulated sick leave and employees wage rates at fiscal year end, taking into consideration any limits specified in the District's termination policy. The District records a liability for accumulated unused sick leave upon notification of the employee's election for early retirement.

Long-Term Debt

In the District-wide financial statements, long-term debt and other long-term debt obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Pension Liability

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.

MINOT PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2016

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.

Fund Balance Classifications

In the fund financial statements, governmental funds report fund balance in classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

Nonspendable - consists of amounts that are not in spendable form, such as inventory and prepaid items.

Restricted - consists of amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions and administered by the North Dakota Department of Public Instruction.

Committed - consists of internally imposed constraints. These constraints are established by Resolution of the School Board.

Assigned - consists of internally imposed constraints. These constraints reflect the specific purpose for which it is the District's intended use. These constraints are established by the School Board and/or management.

Unassigned - is the residual classification for the general fund and also reflects negative residual amounts in other funds.

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

When committed, assigned or unassigned resources are available for use, it is the District's policy to use resources in the following order; 1) committed, 2) assigned and 3) unassigned.

Interfund 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 interfund transfers. Interfund 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. Interfund activities within the District's governmental activities and its business-type activities are eliminated in the Statement of Activities.

MINOT PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2016

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial 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 resources (expense/expenditure) until then. The District has one item reported on the statement of net position as deferred pension outflows, which represents the actuarial differences within the NDPERS and TFFR pension plans as well as contributions to the plans made after the measurement date.

In addition to liabilities, the statement of financial 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 item which qualify for reporting in this category. One the items, unavailable revenue – delinquent taxes, is reported only in the governmental funds balance sheet. This amount, which is from delinquent property taxes, is deferred and recognized as an inflow of resources in the period that the amount become available. The other item is reported on the statement of net position as deferred pension inflows, which represents the actuarial differences within the NDPERS and TFFR pension. See note 11 for further details.

Budgets and Budgetary Accounting

The District's Board follows the procedures established by North Dakota law for the budgetary process. The operating budget includes proposed expenditures and the means of financing them for the upcoming year, along with estimates for the current year and actual data for the preceding year. Formal budgetary integration is employed as a management control device during the year for the general fund. The School Board must adopt the final budget on or before August 15. The final budget must be filed with the county auditor by August 15.

The budget may be amended during the year by the Board; however, no amendment changing the taxes levied can be made after October 10.

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.

Revenue Recognition

Taxes receivable consists 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 15 if the first half of the taxes has 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.

MINOT PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
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.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the District's internal service fund is charges to other funds for health insurance premiums. Operating expenses for the internal service fund include the cost of claims and related administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expense.

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.

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.

As discussed in note 13, the District has established a self-funded health insurance plan. Because of the inherent uncertainties associated with estimating the accrued liability for claims, it is at least reasonably possible that the estimate used will change within the near term.

NOTE 3 DEPOSITS

Custodial Credit Risk:

This is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its deposits, investments, or collateral securities that are in possession of an outside party.

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

The District has a deposit policy which requires all cash accounts to be kept at local banks.

MINOT PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2016

The District maintains cash on deposit at various financial institutions. The amounts on deposit were insured by the FDIC up to \$250,000 per applicable financial institution. At June 30, 2016, none of the District's deposits were exposed to custodial credit risk, as all deposits were covered by FDIC coverage and pledged collateral through local financial institutions. \$38,577,220 of the District's deposits are covered by pledged securities held in the District's name.

Credit Risk:

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

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

As of June 30, 2016, the District had no investments.

NOTE 4 TAXES RECEIVABLE AND DUE FROM OTHER GOVERNMENTS

Property Tax Receivable:

General fund	\$ 1,676,338
Other governmental funds	377,447
	\$ 2,053,785

Due from Other Governments:

General fund	
Souris Valley Special Services	\$ 1,484,180
In-state LEAs	13,046
Department of Public Instruction	1,173,824
Department of Career and Tech	275,006
Other	267,259
Total general fund	3,213,315

Other governmental funds	
Department of Public Instruction	375,993
Department of Defense	227,658
Department of Education	154,638
FEMA	10,835,168
Total other governmental funds	11,593,457

Total due from other governments	\$ 14,806,772
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MINOT PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2016

NOTE 5 INTERFUND RECEIVABLES/PAYABLES

The District's interfund receivables and payables consisted of the following as of June 30, 2016:

Fund	Due From	Due To
General Fund	\$ 6,455,718	\$ 2,670,234
Self Funded Health	2,670,234	- (1)
Capital Projects	-	6,455,718 (2)
Total Funds	<u>\$ 9,125,952</u>	<u>\$ 9,125,952</u>

(1) The General Fund has recorded a due to the Self Funded Health Fund for \$2,670,234 for its share of health insurance premiums.

(2) The General Fund has recorded a due from the Capital Projects Fund for \$6,455,718 to offset a negative cash balance.

NOTE 6 OTHER ASSETS

The District's other assets consist of the following as of June 30, 2016:

Other assets:	
Construction house and lots	\$ 350,259

NOTE 7 CAPITAL ASSETS

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

	7/1/2015	Additions	Deductions	6/30/2016
Capital assets not being depreciated:				
Land	\$ 4,725,335	\$ -	\$ -	\$ 4,725,335
Construction in Progress	11,734,540	38,628,498	(11,734,540)	38,628,498
Total capital assets not being depreciated	<u>16,459,875</u>	<u>38,628,498</u>	<u>(11,734,540)</u>	<u>43,353,833</u>
Capital assets being depreciated				
Land improvements	21,520,972	671,333	(52,254)	22,140,051
Building and improvements	132,207,404	6,776,851	-	138,984,255
Equipment and furniture	17,823,659	623,737	(902,973)	17,544,423
Total capital assets at historical cost	<u>171,552,035</u>	<u>8,071,921</u>	<u>(955,227)</u>	<u>178,668,729</u>
Less accumulated depreciation				
Land improvements	6,227,514	1,028,545	(48,665)	7,207,394
Building and improvements	30,602,779	2,571,198	-	33,173,977
Equipment and furniture	13,813,718	813,983	(891,567)	13,736,134
Total accumulated depreciation	<u>50,644,011</u>	<u>4,413,726</u>	<u>(940,232)</u>	<u>54,117,505</u>
Total capital assets being depreciated, net	<u>120,908,024</u>	<u>3,658,195</u>	<u>(14,995)</u>	<u>124,551,224</u>
	<u>\$ 137,367,899</u>	<u>\$ 42,286,693</u>	<u>\$ (11,749,535)</u>	<u>\$ 167,905,057</u>

MINOT PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2016

In the governmental activities section of the Statement of Activities, depreciation was charged to expense in the following governmental functions:

Instruction:	
Regular	\$ 3,761,446
Special education	32,493
Support services:	
Instruction staff services	154,132
General administrative services	33,382
Head Start	3,562
Operations and maintenance	154,016
Pupil transportation	213,206
Non-education services:	
Extracurricular	29,181
Food service	32,308
Total	<u><u>\$ 4,413,726</u></u>

NOTE 8 ACCOUNTS PAYABLE

The following amounts were recorded as payables as of June 30, 2016:

Trade Payables	
General fund	\$ 417,570
Capital projects fund	2,708,787
Other funds	56,087
Total trade payables	<u><u>3,182,444</u></u>
Accrued Salaries & Benefits	
General fund	5,586,356
Other funds	784,075
Total accrued salaries & benefits	<u><u>6,370,431</u></u>
Total Governmental Fund Payable	<u><u>\$ 9,552,875</u></u>
Internal Service Fund	
Claims payable	<u><u>\$ 651,000</u></u>

MINOT PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2016

NOTE 9 COMPENSATED ABSENCES

A summary of activity during the year for the compensated liabilities for the year ended June 30, 2016 is as follows:

	Compensated Absences and Early Retirement Obligations
Balance, July 1, 2015	\$ 564,198
Additions	668,797
Reductions	(689,056)
Balance, June 30, 2016	\$ 543,939
Due within one year	\$ 543,939

NOTE 10 LONG TERM DEBT OBLIGATIONS

Lease Revenue Refunding Bonds of 2011 – The bonds were issued to refinance the Lease Revenue Bonds of 2003. The bonds carry interest rates of 1.75% to 2.85% and are scheduled to mature in May 2023.

General Obligation School Building Bonds, Series 2011 – The District issued \$7,000,000 of general obligation bonds for the purpose of financing the purchase of land and constructing a new middle school, new additions to Lewis and Clark and Longfellow elementary schools, and to repair, renovate and improve school buildings and property. The bonds carry interest rates of 2.000% to 3.125% and are scheduled to mature in 2032.

General Obligation School Building Bonds, Series 2012 – The District issued \$2,000,000 of general obligation bonds for the purpose of financing the purchase of land and constructing a new middle school, new additions to Lewis and Clark and Longfellow elementary schools, and to repair, renovate and improve school buildings and property. The bonds carry interest rates of 1.5% to 2.0% and are scheduled to mature in 2017.

General Obligation School Building Bonds, Series 2012B – The District issued \$10,000,000 of general obligation bonds for the purpose of financing the purchase of land and constructing a new middle school, new additions to Lewis and Clark and Longfellow elementary schools, and to repair, renovate and improve school buildings and property. The bond carries an interest rate of 2.57% and is scheduled to mature in 2032.

MINOT PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2016

General Obligation School Building Bonds, Series 2014 – The District issued \$9,945,000 of general obligation bonds for the purpose of financing the construction of a new elementary school, new additions to Edison and Perkett elementary schools, and to repair, renovate and improve school buildings and property. The bond carries an interest rate of 2.75%-3.50% and is scheduled to mature in 2034.

General Obligation School Building Bonds, Series 2014B – The District issued \$20,000,000 of general obligation bonds for the purpose of financing school improvement construction projects. The bond carries an interest rate of 1.72% and is scheduled to mature in 2034.

General Obligation School Building Bonds, Series 2015 – The District issued \$9,205,000 of general obligation bonds for the purpose of financing the construction of a new elementary school, new additions to Edison and Perkett elementary schools, and to repair, renovate and improve school buildings and property. The bond carries an interest rate of 2.00%-4.00% and is scheduled to mature in 2025.

General Obligation School Building Bonds, Series 2016A – The District issued \$5,260,000 of general obligation bonds for the purpose of constructing, repairing, renovating and improving school property resulting from the flood of 2011. The bond carries an interest rate of 2.00%-3.00% and is scheduled to mature in 2026.

Lease Revenue Refunding Bonds, Series 2016B – The District issued \$3,310,000 in bonds to be used for the purpose of refunding the Lease Revenue Bonds of 2007. The bond carries an interest rate of 2.00% and is scheduled to mature in 2026.

A summary of long-term liability transactions for the year ended June 30, 2016 follows:

	Bonds Payable
Balance, July 1, 2015	\$ 60,952,276
Additions	8,570,000
Reductions	(5,485,358)
Balance, June 30, 2016	\$ 64,036,918
Due within one year	\$ 2,730,947

Following is a schedule of the future expected principal and interest requirements to retire the long-term debt obligations as of June 30, 2016:

Fiscal Year Ending June 30,	Principal	Interest	Total
2017	\$ 2,730,947	\$ 1,546,620	\$ 4,277,567
2018	3,592,066	1,487,156	5,079,222
2019	3,678,728	1,405,743	5,084,471
2020	3,765,946	1,313,126	5,079,072
2021	3,853,731	1,221,659	5,075,390
2022 - 2026	18,810,179	4,701,637	23,511,816
2027 - 2031	15,974,302	2,400,601	18,374,903
2032 - 2036	11,631,019	482,975	12,113,994
Total	\$ 64,036,918	\$ 14,559,517	\$ 78,596,435

MINOT PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2016

NOTE 11 DEFINED BENEFIT PENSION PLANS - STATEWIDE

Substantially, all employees of the District are required by state law to belong to pension plans administered by Teachers' 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 TEACHERS' FUND FOR RETIREMENT

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

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

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

Pension Benefits

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

Tier 1 Grandfathered

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

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

MINOT PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2016

Tier 1 Non-grandfathered

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

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

Tier 2

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

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

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

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

MINOT PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2016

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

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

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2016, the District reported a liability of \$88,838,849 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 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 June 30, 2015, the Employer's proportion was 6.792713 percent, which was a decrease of .12 percent from its proportionate measured as of June 30, 2014.

For the year ended June 30, 2016, the Employer recognized pension expense of \$5,593,319. 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 experience	\$ 582,158	\$ -
Changes of assumptions	9,975,078	-
Net difference between projected and actual earnings on pension plan investments	-	(1,001,787)
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	(1,184,169)
Employer contributions subsequent to the measurement date	5,554,725	-
Total	\$ 16,111,961	\$ (2,185,956)

\$5,554,725 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

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

Year ended June 30:	Pension Expense Amount
2017	\$ 821,491
2018	821,492
2019	821,492
2020	2,842,920
2021	1,577,296
Thereafter	1,486,589

MINOT PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
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 are 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 all ages under 75 and grading up to 100% by age 80, projected generationally using Scale MP-2014. For disabled retirees, mortality rates were based on the RP-2014 Disabled Mortality Table set forward four years.

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

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

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

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

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

MINOT PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2016

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 (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Employer's proportionate share of the net pension liability	\$ 117,404,740	\$ 88,838,849	\$ 65,015,499

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued TFFR financial report. Requests to obtain or review this report should be addressed to the North Dakota Retirement and Investment Office, 1930 Burnt Boat Dr., Bismarck, ND 58503.

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. Effective July 1, 2015, the board was expanded to include two members of the legislative assembly appointed by the chairman of the legislative management.

MINOT PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2016

Pension Benefits

Benefits are set by statute. NDPERS has no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Member of the Main System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). For members hired on or after January 1, 2016 the Rule of 85 will be replaced with the Rule of 90 with a minimum age of 60. The monthly pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. The plan permits early retirement at ages 55-64 with three or more years of service.

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

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 for disabled is set by the NDPERS in the North Dakota Administrative Code.

Refunds of Member Account Balance

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

MINOT PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2016

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

- 1 to 12 months of service – Greater of one percent of monthly salary or \$25
- 13 to 24 months of service – Greater of two percent of monthly salary or \$25
- 25 to 36 months of service – Greater of three percent of monthly salary or \$25
- Longer than 36 months of service – Greater of four percent of monthly salary or \$25

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 Employer reported a liability of \$10,288,781 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 Employer's proportion of the net pension liability was based on the Employer'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 Employer's proportion was 1.513094 percent which was a 0.03 increase from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the Employer recognized pension expense of \$988,103. 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 experience	\$ 298,491	\$ -
Changes of assumptions	-	(916,682)
Net difference between projected and actual earnings on pension plan investments	-	(217,195)
Changes in proportion and differences between employer contributions and proportionate share of contributions	36,447	-
Employer contributions subsequent to the measurement date	1,137,121	-
Total	\$ 1,472,059	\$ (1,133,877)

\$1,137,121 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

MINOT PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2016

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

Year ended June 30:	Pension Expense Amount
2017	\$ (271,257)
2018	(271,257)
2019	(271,257)
2020	177,550
2021	(162,718)

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

Inflation	3.50%
Salary increases	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:

MINOT PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2016

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%	1.55%
International fixed equity	5.00%	0.90%
Global real assets	20.00%	5.38%
Cash equivalents	1.00%	0.00%

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

Sensitivity of the Employer's proportionate share of the net pension liability to changes in the discount rate. The following presents the Employer's proportionate share of the net pension liability calculated using the discount rate of 8 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 percent) or 1-percentage-point higher (9 percent) than the current rate:

	<u>1% Decrease (7%)</u>	<u>Current Discount Rate (8%)</u>	<u>1% Increase (9%)</u>
Employer's proportionate share of the net pension liability	<u>\$ 15,777,331</u>	<u>\$ 10,288,781</u>	<u>\$ 5,798,155</u>

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued NDPERS financial report. Requests to obtain or review this report should be addressed to the Executive Director – NDPERS, P.O. Box 1657, Bismarck, North Dakota 58502-16573

NOTE 12 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 \$135,488.

MINOT PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2016

NOTE 13 RISK MANAGEMENT

The District is exposed to various risks related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the mid-1980's, the District was not able to obtain general liability insurance at a cost it considered to be economically justifiable. In 1986, the state and other political subdivisions 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.

All members paid an additional charge the first year they joined to help capitalize the NDIRF. In each of the years from 1991 through 1994, the NDIRF returned 20% of the capitalized amount with a premium reduction or cash payment to the District. The District pays an annual premium to NDIRF for its general, business and auto insurance coverage. The coverage by NDIRF is limited to losses of \$2,000,000 per occurrence. In the past three years, no settled claims have exceeded insurance coverage.

In October of 1996, the District entered into a self-funding health insurance plan with Blue Cross Blue Shield. Under the plan, the District is liable for individual claims up to \$40,000 stop loss limit per participant. As of June 30, 2016, the District has accrued an estimated claims liability of \$651,000. The estimated liability is based upon information provided by insurance carrier, which the District believes is a reasonable basis for determining unpaid claims as of June 30, 2016. The following is a recap of the District's claims:

Claim Liability as of July 1, 2015	\$	721,000
Claims incurred		7,484,230
Claims paid		(7,554,230)
Claim Liability as of June 30, 2016	<u>\$</u>	<u>651,000</u>

The District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

NOTE 14 TRANSFERS

The following is a summary of transfers for the year ended June 30, 2016:

	<u>General Fund</u>	<u>MAFB District #160</u>	<u>Other Funds - Nonmajor</u>
Transfers in	\$ -	\$ -	\$ 766,421
Transfers out	(633,507)	(132,914)	-
	<u>\$ (633,507)</u>	<u>\$ (132,914)</u>	<u>\$ 766,421</u>

The transfers were to cover facility upgrades at the Minot Air Force base and to supplement the food service program.

MINOT PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2016

NOTE 15 FUND BALANCES

At June 30, 2016, a summary of the governmental fund balance classification is as follows:

	General Fund	Capital Projects - MPSD	MAFB District #160	Other Nonmajor Governmental Funds
Non-spendable:				
Inventories	\$ -	\$ -	-	\$ 152,934
Other assets	350,259	-	-	-
Restricted:				
Debt service	-	-	-	1,749,411
Minot Air Force Base District No. 160	-	-	5,342,906	-
Capital projects	-	-	-	125,839
Unassigned:				
General fund	20,098,220	(9,163,153)	-	(189,089)
	<u>\$ 20,448,479</u>	<u>\$ (9,163,153)</u>	<u>\$ 5,342,906</u>	<u>\$ 1,839,095</u>

NOTE 16 COMMITMENTS

As of June 30, 2016, Minot Public School District No. 1 had entered into a three year service contract for sports medicine and strength and conditioning activities beginning in 2014. The total cost of the contract was approximately \$333,000. As of June 30, 2016, the District had recognized costs of approximately \$222,264 related to this project and had approximately \$111,129 in commitments left.

As of June 30, 2016, Minot Public School District No. 1 had entered into contracts for various professional services from the Minot Police Department and with First District Health Unit. As of June 30, 2016, the District had recognized costs of approximately \$178,000 and the estimated cost to complete these contracts is approximately \$211,900.

There are also construction commitments with the completion of the various school construction projects that were in progress as of June 30, 2016.

NOTE 17 CONTINGENCIES

The District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with items and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. The District's management believes it has complied with all applicable grant provisions. In the opinion of management, any possible disallowed claim would not have a material adverse effect on the overall financial position of the District as of June 30, 2016.

As of June 30, 2016, the District has been made aware of pending or threatened litigation in relation to services provided by Servpro, which were performed as part of flood clean-up efforts during the Souris River flood that occurred in 2011. Servpro alleges that Minot Public Schools is in breach of contract and has failed to pay \$2,014,800 for services rendered. Minot Public Schools has answered the complaint, and intends to vigorously defend the suit. At this time, the amount of a potential liability, if any, cannot be estimated.

MINOT PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2016

NOTE 18 ECONOMIC DEPENDENCY

Minot Public School District No. 1 receives a substantial amount of its support from federal and state governments. A significant reduction in the level of this support, if this were to occur, may have a material effect on the District's programs and therefore on its continued operations.

NOTE 19 PRIOR PERIOD ADJUSTMENT

During the current year, the District adjusted its July 1, 2015 financial statements to recognize as revenue the federal Impact Aid grant. In the prior year financial statements, this grant was recorded as unearned revenue. The net effect of this prior period adjustment was a net decrease of \$1,609,595 to unearned revenue and a net increase of \$1,609,595 to net position and restricted fund balance in the MAFB District #160 fund as of June 30, 2016.

NOTE 20 – NEW ACCOUNTING PRONOUNCEMENTS

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. 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.

MINOT PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2016

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 and 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.

MINOT PUBLIC SCHOOL DISTRICT NO. 1
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
June 30, 2016

	Budgeted Amounts, Original and Final	Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)
REVENUES			
Local sources			
Property taxes	\$ 18,443,000	\$ 19,373,337	\$ 930,337
Other local sources	7,404,984	7,509,457	104,473
County sources	1,000,000	1,583,333	583,333
State sources	65,135,365	65,536,322	400,957
Federal sources	4,290,151	4,018,038	(272,113)
Other sources	2,029,000	2,026,760	(2,240)
Total revenues	<u>98,302,500</u>	<u>100,047,247</u>	<u>1,744,747</u>
EXPENDITURES			
Instruction:			
Regular	42,110,730	41,203,394	907,336
Special education	14,511,600	14,372,400	139,200
Vocational education	2,781,049	2,889,472	(108,423)
Federal instruction	3,838,698	3,527,031	311,667
Total instruction	<u>63,242,077</u>	<u>61,992,297</u>	<u>1,249,780</u>
Tuition:	<u>1,450,000</u>	<u>1,865,461</u>	<u>(415,461)</u>
Support services:			
Pupil services	2,741,925	2,663,373	78,552
Instructional staff services	3,829,790	3,545,849	283,941
General administration services	3,233,702	3,110,561	123,141
School administration services	6,087,175	5,964,845	122,330
Business services	644,566	604,883	39,683
Operations and maintenance	9,007,000	8,738,352	268,648
Pupil transportation services	1,997,900	1,873,745	124,155
Lease payments	720,000	715,344	4,656
Total support services	<u>28,262,058</u>	<u>27,216,952</u>	<u>1,045,106</u>
Non-education services:			
Enterprise services	444,820	381,675	63,145
Community services	1,639,845	1,774,160	(134,315)
Student activities	1,761,200	1,724,272	36,928
Services provided another LEA	130,000	129,778	222
Total non education services	<u>3,975,865</u>	<u>4,009,885</u>	<u>(34,020)</u>
Capital outlays	<u>1,380,000</u>	<u>1,897,389</u>	<u>(517,389)</u>
Total expenditures	<u>98,310,000</u>	<u>96,981,984</u>	<u>1,328,016</u>
Excess (deficiency) of revenues over expenditures	<u>(7,500)</u>	<u>3,065,263</u>	<u>3,072,763</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from sale of capital assets	7,500	12,646	5,146
Transfers out	-	(633,507)	(633,507)
Total other financing sources and uses	<u>7,500</u>	<u>(620,861)</u>	<u>(628,361)</u>
Net change in fund balances	-	2,444,402	2,444,402
Fund balances - beginning	14,775,665	14,775,665	-
Fund balances - ending	<u>\$ 14,775,665</u>	<u>\$ 17,220,067</u>	<u>\$ 2,444,402</u>

The Note to the Budgetary Comparison Schedule is an Integral Part of this Schedule

MINOT PUBLIC SCHOOL DISTRICT NO. 1
SCHEDULE OF EMPLOYER CONTRIBUTIONS
LAST TEN FISCAL YEARS*

ND PERS

	Statutorily required contribution	Contributions in relation to the statutorily required contribution	Contribution deficiency (excess)	Employer's covered- employee payroll	Contributions as a percentage of covered-employee payroll
2016	\$ 1,137,121	\$ (1,137,121)	-	\$ 16,046,260	7.09%
2015	1,023,901	(1,023,901)	-	13,479,829	7.60%

TFFR

	Statutorily required contribution	Contributions in relation to the statutorily required contribution	Contribution deficiency (excess)	Employer's covered- employee payroll	Contributions as a percentage of covered-employee payroll
2016	\$ 5,554,725	\$ (5,554,725)	-	43,499,874	12.77%
2015	5,326,988	(5,326,988)	-	41,782,306	12.75%

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

MINOT PUBLIC SCHOOL DISTRICT NO. 1
SCHEDULE OF EMPLOYER'S PROPORTIONATE
SHARE OF NET PENSION LIABILITY
LAST TEN FISCAL YEARS*

ND PERS

	Employer's proportion of the net pension liability (asset)	Employer's proportionate share of the net pension liability (asset)	Employer's covered- employee payroll	Employer's 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	1.513094%	\$ 10,288,781	\$ 13,479,829	76.33%	77.15%
2015	1.510328%	9,586,375	12,722,678	75.35%	77.70%

TFFR

	Employer's proportion of the net pension liability (asset)	Employer's proportionate share of the net pension liability (asset)	Employer's covered- employee payroll	Employer's 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	6.792713%	\$ 88,838,849	\$ 41,782,306	212.62%	62.10%
2015	6.911929%	72,424,762	40,092,868	180.64%	66.60%

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

MINOT PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2016

NOTE 1 BUDGETARY BASIS OF ACCOUNTING

To provide a meaningful comparison of the District's actual results compared to the budgeted results, the Statements of Revenues, Expenditures, and Changes in Fund Balances-Budget and Actual are prepared on the District's budgetary basis. Under the District's budgetary basis of accounting, revenues are budgeted on the cash basis of accounting. Expenditures are also budgeted on the cash basis except for teacher salaries and benefits. The District allows teachers to take their compensation in nineteen or twenty four payments. The budget is prepared estimating the entire contract cost regardless of when the actual payment is made.

Budgeted Inflows and Outflows

Listed on the next page is a reconciliation between the revenues and expenditures as presented in the District's Statement of Revenues, Expenditures, and Changes in Fund Balance and the budgetary inflows and outflows presented in the District's general fund budget.

NOTE 2 NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT – CHANGES OF ASSUMPTIONS

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

- Investment return assumption lowered from 8.00% to 7.75%.
- Inflation assumption lowered from 3.00% to 2.75%.
- Total salary scale rates lowered by 0.25% due to lower inflation.
- Added explicit administrative expense assumption, equal to prior year administrative expense plus inflation.
- Rates of turnover and retirement were changed to better reflect anticipated future experience.
- Updated mortality assumption to the RP-2014 mortality tables with generational improvement.

NOTE 3 NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM – CHANGES OF ASSUMPTIONS

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

MINOT PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION-CONTINUED
JUNE 30, 2016

	<u>General Fund</u>
<i>Sources/Inflows of resources</i>	
Actual revenues (budgetary basis) presented on the budgetary comparison schedule	\$ 100,059,893
<u>Difference - budget to GAAP</u>	
Net effect of June 30, 2015 and 2016 unearned revenue being recognized on the budget statement when collected but not recorded as revenue until earned.	(179,625)
Net effect of June 30, 2015 and 2016 revenue recorded when measurable and available on the revenue statement but not recorded as revenue on the budget statement until collected.	<u>(578,634)</u>
Total revenue as reported on the Statement of Revenue, Expenditures, and Changes in Fund Balances - Government Funds.	<u><u>\$ 99,301,634</u></u>
<i>Uses/outflows of resources</i>	
Actual expenditures and transfers (budgetary basis) presented on the budgetary comparison schedule	\$ 97,615,491
<u>Difference - budget to GAAP</u>	
Net effect of June 30, 2015 and 2016 liabilities that are paid from "available resources" and are recognized as an expenditure when the obligation is incurred on the revenue statement but not recorded on the budget statement until paid.	<u>(649,690)</u>
Total expenditures as reported on the statement of revenue, expenditure, and changes in fund balances - governmental funds	<u><u>\$ 96,965,801</u></u>

MINOT PUBLIC SCHOOL DISTRICT NO. 1
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Passed Through to Subrecipients</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Agriculture</u>			
Team Nutrition Grants	10.574	-	\$ 8,549
Passed through the ND Department of Public Instruction			
National School Lunch Program	10.555	-	\$ 1,375,270
School Breakfast Program	10.553	-	267,820
Special Milk Program	10.556	-	1,537
Summer Food Service Program	10.559	-	24,335
Total Child Nutrition Cluster			<u>1,668,962</u>
Child and Adult Care Food Program	10.558	-	234,461
Fresh Fruit & Vegetable Program	10.582	-	186,323
Total Passed through ND Department of Public Instruction			<u>2,089,746</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>\$ 2,098,295</u>
<u>U.S. Department of Health and Human Services</u>			
Headstart	93.600	-	3,412,327
Assistance Programs for Chronic Disease Prevention	93.945	-	65,800
			<u>3,478,127</u>
TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES			
<u>U.S. Department of Defense</u>			
National Guard Challenge Program	12.404	-	293,897
Reserve Officer Training Course	12.UNK	-	56,646
TOTAL DEPARTMENT OF DEFENSE			<u>\$ 350,543</u>
<u>U.S. Department of Homeland Security</u>			
Passed through the ND State Department of Emergency Services Disaster Grant - Public Assistance	97.036	-	<u>\$ 56,142</u>
<u>U.S. Department of Labor</u>			
Passed through the ND Department of Public Instruction WIA Incentive Grant	17.267	-	<u>\$ 23,583</u>
<u>U.S. Department of Education</u>			
Direct Programs			
Indian Education-Grants to Local Educational Agencies	84.060	-	\$ 30,630
Passed through the ND Department of Public Instruction			
Title I	84.010	-	1,852,095
School Improvement Grants	84.388	-	63,872
Twenty-First Century Community Learning Centers	84.287	-	804,151
Adult Education - Basic Grants to States	84.002	-	112,300
English Language Acquisition State Grants	84.365	-	46,757
Special Education-State Personnel Development	84.323	-	111,810
Improving Teacher Quality	84.367	-	710,521
Education for Homeless Children and Youth	84.196	-	16,104
Grants for State Assessments and Related Activities	84.369	-	22,243
Program for Neglected and Delinquent Children and Youth	84.013	-	69,860
			<u>3,809,713</u>
Total Pass through the ND Department of Public Instruction			
Passed through Souris Valley Social Services Special Education Grants to States	84.027	-	146,506
Passed through ND State Department of Vocational Education Career and Tech Education Basic Grants to States	84.048	-	<u>155,563</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>\$ 4,142,412</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u>\$ 10,149,102</u>

See Notes to the Schedule of Federal Awards

MINOT PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2016

1. Purpose of the Schedule

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

2. Summary of Significant Accounting Policies

A. Basis of Presentation

Federal Financial Assistance - Pursuant to the Uniform Guidance, federal financial assistance is defined as assistance that nonfederal entities receive or administer in the form of grants, cooperative agreements, loans, loan guarantees, property (including donated surplus property), interest subsidies, insurance, food commodities, direct appropriations and other assistance, but does not include amounts received as reimbursements for services rendered to individuals. Accordingly, nonmonetary federal assistance may be included in federal financial assistance and therefore, may be reported on the schedule. The District received \$135,488 in nonmonetary federal assistance during the year. Federal financial assistance does not include direct federal cash assistance to individuals.

Catalog of Federal Domestic Assistance – Uniform Guidance requires the schedule to show the total expenditures for each of the federal financial assistance programs as identified in the Catalog of Federal Domestic Assistance (CFDA). The CFDA is a government wide compendium of individual federal programs. Federal financial assistance programs which have not been assigned a CFDA number are indicated with an “UNK.”

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

C. Reporting Entity - The schedule includes all federal financial assistance programs administered by the District including its blended component units.

D. Basis of Accounting – Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Minot Public School District No. 1 has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

E. Matching Costs - The schedule does not include matching expenditures.

3. Funds to Subrecipients - Funds passed through to subrecipients are included on the schedule.

MINOT PUBLIC SCHOOL DISTRICT NO. 1
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED
JUNE 30, 2016

4. Reconciliation to the Financial Statements - The schedule of expenditures of federal awards reports expenditures of federal awards of \$10,149,102. Compared to the federal revenue reported on the Statement of Revenues, Expenditures and Changes in Fund Balances for Governmental Funds of \$18,416,040 there is a difference of \$8,266,938. This difference is made up of the following:

Federal Revenue of Minot Air Force Base #160 reported in the financial statements as they are a component unit	\$ 8,068,050
Difference in FEMA revenues and expenditures based on compliance reporting requirements	705,910
Federal revenue in Agency Funds	(507,022)
	<u>\$ 8,266,938</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 President and Board Members
Minot Public School District No. 1
Minot, 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 Audit Standards* issued by the Comptroller General of the United States, the financial statements of the government activities, each major fund, and the aggregate remaining fund information of Minot Public School District No. 1 as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Minot Public School District No. 1's basic financial statements, and have issued our report thereon dated MPSD December 30, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Minot Public School District No. 1's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Minot Public School District No. 1's internal control. Accordingly, we do not express an opinion on the effectiveness of Minot Public School District No. 1's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency as item 2016-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Minot Public School District No. 1's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

District's Response to Finding

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



BRADY, MARTZ & ASSOCIATES, P.C.

Bismarck, North Dakota

December 30, 2016



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

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

To the President and Board Members
Minot Public School District No. 1
Minot, North Dakota

Report on Compliance for Each Major Federal Program

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

The Minot Public School District No. 1's basic financial statements include the operations of the Minot Air Force Base School District #160 which spent \$8,068,050 in federal awards. These awards are not included in the District's schedule of expenditures of federal awards for the year ending June 30, 2016. Our audit described below did not include the operations of the above-mentioned component unit because a separate audit was performed in accordance with Uniform Guidance.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

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

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

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

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



BRADY, MARTZ & ASSOCIATES, P.C.

Bismarck, North Dakota

December 30, 2016

BRADY, MARTZ & ASSOCIATES, P.C.

MINOT PUBLIC SCHOOL DISTRICT NO. 1
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

Section I-Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	<u>Unmodified</u>		
Internal control over financial reporting:			
Material weakness(es) identified?	<u> </u> yes	<u> x </u> no	
Significant deficiency(ies) identified?	<u> x </u> yes	<u> </u>	none reported
 Noncompliance material to financial statements noted?	<u> </u> yes	<u> x </u> no	

Federal Awards

Internal control over major programs:			
Material weakness(es) identified?	<u> </u> yes	<u> x </u> no	
Significant deficiency(ies) identified?	<u> </u> yes	<u> x </u> no	

Type of auditor's report issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are Required to be reported in accordance with 2 CFR 200.516(a)?	<u> </u> yes	<u> x </u> no
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<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
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10.553, 10.555, 10.556 & 10.559 84.010	Child Nutrition Cluster Title I
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Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 750,000</u>
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Auditee qualified as a low-risk auditee?	<u> x </u> yes	<u> </u> no
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MINOT PUBLIC SCHOOL DISTRICT NO. 1
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED
FOR THE YEAR ENDED JUNE 30, 2016

Section II - Financial Statement Findings

2016-001

Criteria

A good system of internal accounting control contemplates an adequate system for the preparation of the financial statements, including recording government wide journal entries in order to reconcile from the fund financials to the government wide financials and ensuring all general ledger accounts are properly reflected on a GAAP basis.

Condition

The District does not have an internal control system designed to provide for the preparation of the financial statements being audited, including recording government wide journal entries. As auditors, we were requested to propose material journal entries for capital assets, debt, related expenditures, accruals and draft the financial statements, which include proposing government wide journal entries, and drafting the accompanying notes to the financial statements.

Cause

This control deficiency could result in a misstatement to the presentation of the footnotes in the audit ready financial statements.

Effect

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

Recommendation

The circumstance is not unusual in an organization of your size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Views of Responsible Officials and Planned Corrective Actions

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

Section III – Federal Award Findings and Questioned Costs

There are no findings which are required to be reported under this section.

MINOT PUBLIC SCHOOL DISTRICT NO. 1
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

There were no findings or questioned costs in the prior year.

MINOT PUBLIC SCHOOL DISTRICT NO. 1
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2016

2016-001

Contact Person

Scott Moun, Business and Operations Manager

Corrective Action Plan

The management and School Board of Minot Public School District No. 1. do not feel it is cost beneficial to obtain and maintain this type of knowledge and expertise.

Completion Date

Minot Public School District No. 1 will implement when it becomes cost effective.