

**OFFICE OF
STATE AUDITOR**

AUDIT REPORT

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

FOR THE YEAR ENDED JUNE 30, 2012



KINDRED PUBLIC SCHOOL DISTRICT NO. 2
Kindred, North Dakota

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KINDRED PUBLIC SCHOOL DISTRICT NO. 2
Kindred, North Dakota

SCHOOL OFFICIALS

June 30, 2012

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

STATE AUDITOR

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

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities and each major fund of the Kindred Public School District No. 2, Kindred, North Dakota, as of and for the year ended June 30, 2012, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Kindred Public School District No. 2's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Kindred Public School District No. 2, Kindred, North Dakota, as of June 30, 2012, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2013, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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.

KINDRED PUBLIC SCHOOL DISTRICT NO. 2

Independent Auditor's Report – Continued

Accounting principles generally accepted in the United States of America require that the *budgetary comparison information* on pages 23 and 24 are to 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.



Robert R. Peterson
State Auditor

February 27, 2013

KINDRED PUBLIC SCHOOL DISTRICT NO. 2
Kindred, North Dakota

STATEMENT OF NET ASSETS
June 30, 2012

	Governmental Activities
<u>ASSETS:</u>	
Cash and Cash Equivalents	\$ 3,565,245
Restricted Investment	3,540,418
Taxes Receivable	177,305
Capital Assets (not being depreciated):	
Land	251,357
Construction in Progress	14,245,022
Capital Assets (net of accumulated depreciation):	
Buildings/Improvements	3,077,010
Vehicles	381,679
Equipment	242,834
Total Capital Assets	<u>\$ 18,197,902</u>
Total Assets	<u>\$ 25,480,870</u>
<u>LIABILITIES:</u>	
Accounts Payable	\$ 27,820
Salaries & Benefits Payable	191,391
Contracts Payable	822,977
Retainages Payable	713,393
Interest Payable	364,254
Long-Term Liabilities:	
Due Within One Year:	
General Obligation Bonds Payable	25,000
Lease Revenue Bonds Payable	115,000
Compensated Absences Payable	20,324
Due After One Year:	
General Obligation Bonds Payable	14,800,000
Lease Revenue Bonds Payable	750,000
Compensated Absences Payable	60,973
Total Liabilities	<u>\$ 17,891,132</u>
<u>NET ASSETS:</u>	
Invested in Capital Assets, net of related debt	\$ 2,507,902
Restricted for:	
Debt Service	1,251,342
Building Projects	1,927,002
Unrestricted	<u>1,903,492</u>
Total Net Assets	<u>\$ 7,589,738</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, 2012

Function/Program	Expenses	Program Revenues		Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions		
<u>Governmental Activities:</u>					
Regular Instruction	\$ 2,823,063	\$ 3,100	\$ -	\$ -	\$ (2,819,963)
Special Education	209,339	-	-	-	(209,339)
Vocational Education	218,116	-	-	-	(218,116)
Federal Programs	72,891	-	164,735	-	91,844
District Wide Services	202,741	-	-	-	(202,741)
Administration	475,326	-	-	-	(475,326)
School Food Services	300,204	216,965	99,618	-	16,379
Operations and Maintenance	656,131	-	225,659	75,000	(355,472)
Transportation	364,614	-	228,096	-	(136,518)
Co-Curricular Activities	223,903	-	-	-	(223,903)
Interest Expense	921,828	-	-	-	(921,828)
Fiscal Charges	2,650	-	-	-	(2,650)
Total Governmental Activities	\$ 6,470,806	\$ 220,065	\$ 718,108	\$ 75,000	\$ (5,457,633)
<u>General Revenues:</u>					
Property taxes; levied for general purposes					\$ 1,703,920
Property taxes; levied for debt service					246,474
Property taxes; levied for building purposes					1,056,256
State aid-unrestricted					2,683,343
Mill levy reduction income					1,031,519
Investment earnings					828,527
Miscellaneous revenue					65,690
Total General Revenues					\$ 7,615,729
Changes in Net Assets					\$ 2,158,096
Net Assets - July 1					\$ 5,197,424
Prior Period Adjustment					234,218
Net Assets - July 1, as restated					\$ 5,431,642
Net Assets - June 30					\$ 7,589,738

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, 2012

	General	Building Fund	Debt Service	Food Service Fund	Total Governmental Funds
<u>ASSETS</u>					
Cash and Cash Equivalents	\$ 1,974,502	\$ 837,248	\$ 717,658	\$ 35,837	\$ 3,565,245
Restricted Investment	-	2,642,480	897,938	-	3,540,418
Taxes Receivable	99,700	14,967	62,638	-	177,305
Total Assets	\$ 2,074,202	\$ 3,494,695	\$ 1,678,234	\$ 35,837	\$ 7,282,968
<u>LIABILITIES AND FUND BALANCES</u>					
<u>Liabilities:</u>					
Accounts Payable	\$ 11,464	\$ 16,356	-	-	\$ 27,820
Salaries & Benefits Payable	191,391	-	-	-	191,391
Contracts Payable	-	822,977	-	-	822,977
Retainages Payable	-	713,393	-	-	713,393
Deferred Revenue	99,700	14,967	62,638	-	177,305
Total Liabilities	\$ 302,555	\$ 1,567,693	\$ 62,638	\$ -	\$ 1,932,886
<u>Fund Balances:</u>					
<u>Restricted for:</u>					
Debt Service	\$ -	\$ -	\$ 1,615,596	\$ -	\$ 1,615,596
Capital Projects	-	1,927,002	-	-	1,927,002
<u>Committed to:</u>					
Food Service	-	-	-	35,837	35,837
<u>Unassigned:</u>	1,771,647	-	-	-	1,771,647
Total Fund Balances	\$ 1,771,647	\$ 1,927,002	\$ 1,615,596	\$ 35,837	\$ 5,350,082
Total Liabilities and Fund Balances	\$ 2,074,202	\$ 3,494,695	\$ 1,678,234	\$ 35,837	\$ 7,282,968

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

KINDRED PUBLIC SCHOOL DISTRICT NO. 2
Kindred, North Dakota

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2012

Total *Fund Balances* for Governmental Funds \$ 5,350,082

Total *net assets* reported for governmental activities in the statement of net assets 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	\$ 25,532,840	
Less Accumulated Depreciation	(7,334,938)	
Net Capital Assets	<u>18,197,902</u>	18,197,902

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. 177,305

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 assets. Balances at June 30, 2012 are:

General Obligation Bonds Payable	\$ (14,825,000)	
Lease Revenue Bonds Payable	(865,000)	
Interest Payable	(364,254)	
Compensated Absences Payable	(81,297)	
Total Long-Term Liabilities	<u>(16,135,551)</u>	(16,135,551)

Total Net Assets of Governmental Activities \$ 7,589,738

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, 2012

	General	Building Fund	Debt Service	Food Service Fund	Total Governmental Funds
<u>Revenues:</u>					
Local Sources	\$ 1,747,582	\$ 540,658	\$ 1,862,157	\$ 216,965	\$ 4,367,362
State Sources	3,950,238	-	-	2,856	3,953,094
Federal Sources	164,735	-	-	96,761	261,496
Other Sources	37,291	-	16,761	-	54,052
Total Revenues	\$ 5,899,846	\$ 540,658	\$ 1,878,918	\$ 316,582	\$ 8,636,004
<u>Expenditures:</u>					
Current:					
Regular Instruction	\$ 3,199,184	\$ -	\$ -	\$ -	\$ 3,199,184
Special Education	209,339	-	-	-	209,339
Vocational Education	217,024	-	-	-	217,024
Federal Programs	72,891	-	-	-	72,891
District Wide Services	183,538	-	-	-	183,538
Administration	475,326	-	-	-	475,326
School Food Services	-	-	-	299,887	299,887
Operations and Maintenance	587,144	-	-	-	587,144
Transportation	372,035	-	-	-	372,035
Co-Curricular Activities	294,286	-	-	-	294,286
Capital Outlay	-	11,576,291	-	-	11,576,291
Debt Service:					
Principal	110,000	25,000	179,000	-	314,000
Interest	41,300	4,500	888,558	-	934,358
Fiscal Charges	-	-	2,650	-	2,650
Total Expenditures	\$ 5,762,067	\$ 11,605,791	\$ 1,070,208	\$ 299,887	\$ 18,737,953
Excess (Deficiency) of Revenues Over Expenditures	\$ 137,779	\$ (11,065,133)	\$ 808,710	\$ 16,695	\$ (10,101,949)
<u>Other Financing Sources (Uses):</u>					
Transfers In	\$ -	\$ 239,125	\$ 864,706	\$ -	\$ 1,103,831
Transfers Out	(239,125)	-	(864,706)	-	(1,103,831)
Total Other Financing Sources and Uses	\$ (239,125)	\$ 239,125	\$ -	\$ -	\$ -
Net Change in Fund Balances	\$ (101,346)	\$ (10,826,008)	\$ 808,710	\$ 16,695	\$ (10,101,949)
Fund Balances - July 1	\$ 1,709,408	\$ 12,753,010	\$ 806,886	\$ 19,142	\$ 15,288,446
Prior Period Adjustment	163,585	-	-	-	163,585
Fund Balance - July 1, as restated	\$ 1,872,993	\$ 12,753,010	\$ 806,886	\$ 19,142	\$ 15,452,031
Fund Balance - June 30	\$ 1,771,647	\$ 1,927,002	\$ 1,615,596	\$ 35,837	\$ 5,350,082

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, 2012

Net Change in *Fund Balances* - Total Governmental Funds \$ (10,101,949)

The change in net assets 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 expense in the current year.

Capital Asset Additions	\$ 12,249,404	
Capital Asset Deletions	(36,317)	
Current Year Depreciation Expense	<u>(285,105)</u>	11,927,982

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which debt issuance exceeded the debt repayments.

Repayment of State School Construction Loan	\$ 94,000	
Repayment of General Obligation Bonds	110,000	
Repayment of Lease Revenue Bonds	<u>110,000</u>	314,000

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

Net Change in Interest Payable	\$ 12,530	
Net Change in Compensated Absences Payable	<u>12,635</u>	25,165

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

(7,102)

Change in Net Assets of Governmental Activities \$ 2,158,096

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

KINDRED PUBLIC SCHOOL DISTRICT NO. 2
Kindred, North Dakota

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
June 30, 2012

	<u>Agency Funds</u>
<u>Assets:</u>	
Cash	<u>\$ 178,502</u>
<u>Liabilities:</u>	
Due to Student Activities Groups	<u>\$ 178,502</u>

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

KINDRED PUBLIC SCHOOL DISTRICT NO. 2
Kindred, North Dakota

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

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.

B. Basis of Presentation, Basis of Accounting

Government-wide statements: The statement of net assets 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 nonexchange 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 for construction of building additions and renovation projects. This fund is also used for paying principal and interest on two debt issues.

Debt Service Fund. This fund is used for payment of bond principal and interest on the limited tax building bonds, the refunding bonds of 1998 and the state school construction bonds.

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.

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. Nonexchange 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 assets 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 more. 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 of is not capitalized.

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

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

F. Compensated Absences

At the beginning of each school year each teacher with zero to seven years teaching experience with the Kindred School district will be credited with two (2) 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 three (3) personal days. Any unused personal days will accumulate from year-to-year up to a maximum of six (6) days. Upon retirement or resignation, the school district will pay 100 % of substitute teacher's pay (\$105 per day) for accumulated personal days.

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

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

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 assets. 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 Assets Equity

Fund Balances:

Prior to GASB Statement No. 54, in the fund financial statements, the governmental funds reported reservations of fund balances for amounts that were not available for appropriation or were legally restricted by outside parties for use for a specific purpose. Designations of fund balances represented tentative management plans that were subject to change. GASB Statement No. 54 established new 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.

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*

On March 11, 2009 the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, effective for fiscal periods that begin after June 15, 2010. This statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes.

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

CLASSIFICATION	DEFINITION	EXAMPLES
Nonspendable	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	Available for any remaining general fund expenditure.

Restricted Fund Balances – consist of the following items at June 30, 2012:

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

- (a) Restricted investment held in trust and in checking for the payment of construction costs related to the new school in fund 03 – total of \$1,927,002.

Debt Service Fund (nonmajor 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 \$1,615,596 at June 30, 2012.

Committed Fund Balance – consists of the following at June 30, 2012:

- (c) Food Service Fund committed fund balance of \$35,837. This is used only for Food Service purposes. The governing board committed funds to remain in this fund and used for food service purposes.

Net Assets Equity:

Invested in capital assets, net of related debt, is reported for capital assets less accumulated depreciation and any related debt (bonds payable) issued to construct them. The resources needed to repay this related debt must be provided from other sources, since the 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 assets equity, shown in the Statement of Net Assets, are due to restricted tax levies and bond indenture requirements for capital projects and debt service funds (restricted by bond indenture and levy restrictions).

Unrestricted net assets equity is primarily unrestricted amounts related to the general fund. The unrestricted net assets are 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, 2012, the school district's carrying amount of deposits was \$3,550,975 and the bank balances totaled \$3,802,204. Of the bank balances, \$750,546 was covered by Federal Depository Insurance. The remaining bank balances totaling \$3,051,658 were collateralized with securities held by the pledging financial institution's agent in the government's name. Investments totaling \$3,540,418 (carrying value) are not collateralized.

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.

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

Restricted Investments:

As of June 30, 2012 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 of \$1,128,395 with differing maturities that was not credit risked:

Investment Type	Fair Value
CD's – FDIC Insured	\$ 230,457
Bonds – Federal Agency	897,938
Total – Market value at 6/30/11	\$1,128,395

There was also a checking account held at U.S. Bank for the payment of construction costs with \$2,412,023 that wasn't credit risked.

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 FY2012 was A1.

NOTE 3: 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 4: 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, 2012.

NOTE 5: CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended June 30, 2012:

Governmental Activities:	Balance January 1	Adjustments	Increases	Decreases	Balance December 31
<i>Capital assets not being depreciated:</i>					
Land	\$ 251,357	\$ -	\$ -	\$ -	\$ 251,357
Construction in Progress	2,169,800	-	12,075,222	-	14,245,022
Total Capital Assets, Not Being Depreciated	\$ 2,421,157	\$ -	\$12,075,222	\$ -	\$14,496,379
<i>Capital assets, being depreciated:</i>					
Buildings	\$ 9,708,197	\$ -	\$ 87,717	\$ 97,180	\$ 9,698,734
Equipment	484,803	-	28,014	36,317	476,500
Vehicles	876,697	81,500	58,450	155,420	1,172,067
Total Capital Assets, Being Depreciated	\$11,069,697	\$81,500	\$ 174,181	\$288,917	\$11,347,301
<i>Less accumulated depreciation for:</i>					
Buildings	\$ 6,500,980	\$ -	\$ 217,925	\$ 97,180	\$ 6,621,725
Equipment	211,015	-	22,651	-	233,666
Vehicles	579,571	10,867	44,529	155,420	790,387
Total Accumulated Depreciation	\$ 7,291,566	\$10,867	\$ 285,105	\$252,600	\$ 7,645,778
Total Capital Assets Being Depreciated, Net	\$ 3,778,131	\$70,633	\$ (110,924)	\$ 36,317	\$ 3,701,523
Governmental Activities-Capital Assets, Net	\$ 6,199,288	\$70,633	\$11,964,298	\$ 36,317	\$18,197,902

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

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

Governmental Activities:	Amounts
Regular Instruction	\$136,538
District Wide	19,202
Food Services	317
Operations/Maintenance	60,685
Transportation	51,029
Co-Curricular	17,334
Total Depreciation Expense - Governmental Activities	\$285,105

NOTE 6: ACCOUNTS PAYABLE

Accounts payable consists of amounts owed for goods and services received prior to June 30, 2012 and chargeable to the appropriations for the year then ended, but paid subsequent to that date.

NOTE 7: 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, 2012.

NOTE 8: CONTRACTS PAYABLE

Contracts payable consist of amounts owed to various construction contractors for the new school building at June 30, 2012, but not paid until after year-end.

NOTE 9: RETAINAGE PAYABLE

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

NOTE 10: DEFERRED REVENUES

Deferred revenues on the fund financial statements consist of amounts for taxes receivable 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.

NOTE 11: LONG-TERM DEBT

Changes in Long-Term Liabilities - During the year ended June 30, 2012, the following changes occurred in liabilities reported in long-term liabilities:

Governmental Activities:	Balance January 1	Increases	Decreases	Balance December 31	Due Within One Year
General Obligation Bonds	\$14,935,000	\$ -	\$110,000	\$14,825,000	\$ 25,000
Loans Payable	94,000	-	94,000	-	-
Lease Revenue Bonds	975,000	-	110,000	865,000	115,000
Compensated Absences *	93,932	-	12,635	81,297	20,324
Total Governmental Activities	\$16,097,932	\$ -	\$326,635	\$15,771,297	\$160,324

* - 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.

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

Outstanding debt at June 30, 2012 consists of the following individual issues (excluding capital leases, early retirement payable and compensated absences):

General Obligation Bonds Payable:

\$175,000 School Building Bonds of 2010, due in annual installment of \$25,000 to \$30,000 through May 2017; interest at 3%.	\$ 125,000
\$14,700,000 School Building Bonds of 2011, due in one principal installment of \$14,700,000 on August 1, 2027; interest at 6%.	<u>14,700,000</u>
Total General Obligation Bonds Payable	<u>\$14,825,000</u>

Lease Revenue Bonds Payable:

\$740,000 of 2003 Lease Revenue Bonds, due in annual installments of \$55,000 to \$60,000 through July 2015, interest at 4.0% to 4.5%.	\$ 220,000
\$950,000 of 2007 Lease Revenue Bonds, due in annual installments of \$45,000 to \$85,000 through May 2021; interest at 4.0% to 4.6%.	<u>645,000</u>
Total Lease Revenue Bonds Payable	<u>\$ 865,000</u>
Total Long-Term Debt (excluding compensated absences)	<u>\$15,690,000</u>

Debt service requirements on long-term debt (excluding early retirement payable and compensated absences payable) at June 30, 2012 are as follows:

GOVERNMENTAL ACTIVITIES						
Year Ending December 31	G.O Bonds		Lease Revenue		Total LTD	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 25,000	\$ 885,750	\$115,000	\$ 36,831	\$ 140,000	\$ 922,581
2014	25,000	885,150	115,000	32,094	140,000	917,244
2015	25,000	884,400	120,000	27,168	145,000	911,568
2016	25,000	883,650	125,000	21,963	150,000	905,613
2017	25,000	882,900	70,000	17,645	95,000	900,545
2018 - 2022	-	4,410,000	320,000	37,255	320,000	4,447,255
2023 - 2027	-	4,410,000	-	-	-	4,410,000
2028 - 2032	14,700,000	1,323,000	-	-	14,700,000	1,323,000
Total	\$14,825,000	\$14,564,850	\$865,000	\$172,956	\$15,690,000	\$14,737,806

NOTE 12: 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 (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. Kindred Public School District No. 2 pays an annual premium to NDIRF for its general liability, automobile, and inland marine insurance coverage. The coverage by NDIRF 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 \$110,124.

The Kindred Public School District No. 2 participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The Kindred Public School District pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a 3rd party carrier for losses on excess of two million dollars per occurrence during a 12-month period. The State Bonding Fund currently provides the Kindred Public School District No. 2 with blanket fidelity bond coverage in the amount of \$1,500,000 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 13: PENSION PLANS

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

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

Plan members are required to contribute 7.75% of their annual covered salary and the school district is required to contribute 8.25% of the teacher's salary. The contribution requirements of plan members and the school district are established and may be amended by the State legislature. The school district's contributions to TFFR for the fiscal years ending June 30, 2012, 2011, and 2010 were \$450,768, \$429,867, and \$371,774, respectively, equal to the required contributions for the year.

2. North Dakota Public Employees' Retirement System

The Kindred PSD No. 2 participates in the North Dakota Public Employees' Retirement System (NDPERS) administered by the State of North Dakota. Following is a brief description of the plan.

NDPERS is a cost-sharing multiple-employer defined benefit pension plan covering substantially all classified employees of the Kindred PSD No. 2. The plan provides retirement, disability and death benefits. If an active employee dies with less than three years of credited service, a death benefit equal to the value of the employee's accumulated contributions, plus interest, is paid to the employee's beneficiary. If the employee has earned more than three years of credited service, the surviving spouse will be entitled to a single payment refund, lifetime monthly payments in an amount equal to 50% of the employee's accrued normal retirement benefit, 60 monthly payments equal to the employee's accrued normal retirement benefit calculated as if the employee were age 65 the day before death occurred or monthly payments in an amount equal to the employees' 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 employee's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

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

Eligible employees, who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits that are equal to 25% of their final average salary with a minimum benefit of \$100. To qualify under this section, the employee must meet the criteria established by the Retirement Board for being considered totally disabled.

Employees are entitled to unreduced monthly pension benefits equal to 2.0% of their final average salary for each year of service beginning when the sum of age and years of credited service equal or exceed 85, or at normal retirement age (65). The plan permits early retirement at ages 55-64, with three or more years of service.

Benefit and contribution provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code. This state statute requires that 4% of the participant's salary be contributed to the plan by either the employee or by the employer under a "salary reduction" agreement. The Kindred PSD No. 2 has implemented a salary reduction agreement and is currently contributing the employees share. The Kindred PSD No. 2 is required to contribute 5.26% of each participant's salary as the employer's share. In addition to the 5.12% employer contribution the employer is required to contribute 1.14% of each participating employee's gross wage to a prefunded retiree health insurance program. The required contributions are determined using an entry age normal actuarial funding method and are included in state statute. The North Dakota Retirement Board was created by the State Legislature and is the governing authority of NDPERS. The Kindred PSD's required and actual contributions to NDPERS for the fiscal years ended June 30, 2012, 2011, and 2010 were \$39,366, \$42,155, and \$40,769, respectively.

NDPERS issues a publicly available financial report that includes financial statements and the required supplementary information for NDPERS. That report may be obtained by writing to NDPERS; 400 East Broadway, Suite 505; PO Box 1657; Bismarck, ND 58502-1657.

NOTE 14: OPERATING LEASES

The Kindred Public School District leases copiers under non-cancelable operating leases. Total costs for such leases were \$18,192 for the year ended June 30, 2012. The future minimum lease payments for these leases are as follows:

Year Ending June 30	Amounts
2013	\$18,192
2014	13,624
2015	10,000
TOTAL	\$41,816

NOTE 15: TRANSFERS

The following is a reconciliation between transfers in and transfers out as reported in the financial statements for the year ended June 30, 2012:

Fund	Transfers In	Transfers Out
General Fund	\$ -	\$ 239,125
Building Fund	239,125	-
Sinking & Interest Fund	-	864,706
U.S. Bank Escrow (Off-Book)	864,706	-
Total Transfers	\$1,103,831	\$1,103,831

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

NOTE 16: CONSTRUCTION COMMITMENTS

The Kindred Public School District No. 2 had the following commitments for construction contracts as of June 30, 2012 for the construction of a new school:

Project	Original Contract	Change Orders	Total Contract w/Change Orders	Total Completed	Retainage	Remaining Balance w/Retainages	% Complete
Kindred High School Project	\$14,929,764	\$172,223	\$15,101,987	\$12,682,261	\$713,393	\$3,133,119	83.98%

NOTE 17: PRIOR PERIOD ADJUSTMENTS

The Kindred Public School District required prior period adjustments to capital assets and accumulated depreciation in the net assets statement due to incorrectly not including an asset into the asset listing in a timely matter. Also, beginning fund balances and net assets were adjusted to back-out a prior salaries payable adjustment. Net adjustments increased beginning net assets equity by a total of \$234,218 and beginning fund balance by \$163,585. The adjustments are included below:

Governmental Funds:	Amounts
Beginning Fund Balance, as previously reported	\$15,288,466
Adjustments to restate the July 1, 2011 fund balance:	
Fund Balance Adjustment	163,585
Fund Balances - July 1, 2011	\$15,452,031

Governmental Activities:	Amounts
Beginning Net Assets, as previously reported	\$5,197,424
Adjustments to restate the July 1, 2011 net assets:	
Capital Assets – Vehicles	81,500
Accumulated Depreciation – Equipment/Furniture	(10,867)
Fund Balance Adjustment	163,585
Net Assets July 1, as restated	\$5,431,642

KINDRED PUBLIC SCHOOL DISTRICT NO. 2
Kindred, North Dakota

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Local Sources	\$ 1,791,071	\$ 1,791,071	\$ 1,747,582	\$ (43,489)
State Sources	3,946,955	3,946,955	3,950,238	3,283
Federal Sources	181,168	181,168	164,735	(16,433)
Other Sources	35,000	35,000	37,291	2,291
Total Revenues	\$ 5,954,194	\$ 5,954,194	\$ 5,899,846	\$ (54,348)
<u>Expenditures:</u>				
Current:				
Regular Instruction	\$ 3,340,720	\$ 3,340,720	\$ 3,199,184	\$ 141,536
Special Education	212,500	212,500	209,339	3,161
Vocational Education	253,130	253,130	217,024	36,106
Federal Programs	74,002	74,002	72,891	1,111
District Wide Services	217,530	217,530	183,538	33,992
Administration	527,548	527,548	475,326	52,222
Operations and Maintenance	872,680	872,680	587,144	285,536
Transportation	378,700	378,700	372,035	6,665
Co-Curricular Activities	297,692	297,692	294,286	3,406
Debt Service:				
Principal	110,000	110,000	110,000	-
Interest and Fees	43,000	43,000	41,300	1,700
Total Expenditures	\$ 6,327,502	\$ 6,327,502	\$ 5,762,067	\$ 565,435
Excess (Deficiency) of Revenues Over Expenditures	\$ (373,308)	\$ (373,308)	\$ 137,779	\$ 511,087
<u>Other Financing Sources (Uses):</u>				
Transfers Out	\$ -	\$ -	\$ (239,125)	\$ (239,125)
Net Changes in Fund Balances	\$ (373,308)	\$ (373,308)	\$ (101,346)	\$ 271,962
Fund Balance - July 1	\$ 1,709,408	\$ 1,709,408	\$ 1,709,408	\$ -
Prior Period Adjustment	-	-	163,585	-
Fund Balance - July 1, as restated	\$ 1,709,408	\$ 1,709,408	\$ 1,872,993	\$ -
Fund Balance - June 30	\$ 3,045,508	\$ 3,045,508	\$ 1,771,647	\$ 271,962

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, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Local Sources	\$ 210,000	\$ 210,000	\$ 216,965	\$ 6,965
State Sources	-	-	2,856	2,856
Federal Sources	60,000	60,000	96,761	36,761
Total Revenues	<u>\$ 270,000</u>	<u>\$ 270,000</u>	<u>\$ 316,582</u>	<u>\$ 46,582</u>
<u>Expenditures:</u>				
Current:				
School Food Services	\$ 249,170	\$ 249,170	\$ 299,887	\$ (50,717)
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 20,830</u>	<u>\$ 20,830</u>	<u>\$ 16,695</u>	<u>\$ (4,135)</u>
Fund Balance - July 1	<u>\$ 19,142</u>	<u>\$ 19,142</u>	<u>\$ 19,142</u>	<u>\$ -</u>
Fund Balance - June 30	<u>\$ 59,114</u>	<u>\$ 59,114</u>	<u>\$ 35,837</u>	<u>\$ (4,135)</u>

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

KINDRED PUBLIC SCHOOL DISTRICT NO. 2
Kindred, North Dakota

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2012

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 October tenth.
- The operating budget includes proposed expenditures and means of financing them.
- Each budget is controlled by the business manager at the revenue and expenditure function/object level.
- The current budget, except for property taxes, may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared.
- All appropriations lapse at year-end.

STATE AUDITOR

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

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

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

We have audited the financial statements of the governmental activities and each major fund of the Kindred Public School District No. 2, Kindred, North Dakota, as of and for the year ended June 30, 2012, which collectively comprise the Kindred Public School District No. 2's basic financial statements and have issued our report thereon dated February 27, 2013. 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.

Internal Control Over Financial Reporting

Management of the Kindred Public School District No. 2 is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Kindred Public School District No. 2's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Kindred Public School District No. 2's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Kindred Public School District No. 2's internal control over financial reporting.

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 [2012-01].

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

This report is intended solely for the information and use of management, the school board, and others within the school district and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Bob Peterson".

Robert R. Peterson
State Auditor

February 27, 2013

KINDRED PUBLIC SCHOOL DISTRICT NO. 2
Kindred, North Dakota

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2012

Section I - Summary of Auditor's Results

Financial Statements

Type of Report Issued?
Governmental Activities Unqualified
Major Funds Unqualified

Internal Control Over Financial Reporting:

Material weaknesses identified? X Yes No

Significant deficiencies identified not considered to be
material weaknesses? Yes X No

Noncompliance material to financial statements noted? Yes X No

Section II - Financial Statement Findings

2012-01 – 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.

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.