



ROBERT R. PETERSON  
STATE AUDITOR

Kindred Public School District No. 2  
Kindred, North Dakota

# Audit Report

For the Year Ended June 30, 2015

Office of the State Auditor

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KINDRED PUBLIC SCHOOL DISTRICT NO. 2  
Kindred, North Dakota

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For the Year Ended June 30, 2015

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KINDRED PUBLIC SCHOOL DISTRICT NO. 2  
Kindred, North Dakota

**SCHOOL OFFICIALS**

June 30, 2015

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

Current

Mike Saewert	Board President
Sean Roesler	Board Vice-President
Brian McDonald	Board Member
Nicole Spelhaug	Board Member
Mark Rieger	Board Member
Roy Plankers	Board Member
Richard Klose	Board Member
Steve Hall	Superintendent
Melanie Moffet	Business Manager
Jon Arntson	Attorney

**STATE AUDITOR**

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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

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INDEPENDENT AUDITOR'S REPORT

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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, 2015, 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, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of a Matter***

As discussed in Note 24 to the financial statements, the Kindred Public School District No. 2 adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to this matter.

***Other Matters***

***Required Supplementary Information***

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

Accounting principles generally accepted in the United States of America require that the *budgetary comparison information* on pages 31-32 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 February 2, 2016 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  
February 2, 2016

KINDRED PUBLIC SCHOOL DISTRICT NO. 2  
Kindred, North Dakota

STATEMENT OF NET POSITION  
June 30, 2015

	<u>Governmental Activities</u>
<u>ASSETS:</u>	
Cash and Cash Equivalents	\$ 2,796,503
Restricted Investment	3,591,153
Due from County Treasurer	123,806
Intergovernmental Receivable	6,161
Donations Receivable	125,000
Accounts Receivable	3,740
Taxes Receivable	104,015
Capital Assets (not being depreciated):	
Land	250,807
Construction in Progress	1,086,078
Capital Assets (net of accumulated depreciation):	
Buildings/Improvements	18,309,695
Equipment	289,158
Vehicles	310,516
Total Capital Assets	<u>\$ 20,246,254</u>
Total Assets	<u>\$ 26,996,632</u>
<u>DEFERRED OUTFLOWS OF RESOURCES:</u>	
Difference between Expected and Actual Experience	<u>\$ 474,801</u>
<u>LIABILITIES:</u>	
Accounts Payable	\$ 13,089
Salaries & Benefits Payable	213,477
Contracts Payable	330,970
Retainages Payable	78,978
Interest Payable	372,534
Long-Term Liabilities:	
Due Within One Year:	
General Obligation Bonds Payable	25,000
Lease Revenue Bonds Payable	129,566
Leases Payable	98,930
Compensated Absences Payable	20,871
Due After One Year:	
General Obligation Bonds Payable	14,730,000
Lease Revenue Bonds Payable	393,162
Leases Payable	193,855
Compensated Absences Payable	62,613
Net Pension Liability	<u>5,602,045</u>
Total Liabilities	<u>\$ 22,265,090</u>
<u>DEFERRED INFLOWS OF RESOURCES:</u>	
Difference Between Projected and Actual Investment Earnings	<u>\$ 662,041</u>
<u>NET POSITION:</u>	
Net Investment in Capital Assets	\$ 4,889,548
Restricted for:	
Debt Service	3,879,958
Building Projects	57,500
Unrestricted	<u>(4,282,704)</u>
Total Net Position	<u>\$ 4,544,302</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, 2015

Function/Program	Expenses	Program Revenues		Governmental Activities	Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions		
<u>Governmental Activities:</u>					
Regular Instruction	\$ 4,551,400	\$ 111,418	\$ 120,506	\$ -	\$ (4,319,476)
Special Education	470,322	-	-	-	(470,322)
Vocational Education	259,887	-	55,108	-	(204,779)
Federal Programs	113,461	-	-	-	(113,461)
District Wide Services	240,400	-	-	-	(240,400)
Administration	552,421	-	-	-	(552,421)
School Food Services	341,968	246,980	91,598	-	(3,390)
Operations and Maintenance	1,101,232	-	29,529	-	(1,071,703)
Transportation	471,699	-	234,565	-	(237,134)
Co-Curricular Activities	351,447	-	-	125,000	(226,447)
Other Programs & Activities	6,860	-	9,947	-	3,087
Interest on Long-Term Debt	911,775	-	-	-	(911,775)
Fiscal Charges	1,000	-	-	-	(1,000)
<b>Total Governmental Activities</b>	<b>\$ 9,373,872</b>	<b>\$ 358,398</b>	<b>\$ 541,253</b>	<b>\$ 125,000</b>	<b>\$ (8,349,221)</b>
<u>General Revenues:</u>					
Property taxes; levied for general purposes					\$ 1,486,108
Property taxes; levied for debt service					971,690
Property taxes; levied for building purposes					210,676
State aid-unrestricted					5,476,417
Investment earnings					853,354
Donations					100,000
Miscellaneous revenue					60,558
Unrealized gain on investment					16,761
<b>Total General Revenues</b>					<b>\$ 9,175,564</b>
<b>Change in Net Position</b>					<b>\$ 826,343</b>
Net Position - July 1					\$ 9,530,568
Prior Period Adjustments					(5,812,609)
<b>Net Position - July 1, as restated</b>					<b>\$ 3,717,959</b>
<b>Net Position - June 30</b>					<b>\$ 4,544,302</b>

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, 2015

	General	Building Fund	Debt Service	Food Service Fund	Total Governmental Funds
<u>ASSETS</u>					
Cash and Cash Equivalents	\$ 1,687,437	\$ 239,838	\$ 869,228	\$ -	\$ 2,796,503
Restricted Investment	-	-	3,591,153	-	3,591,153
Due from County Treasurer	64,830	13,100	45,876	-	123,806
Accounts Receivable	3,740	-	-	-	3,740
Intergovernmental Receivable	6,161	-	-	-	6,161
Donations Receivable	-	125,000	-	-	125,000
Due from Other Funds	19,622	-	-	-	19,622
Taxes Receivable	54,463	10,532	39,020	-	104,015
<b>Total Assets</b>	<b>\$ 1,836,253</b>	<b>\$ 388,470</b>	<b>\$ 4,545,277</b>	<b>\$ -</b>	<b>\$ 6,770,000</b>
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</u>					
<u>Liabilities:</u>					
Accounts Payable	\$ 13,089	\$ -	\$ -	\$ -	\$ 13,089
Salaries & Benefits Payable	213,477	-	-	-	213,477
Contracts Payable	-	330,970	-	-	330,970
Due to Other Funds	-	-	-	19,622	19,622
<b>Total Liabilities</b>	<b>\$ 226,566</b>	<b>\$ 330,970</b>	<b>\$ -</b>	<b>\$ 19,622</b>	<b>\$ 577,158</b>
<u>Deferred Inflows of Resources:</u>					
Uncollected Taxes	\$ 54,463	\$ 10,532	\$ 39,020	\$ -	\$ 104,015
<b>Total Liabilities and Deferred Inflows of Resources</b>	<b>\$ 281,029</b>	<b>\$ 341,502</b>	<b>\$ 39,020</b>	<b>\$ 19,622</b>	<b>\$ 681,173</b>
<u>Fund Balances:</u>					
<u>Restricted for:</u>					
Debt Service	\$ -	\$ -	\$ 4,506,257	\$ -	\$ 4,506,257
Capital Projects	-	46,968	-	-	46,968
<u>Unassigned:</u>	<u>1,555,224</u>	<u>-</u>	<u>-</u>	<u>(19,622)</u>	<u>1,535,602</u>
<b>Total Fund Balances</b>	<b>\$ 1,555,224</b>	<b>\$ 46,968</b>	<b>\$ 4,506,257</b>	<b>\$ (19,622)</b>	<b>\$ 6,088,827</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 1,836,253</b>	<b>\$ 388,470</b>	<b>\$ 4,545,277</b>	<b>\$ -</b>	<b>\$ 6,770,000</b>

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

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KINDRED PUBLIC SCHOOL DISTRICT NO. 2  
Kindred, North Dakota

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
June 30, 2015

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Total *Fund Balances* for Governmental Funds \$ 6,088,827

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	\$ 28,028,493	
Less Accumulated Depreciation	<u>(7,782,239)</u>	
Net Capital Assets		20,246,254

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.

104,015

Retainages payable are not a fund liability and thus are only reported at the government wide level

Retainages Payable		(78,978)
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Net pension obligations are not due and payable in the current period, and therefore are not reported in the governmental funds.

(5,602,045)

Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds.

Difference between Expected and Actual Experience (deferred inflows)	\$ 474,801	
Change in Projected and Actual Investment Earnings (deferred outflows)	<u>(662,041)</u>	(187,240)

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, 2015 are:

General Obligation Bonds Payable	\$ (14,755,000)	
Lease Revenue Bonds Payable	(522,728)	
Leases Payable	(292,785)	
Interest Payable	(372,534)	
Compensated Absences Payable	<u>(83,484)</u>	
Total Long-Term Liabilities		<u>(16,026,531)</u>

Total Net Position - Governmental Activities		<u>\$ 4,544,302</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 REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES - GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2015

	General	Building Fund	Debt Service	Food Service Fund	Total Governmental Funds
<u>Revenues:</u>					
Local Sources	\$ 1,614,130	\$ 472,847	\$ 1,834,227	\$ 246,980	\$ 4,168,184
State Sources	5,717,842	-	-	4,613	5,722,455
Federal Sources	178,701	-	-	86,985	265,686
Other Sources	52,610	-	16,761	-	69,371
<b>Total Revenues</b>	<b>\$ 7,563,283</b>	<b>\$ 472,847</b>	<b>\$ 1,850,988</b>	<b>\$ 338,578</b>	<b>\$ 10,225,696</b>
<u>Expenditures:</u>					
Current:					
Regular Instruction	\$ 4,134,468	\$ -	\$ -	\$ -	\$ 4,134,468
Special Education	470,322	-	-	-	470,322
Vocational Education	263,682	-	-	-	263,682
Federal Programs	115,302	-	-	-	115,302
District Wide Services	226,485	-	-	-	226,485
Administration	558,582	-	-	-	558,582
School Food Services	-	-	-	341,380	341,380
Operations and Maintenance	834,969	54,970	-	-	889,939
Transportation	362,948	-	-	-	362,948
Co-Curricular Activities	318,836	-	-	-	318,836
Other Programs & Services	6,860	-	-	-	6,860
Capital Outlay	-	1,083,632	-	-	1,083,632
Debt Service:					
Principal	580,000	25,000	-	-	605,000
Interest	27,887	3,638	882,000	-	913,525
Fiscal Charges	-	-	1,000	-	1,000
<b>Total Expenditures</b>	<b>\$ 7,900,341</b>	<b>\$ 1,167,240</b>	<b>\$ 883,000</b>	<b>\$ 341,380</b>	<b>\$ 10,291,961</b>
Excess (Deficiency) of Revenues Over Expenditures	\$ (337,058)	\$ (694,393)	\$ 967,988	\$ (2,802)	\$ (66,265)
<u>Other Financing Sources (Uses):</u>					
Transfers In	\$ -	\$ 524,112	\$ 1,647,649	\$ -	\$ 2,171,761
Bond Proceeds	467,728	-	-	-	467,728
Lease Financing	292,785	-	-	-	292,785
Transfers Out	(524,112)	-	(1,647,649)	-	(2,171,761)
<b>Total Other Financing Sources and Uses</b>	<b>\$ 236,401</b>	<b>\$ 524,112</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 760,513</b>
<b>Net Change in Fund Balances</b>	<b>\$ (100,657)</b>	<b>\$ (170,281)</b>	<b>\$ 967,988</b>	<b>\$ (2,802)</b>	<b>\$ 694,248</b>
Fund Balances - July 1	\$ 1,655,881	\$ 217,249	\$ 3,538,269	\$ (16,820)	\$ 5,394,579
Fund Balance - June 30	\$ 1,555,224	\$ 46,968	\$ 4,506,257	\$ (19,622)	\$ 6,088,827

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, 2015

Net Change in *Fund Balances* - Total Governmental Funds \$ 694,248

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 additions exceeded depreciation in the current year.

Capital Asset Additions	\$ 986,632	
Current Year Depreciation Expense	<u>(628,144)</u>	358,488

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		(85,811)
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Debt proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of Net Position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of Net Position. This is the amount by which debt issuance exceeded debt repayment for the year ended June 30, 2015:

Issuance of Bonds	\$ (467,728)	
Lease Financing	(292,785)	
Repayment of General Obligation Bonds	25,000	
Repayment of Lease Revenue Bonds	<u>580,000</u>	(155,513)

The Net Pension Liability, and related Deferred Outflows of Resources and Deferred Inflows of Resources are reported in the government wide statements; however, activity related to these pension items do not involve current financial resources, and are not reported in the funds.

Decrease in Net Pension Liability	\$ 251,907	
Increase in Deferred Outflows of Resources	474,801	
Increase in Deferred Inflows of Resources	<u>(662,041)</u>	64,667

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	\$ 1,750	
Net Change in Retainages Payable	(20,606)	
Net Change in Compensated Absences Payable	<u>(5,399)</u>	(24,255)

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.

(25,481)

Change in Net Position of Governmental Activities		<u>\$ 826,343</u>
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The notes to the financial statements are an integral part of this statement.

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KINDRED PUBLIC SCHOOL DISTRICT NO. 2  
Kindred, North Dakota

STATEMENT OF FIDUCIARY ASSETS & LIABILITIES  
AGENCY FUNDS  
June 30, 2015

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	<u>Agency Funds</u>
<u>Assets:</u>	
Cash	\$ 142,514
Accounts Receivable	<u>7,942</u>
 Total Assets	 <u>\$ 150,456</u>
 <u>Liabilities:</u>	
Due to Student Activities Groups	<u>\$ 150,456</u>

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

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KINDRED PUBLIC SCHOOL DISTRICT NO. 2  
Kindred, North Dakota

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2015

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**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:

<b>Assets</b>	<b>Years</b>
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 (\$110 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 (\$110 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, 2015:**

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 and other projects in fund 03 – total of \$46,968.

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 \$4,506,257 at June 30, 2015.

**Unassigned Fund Balance** – consists of the amount reported in the general fund at year-end totaling \$1,555,224, and to report the negative fund balance in the food service fund (\$19,622).

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, 2015, the school district's carrying amount of deposits was \$6,425,563 and the bank balances totaled \$6,712,621. Of the bank balances, \$750,000 was covered by Federal Depository Insurance. Additionally, \$3,591,153 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 \$2,371,468 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, 2015 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 \$3,591,153 with differing maturities that was not credit risked:

<b>Investment Type</b>	<b>Fair Value</b>
Bonds – Federal Agency	\$3,591,153
Total – Market value at 6/30/15	\$3,591,153

**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, 2015.

**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, 2015 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, 2015 from Ottertail Power Company for the June capacity credit.

**NOTE 7: DEFERRED OUTFLOWS OF RESOURCES**

Deferred outflows of resources in the government wide financial statements consist of amounts related to pensions representing the difference in expected and actual experience totaling \$474,801.

**NOTE 8: DONATIONS RECEIVABLE**

Donations receivable consists of amounts received after June 30, 2015 from the Booster Club pledge drive for the bleachers project totaling \$125,000.

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

**NOTE 9: CAPITAL ASSETS**

The following is a summary of changes in capital assets for the year ended June 30, 2015:

	Balance July 1	Increases	Decreases	Balance June 30
<b>Governmental Activities:</b>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 250,807	\$ -	\$ -	\$ 250,807
Construction in Progress	198,000	888,078	-	1,086,078
Total Capital assets, not being depreciated:	\$ 448,807	\$ 888,078	\$ -	\$ 1,336,885
<i>Capital assets being depreciated:</i>				
Buildings	\$ 25,196,284	\$ 52,630	\$ -	\$ 25,248,914
Equipment	604,211	45,925	29,993	620,143
Vehicles	908,528	-	85,977	822,551
Total Capital Assets, Being Depreciated	\$ 26,709,023	\$ 98,555	\$ 115,970	\$ 26,691,608
<i>Less Accumulated Depreciation for:</i>				
Buildings	\$ 6,384,956	\$ 554,263	\$ -	\$ 6,939,219
Equipment	301,537	31,448	2,000	330,985
Vehicles	497,761	42,433	28,159	512,035
Total Accumulated Depreciation	\$ 7,184,254	\$ 628,144	\$ 30,159	\$ 7,782,239
Total Capital Assets Being Depreciated, Net	\$ 19,524,769	\$ (529,589)	\$ 85,811	\$ 18,909,369
<b>Governmental Activities Capital Assets, Net</b>	<b>\$ 19,973,576</b>	<b>\$ 358,489</b>	<b>\$ 85,811</b>	<b>\$ 20,246,254</b>

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

<b>Governmental Activities:</b>	<b>Amounts</b>
Regular Instruction	\$ 462,057
District Wide Services	12,785
Food Services	317
Operations/Maintenance	64,025
Transportation	50,933
Co-Curricular	38,027
<b>Total Depreciation Expense - Governmental Activities</b>	<b>\$ 628,144</b>

**NOTE 10: ACCOUNTS PAYABLE**

Accounts payable consists of amounts owed for goods and services received prior to June 30, 2015 and chargeable to the appropriations for the year then ended, but paid subsequent to that date.

**NOTE 11: 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, 2015.

**NOTE 12: CONTRACTS PAYABLE**

Contracts payable consist of amounts owed to various construction contractors for the elementary school HVAC and bleacher projects at June 30, 2015, but not paid until after year-end.

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

**NOTE 13: 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.

**NOTE 14: INTEREST PAYABLE**

Interest payable consists of the portion of interest accrued on long-term debt (bonds and leases payable) outstanding at June 30, 2015.

**NOTE 15: DEFERRED INFLOWS OF RESOURCES**

Deferred inflows of resources in the government wide financial statements consist of amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the accrual basis of accounting, such amounts include the difference between projected and actual investment earnings for pensions totaling \$662,041.

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 16: LONG-TERM LIABILITIES**

**Changes in Long-Term Liabilities** - During the year ended June 30, 2015, the following changes occurred in liabilities reported in long-term liabilities:

	<b>Balance July 1</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance June 30</b>	<b>Due Within One Year</b>
General Obligation Bonds	\$ 14,780,000	\$ -	\$ 25,000	\$ 14,755,000	\$ 25,000
Lease Revenue Bonds	635,000	467,728	580,000	522,728	129,566
Leases Payable	-	292,785	-	292,785	98,930
Net Pension Liability	5,853,952	-	251,907	5,602,045	-
Compensated Absences *	78,085	5,399	-	83,484	20,871
<b>TOTAL</b>	<b>\$ 21,347,037</b>	<b>\$ 765,912</b>	<b>\$ 856,907</b>	<b>\$ 21,256,042</b>	<b>\$ 274,367</b>

\* - 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, 2015 consists of the following individual issues (excluding net pension liability, 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%. \$ 55,000

\$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 \$14,755,000

**Lease Revenue Bonds Payable:**

\$740,000 of 2003 Lease Revenue Bonds, due in one annual installment of \$55,000 on July 2015, interest at 4.5%. \$ 55,000

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

**Lease Revenue Bonds Payable:** Continued

\$467,728 of 2015 Lease Revenue Refunding Bonds, due in annual installments of \$73,684 to \$82,344 through May 2021; interest at 2.4%.

\$ 467,728

Total Lease Revenue Bonds Payable \$ 522,728

Total Bonds Payable \$15,277,728

**Lease Payable:**

\$292,785 Lease Payable for computers, due in annual installments of \$100,723.76 through July 15, 2017; interest at 2.6%.

\$ 292,785

Total Long-Term Liabilities (excluding compensated absences) \$15,570,513

Debt service requirements on long-term liabilities (excluding net pension liability and compensated absences payable) at June 30, 2015 are as follows:

Primary Government - Governmental Activities						
Year Ending June 30	GO Bonds Payable		Lease Revenue Bonds		Total Bonds Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$ 25,000	\$ 883,650	\$ 129,566	\$ 12,713	\$ 154,566	\$ 896,363
2017	30,000	882,900	73,684	9,436	103,684	892,336
2018	-	882,000	77,274	7,667	77,274	889,667
2019	-	882,000	80,669	5,813	80,669	887,813
2020	-	882,000	79,191	3,877	79,191	885,877
2021-2025	-	4,410,000	82,344	1,976	82,344	4,411,976
2026-2030	14,700,000	2,205,000	-	-	14,700,000	2,205,000
Total	\$ 14,755,000	\$ 11,027,550	\$ 522,728	\$ 41,482	\$ 15,277,728	\$ 11,069,032

Year Ending June 30	Lease Payable	
	Principal	Interest
2016	98,930	1,794
2017	95,684	5,040
2018	98,171	2,552
Total	\$ 292,785	\$ 9,386

**NOTE 17: 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 (NDRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. Kindred Public School District No. 2 pays an annual premium to NDRF for its general liability, automobile, and inland marine insurance coverage. The coverage by NDRF 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 \$131,931.

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 3<sup>rd</sup> 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 18: PENSION PLANS**

**Summary of Significant Accounting Policies**

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

**1. North Dakota Teachers' Fund for Retirement TFFR**

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

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

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

**Pension Benefits**

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

*Tier 1 Grandfathered*

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

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

*Tier 1 Non-grandfathered*

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

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

*Tier 2*

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

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

**Death and Disability Benefits**

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

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

**Member and Employer Contributions**

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

A vested member who terminates covered employment may elect a refund of contributions paid plus 6% interest or defer payment until eligible for pension benefits. A non-vested member who terminates covered employment must claim a refund of contributions paid before age 70 ½. Refunded members forfeit all service credits under TFFR. These service credits may be repurchased upon return to covered employment under certain circumstances, as defined by the NDCC.

**Inflows of Resources Related to Pensions**

At June 30, 2015, the Kindred Public School District reported a liability of \$5,287,890 for its proportionate share of net pension liability. The net pension liability was measured as of July 1, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The district's proportion of the net pension liability was based on the district's share of covered payroll in the pension plan relative to the covered payroll of all participating TFFR employers. At July 1, 2014, the district's proportion was .504655 percent.

For the year ended June 30, 2015, the district recognized pension expense of \$321,433. At June 30, 2015, the district reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 40,433	\$ -
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	-	600,717
District Contributions Subsequent to the Measurement Date	389,385	-
<b>TOTAL</b>	<b>\$429,818</b>	<b>\$600,717</b>

\$389,385 reported as deferred outflows of resources related to pensions resulting from district contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

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

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

2016	\$(143,440)
2017	(143,440)
2018	(143,440)
2019	(143,440)
2020	6,739
Thereafter	6,739

**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	3.00%
Salary Increases	4.50% to 14.75%, varying by service, including inflation and productivity
Investment Rate of Return	8.00%, net of investment expenses
Cost-of-Living Adjustments	None

For inactive members and healthy retirees, mortality rates are based on 80% of GRS (General Records Schedules) Table 378 and 75% of GRS table 379. For active members, mortality rates are based on the post-retirement mortality rates multiplied by 60% for males and 40% for females. For disabled retirees, mortality rates are based on the RP-2000 Disabled-Life tables for Males and Females multiplied by 80% and 95% respectively.

The actuarial assumptions used were based on the results of an actuarial experience study dated January 21, 2010. They are the same as the assumptions used in the July 1, 2014 funding actuarial valuation for TFFR.

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 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%	7.53%
Global Fixed Income	22%	1.40%
Global Real Assets	20%	5.38%
Cash Equivalents	1%	0.00%

**Discount Rate**

The discount rate used to measure the total pension liability was 8 percent as of June 30, 2014. 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, 2014, 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, 2014. 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, 2014.

**Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount rate.**

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

	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
District's Proportionate Share of the Net Pension Liability	\$7,139,632	\$5,287,890	\$3,730,520

**Pension Plan Fiduciary Net Position**

Detailed information is located in the North Dakota Retirement and Investments Office's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2014. Additional financial and actuarial information is available on their website, [www.nd.gov/rio](http://www.nd.gov/rio), or may be obtained by writing to RIO at ND Retirement and Investment Office, 1930 Burnt Boat Drive, PO Box 7100, Bismarck, North Dakota, 58507-7100 or by calling (701) 328-9885.

**General Information about the NDPERS Pension Plan**

**2. North Dakota Public Employees Retirement System (Main System)**

The following brief description of NDPERS is provided for general information purposes only. Participants should refer to NDCC Chapter 54-52 for more complete information.

NDPERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all employees of the State of North Dakota, its agencies and various participating political subdivisions. NDPERS provides for pension, death and disability benefits. The cost to administer the plan is financed through the contributions and investment earnings of the plan.

Responsibility for administration of the NDPERS defined benefit pension plan is assigned to a Board comprised of seven members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system; and one member elected by the retired public employees.

**Pension Benefits**

Benefits are set by statute. NDPERS has no provision or policies with respect to automatic and ad hoc post-retirement benefit increases. Members of the Main System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). The annual pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. The plan permits early retirement at ages 55-64 with three or more years of service.

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

**Death and Disability Benefits**

Death and disability benefits are set by statute. If an active member dies with less than three years of service for the Main System, a death benefit equal to the value of the member's accumulated contributions, plus interest, is paid to the member's beneficiary. If the member has earned more than three years of credited service for the Main System, the surviving spouse will be entitled to a single payment refund, life-time monthly payments in an amount equal to 50% of the member's accrued normal retirement benefit, or monthly payments in an amount equal to the member's accrued 100% Joint and Survivor retirement benefit if the member had reached normal retirement age prior to date of death. If the surviving spouse dies before the member's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

Eligible members who become totally disabled after a minimum of 180 days of service, receive monthly disability equal to 25% of their final average salary with a minimum benefit of \$100. To qualify under this section, the member has to become disabled during the period of eligible employment and apply for benefits within one year of termination. The definition of disabled is set by the NDPERS in the North Dakota Administrative Code.

**Refunds of Member Account Balance**

Upon termination, if a member of the Main System is not vested (is not 65 or does not have three years of service), they will receive the accumulated member contributions, plus interest, or may elect to receive this amount at a later date. If the member has vested, they have the option of applying for a refund or can remain as a terminated vested participant. If a member terminated and withdrew their accumulated member contribution and is subsequently re-employed, they have the option of repurchasing their previous service.

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

1 to 12 months of service	Greater of one percent of monthly salary or \$25
13 to 25 months of service	Greater of two percent of monthly salary or \$25
26 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 contributions 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, 2015, the Kindred Public School District reported a liability of \$314,155 for its proportionate share of net pension liability. The net pension liability was measured as of July 1, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The district's proportion of the net pension liability was based on the district's share of covered payroll in the main system pension plan relative to the covered payroll of all participating main system employers. At July 1, 2014, the district's proportion was .049495 percent.

For the year ended June 30, 2015, the district recognized pension expense of \$31,084. At June 30, 2015, the district reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$10,185	\$ -
Net Difference Between Projected and Actual Investment		
Earnings on Pension Plan Investments	-	61,324
District Contributions Subsequent to the Measurement Date	34,798	-
<b>TOTAL</b>	<b>\$44,983</b>	<b>\$61,624</b>

\$34,798, reported as deferred outflows of resources related to pensions resulting from district contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 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.

2016	\$(13,164)
2017	(13,164)
2018	(13,164)
2019	(13,164)
2020	1,517

**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	3.85% per annum for four years, then 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 with ages set back three years. For disabled retirees, mortality rates are based on the RP-2000 Disabled Retiree Mortality Table with ages set back one year for males (not setback for females).

The actuarial assumptions used were based on the results of an actuarial experience study completed in 2010. They are the same as the assumptions used in the July 1, 2014 funding actuarial valuation for NDPERS.

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 adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Fund's target asset allocation are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	31%	6.90%
International Equity	21%	7.55%
Private Equity	5%	11.30%
Domestic Fixed Income	17%	1.55%
International Fixed Income	5%	.90%
Global Real Assets	20%	5.38%
Cash Equivalents	1%	0.00%

**Discount Rate**

The discount rate used to measure the total pension liability was 8 percent as of June 30, 2014. 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, 2014, 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, 2014. 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, 2014.

**Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount rate.**

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

	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
District's Proportionate Share of the Net Pension Liability	\$484,520	\$314,155	\$171,707

**Pension Plan Fiduciary Net Position**

Detailed information about the pension plan's fiduciary net position is available in a separately issued NDPERS financial report. It is located in the North Dakota Public Employees Retirement System Comprehensive Annual Financial report for the fiscal year ended June 30, 2014. The supporting actuarial information is included in the June 30, 2014, GASB Statements No. 67 and 68 Accounting and Financial Reporting for Pensions actuarial valuation for each retirement plan. Additional financial and actuarial information is available on their website, [www.nd.gov/ndpers](http://www.nd.gov/ndpers), or may be obtained by contacting the agency at: North Dakota Public Employees Retirement System, 400 E Broadway Ave Suite 505, P.O. Box 1657, Bismarck, ND, 58502-1657 or by calling (701) 328-3900.

**NOTE 19: OPERATING LEASES**

The Kindred Public School District leases copiers under non-cancelable operating leases. Total costs for such leases were \$17,586 for the year ended June 30, 2015. The future minimum lease payments for these leases are as follows:

<b>Year Ending June 30</b>	<b>Amounts</b>
2016	\$13,944
2017	13,944
2018	13,944
2019	12,352
2020	963
<b>TOTAL</b>	<b>\$55,147</b>

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

**NOTE 20: TRANSFERS**

The following is a reconciliation between transfers in and transfers out as reported in the financial statements for the year ended June 30, 2015:

<b>Fund</b>	<b>Transfers In</b>	<b>Transfers Out</b>
<b>Major Funds:</b>		
General Fund	\$ -	\$ 524,112
Debt Service Fund - on book	-	1,647,649
Debt Service Fund - off book	1,647,649	-
Building Fund	524,112	-
<b>Total Transfers</b>	<b>\$ 2,171,761</b>	<b>\$ 2,171,761</b>

**NOTE 21: CONSTRUCTION COMMITMENTS**

The Kindred Public School District No. 2 had the following commitments for construction contracts as of June 30, 2015 for the construction of a new high school and the remodeling of the elementary:

<b>Project</b>	<b>Contract Amount</b>	<b>Total Completed</b>	<b>Remaining Balance</b>	<b>Retainage</b>	<b>Total</b>
<b>Kindred School AHU Replace.</b> Mechanical Construction	\$ 490,900	\$ 111,202	\$ 379,698	\$ 11,120	\$ 390,818
<b>Kindred High School:</b> Seating & Athletic Facility	474,682	314,857	159,825	31,486	191,311
<b>Kindred HS - Lot Paving</b> Paving/Surfacing	727,438	727,438	-	36,372	36,372
<b>Totals</b>	<b>\$ 1,693,020</b>	<b>\$ 1,153,497</b>	<b>\$ 539,523</b>	<b>\$ 78,978</b>	<b>\$ 618,501</b>

Note: the only remaining item on the paving/resurfacing project is retainage relating to the high school parking lot project. See Note 23 for further details.

**NOTE 22: NEGATIVE FUND BALANCE**

The food service fund had a negative fund balance totaling (\$19,622) at June 30, 2015. The negative cash amount of (\$19,622) 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 23: SUBSEQUENT EVENT – PARKING LOT**

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 to date has 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. Originally, 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. If a settlement is not reached, a pretrial date has been set for September 19, 2016 with a trial date set to start on October 11, 2016.

**NOTE 24: PRIOR PERIOD ADJUSTMENTS**

**Change in Accounting Principle – GASB 68 Pensions:**

Net position as of July 1, 2014, has been restated as follows for the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

The result of implementing GASB 68 reduced beginning net position by a total of (\$5,853,952) consisting of the net pension liability related to the North Dakota Teacher's Fund for Retirement (NDTFFR) totaling (\$5,841,660), the net pension liability related to the North Dakota Public Employees Retirement System (NDPERS) totaling (\$363,349) reduced by employer contributions made to the retirement programs totaling \$351,057.

**Prior Period Adjustment – correction of capital asset errors:**

Additionally, prior period adjustments were necessary to properly report the beginning cost of accumulated depreciation for buildings (\$21,046), and vehicles (\$20,297) totaling \$41,343.

A summary of changes to decrease July 1, 2014 beginning net position by (\$5,812,609) for the pension and capital asset items is outlined below:

<b>Governmental Activities:</b>	<b>Amounts</b>
Beginning Net Position, as previously reported	\$9,530,568
Adjustments to Restate the July 1, 2014 Net Position:	
Net Pension Liability - NDTFFR	(5,841,660)
Net Pension Liability - NDPERS	(363,349)
FY2014 Employer Contributions - NDTFFR	314,681
FY2014 Employer Contributions - NDPERS	36,376
Capital Assets – accum. deprec. (bldgs. & vehicles)	41,343
Net Position July 1, as restated	\$3,717,959

**NOTE 25: DEBT REFUNDING - BONDS**

A debt refunding was done by Kindred Public School District during fiscal year 2015. On April 23, 2015, \$467,728 of 2015 Lease Revenue Bonds were issued to advance refund (defease) the remaining 2006 Lease Revenue Bonds principal totaling \$460,000.

The 2015 Lease Revenue Bonds were issued to obtain a net cash flow savings of \$27,653 and a net present value savings of \$23,985 over the life of the new bonds.

KINDRED PUBLIC SCHOOL DISTRICT NO. 2  
Kindred, North Dakota

BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Local Sources	\$ 1,523,610	\$ 1,523,610	\$ 1,614,130	\$ 90,520
State Sources	5,701,711	5,701,711	5,717,842	16,131
Federal Sources	275,986	275,986	178,701	(97,285)
Other Sources	31,000	31,000	52,610	21,610
Total Revenues	<u>\$ 7,532,307</u>	<u>\$ 7,532,307</u>	<u>\$ 7,563,283</u>	<u>\$ 30,976</u>
<u>Expenditures:</u>				
Current:				
Regular Instruction	\$ 3,876,085	\$ 3,876,085	\$ 3,841,683	\$ 34,402
Special Education	472,000	472,000	470,322	1,678
Vocational Education	277,332	277,332	263,682	13,650
Federal Programs	98,447	98,447	115,302	(16,855)
District Wide Services	253,875	253,875	226,485	27,390
Administration	580,716	580,716	558,582	22,134
Operations and Maintenance	1,396,892	1,396,892	834,969	561,923
Transportation	382,438	382,438	362,948	19,490
Co-Curricular Activities	333,073	333,073	318,836	14,237
Other Programs & Services	-	-	6,860	(6,860)
Debt Service:				
Principal	120,000	120,000	580,000	(460,000)
Interest and Fees	27,200	27,200	27,887	(687)
Total Expenditures	<u>\$ 7,818,058</u>	<u>\$ 7,818,058</u>	<u>\$ 7,607,556</u>	<u>\$ 210,502</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (285,751)</u>	<u>\$ (285,751)</u>	<u>\$ (44,273)</u>	<u>\$ 241,478</u>
<u>Other Financing Sources (Uses):</u>				
Bond Proceeds	\$ -	\$ -	\$ 467,728	\$ 467,728
Transfers Out	-	-	(524,112)	(524,112)
Total Other Financing Sources and Uses	<u>-</u>	<u>\$ -</u>	<u>\$ (56,384)</u>	<u>\$ (56,384)</u>
Net Change in Fund Balances	<u>\$ (285,751)</u>	<u>\$ (285,751)</u>	<u>\$ (100,657)</u>	<u>\$ 185,094</u>
Fund Balance - July 1	<u>\$ 1,655,881</u>	<u>\$ 1,655,881</u>	<u>\$ 1,655,881</u>	<u>\$ -</u>
Fund Balance - June 30	<u>\$ 1,370,130</u>	<u>\$ 1,370,130</u>	<u>\$ 1,555,224</u>	<u>\$ 185,094</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, 2015

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Local Sources	\$ 233,000	\$ 233,000	\$ 246,980	\$ 13,980
State Sources	68,000	68,000	4,613	(63,387)
Federal Sources	-	-	63,684	63,684
Total Revenues	<u>\$ 301,000</u>	<u>\$ 301,000</u>	<u>\$ 315,277</u>	<u>\$ 14,277</u>
<u>Expenditures:</u>				
Current:				
School Food Services	\$ 328,900	\$ 328,900	\$ 318,079	\$ 10,821
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (27,900)</u>	<u>\$ (27,900)</u>	<u>\$ (2,802)</u>	<u>\$ 25,098</u>
Fund Balance - July 1	<u>\$ (16,820)</u>	<u>\$ (16,820)</u>	<u>\$ (16,820)</u>	<u>\$ -</u>
Fund Balance - June 30	<u><u>\$ (44,720)</u></u>	<u><u>\$ (44,720)</u></u>	<u><u>\$ (19,622)</u></u>	<u><u>\$ 25,098</u></u>

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

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KINDRED PUBLIC SCHOOL DISTRICT NO. 2  
Kindred, North Dakota

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
June 30, 2015

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**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.

**NOTE 2: BUDGET TO ACTUAL AMOUNTS**

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:

<b>Food Service Fund:</b>	<b>Combined Statement</b>	<b>Adjustment</b>	<b>Budget to Actual</b>
Revenues	\$338,578	(\$23,301)	\$315,277
Expenditures	341,380	(23,301)	318,079

**KINDRED PUBLIC SCHOOL DISTRICT NO. 2**

## Notes to the Required Supplementary Information - Continued

The school district entered into a lease for computers in 2015. The lease financing and corresponding expenditures were reported on the statement of revenues, expenditures, and changes in fund balance – governmental funds, but were not reported on the budgetary comparison schedule in the general fund. 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:

<b>General Fund:</b>	<b>Combined Statement</b>	<b>Adjustment</b>	<b>Budget to Actual</b>
Lease Financing	\$ 292,785	\$(292,785)	\$ -
Expenditures	7,900,341	(292,785)	7,607,556

NOTE 3: SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY ND TEACHERS' FUND FOR RETIREMENT (TFFR)
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Schedule of Employer's Share of Net Pension Liability  
ND Teachers' Fund for Retirement  
Last 10 Fiscal Years\*

1. District's proportion of the net pension liability (asset)	.504655%
2. District's proportionate share of the net pension liability (asset)	\$5,287,890
3. District's covered-employee payroll	\$2,927,266
4. District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	180.64%
5. Plan fiduciary net position as a percentage of the total pension liability	66.60%

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

NOTE 4: SCHEDULE OF EMPLOYER CONTRIBUTIONS ND TEACHERS' FUND FOR RETIREMENT (TFFR)
------------------------------------------------------------------------------------

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

Statutorily required contribution	\$ 314,678
Contributions in relation to the statutorily required contribution	\$(314,678)
Contribution deficiency (excess)	\$ -
District's covered-employee payroll	\$2,927,266
Contributions as a percentage of covered-employee payroll	10.75%

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

**KINDRED PUBLIC SCHOOL DISTRICT NO. 2**

Notes to the Required Supplementary Information - Continued

**NOTE 5: SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY ND PUBLIC EMPLOYEE'S RETIREMENT SYSTEM (NDPERS)**

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

1. District's proportion of the net pension liability (asset)	0.049495%
2. District's proportionate share of the net pension liability (asset)	\$314,155
3. District's covered-employee payroll	\$416,934
4. District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	75.35%
5. Plan fiduciary net position as a percentage of the total pension liability	77.70%

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

**NOTE 6: SCHEDULE OF EMPLOYER CONTRIBUTIONS ND PUBLIC EMPLOYEE'S RETIREMENT SYSTEM (NDPERS)**

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

Statutorily required contribution	\$ 29,686
Contributions in relation to the statutorily required contribution	\$(29,686)
Contribution deficiency (excess)	\$ -
District's covered-employee payroll	\$416,934
Contributions as a percentage of covered-employee payroll	7.12%

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

**STATE AUDITOR**

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**OFFICE OF THE STATE AUDITOR**  
STATE CAPITOL  
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**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**

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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, 2015, 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 February 2, 2016.

**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 [2015-01].

**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

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### **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  
February 2, 2016

KINDRED PUBLIC SCHOOL DISTRICT NO. 2  
Kindred, North Dakota

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 2015

**Section I - Summary of Auditor's Results**

**Financial Statements**

Type of Report Issued?			
Governmental Activities		Unmodified	
Major Funds		Unmodified	
<b>Internal Control Over Financial Reporting:</b>			
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**

**2015-01 – 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.

**STATE AUDITOR**

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BISMARCK, NORTH DAKOTA 58505

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Kindred Public School District No. 2, , North Dakota, as of and for the year ended June 30, 2015, which collectively comprise the Kindred Public School District No. 2's basic financial statements and have issued our report thereon dated February 2, 2016. Professional standards require that we provide you with the following information related to our audit.

**OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA, GOVERNMENT AUDITING STANDARDS**

As stated in our engagement letter dated January 12, 2016, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors or fraud may exist and not be detected by us.

In planning and performing our audit, we considered the Kindred Public School District No. 2, North Dakota's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting.

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 grants 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.

**SIGNIFICANT ACCOUNTING POLICIES/QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Kindred Public School District No. 2 are described in Note 1 to the financial statements. Application of existing policies was not changed during the year ended June 30, 2015. GASB Statement 68 (Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27), and GASB Statement 71 (Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68) were adopted during the year ended June 30, 2015. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements presented by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements is useful lives of capital assets.

**CORRECTED AND UNCORRECTED MISSTATEMENTS**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and report them to the appropriate level of management. None of the misstatements detected as a result of audit procedures were material, either individually or in the aggregate, to the financial statements taken as a whole.

**DISAGREEMENTS WITH MANAGEMENT**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, or reporting matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

**MANAGEMENT REPRESENTATIONS**

We have requested certain representations from management that are included in the management representation letter dated February 2, 2016.

**MANAGEMENT CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the school district's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

**DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT**

We encountered no significant difficulties in dealing with management in performing and completing our audit.

**OTHER AUDIT FINDINGS OR ISSUES**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

The following presents our informal recommendations:

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**BANK RECONCILIATION DIFFERENCES**

For the year ended June 30, 2015, during our review of bank reconciliations, a total cash amount of \$110,715 was not reconciled to the general ledger cash trial balance. The difference was not resolved. The cash balances in the financial statements may be misstated by the error amount.

An adequate check and balance system is not in place to oversee that the bank statements agree to cash on hand (booked cash balance per the general ledger) reconciliations. A proper system of internal controls require someone to prepare a reconciliation of cash that compares bank statement balances to general ledger balances. The differences are documented in the support for the reconciliation.

We recommend Kindred Public School District No. 2 ensures that monthly bank reconciliations agree to the general ledger cash trial balance. Should any differences exist, they should be investigated and resolved until the reconciled cash balances agree to the general ledger cash trial balances amounts.

**BOARD APPROVAL OF PLEDGES**

For the year ended June 30, 2015, during our review of pledges of securities approvals, it was noted that Pledges of securities/assets were not approved semi-annually by the school district governing board as required by state law. Pledges were last approved October 14, 2014, and November 10, 2015. By not approving pledges semi-annually, the board is not in compliance with North Dakota Century Code Section 21-04-11.

North Dakota Century Code Section 21-04-11 states "The board of the public corporation, upon the acceptance of any securities as a pledge for repayment of deposits, shall make a complete and detailed record of such acceptance and approval and shall preserve the same with its other records. Such securities must be re-approved by the board at least semiannually."

We recommend that pledges of securities/assets are re-approved at least semi-annually by the school district governing board as required in state law.

**CAPITAL ASSETS POLICY & ERRORS**

The current client capital assets policy is incomplete and does not include the following items:

- Method of depreciation utilized (straight-line);
- Depreciation related to year of acquisition and year of disposal (no depreciation taken in the year of acquisition, and a full year of depreciation taken in the year of disposal);
- Useful life category for other or 'building' improvements (20 years - per discussion with the Business Manager);

Furthermore, it was noted that certain asset classes should probably be reviewed/re-evaluated for useful lives as there is a number of fully depreciated capital assets still in service.

Additionally, capital asset beginning accumulated depreciation errors in buildings and vehicles were noted totaling \$41,343 due to incorrect depreciation reported in the year of acquisition for certain capital assets.

We recommend that the capital assets policy is updated to include all applicable items as noted. We further recommend that depreciation for capital assets is consistently taken in the year of disposal, and not in the year of acquisition.

\* \* \* \* \*

This information is intended solely for the use of the Board of Education and management of the Kindred Public School District No. 2, Kindred, North Dakota and should not be used for any other purpose. However, this report is a matter of public record, and its distribution is not limited. We would be happy to meet with you and any member of your staff to discuss any of the items in this letter in more detail if you so desire.

Thank you and the employees of the Kindred Public School District No. 2 for the courteous and friendly assistance we received during the course of our audit. It is a pleasure for us to be able to serve the Kindred Public School District No. 2.



Robert R. Peterson  
State Auditor  
  
Fargo, North Dakota  
February 2, 2016

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