

OFFICE OF THE STATE AUDITOR

AUDIT REPORT

**KINDRED PUBLIC SCHOOL DISTRICT No. 2
KINDRED, NORTH DAKOTA**

FOR THE YEAR ENDED JUNE 30, 2014



KINDRED PUBLIC SCHOOL DISTRICT NO. 2
Kindred, North Dakota

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KINDRED PUBLIC SCHOOL DISTRICT NO. 2
Kindred, North Dakota

SCHOOL OFFICIALS

June 30, 2014

Mike Saewert	Board President
Mark Rieger	Board Vice-President
Sean Roesler	Board Member
Mike McCollum	Board Member
Jean Hertsgaard	Board Member
Roy Plankers	Board Member
Richard Klose	Board Member
Steve Hall	Superintendent
Melanie Moffet	Business Manager
Jon Arntson	Attorney

STATE AUDITOR

ROBERT R. PETERSON
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FARGO OFFICE
MANAGER – DAVID MIX
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STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
STATE CAPITOL
600 E. BOULEVARD AVENUE - DEPT. 117
BISMARCK, NORTH DAKOTA 58505

INDEPENDENT AUDITOR'S REPORT

School Board
Kindred Public School District No. 2
Kindred, 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 the Kindred Public School District No. 2, Kindred, North Dakota, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Kindred Public School District No. 2's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Kindred Public School District No. 2, Kindred, North Dakota, as of June 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Accounting principles generally accepted in the United States of America require that the *budgetary comparison information* on pages 23-24 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 6, 2015 on our consideration of the Kindred Public School District No. 2's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Kindred Public School District No. 2's internal control over financial reporting and compliance.



Robert R. Peterson
State Auditor

Fargo, North Dakota
March 6, 2015

KINDRED PUBLIC SCHOOL DISTRICT NO. 2
Kindred, North Dakota

STATEMENT OF NET POSITION
June 30, 2014

	<u>Governmental Activities</u>
<u>ASSETS:</u>	
Cash and Cash Equivalents	\$ 2,902,800
Restricted Investment	2,693,856
Intergovernmental Receivable	119,183
Accounts Receivable	3,960
Due from County Treasurer	102,507
Taxes Receivable	129,496
Capital Assets (not being depreciated):	
Land	250,807
Construction in Progress	198,000
Capital Assets (net of accumulated depreciation):	
Buildings/Improvements	18,790,282
Vehicles	390,471
Equipment	302,674
Total Capital Assets	<u>\$ 19,932,234</u>
Total Assets	<u>\$ 25,884,036</u>
<u>LIABILITIES:</u>	
Accounts Payable	\$ 19,251
Salaries & Benefits Payable	210,476
Contracts Payable	198,000
Retainages Payable	58,372
Interest Payable	374,284
Long-Term Liabilities:	
Due Within One Year:	
General Obligation Bonds Payable	25,000
Lease Revenue Bonds Payable	120,000
Compensated Absences Payable	19,521
Due After One Year:	
General Obligation Bonds Payable	14,755,000
Lease Revenue Bonds Payable	515,000
Compensated Absences Payable	58,564
Total Liabilities	<u>\$ 16,353,468</u>
<u>NET POSITION:</u>	
Net Investment in Capital Assets	\$ 4,517,234
Restricted for:	
Debt Service	3,214,770
Building Projects	169,103
Unrestricted	<u>1,629,461</u>
Total Net Postion	<u>\$ 9,530,568</u>

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

KINDRED PUBLIC SCHOOL DISTRICT NO. 2
Kindred, North Dakota

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014

Function/Program	Expenses	Program Revenues		Governmental Activities	Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating			Capital
			Grants and Contributions			Grants and Contributions
<u>Governmental Activities:</u>						
Regular Instruction	\$4,377,904	\$ 15,100	\$ -	\$ -	\$ (4,362,804)	
Special Education	470,693	-	-	-	(470,693)	
Vocational Education	256,809	-	-	-	(256,809)	
Federal Programs	65,780	-	171,793	-	106,013	
District Wide Services	163,883	-	-	-	(163,883)	
Administration	529,017	-	-	-	(529,017)	
School Food Services	339,342	227,685	92,248	-	(19,409)	
Operations and Maintenance	783,082	-	10,876	94,760	(677,446)	
Transportation	316,735	-	242,860	5,178	(68,697)	
Co-Curricular Activities	200,343	-	-	-	(200,343)	
Other Programs & Activities	6,035	-	-	-	(6,035)	
Interest on Long-Term Debt	915,530	-	-	-	(915,530)	
Fiscal Charges	1,800	-	-	-	(1,800)	
Total Governmental Activities	\$8,426,953	\$ 242,785	\$ 517,777	\$ 99,938	\$ (7,566,453)	
<u>General Revenues:</u>						
Property taxes; levied for general purposes					\$ 1,283,591	
Property taxes; levied for debt service					184,400	
Property taxes; levied for building purposes					1,028,946	
State aid-unrestricted					5,416,854	
Investment earnings					832,104	
Miscellaneous revenue					82,966	
Total General Revenues					\$ 8,828,861	
Change in Net Position					\$ 1,262,408	
Net Position - July 1					\$ 8,268,160	
Net Position - June 30					\$ 9,530,568	

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

KINDRED PUBLIC SCHOOL DISTRICT NO. 2
Kindred, North Dakota

BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2014

	General	Building Fund	Debt Service	Food Service Fund	Total Governmental Funds
<u>ASSETS</u>					
Cash and Cash Equivalents	\$ 1,682,714	\$ 418,716	\$ 801,370	\$ -	\$ 2,902,800
Restricted Investment	-	-	2,693,856	-	2,693,856
Intergovernmental Receivable	119,183	-	-	-	119,183
Accounts Receivable	3,960	-	-	-	3,960
Due from County Treasurer	51,672	7,792	43,043	-	102,507
Taxes Receivable	68,485	10,226	50,785	-	129,496
Due from Other Funds	16,820	-	-	-	16,820
Total Assets	\$ 1,942,834	\$ 436,734	\$ 3,589,054	\$ -	\$ 5,968,622
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</u>					
<u>Liabilities:</u>					
Accounts Payable	\$ 7,992	\$ 11,259	\$ -	\$ -	\$ 19,251
Salaries & Benefits Payable	210,476	-	-	-	210,476
Contracts Payable	-	198,000	-	-	198,000
Due to Other Funds	-	-	-	16,820	16,820
Total Liabilities	\$ 218,468	\$ 209,259	\$ -	\$ 16,820	\$ 444,547
<u>Deferred Inflows of Resources:</u>					
Uncollected taxes	\$ 68,485	\$ 10,226	\$ 50,785	\$ -	\$ 129,496
Total Liabilities and Deferred Inflows of Resources	\$ 286,953	\$ 219,485	\$ 50,785	\$ 16,820	\$ 574,043
<u>Fund Balances:</u>					
<u>Restricted for:</u>					
Debt Service	\$ -	\$ -	\$ 3,538,269	\$ -	\$ 3,538,269
Capital Projects	-	217,249	-	-	217,249
<u>Unassigned:</u>	1,655,881	-	-	(16,820)	1,639,061
Total Fund Balances	\$ 1,655,881	\$ 217,249	\$ 3,538,269	\$ (16,820)	\$ 5,394,579
Total Liabilities and Fund Balances	\$ 1,942,834	\$ 436,734	\$ 3,589,054	\$ -	\$ 5,968,622

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

KINDRED PUBLIC SCHOOL DISTRICT NO. 2
Kindred, North Dakota

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2014

Total *Fund Balances* for Governmental Funds \$ 5,394,579

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

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

Cost of Capital Assets	\$ 27,157,831	
Less Accumulated Depreciation	<u>(7,225,597)</u>	
Net Capital Assets		19,932,234

Property taxes receivable will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and therefore are reported as deferred revenues in the funds. 129,496

Long-term liabilities applicable to the School District's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities- both current and long-term- are reported in the statement of net position. Balances at June 30, 2014 are:

General Obligation Bonds Payable	\$ (14,780,000)	
Lease Revenue Bonds Payable	(635,000)	
Interest Payable	(374,284)	
Retainages Payable	(58,372)	
Compensated Absences Payable	<u>(78,085)</u>	
Total Long-Term Liabilities		<u>(15,925,741)</u>

Total Net Position - Governmental Activities \$ 9,530,568

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

KINDRED PUBLIC SCHOOL DISTRICT NO. 2
Kindred, North Dakota

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2014

	General	Building Fund	Debt Service	Food Service Fund	Total Governmental Funds
<u>Revenues:</u>					
Local Sources	\$ 1,369,526	\$ 287,931	\$ 1,844,348	\$ 227,685	\$ 3,729,490
State Sources	5,670,589	-	-	3,916	5,674,505
Federal Sources	171,793	-	-	88,332	260,125
Other Sources	43,458	-	16,768	-	60,226
Total Revenues	\$ 7,255,366	\$ 287,931	\$ 1,861,116	\$ 319,933	\$ 9,724,346
<u>Expenditures:</u>					
Current:					
Regular Instruction	\$ 3,540,244	\$ -	\$ -	\$ -	\$ 3,540,244
Special Education	470,693	-	-	-	470,693
Vocational Education	258,181	-	-	-	258,181
Federal Programs	65,780	-	-	-	65,780
District Wide Services	151,098	-	-	-	151,098
Administration	529,017	-	-	-	529,017
School Food Services	-	-	-	339,025	339,025
Operations and Maintenance	785,818	-	-	-	785,818
Transportation	365,452	-	-	-	365,452
Co-Curricular Activities	311,208	-	-	-	311,208
Other Programs & Services	6,035	-	-	-	6,035
Capital Outlay	-	531,659	-	-	531,659
Debt Service:					
Principal	115,000	25,000	-	-	140,000
Interest	29,619	5,625	882,000	-	917,244
Fiscal Charges	-	-	1,800	-	1,800
Total Expenditures	\$ 6,628,145	\$ 562,284	\$ 883,800	\$ 339,025	\$ 8,413,254
Excess (Deficiency) of Revenues Over Expenditures	\$ 627,221	\$ (274,353)	\$ 977,316	\$ (19,092)	\$ 1,311,092
<u>Other Financing Sources (Uses):</u>					
Transfers In	\$ -	\$ 332,096	\$ 1,681,988	\$ -	\$ 2,014,084
Transfers Out	(332,096)	-	(1,681,988)	-	(2,014,084)
Total Other Financing Sources and Uses	\$ (332,096)	\$ 332,096	\$ -	\$ -	\$ -
Net Change in Fund Balances	\$ 295,125	\$ 57,743	\$ 977,316	\$ (19,092)	\$ 1,311,092
Fund Balances - July 1	\$ 1,360,756	\$ 159,506	\$ 2,560,953	\$ 2,272	\$ 4,083,487
Fund Balance - June 30	\$ 1,655,881	\$ 217,249	\$ 3,538,269	\$ (16,820)	\$ 5,394,579

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

KINDRED PUBLIC SCHOOL DISTRICT NO. 2
Kindred, North Dakota

RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014

Net Change in *Fund Balances* - Total Governmental Funds \$1,311,092

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital asset depreciation exceeded capital asset additions in the current year.

Capital Asset Additions	\$ 523,030	
Current Year Depreciation Expense	<u>(605,148)</u>	(82,118)

In the Statement of Activities, the loss or gain on sale or disposal of capital assets is recognized. The fund financial statements recognize only the proceeds from these sales.

Loss on Disposals of Capital Assets		(24,278)
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Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount of the repayment of debt

Repayment of General Obligation Bonds	\$ 25,000	
Repayment of Lease Revenue Bonds	<u>115,000</u>	140,000

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

Net Change in Interest Payable	\$ 1,714	
Net Change in Retainages Payable	(58,372)	
Net Change in Compensated Absences Payable	<u>9,355</u>	(47,303)

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

(34,985)

Change in Net Position of Governmental Activities		<u>\$1,262,408</u>
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The notes to the financial statements are an integral part of this statement.

KINDRED PUBLIC SCHOOL DISTRICT NO. 2
Kindred, North Dakota

STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS
June 30, 2014

	<u>Agency Funds</u>
<u>Assets:</u>	
Cash	<u>\$ 132,999</u>
<u>Liabilities:</u>	
Due to Student Activities Groups	<u>\$ 132,999</u>

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

KINDRED PUBLIC SCHOOL DISTRICT NO. 2
Kindred, North Dakota

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Kindred Public School District No. 2, Kindred, North Dakota, have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the school's accounting policies are described below.

A. Reporting Entity

The accompanying financial statements present the activities of the Kindred Public School District No. 2. The school district has considered all potential component units for which the school district is financially accountable and other organizations for which the nature and significance of their relationships with the school district such that exclusion would cause the school district's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body and (1) the ability of the Kindred Public School District No. 2 to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on Kindred Public School District No. 2.

Based on these criteria, there is one blended component unit to be included within the Kindred Public School District No. 2 reporting entity.

Blended component Unit: Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from this unit is combined with data from the primary government.

Kindred Public School District No. 2 Building Authority – The Kindred Public School District No. 2 Building Authority was created by the school board to aid, assist, and foster the planning, development, construction, renovation and improvement of school buildings, furnishings, fixtures, equipment and related facilities for the school district, all for the purpose of securing adequate schools and related facilities. The School Board is the Building Authority Board and they make the operating and financing decisions of the Building Authority. The activities of the building authority are reported in the governmental funds (debt service and building fund).

B. Basis of Presentation, Basis of Accounting

Government-wide statements: The statement of net position and the statement of activities display information about the primary government, Kindred Public School District No. 2, and the blended component unit. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

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

Fund Financial Statements: The fund financial statements provide information about the school district's funds including its fiduciary funds and blended component unit. Separate statements for each fund category-*governmental* and *fiduciary*-are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

The School District reports the following major governmental funds:

General Fund. This is the School District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Building Fund. This fund is used to account for financial resources to be used for acquisition or construction of major capital facilities.

Debt Service Fund. This fund is used to account for financial resources to be used for payment of long term debt principal, interest, and related costs.

Food Service Fund. This fund is used to account for financial activity related to School District's lunch and breakfast programs. Primary revenue source in this fund is committed federal and state reimbursements and charges for service from food sales.

The School District reports the following fund type:

Agency Funds. These fund accounts for assets by the School District in a custodial capacity as an agent on behalf of others. The School District's agency fund is used to account for various deposits of the student activity funds and to other governmental units.

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

Government-wide and Fiduciary Fund Financial Statements. The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the School District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The School District considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. All revenues are considered to be

susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

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

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

D. Cash and Investments

Cash includes amounts in demand deposits and money market accounts. Cash equivalents on the statement of cash flows consist of certificates of deposit with a maturity of 3 months or less. Deposits must either be deposited with the Bank of North Dakota or in other financial institution situated and doing business within the state. Deposits, other than with the Bank of North Dakota, must be fully insured or bonded. In lieu of a bond, a financial institution may provide a pledge of securities equal to 110% of the uninsured balance.

Investments consist of certificates of deposits stated at cost and U.S. government-backed securities stated at fair market value.

E. Capital Assets

Capital assets, which include property, plant and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the School District as assets with an initial, individual cost of \$5,000 or more. Such assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is not capitalized.

Capital assets are depreciated using the straight-line method of the following estimated useful lives:

Assets	Years
Permanent Buildings	50
Temporary or Wood Structure Buildings	10
Playground Equipment	20
School Buses	15
Other Vehicles	15
Servers and Other Computer Hardware	5
Copy Machines	6
Other Equipment	10
Parking Lots	10

F. Compensated Absences

At the beginning of each school year each teacher with zero to seven years teaching experience with the Kindred School District will be credited with three (3) personal days. Any unused personal days will accumulate from year-to-year up to a maximum of four (4) days. When a teacher has accumulated four days and does not use two in the current year the district will buy the third and/or fourth days at 100% of the current substitute teacher rate of pay. A teacher with more than seven years teaching experience with the Kindred School district will be credited with four (4) personal days. Any unused personal days will accumulate from year-to-year up to a maximum of six (6) days. When a teacher has accumulated six days and does not use three in the current year the district will buy the fourth, fifth, and/or sixth days at 100% of the current substitute teacher rate of pay. Upon retirement or resignation, the school district will pay 100 % of substitute teacher's pay (\$105 per day) for accumulated personal days.

Sick leave benefits are earned at the rate of 12 days per year for teachers with zero to seven years of teaching experience. A teacher with more than seven years of experience earns sick leave benefits at the rate of 11 days per year. Unused sick leave may accumulate to a maximum of 72 days. Employees accumulating sick leave in excess of 72 days as of the end of the school year are reimbursed at a rate equivalent to 50% of a substitute teacher's daily pay for all days exceeding 72 days. Employees may carry over a maximum of 72 days of sick leave at each year-end. Upon retirement or resignation, the school district will pay 25% of substitute teacher's pay (\$105 per day) for accumulated sick days. A liability for the vested portion of compensated absences related to sick leave is reported in the government-wide statement of net position.

Vested and accumulated personal leave is reported in the government-wide statement of net position.

G. Long-Term Obligations

In the government-wide financial statements, long term debt and other long-term obligations, such as compensated absences and early retirement payable, are reported in the governmental activities statement of net position. Bond premiums, discounts and issuance costs are deferred and amortized over the life of the bonds using the straight-line method. If amounts are not material, they are recognized in the current period.

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

H. Fund Balances / Net Position

Fund Balances:

GASB Statement No. 54 established fund balance classifications that comprise a hierarchy based on the extent to which the government is bound to honor constraints (restrictions or limitations) imposed upon the use of the resources reported in governmental funds.

Fund Balance Spending Policy:

It is the policy of the Kindred Public School District No. 2 to spend restricted resources first, followed by unrestricted resources. It is also the policy of the School District to spend unrestricted resources of funds in the following order: committed, assigned and then unassigned.

Fund Balance Reporting and Governmental Fund Type Definitions

GASB 54 requires the fund balance amounts to be properly reported within one of the fund balance categories listed below.

CLASSIFICATION	DEFINITION	EXAMPLES
Non-spendable	Amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.	Inventories, prepaid amounts (expenses), long-term receivables, endowment funds.
Restricted	Fund balance is reported as restricted when constraints are placed on the use of resources that are either (a) Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments. (b) Imposed by law through constitutional provisions or enabling legislation.	Funds restricted by State Statute, unspent bond proceeds, grants earned but not spent, debt covenants, taxes raised for a specific purpose.
Committed	A committed fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, the School District Board of Directors. Formal action is required to be taken to establish, modify or rescind a fund balance commitment.	By board action, construction, claims and judgments, retirements of loans and notes payable, capital expenditures and self-insurance.
Assigned	Assigned fund balances are amounts that are constrained by the government's intent to be used for specific purposes, but are under the direction of the business manager.	By business manager action, construction, claims and judgments, retirements of loans and notes payable, capital expenditures and self-insurance.
Unassigned	Unassigned fund balance is the lowest classification for the General Fund. This is fund balance that has not been reported in any other classification. (a) The General Fund is the only fund that can report a positive unassigned fund balance; (b) A negative unassigned fund balance may be reported in other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes;	Available for any remaining general fund expenditure.

Restricted Fund Balances – consist of the following items at June 30, 2014:

Building Fund (major fund) – restricted by enabling legislation & bond indenture):

- (a) Restricted investment held in trust and in checking for the payment of construction costs related to the new school in fund 03 – total of \$158,877.

Debt Service Fund (non-major fund – restricted by enabling legislation - levy):

- (b) Bond payments restricted by bond indenture and specified tax levies reported in the major debt service fund – consists of bonds in the sinking and interest 04 fund for debt service – totaling \$3,538,269 at June 30, 2014.

Unassigned Fund Balance – consists of the amount reported in the general fund at year-end totaling \$1,655,881, and to report the negative fund balance in the food service fund (\$16,820).

Net Position:

Net investment in capital assets is reported for capital assets less accumulated depreciation and any related debt issued to finance/construct them. The resources needed to repay this related debt must be provided from other sources, since capital assets are not used to liquidate these liabilities. These assets are not available for future spending.

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

Restrictions of net position, shown in the Statement of Net Position, are due to restricted tax levies and bond indenture requirements for capital projects and debt service, as well as for a special purpose related to food service.

Unrestricted net position is primarily unrestricted amounts related to the general fund. The unrestricted net position is available to meet the district's ongoing obligations.

I. Interfund Transactions

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

All other interfund transactions, except reimbursements, are reported as transfers.

In the government-wide financial statements, interfund transactions have been eliminated.

NOTE 2: DEPOSITS AND INVESTMENTS

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

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

Authorized collateral includes bills, notes, or bonds issued by the United States government, its agencies or instrumentalities, all bonds and notes guaranteed by the United States government, Federal land bank bonds, bonds, notes, warrants, certificates of indebtedness, insured certificates of deposit, shares of investment companies registered under the Investment Companies Act of 1940, and all other forms of securities issued by the State of North Dakota, its boards, agencies or instrumentalities or by any county, city, township, school district, park district, or other political subdivision of the State of North Dakota, whether payable from special revenues or supported by the full faith and credit of the issuing body and bonds issued by another state of the United States or such other securities approved by the banking board.

At year ended June 30, 2014, the school district's carrying amount of deposits was \$5,517,333 and the bank balances totaled \$6,067,294. Of the bank balances, \$750,000 was covered by Federal Depository Insurance. Additionally, \$2,693,856 of the bank balance does not need pledging as the deposits are invested in U.S treasuries which are fully insured by the federal government. The remaining bank balances totaling \$2,623,438 were collateralized with securities held by the pledging financial institution's agent in the government's name.

Credit Risk:

The School 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 Deposit fully insured by the federal deposit insurance corporation.
- (d) Obligations of the state.

Restricted Investments:

As of June 30, 2014 the school district had the following investment held in trust by U.S. Bank for construction and debt-service purposes (invested by PFM Group) with a fair market value and carrying value of \$2,693,856 with differing maturities that was not credit risked:

Investment Type	Fair Value
Bonds – Federal Agency	\$2,693,856
Total – Market value at 6/30/14	\$2,693,856

Concentration of Credit Risk:

The school district does not have a limit on the amount it may invest in any one issuer. The schools most recent bond rating received in FY2011 was A1.

NOTE 3: DUE FROM COUNTY TREASURER

The amount due from county treasurer consists of the cash on hand for taxes collected but not remitted to the school at June 30, 2014.

NOTE 4: TAXES RECEIVABLE

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

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

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

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

NOTE 5: INTERGOVERNMENTAL RECEIVABLE

Intergovernmental receivable consists of amounts received after June 30, 2014 for various State and Federal grants from the North Dakota Department of Public Instruction, and from Career and Technical Education.

NOTE 6: ACCOUNTS RECEIVABLE

Accounts receivable consists of amounts received after June 30, 2014 from Ottetail Power Company for the June capacity credit.

KINDRED PUBLIC SCHOOL DISTRICT NO. 2
Notes to the Financial Statements - Continued

NOTE 7: CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended June 30, 2014:

Governmental Activities:	Balance 7-1-13	Increases	Transfers	Decreases	Balance 6-30-14
<i>Capital assets not being depreciated:</i>					
Land	\$ 250,807	\$ -	\$ -	\$ -	\$ 250,807
Construction in Progress	422,239	198,000	(422,239)	-	198,000
Total Capital Assets, Not Being Depreciated	\$ 673,046	\$ 198,000	\$(422,239)	\$ -	\$ 448,807
<i>Capital assets, being depreciated:</i>					
Buildings	\$24,632,243	\$ 141,802	\$ 422,239	\$ -	\$25,196,284
Equipment	542,347	89,878	-	28,014	604,211
Vehicles	861,226	93,350	-	46,048	908,528
Total Capital Assets, Being Depreciated	\$26,035,816	\$ 325,030	\$ 422,239	\$74,062	\$26,709,023
<i>Less accumulated depreciation for:</i>					
Buildings	\$ 5,867,275	\$ 538,727	\$ -	\$ -	\$ 6,406,002
Equipment	276,985	28,287	-	3,735	301,537
Vehicles	525,972	38,133	-	46,048	518,057
Total Accumulated Depreciation	\$ 6,670,232	\$ 605,147	\$ -	\$49,783	\$ 7,225,596
Total Capital Assets Being Depreciated, Net	\$19,365,584	\$(280,117)	\$ 422,239	\$24,279	\$19,483,427
Governmental Activities-Capital Assets, Net	\$20,038,630	\$ (82,117)	\$ -	\$24,279	\$19,932,234

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

Governmental Activities:	Amounts
Regular Instruction	\$453,612
District Wide Services	12,785
Food Services	317
Operations/Maintenance	62,864
Transportation	44,633
Co-Curricular	30,936
Total Depreciation Expense - Governmental Activities	\$605,147

NOTE 8: ACCOUNTS PAYABLE

Accounts payable consists of amounts owed for goods & services received prior to June 30, 2014 and chargeable to the appropriations for the year then ended, but paid subsequent to that date.

NOTE 9: SALARIES AND BENEFITS PAYABLE

Salaries and contracts payable consists of salaries earned by employees and teachers but not paid until after year-end. It also consists of benefits owed to federal, state, and private agencies for amounts withheld from teacher's salaries as of June 30, 2014.

NOTE 10: CONTRACTS PAYABLE

Contracts payable consist of amounts owed to various construction contractors for the elementary school HVAC project at June 30, 2014, but not paid until after year-end.

NOTE 11: RETAINAGE PAYABLE

Retainage payable consists of a portion of the agreed upon contract price related to the new elementary school HVAC construction project deliberately withheld until the work is substantially completed.

KINDRED PUBLIC SCHOOL DISTRICT NO. 2
Notes to the Financial Statements - Continued

NOTE 12: INTEREST PAYABLE

Interest payable consists of the portion of interest accrued on long-term debt outstanding at June 30, 2014.

NOTE 13: DEFERRED INFLOWS OF RESOURCES

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

NOTE 14: LONG-TERM DEBT

Changes in Long-Term Liabilities - During the year ended June 30, 2014, the following changes occurred in liabilities reported in long-term liabilities:

Governmental Activities:	Balance 7-1-13	Increases	Decreases	Balance 6-30-14	Due Within One Year
General Obligation Bonds	\$14,805,000	\$ -	\$ 25,000	\$14,780,000	\$ 25,000
Lease Revenue Bonds	750,000	-	115,000	635,000	120,000
Compensated Absences *	87,440		9,355	78,085	19,521
Total Governmental Activities	\$15,642,440	\$ -	\$149,355	\$15,493,086	\$164,521

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

Outstanding debt at June 30, 2014 consists of the following individual issues (excluding capital leases, early retirement payable and compensated absences):

General Obligation Bonds Payable:

\$175,000 School Building Bonds of 2010, due in annual installment of \$25,000 to \$30,000 through May 2017; interest at 3%. \$ 80,000

\$14,700,000 School Building Bonds of 2011, due in one principal installment of \$14,700,000 on August 1, 2027; interest at 6%. 14,700,000

Total General Obligation Bonds Payable \$14,780,000

Lease Revenue Bonds Payable:

\$740,000 of 2003 Lease Revenue Bonds, due in annual installments of \$55,000 to \$60,000 through July 2015, interest at 4.0% to 4.5%. \$ 110,000

\$950,000 of 2007 Lease Revenue Bonds, due in annual installments of \$45,000 to \$85,000 through May 2021; interest at 4.0% to 4.6%. 525,000

Total Lease Revenue Bonds Payable \$ 635,000

Total Long-Term Debt (excluding compensated absences) \$15,415,000

KINDRED PUBLIC SCHOOL DISTRICT NO. 2
Notes to the Financial Statements - Continued

Debt service requirements on long-term debt (excluding compensated absences payable) at June 30, 2014 are as follows:

GOVERNMENTAL ACTIVITIES						
Year Ending December 31	G.O Bonds		Lease Revenue		Total LTD	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 25,000	\$ 884,400	\$120,000	\$ 27,168	\$ 145,000	\$ 911,568
2016	25,000	883,650	125,000	21,962	150,000	905,612
2017	30,000	882,900	70,000	17,645	100,000	900,545
2018	-	882,000	75,000	14,565	75,000	896,565
2019	-	882,000	80,000	11,190	80,000	893,190
2020 – 2024	-	4,410,000	165,000	11,500	165,000	4,421,500
2025 – 2029	14,700,000	3,087,000	-	-	14,700,000	3,087,000
Total	\$14,780,000	\$11,911,950	\$635,000	\$104,030	\$15,415,000	\$12,015,980

NOTE 15: RISK MANAGEMENT

The Kindred Public School District No. 2 is exposed to various risks of loss relating to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

In 1986, state agencies and political subdivisions of the state of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDRIF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. Kindred Public School District No. 2 pays an annual premium to NDRIF for its general liability, automobile, and inland marine insurance coverage. The coverage by NDRIF is limited to losses of two million dollars per occurrence for general liability and automobile. Public assets (mobile equipment and portable property) coverage is limited to \$104,596.

The Kindred Public School District No. 2 participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The Kindred Public School District pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a 3rd party carrier for losses on excess of two million dollars per occurrence during a 12-month period. The State Bonding Fund currently provides the Kindred Public School District No. 2 with blanket fidelity bond coverage in the amount of \$1,575,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The Kindred Public School District No. 2 has workers compensation with the North Dakota Workforce Safety and Insurance and purchases commercial insurance for employee health and accident insurance.

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

NOTE 16: PENSION PLANS

1. North Dakota Teacher's Fund For Retirement (TFFR)

The Kindred Public School District No. 2 contributes to the North Dakota Teacher's Fund for Retirement (TFFR); a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Dakota for its certified staff. TFFR provides for retirement, disability and survivor benefits to plan members and beneficiaries. Benefit and contribution provisions are administered in accordance with chapter 15-39.1 of the North Dakota Century Code. TFFR issues a publicly available financial report that includes financial statements and required supplementary information for TFFR. That report may be obtained by writing to Teacher's Fund for Retirement, 1930 Burnt Boat Drive, PO Box 7100, Bismarck, North Dakota, 58507-7100.

KINDRED PUBLIC SCHOOL DISTRICT NO. 2
Notes to the Financial Statements - Continued

Plan members are required to contribute 9.75% of their annual covered salary and the school district is required to contribute 10.75% of the teacher's salary. The contribution requirements of plan members and the school district are established and may be amended by the State legislature. The school district's contributions to TFFR (consisting of the employer and employee shares) for the fiscal years ending June 30, 2014, 2013, and 2012 were \$600,091, \$582,228, and \$450,768, respectively, equal to the required contributions for the year.

2. North Dakota Public Employees' Retirement System

The Kindred Public School District No. 2 contributes to the North Dakota Public Employees' Retirement System (NDPERS); a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Dakota for its non-certified staff. NDPERS provides for retirement, disability and survivor benefits to plan members and beneficiaries. Benefit and contribution provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code. NDPERS issues a publicly available financial report that includes financial statements and required supplementary information for NDPERS. That report may be obtained by writing to NDPERS, 400 E Broadway, Suite 505, P.O. Box 1657, Bismarck, North Dakota, 58502-1214.

Plan members are required to contribute 7% of their annual salary. The school district is required to contribute 8.26% of the employee's salary which consists of 7.12% for employee retirement and 1.14% for the retiree health benefits fund. The school district has agreed to pay 100% of the member assessments. The contribution requirements of plan members and the school district are established and may be amended by the State Legislature. The school district's and employee's contributions to NDPERS (consisting of the employer and employee shares) for the years ending June 30, 2014, 2013, and 2012 were \$66,846, \$52,061, and \$39,366, respectively, equal to the required contributions for the year

NOTE 17: OPERATING LEASES

The Kindred Public School District leases copiers under non-cancelable operating leases. Total costs for such leases were \$15,216 for the year ended June 30, 2014. The future minimum lease payments for these leases are as follows:

Year Ending June 30	Amounts
2015	\$ 4,605
2016	2,388
2017	2,388
2018	2,388
2019	796
TOTAL	\$12,565

NOTE 18: TRANSFERS

The following is a reconciliation between transfers in and transfers out as reported in the financial statements for the year ended June 30, 2014:

Fund	Transfers In	Transfers Out
General Fund	\$ -	\$ 332,096
Building Fund	332,096	-
Sinking & Interest Fund	-	1,681,988
U.S. Bank Escrow (Off-Book)	1,681,988	-
Total Transfers	\$2,014,084	\$2,014,084

KINDRED PUBLIC SCHOOL DISTRICT NO. 2
Notes to the Financial Statements - Continued

NOTE 19: CONSTRUCTION COMMITMENTS

The Kindred Public School District No. 2 had the following commitments for construction contracts as of June 30, 2014 for the construction of a new high school and the remodeling of the elementary:

Project	Original Contract	Change Orders	Total Contract w/Change Orders	Total Completed	Retainage	Remaining Balance w/Retainages	% Complete
Elementary HVAC Project:							
Mechanical Construction	\$ 576,900	\$ -	\$ 576,900	\$220,000	\$22,000	\$378,900	38.13%
Concrete - Sidewalks	5,049	-	5,049	5,049	-	-	100%
Asbestos Removal	23,825	-	23,825	-	-	23,825	0%
Kindred HS Project – Paving:							
Paving/Surfacing	713,375	14,063	727,438	727,438	36,372	36,372	100%
Totals	\$1,319,149	\$14,063	\$1,333,212	\$952,487	\$58,372	\$439,097	71.44%

Note: the only remaining item on the paving/resurfacing project is retainage relating to the high school parking lot project.

NOTE 20: BUDGET TO ACTUAL RECONCILIATION

The school district reports commodities received from the Federal government as revenues and expenditures in the statement of revenues, expenditures and changes in fund balances – governmental funds. The school district does not budget for these funds as they are non-cash food items received and distributed. The school district did not budget for these funds and these transactions were not recorded on the district’s general ledger. The differences are as follows:

Food Service Fund:	Combined Statement	Adjustment	Budget to Actual
Revenues	\$319,933	\$(25,105)	\$294,828
Expenditures	339,025	(25,105)	313,920

NOTE 21: NEGATIVE FUND BALANCE

The food service fund had a negative fund balance totaling (\$16,820) at June 30, 2014. The negative cash amount of (\$16,820) was offset in the balance sheet by showing a due to other funds in the food service fund, and a due from other funds in the general fund.

NOTE 22: SUBSEQUENT EVENT

The school district is currently involved in a dispute with a contractor over the parking lot at the recently completed high school. The dispute is over the parking lot scaling and excessive shale pops in parking lot and on sidewalks.

The approximate original project cost was \$727,348. It is assumed at this point that at least 20% of the useful life of the lot is gone, or approximately \$181,000 of the total cost of the project.

An attempt to mediate with Northern Improvement failed and at this point, the contractor is refusing to repair/replace the lot or compensate the district for the unsatisfactory product and/or work. The school district at their Board meeting on February 10, 2015 voted to move forward with a lawsuit and to sue the contractor (Northern Improvement) for damages.

KINDRED PUBLIC SCHOOL DISTRICT NO. 2
Kindred, North Dakota

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Local Sources	\$ 1,341,576	\$ 1,341,576	\$ 1,369,526	\$ 27,950
State Sources	5,627,057	5,627,057	5,670,589	43,532
Federal Sources	200,470	200,470	171,793	(28,677)
Other Sources	41,000	41,000	43,458	2,458
Total Revenues	<u>\$ 7,210,103</u>	<u>\$ 7,210,103</u>	<u>\$ 7,255,366</u>	<u>\$ 45,263</u>
<u>Expenditures:</u>				
Current:				
Regular Instruction	\$ 3,576,333	\$ 3,576,333	\$ 3,540,244	\$ 36,089
Special Education	470,700	470,700	470,693	7
Vocational Education	254,909	254,909	258,181	(3,272)
Federal Programs	72,686	72,686	65,780	6,906
District Wide Services	228,960	228,960	151,098	77,862
Administration	552,743	552,743	529,017	23,726
Operations and Maintenance	1,108,680	1,108,680	785,818	322,862
Transportation	386,180	386,180	365,452	20,728
Co-Curricular Activities	321,079	321,079	311,208	9,871
Other Programs & Services	-	-	6,035	(6,035)
Debt Service:				
Principal	115,000	115,000	115,000	-
Interest and Fees	33,000	33,000	29,619	3,381
Total Expenditures	<u>\$ 7,120,270</u>	<u>\$ 7,120,270</u>	<u>\$ 6,628,145</u>	<u>\$ 492,125</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 89,833</u>	<u>\$ 89,833</u>	<u>\$ 627,221</u>	<u>\$ 537,388</u>
<u>Other Financing Sources (Uses):</u>				
Transfers Out	\$ -	\$ -	\$ (332,096)	\$ (332,096)
Net Change in Fund Balances	<u>\$ 89,833</u>	<u>\$ 89,833</u>	<u>\$ 295,125</u>	<u>\$ 205,292</u>
Fund Balance - July 1	<u>\$ 1,360,756</u>	<u>\$ 1,360,756</u>	<u>\$ 1,360,756</u>	<u>\$ -</u>
Fund Balance - June 30	<u>\$ 1,450,589</u>	<u>\$ 1,450,589</u>	<u>\$ 1,655,881</u>	<u>\$ 205,292</u>

The accompanying required supplementary information notes are an integral part of this schedule.

KINDRED PUBLIC SCHOOL DISTRICT NO. 2
Kindred, North Dakota

BUDGETARY COMPARISON SCHEDULE
FOOD SERVICE FUND
For the Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Local Sources	\$ 221,500	\$ 221,500	\$ 227,685	\$ 6,185
State Sources	74,000	74,000	3,916	(70,084)
Federal Sources	-	-	63,227	63,227
Total Revenues	<u>\$ 295,500</u>	<u>\$ 295,500</u>	<u>\$ 294,828</u>	<u>\$ (672)</u>
<u>Expenditures:</u>				
Current:				
School Food Services	<u>\$ 328,380</u>	<u>\$ 328,380</u>	<u>\$ 313,920</u>	<u>\$ 14,460</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (32,880)</u>	<u>\$ (32,880)</u>	<u>\$ (19,092)</u>	<u>\$ 13,788</u>
Fund Balance - July 1	<u>\$ 2,272</u>	<u>\$ 2,272</u>	<u>\$ 2,272</u>	<u>\$ -</u>
Fund Balance - June 30	<u><u>\$ (30,608)</u></u>	<u><u>\$ (30,608)</u></u>	<u><u>\$ (16,820)</u></u>	<u><u>\$ 13,788</u></u>

The accompanying required supplementary information notes are an integral part of this schedule.

KINDRED PUBLIC SCHOOL DISTRICT NO. 2
Kindred, North Dakota

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2014

NOTE 1: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information:

The Board of Education adopts an annual budget on a basis consistent with accounting principles generally accepted in the United States for the general fund, special revenue funds, debt service funds, and capital project funds.

The following procedures are followed in establishing the budgetary data reflected in the financial statements:

- The annual budget must be prepared and school district taxes must be levied on or before the fifteenth day of August of each year.
- The taxes levied must be certified to the county auditor by August twenty-fifth. The governing body of the school district may amend its tax levy and budget on or before the tenth day of October of each year but the certification must be filed with the county auditor within the time limitations as outlined in NDCC section 57-15-31.1
- The operating budget includes proposed expenditures and means of financing them.
- Each budget is controlled by the business manager at the revenue and expenditure function/object level.
- The current budget, except for property taxes, may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared.
- All appropriations lapse at year-end.

STATE AUDITOR

ROBERT R. PETERSON
Phone (701) 328-2241
Fax (701) 328-1406



Local Government Division:
FARGO OFFICE
MANAGER – DAVID MIX
Phone: (701) 239-7252 Fax: (701) 239-7251

STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
STATE CAPITOL
600 E. BOULEVARD AVENUE - DEPT. 117
BISMARCK, NORTH DAKOTA 58505

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

Independent Auditor's Report

School Board
Kindred Public School District No. 2
Kindred, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, and each major fund, and the aggregate remaining fund information of Kindred Public School District No. 2, Kindred, North Dakota, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Kindred Public School District No. 2's basic financial statements, and have issued our report thereon dated March 6, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Kindred Public School District No. 2'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 Kindred Public School District No. 2's internal control. Accordingly, we do not express an opinion on the effectiveness of Kindred Public School District No. 2's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying *schedule of findings and questioned costs*, we identified one deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying *schedule of findings and questioned costs* to be a material weakness [2014-01].

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Kindred Public School District No. 2's financial statements are free of 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*.

KINDRED PUBLIC SCHOOL DISTRICT NO. 2

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* - Continued

Kindred Public School District No. 2's Response to Finding

Kindred Public School District No. 2's response to the finding identified in our audit is described in the accompanying *schedule of findings and questioned costs*. Kindred Public School District No. 2'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.



Robert R. Peterson
State Auditor

Fargo, North Dakota
March 6, 2015

KINDRED PUBLIC SCHOOL DISTRICT NO. 2
Kindred, North Dakota

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2014

Section I - Summary of Auditor's Results

Financial Statements

Type of Report Issued?			
Governmental Activities		Unmodified	
Major Funds		Unmodified	
 <u>Internal Control Over Financial Reporting:</u>			
Material weaknesses identified?	<u> X </u>	Yes	<u> </u> None Noted
Significant deficiencies identified not considered to be material weaknesses?	<u> </u>	Yes	<u> X </u> None Noted
Noncompliance material to financial statements noted?	<u> </u>	Yes	<u> X </u> None Noted

Section II - Financial Statement Findings

2014-01 – LACK OF SEGREGATION OF DUTIES

Condition:

Kindred Public School District No. 2 has one business manager responsible for the primary accounting functions. A lack of segregation of duties exists as one employee is responsible to collect monies, deposit monies, issue checks, send checks to vendors, record receipts and disbursements in journals, maintain the general ledger, perform bank reconciliations, and prepare financial statements. Furthermore, it was noted that the board signature on checks is electronically generated by the business manager prior to mailing.

Criteria:

Proper internal control surrounding custody of assets, the recording of transactions, reconciling bank accounts and preparation of financial statements dictates that there should be sufficient accounting personnel so duties of employees are properly segregated. The segregation of duties would provide better control over the assets of the school district.

Effect:

The lack of segregation of duties increases the risk of fraud and the risk of misstatement of the school district's financial condition whether due to error or fraud.

Recommendation:

We recommend that if it becomes feasible to segregate duties in the future, that duties are segregated to the greatest extent possible to reduce the potential risk of loss. We also recommend that the superintendent and/or board indicate the review of expenditures on invoices.

Views of Responsible Officials:

We concur there is inadequate segregation of duties. Given the number of employees and the size of the school district, it would be difficult to further segregate duties. When possible, we will review our check process to find a better method to sign checks.