



# Kindred Public School District No. 2

Kindred, North Dakota

## **Audit Report**

For the Year Ended June 30, 2018

**JOSHUA C. GALLION**  
STATE AUDITOR

Office of the State Auditor  
Division of Local Government

# KINDRED PUBLIC SCHOOL DISTRICT NO. 2

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For the Year Ended June 30, 2018

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# **KINDRED PUBLIC SCHOOL DISTRICT NO. 2**

School Officials and Audit Personnel

June 30, 2018

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## **SCHOOL OFFICIALS**

Mike Saewert	Board President
Mark Rieger	Board Vice-President
Mark Richard	Board Member
Heidi McQuillan	Board Member
Brian McDonald	Board Member
Nicole Spelhaug	Board Member
Sean Roesler	Board Member
Steve Hall	Superintendent
Melanie Moffet	Business Manager

## **AUDIT PERSONNEL**

Craig Hashbarger, CPA, CIA, CFE	Audit Manager
Jonathan Worrall, CPA	Audit In-Charge

**STATE AUDITOR**

JOSHUA C. GALLION  
Phone (701) 328-2241



Local Government Division  
FARGO OFFICE  
MANAGER – CRAIG HASHBARGER  
Phone (701) 239-7250

STATE OF NORTH DAKOTA  
**OFFICE OF THE STATE AUDITOR**  
FARGO OFFICE BRANCH  
1655 43<sup>RD</sup> STREET SOUTH, SUITE 203  
FARGO, NORTH DAKOTA 58103

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**INDEPENDENT AUDITOR’S REPORT**

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School Board of Directors  
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, 2018, 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, 2018, 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 2 to the financial statements, Kindred Public School District No. 2 adopted new accounting guidance, GASB Statement No. 75, Accounting and Financial Reporting for Post-Employment Benefit Plans Other Than Pensions. Our opinion is not modified with respect to this matter.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the *budgetary comparison information, schedule of employer's share of net pension liability and employer contributions, schedule of employer's share of net OPEB liability and employer contributions, and the notes to the required supplementary information* on pages 30-34 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.

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.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The *combining balance sheet - nonmajor governmental funds, and combining statement of revenues, expenditures and changes in fund balances - nonmajor governmental funds*, are presented for purposes of additional analysis and are not a required part of the financial statements.

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated May 2, 2019 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 Kindred Public School District No. 2's internal control over financial reporting and compliance.

/s/

Joshua C. Gallion  
State Auditor

Fargo, North Dakota  
May 2, 2019

# KINDRED PUBLIC SCHOOL DISTRICT NO. 2

Statement of Net Position

June 30, 2018

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	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash, Cash Equivalents, and Investments	\$ 4,403,281
Restricted Investment	6,257,221
Due from County Treasurer	32,549
Intergovernmental Receivable	17,451
Taxes Receivable	107,993
Capital Assets, Net	<u>20,633,889</u>
Total Assets	<u>\$ 31,452,384</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Derived from Pension & OPEB	<u>\$ 1,423,079</u>
<b>LIABILITIES</b>	
Accounts Payable	\$ 123,412
Salaries & Benefits Payable	253,483
Interest Payable	368,469
Long-Term Liabilities	
Due Within One Year	
Long Term Debt	80,669
Compensated Absences Payable	25,186
Due After One Year	
Long Term Debt	14,861,535
Compensated Absences Payable	75,556
Net Pension & OPEB Liability	<u>7,369,259</u>
Total Liabilities	<u>\$ 23,157,569</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Derived from Pension & OPEB	<u>\$ 323,877</u>
<b>NET POSITION</b>	
Net Investment in Capital Assets	\$ 5,691,685
Restricted	
Debt Service	7,029,854
Building Projects	299,521
Special Purpose	29,260
Unrestricted	<u>(3,656,303)</u>
Total Net Postion	<u>\$ 9,394,017</u>

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

# KINDRED PUBLIC SCHOOL DISTRICT NO. 2

Statement of Activities

For the Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
				Governmental Activities
<b>Governmental Activities</b>				
Regular Instruction	\$ 4,457,119	\$ 18,950	\$ -	\$ (4,438,169)
Special Education	555,000	-	-	(555,000)
Vocational Education	235,959	-	-	(235,959)
Federal Programs	154,227	-	216,757	62,530
District Wide Services	689,602	-	-	(689,602)
Administration	656,399	-	-	(656,399)
School Food Services	418,187	295,449	122,421	(317)
Operations and Maintenance	889,274	-	-	(889,274)
Transportation	445,155	-	245,948	(199,207)
Co-Curricular Activities	457,171	-	-	(457,171)
Capital Outlay	140,002	-	-	(140,002)
Interest on Long-Term Debt	889,680	-	-	(889,680)
Fiscal Charges	1,800	-	-	(1,800)
<b>Total Governmental Activities</b>	<b>\$ 9,989,575</b>	<b>\$ 314,399</b>	<b>\$ 585,126</b>	<b>\$ (9,090,050)</b>
<b>General Revenues</b>				
Property Taxes				\$ 2,768,534
Unrestricted State Grants				6,491,521
Interest Earnings				883,105
Miscellaneous Revenue				85,597
Change in Investment Market Value				90,388
<b>Total General Revenues</b>				<b>\$ 10,319,145</b>
<b>Change in Net Position</b>				<b>\$ 1,229,095</b>
Net Position - July 1				\$ 8,195,795
Prior Period Adjustments				(30,873)
<b>Net Position - July 1, as restated</b>				<b>\$ 8,164,922</b>
<b>Net Position - June 30</b>				<b>\$ 9,394,017</b>

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

**KINDRED PUBLIC SCHOOL DISTRICT NO. 2**

Balance Sheet – Governmental Funds

June 30, 2018

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash	\$ 2,978,752	\$ 1,096,482	\$ 328,047	\$ 4,403,281
Restricted Investment	-	6,257,221	-	6,257,221
Due from County Treasurer	19,035	10,436	3,078	32,549
Intergovernmental Receivable	17,451	-	-	17,451
Taxes Receivable	63,332	34,184	10,477	107,993
Total Assets	<u>\$ 3,078,570</u>	<u>\$ 7,398,323</u>	<u>\$ 341,602</u>	<u>\$ 10,818,495</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>				
Liabilities				
Accounts Payable	\$ 110,591	\$ -	\$ 12,821	\$ 123,412
Salaries & Benefits Payable	253,483	-	-	253,483
Total Liabilities	<u>\$ 364,074</u>	<u>\$ -</u>	<u>\$ 12,821</u>	<u>\$ 376,895</u>
Deferred Inflows of Resources				
Uncollected Taxes	<u>\$ 63,332</u>	<u>\$ 34,184</u>	<u>\$ 10,477</u>	<u>\$ 107,993</u>
Total Liabilities and Deferred Inflows of Resources	<u>\$ 427,406</u>	<u>\$ 34,184</u>	<u>\$ 23,298</u>	<u>\$ 484,888</u>
Fund Balances				
Restricted				
Debt Service	\$ -	\$ 7,364,139	\$ -	\$ 7,364,139
Capital Projects	-	-	289,044	289,044
Committed				
Food Service	-	-	29,260	29,260
Unassigned	2,651,164	-	-	2,651,164
Total Fund Balances	<u>\$ 2,651,164</u>	<u>\$ 7,364,139</u>	<u>\$ 318,304</u>	<u>\$ 10,333,607</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 3,078,570</u>	<u>\$ 7,398,323</u>	<u>\$ 341,602</u>	<u>\$ 10,818,495</u>

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



**KINDRED PUBLIC SCHOOL DISTRICT NO. 2**

Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position  
June 30, 2018

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**Total Fund Balances for Governmental Funds** \$ 10,333,607

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

Capital assets used in governmental activities are not current financial resources and are not reported in the governmental funds. 20,633,889

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. 107,993

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

Deferred Outflows Related to Pensions & OPEB	\$ 1,423,079	
Deferred Inflows Related to Pensions & OPEB	<u>(323,877)</u>	1,099,202

Long-term liabilities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities-both current and long-term are reported in the statement of net position.

Long Term Debt	\$ (14,942,204)	
Interest Payable	(368,469)	
Net Pension & OPEB Liability	(7,369,259)	
Compensated Absences Payable	<u>(100,742)</u>	<u>(22,780,674)</u>

**Total Net Position of Governmental Activities** \$ 9,394,017

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

## KINDRED PUBLIC SCHOOL DISTRICT NO. 2

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds  
 For the Year Ended June 30, 2018

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Local Sources	\$ 1,768,306	\$ 1,749,412	\$ 549,977	\$ 4,067,695
State Sources	6,672,689	-	11,071	6,683,760
Federal Sources	216,757	-	111,350	328,107
Other Sources	48,701	-	-	48,701
<b>Total Revenues</b>	<b>\$ 8,706,453</b>	<b>\$ 1,749,412</b>	<b>\$ 672,398</b>	<b>\$ 11,128,263</b>
<b>EXPENDITURES</b>				
Current				
Regular Instruction	\$ 3,880,896	-	-	\$ 3,880,896
Special Education	555,000	-	-	555,000
Vocational Education	232,440	-	-	232,440
Federal Programs	150,917	-	-	150,917
District Wide Services	676,458	-	-	676,458
Administration	641,992	-	-	641,992
School Food Services	-	-	417,870	417,870
Operations and Maintenance	814,045	-	106,323	920,368
Transportation	506,284	-	-	506,284
Co-Curricular Activities	360,629	-	-	360,629
Capital Outlay	-	-	140,002	140,002
Debt Service				
Principal	175,445	-	-	175,445
Interest	10,220	882,000	-	892,220
Fiscal Charges	-	1,800	-	1,800
<b>Total Expenditures</b>	<b>\$ 8,004,326</b>	<b>\$ 883,800</b>	<b>\$ 664,195</b>	<b>\$ 9,552,321</b>
Excess (Deficiency) of Revenues Over Expenditures	\$ 702,127	\$ 865,612	\$ 8,203	\$ 1,575,942
<b>OTHER FINANCING SOURCES (USES)</b>				
Change in Investment Market Value	-	90,388	-	90,388
<b>Net Change in Fund Balances</b>	<b>\$ 702,127</b>	<b>\$ 956,000</b>	<b>\$ 8,203</b>	<b>\$ 1,666,330</b>
Fund Balances - July 1	\$ 1,949,037	\$ 6,408,139	\$ 310,101	\$ 8,667,277
Fund Balance - June 30	\$ 2,651,164	\$ 7,364,139	\$ 318,304	\$ 10,333,607

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

## KINDRED PUBLIC SCHOOL DISTRICT NO. 2

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities  
For the Year Ended June 30, 2018

**Net Change in Fund Balances - Total Governmental Funds** \$ 1,666,330

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.

Current Year Capital Outlay	\$ 261,197	
Current Year Depreciation Expense	<u>(682,988)</u>	(421,791)

In the statement of activities, the loss or gain on sale or disposal of capital assets is recognized. The fund financial statements do not recognize losses on disposal of capital assets.

(7,119)

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. The issuance of long-term debt provides current financial resources to governmental funds, but increases liabilities in the statement of net position.

Repayment of Debt		175,445
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The net pension & OPEB 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.

Net Change in Net Pension & OPEB Liability	\$ 117,987	
Net Change in Deferred Outflows of Resources related to Pensions and OPEB	(346,947)	
Net Change in Deferred Inflows of Resources related to Pensions and OPEB	<u>(576)</u>	(229,536)

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	\$ 2,540	
Net Change in Retainage Payable	48,562	
Net Change in Compensated Absences Payable	<u>(5,355)</u>	45,747

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 net change in taxes receivable.

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**Change in Net Position of Governmental Activities**

\$ 1,229,095

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

**KINDRED PUBLIC SCHOOL DISTRICT NO. 2**  
Statement of Fiduciary Assets and Liabilities - Agency Funds  
June 30, 2018

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	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash	<u>\$ 93,293</u>
<b>LIABILITIES</b>	
Accounts Payable	\$ 3,440
Due to Student Activities Groups	<u>89,853</u>
Total Liabilities	<u><u>\$ 93,293</u></u>

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

## KINDRED PUBLIC SCHOOL DISTRICT NO. 2

Notes to the Financial Statements  
For the Year Ended June 30, 2018

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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, ("School District") 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 District's accounting policies are described below.

#### **A. Reporting Entity**

The accompanying financial statements present the activities of the School District. 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 School District 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 the School District.

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 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 ("Building Authority") – The 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 School District 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. All remaining governmental funds are aggregated and reported as nonmajor funds.

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.

*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.

The School District reports the following fund type:

*Agency Funds.* These funds 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 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. Capital asset acquisitions are reported as expenditures in governmental funds. When applicable, 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 position available to finance the program. It is the School District's policy to first apply cost-reimbursement grant resources to such programs, and then 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, money market accounts, and highly liquid short-term investments with original maturities of three months or less.

Restricted Investments consist of 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 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>Asset</b>	<b>Years</b>
Buildings	50
Vehicles	15
Equipment	5-10
Infrastructure	50

**F. Compensated Absences**

At the beginning of the school year, each teacher is given three to four days of personal leave and is able to carry over between five to seven days at the end of the school year, depending on years of service. Upon retirement or resignation, the School District will pay an amount equal to 100% of substitute teachers’ pay for accumulated personal days.

Sick leave is earned at the rate of eleven to twelve days per year depending on years of service. Up to 72 days of sick leave may be carried over at each year-end. Employees with a balance 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. Upon retirement or resignation, the School District will pay a rate equivalent to 25% of substitute teacher’s pay for accumulated sick days.

Vested or accumulated unused personal leave for qualified employees 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.

In the fund financial statements, governmental funds 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. Pensions**

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

**I. Other Post-Employment Benefits (OPEB)**

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the North Dakota Public Employees Retirement System (NDPERS) and additions to/deductions from NDPERS’ fiduciary net position have been determined on the same basis as they are reported by NDPERS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**J. Fund Balances**

**Fund Balance Spending Policy**

It is the policy of the School District 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.

**Restricted Fund Balances**

Restricted fund balances are shown by primary function on the balance sheet. Restricted fund balances are restricted by enabling legislation (primarily state law for tax levies) and by outside 3<sup>rd</sup> parties (state & federal governments for various grants & reimbursements).

**Committed Fund Balances**

Committed fund balances consist of amounts in the food service fund that are not restricted by enabling legislation or 3<sup>rd</sup> parties but have been committed by the School Board for specific purposes.

**Unassigned Fund Balances**

Unassigned fund balances are reported in the general fund.

**K. 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.

Restrictions of net position are due to restricted tax levies and bond indenture requirements for our capital projects/debt service.

Unrestricted net position is primarily unrestricted amounts related to the general fund, and negative net position. Unrestricted net position is available to meet the School District's ongoing obligations.

**L. 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: PRIOR PERIOD ADJUSTMENTS**

Net position as of July 1, 2017 has been restated as follows for the implementation of GASB Statement No. 75, *Accounting and Financing Reporting for Postemployment Benefit Plans Other than Pensions*.

Beginning Net Position, as previously reported	\$ 8,195,795
Adjustments to Restate the July 1, 2017 Net Position	
Net OPEB Liability	(30,873)
Net Position July 1, 2017, as restated	\$ 8,164,922



**NOTE 3: DEPOSITS AND INVESTMENTS**

**Custodial Credit Risk**

Credit risk is the risk associated with the failure of a depository institution, such that in the event of a depository financial institution's failure, the School District would not be able to recover the deposits or collateralized securities that in the possession of the outside parties. The School District does not have a formal policy regarding deposits that limits the amount they may invest in any one issuer.

In accordance with North Dakota statutes, 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 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 any other state of the United States or such other securities approved by the banking board.

At year ended June 30, 2018, the School District's carrying amount of deposits was \$4,241,245 and the bank balances totaled \$4,690,118. Of the bank balances, \$750,000 was covered by Federal Depository Insurance. The remaining bank balances were collateralized with securities held by the pledging financial institution's agent in the government's name.

**Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates of debt securities will adversely affect the fair value of an investment. The price of a debt security typically moves in the opposite direction of the change in interest rates. The School District does not have a formal deposit policy that limits maturities as a means of managing exposure to potential fair value losses arising from increasing interest rates.

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.

As of June 30, 2018, the School District held investments in US Treasury notes in the amount of \$6,257,221.

**NOTE 4: FAIR VALUE OF FINANCIAL INSTRUMENTS**

In accordance with GASB Statement No. 72, assets, deferred outflows of resources, liabilities and deferred inflows of resources are grouped at fair value in three levels, based on the markets in which the assets and liabilities are traded, and the reliability of the assumptions used to determine fair value. These levels are:

Level 1: Valuation is based upon quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

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

Level 2: Valuation is based upon quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3: Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect our own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

The following table below presents the balances of assets measured at fair value on a recurring basis at June 30, 2018:

<b>Asset</b>	<b>Quoted Prices in Active Markets Level 1</b>	<b>Significant Other Observable Inputs Level 2</b>	<b>Significant Unobservable Inputs Level 3</b>	<b>Total</b>
Government Bonds	\$ -	\$ 6,256,677	\$ -	\$ 6,256,677

**NOTE 5: PROPERTY TAXES**

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.

**NOTE 6: CAPITAL ASSETS**

The following is a summary of changes in capital assets for the year ended June 30, 2018:

	<b>Balance July 1</b>	<b>Increases</b>	<b>Decreases</b>	<b>Transfers</b>	<b>Balance June 30</b>
Capital Assets Not Being Depreciated					
Land	\$ 250,807	\$ -	\$ -	\$ -	\$ 250,807
Construction in Progress	1,757,204	139,762	-	(1,808,536)	88,430
Total Capital Assets, Not Being Depreciated	\$ 2,008,011	\$ 139,762	\$ -	\$ (1,808,536)	\$ 339,237
Capital Assets Being Depreciated					
Buildings	\$ 26,377,714	\$ -	\$ -	\$ 1,808,536	\$ 28,186,250
Equipment	680,908	9,045	10,698	-	679,255
Vehicles	988,202	112,390	14,020	-	1,086,572
Total Capital Assets, Being Depreciated	\$ 28,046,824	\$ 121,435	\$ 24,718	\$ 1,808,536	\$ 29,952,077
Less Accumulated Depreciation					
Buildings	\$ 8,085,030	\$ 602,006	\$ -	\$ -	\$ 8,687,036
Equipment	351,637	36,921	4,279	-	384,279
Vehicles	555,368	44,061	13,319	-	586,110
Total Accumulated Depreciation	\$ 8,992,035	\$ 682,988	\$ 17,598	\$ -	\$ 9,657,425
Total Capital Assets Being Depreciated, Net	\$ 19,054,789	\$ (561,553)	\$ 7,120	\$ 1,808,536	\$ 20,294,652
Capital Assets, Net	\$ 21,062,800	\$ (421,791)	\$ 7,120	\$ -	\$ 20,633,889

**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:

Regular Instruction	\$ 462,256
District Wide Services	13,144
Food Services	317
Operations/Maintenance	62,579
Transportation	50,560
Co-Curricular	94,132
<b>Total Depreciation Expense</b>	<b>\$ 682,988</b>

**NOTE 7: LONG-TERM LIABILITIES**

During the year ended June 30, 2018, the following changes occurred in liabilities reported in long-term liabilities:

	<b>Bal. July 1 Restated</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance June 30</b>	<b>Due Within One Year</b>
Long-Term Debt					
General Obligation Bonds	\$ 14,700,000	\$ -	\$ -	\$ 14,700,000	\$ -
Lease Revenue Bonds	319,478	-	77,274	242,204	80,669
Leases Payable	98,171	-	98,171	-	-
<b>Total Long-Term Debt</b>	<b>\$ 15,117,649</b>	<b>\$ -</b>	<b>\$ 175,445</b>	<b>\$ 14,942,204</b>	<b>\$ 80,669</b>
Compensated Absences *	\$ 95,387	\$ 5,355	\$ -	\$ 100,742	\$ 25,186
Net Pension and OPEB Liability	7,487,246	-	117,987	7,369,259	-
<b>Total Long-Term Liabilities</b>	<b>\$ 37,817,931</b>	<b>\$ 5,355</b>	<b>\$ 468,877</b>	<b>\$ 37,354,409</b>	<b>\$ 186,524</b>

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

Debt service requirements on long-term debt at June 30, 2018 are as follows:

<b>Year Ending June 30</b>	<b>G.O. Bonds Payable</b>		<b>Lease Revenue Bonds</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2019	\$ -	\$ 882,000	\$ 80,669	\$ 5,813
2020	-	882,000	79,191	3,877
2021	-	882,000	82,344	1,976
2022	-	882,000	-	-
2023	-	882,000	-	-
2023 - 2027	-	3,969,000	-	-
2028 - 2032	14,700,000	-	-	-
<b>Totals</b>	<b>\$ 14,700,000</b>	<b>\$ 8,379,000</b>	<b>\$ 242,204</b>	<b>\$ 11,666</b>

**NOTE 8: PENSION PLANS - ND TFFR**

**General Information about the TFFR Pension Plan**

**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.

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

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, 2018, the School District reported a liability of \$6,676,203 for its proportionate share of net pension liability. The net pension liability was measured as of July 1, 2017, 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, 2017, the district’s proportion was 0.486063%, an increase of .006219%.

For the year ended June 30, 2018, the district recognized pension expense of \$608,859. At June 30, 2018, the district reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources.

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences Between Expected and Actual Experience	\$ 25,608	\$ 72,880
Changes of Assumptions	475,855	-
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	92,217	-
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	65,084	192,864
District Contributions Subsequent to the Measurement Date	432,782	-
<b>Total</b>	<b>\$ 1,091,546</b>	<b>\$ 265,744</b>

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

\$432,782, 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, 2019.

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

2018	\$	81,428
2019		226,074
2020		135,511
2021		(23,369)
2022		(30,009)
Thereafter		3,385

**Actuarial Assumptions**

The total pension liability in the July 1, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Salary Increases	4.25% to 14.50%, varying by service, including inflation and productivity
Investment Rate of Return	7.75%, net of investment expenses
Cost-of-Living Adjustments	None

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

The actuarial assumptions used were based on the results of an actuarial experience study dated April 30, 2015. They are the same as the assumptions used in the July 1, 2017 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	58%	6.70%
Global Fixed Income	23%	.80%
Global Real Assets	18%	5.32%
Cash Equivalents	1%	0.00%

**Discount Rate**

The discount rate used to measure the total pension liability was 7.75% as of June 30, 2017. 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, 2017, 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, 2017. 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, 2017.

**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 7.75 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 (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	<b>1% Decrease (6.75%)</b>	<b>Current Discount Rate (7.75%)</b>	<b>1% Increase (8.75%)</b>
School's Proportionate Share of the Net Pension Liability	\$ 8,876,130	\$ 6,676,203	\$ 4,844,830

**Pension Plan Fiduciary Net Position**

Detailed information about the pension plan's fiduciary net position is available in the separately issued TFFR financial report, located in the North Dakota Retirement and Investments Office's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2017. Additional financial and actuarial information is available on their website, [www.nd.gov/rio/sib/publications/cafr/default.htm](http://www.nd.gov/rio/sib/publications/cafr/default.htm), or may be obtained by writing to ND Retirement and Investment Office, 3442 East Century Avenue, PO Box 7100, Bismarck, North Dakota, 58507-7100 or by calling (701) 328-9885.

**NOTE 9: PENSION PLANS - NDPERS**

**General Information about the NDPERS Pension Plan**

**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 nine 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, one member elected by the retired public employees and two members of the legislative assembly appointed by the chairman of the legislative management.

**Pension Benefits**

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

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

**Death and Disability Benefits**

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

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

**Refunds of Member Account Balance**

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

**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.

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

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



**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At June 30, 2018, the School District reported a liability of \$662,300 for its proportionate share of net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School District's proportion of the net pension liability was based on the district's share of covered payroll in the main system pension plan relative to the covered payroll of all participating main system employers. At June 30, 2017, the School District's proportion was 0.041205%, which was a decrease of .002544% from its proportion measured at June 30, 2016.

For the year ended June 30, 2018, the School District recognized pension expense of \$90,896. At June 30, 2018, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences Between Expected and Actual Experience	\$ 3,937	\$ 3,227
Changes of Assumptions	271,588	14,938
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	8,907	-
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	-	38,055
District Contributions Subsequent to the Measurement Date	43,163	-
<b>Total</b>	<b>\$ 327,595</b>	<b>\$ 56,220</b>

\$43,163 was 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, 2019.

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

2018	\$ 48,383
2019	60,605
2020	51,351
2021	42,024
2022	25,849

**Actuarial Assumptions**

The total pension liability in the July 1, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%	
Salary increases	Service at Beginning of year:	Increase Rate:
	0	15.00%
	1	10.00%
	2	8.00%
	Age*	
	Under 36	8.00%
	36 – 40	7.50%
41 – 49	6.00%	
50+	5.00%	
	* Age-based salary increase rates apply for employees with three or more years of service	
Investment rate of return	7.75%, net of investment expenses	
Cost-of-living adjustments	None	

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

For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Mortality Table set back one year for males (no setback for females) multiplied by 125%.

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

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Domestic Equity	31%	6.90%
International Equity	21%	7.55%
Private Equity	5%	11.30%
Domestic Fixed Income	17%	1.52%
International Fixed Income	5%	-.45%
Global Real Assets	20%	5.38%
Cash Equivalents	1%	0.00%

**Discount rate**

For PERS, GASB Statement No. 67 includes a specific requirement for the discount rate that is used for the purpose of the measurement of the Total Pension Liability. This rate considers the ability of the System to meet benefit obligations in the future. To make this determination, employer contributions, employee contributions, benefit payments, expenses and investment returns are projected into the future. The current employer and employee fixed rate contributions are assumed to be made in each future year. The Plan Net Position (assets) in future years can then be determined and compared to its obligation to make benefit payments in those years. In years where assets are not projected to be sufficient to meet benefit payments, which is the case for the PERS plan, the use of a municipal bond rate is required. The Single Discount Rate (SDR) is equivalent to applying these two rates to the benefits that are projected to be paid during the different time periods. The SDR reflects (1) the long-term expected rate of return on pension plan investments (during the period in which the fiduciary net position is projected to be sufficient to pay benefits) and (2) a tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate of return are not met).

The pension plan's fiduciary net position was projected to be sufficient to make all projected future benefit payments through the year of 2061. Therefore, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2061, and the municipal bond rate was applied to all benefit payments after that date. For the purpose of this valuation, the expected rate of return on pension plan investments is 7.75%; the municipal bond rate is 3.56%; and the resulting Single Discount Rate is 6.44%.

**Sensitivity of the Employer's proportionate share of the net pension liability to changes in the discount rate**

The following presents the School District's proportionate share of the net pension liability calculated using the discount rate of 6.44 percent, as well as what their proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.44 percent) or 1-percentage-point higher (7.44 percent) than the current rate:

	<b>1% Decrease (5.44%)</b>	<b>Current Discount Rate (6.44%)</b>	<b>1% Increase (7.44%)</b>
School's Proportionate Share of the Net Pension Liability	\$ 899,092	\$ 662,300	\$ 465,298

**Pension Plan Fiduciary Net Position**

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

**NOTE 10: OTHER POST EMPLOYMENT BENEFITS (OPEB) - NDPERS**

**General Information about the OPEB Plan**

**North Dakota Public Employees Retirement System**

The following brief description of NDPERS is provided for general information purposes only. Participants should refer to NDAC Chapter 71-06 for more complete information.

NDPERS OPEB plan is a cost-sharing multiple-employer defined benefit OPEB plan that covers members receiving retirement benefits from the PERS, the HPRS, and Judges retired under Chapter 27-17 of the North Dakota Century Code a credit toward their monthly health insurance premium under the state health plan based upon the member's years of credited service. Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision and long-term care plan and any other health insurance plan. The Retiree Health Insurance Credit Fund is advance-funded on an actuarially determined basis.

Responsibility for administration of the NDPERS defined benefit OPEB plan is assigned to a Board comprised of nine 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, one member elected by the retired public employees and two members of the legislative assembly appointed by the chairman of the legislative management.

**OPEB Benefits**

The employer contribution for the PERS, the HPRS and the Defined Contribution Plan is set by statute at 1.14% of covered compensation. The employer contribution for employees of the state board of career and technical education is 2.99% of covered compensation for a period of eight years ending October 1, 2015. Employees participating in the retirement plan as part-time/temporary members are required to contribute 1.14% of their covered compensation to the Retiree Health Insurance Credit Fund. Employees purchasing previous service credit are also required to make an employee contribution to the Fund. The benefit amount applied each year is shown as "prefunded credit applied" on the Statement of Changes in Plan Net Position for the OPEB trust funds.

Retiree health insurance credit benefits and death and disability benefits are set by statute. There are no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Employees who are receiving monthly retirement benefits from the PERS, the HPRS, the Defined Contribution Plan, the Chapter 27-17 judges or an employee receiving disability benefits, or the spouse of a deceased annuitant receiving a surviving spouse benefit or if the member selected a joint and survivor option are eligible to receive a credit toward their monthly health insurance premium under the state health plan.

Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision and long-term care plan and any other health insurance plan. The benefits are equal to \$5.00 for each of the employee's, or deceased employee's years of credited service not to exceed the premium in effect for selected coverage. The retiree health insurance credit is also available for early retirement with reduced benefits.

**OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

At June 30, 2018, the School District reported a liability of \$30,756 for their proportionate shares of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The School District’s proportion of the net OPEB liability was based on their share of covered payroll in the OPEB plan relative to the covered payroll of all participating OPEB employers. At June 30, 2017 the School District’s proportion was 0.038882 percent.

For the year ended June 30, 2018, the School District recognized OPEB expense of \$3,779. At June 30, 2018, the School District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences Between Expected and Actual Experience	\$ -	\$ 750
Changes of Assumptions	2,979	-
Net Difference Between Projected and Actual Investment Earnings on OPEB Plan Investments	-	1,163
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	461	-
Employer Contributions Subsequent to the Measurement Date	498	-
<b>Total</b>	<b>\$ 3,938</b>	<b>\$ 1,913</b>

\$498 was reported as deferred outflows of resources related to OPEB resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019.

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

2018	\$ 130
2019	130
2020	130
2021	130
2022	421
2023	421
Thereafter	165

**Actuarial assumptions**

The total OPEB liability in the July 1, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary Increases	Not applicable
Investment rate or return	7.50%, net of investment expenses
Cost of living adjustments	None

For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Mortality Table set back one year for males (no setback for females) multiplied by 125%.

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

The long-term expected investment rate of return assumption for the RHIC fund was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of RHIC investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Estimates of arithmetic real rates of return, for each major asset class included in the RHIC’s target asset allocation as of July 1, 2017 are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Large Cap Domestic Equities	37%	5.80%
Small Cap Domestic Equities	9%	7.05%
International Equities	14%	6.20%
Core-Plus Fixed Income	40%	1.56%

**Discount rate**

The discount rate used to measure the total OPEB liability was 7.50%. The projection of cash flows used to determine the discount rate assumed plan member and statutory/Board approved employer contributions will be made at rates equal to those based on the July 1, 2017, and July 1, 2016, HPRS actuarial valuation reports. For this purpose, only employer contributions that are intended to fund benefits of current RHIC members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries are not included. Based on those assumptions, the RHIC fiduciary net position was projected to be sufficient to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on RHIC investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

**Sensitivity of the Employer's proportionate share of the net OPEB liability to changes in the discount rate**

The following presents the net OPEB liability of the Plans as of June 30, 2017, calculated using the discount rate of 7.50%, as well as what the RHIC net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	<b>1% Decrease (6.5%)</b>	<b>Current Discount Rate (7.5%)</b>	<b>1% Increase (8.5%)</b>
Proportionate Share of the Net OPEB Liability	\$ 38,503	\$ 30,756	\$ 24,116

**NOTE 11: 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. The School District pays an annual premium to NDIRF for its general liability, automobile insurance coverage and inland marine. The coverage by NDIRF is limited to losses of two million dollars per occurrence for general liability and automobile and \$135,496 for mobile equipment and portable property.

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

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The School District also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The 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 third-party insurance carrier for losses in excess of two million dollars per occurrence during a 12-month period. The State Bonding Fund currently provides political subdivision with blanket fidelity bond coverage in the amount of \$2,000,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The School District has worker's compensation with the 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 12: OPERATING LEASES**

The School District leases copiers under non-cancelable operating leases. Total costs for such leases were \$13,944 for the year ended June 30, 2018.

The future minimum lease payments for these leases are as follows:

<b>Year Ending June 30</b>	<b>Amounts</b>
2019	\$ 12,352
2020	963
Total	\$ 13,315

**NOTE 13: NONMONETARY TRANSACTIONS**

The School District receives food commodities from the federal government to subsidize its hot lunch program. The market value of commodities received for the year ended June 30, 2018 was \$36,542.

**NOTE 14: ECONOMIC DEPENDENCY**

The School District receives a substantial amount of its support from federal, state, and local governmental sources. A significant reduction in the level of this support, if this were to occur, may have a material effect on the School District's programs and therefore on its continued operations.

**NOTE 15: TAX ABATEMENTS**

Kindred Public School District No. 2 and political subdivisions within Cass County, Richland County, and Ransom County can negotiate property tax abatement agreements with individuals and various commercial entities/businesses. The counties and the political subdivisions within have the following types of tax abatement agreements with various individuals and commercial entities at June 30, 2018.

The School District will state individually the parties whom received a benefit of the reduction in taxes of 20% or greater when compared to the total reduction of taxes for all tax abatement programs.

**Single Family Residence**

Under NDCC §57-02-08(35), up to one hundred fifty thousand dollars of the true and full value of all new single-family and condominium and townhouse residential property, exclusive of the land on which it is situated, is exempt from taxation for the first two taxable years after the taxable year in which construction is completed and the residence is owned and occupied for the first time.

The total reduction in property tax revenue due to tax abatements is as follows:

	<b>Reduction in Property Tax Revenue</b>
Single Family Residence	\$ 15,614

**KINDRED PUBLIC SCHOOL DISTRICT NO. 2**

Budgetary Comparison Schedule - General Fund

June 30, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget
<b>REVENUES</b>				
Local Sources	\$ 1,848,731	\$ 1,848,731	\$ 1,768,306	\$ (80,425)
State Sources	6,236,037	6,236,037	6,672,689	436,652
Federal Sources	206,143	206,143	216,757	10,614
Other Sources	48,300	48,300	48,701	401
Total Revenues	\$ 8,339,211	\$ 8,339,211	\$ 8,706,453	\$ 367,242
<b>EXPENDITURES</b>				
Current				
Regular Instruction	\$ 3,915,436	\$ 3,915,436	\$ 3,880,896	\$ 34,540
Special Education	516,500	516,500	555,000	(38,500)
Vocational Education	255,842	255,842	232,440	23,402
Federal Programs	139,905	139,905	150,917	(11,012)
District Wide Services	707,362	707,362	676,458	30,904
Administration	643,861	643,861	641,992	1,869
Operations and Maintenance	1,393,268	1,393,268	814,045	579,223
Transportation	416,166	416,166	506,284	(90,118)
Co-Curricular Activities	358,427	358,427	360,629	(2,202)
Debt Service				
Principal	75,000	75,000	175,445	(100,445)
Interest and Fees	11,420	11,420	10,220	1,200
Total Expenditures	\$ 8,433,187	\$ 8,433,187	\$ 8,004,326	\$ 428,861
Excess (Deficiency) of Revenues Over Expenditures	\$ (93,976)	\$ (93,976)	\$ 702,127	\$ (61,619)
Net Change in Fund Balances	\$ (93,976)	\$ (93,976)	\$ 702,127	\$ (61,619)
Fund Balance - July 1	\$ 1,949,037	\$ 1,949,037	\$ 1,949,037	\$ -
Fund Balance - June 30	\$ 1,855,061	\$ 1,855,061	\$ 2,651,164	\$ (61,619)

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



**KINDRED PUBLIC SCHOOL DISTRICT NO. 2**

Schedule of Employer's Share of Net Pension Liability and Employer Contributions  
 For the Year Ended June 30, 2018

**Schedule of Employer's Share of Net Pension Liability  
 North Dakota Teachers Fund for Retirement  
 Last 10 Fiscal Years**

<b>ND TFFR - Pension</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
School District's proportion of the net pension liability (asset)	0.486063%	0.479844%	0.496501%	0.504655%
School District's proportionate share of the net pension liability (asset)	\$ 6,676,203	\$ 7,029,996	\$ 6,493,514	\$ 5,287,890
School District's covered-employee payroll	\$ 3,280,787	\$ 3,117,666	\$ 3,054,003	\$ 2,927,266
School District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	203.49%	225.49%	212.62%	180.64%
Plan fiduciary net position as a percentage of the total pension liability	63.20%	59.20%	62.10%	66.60%

**Schedule of Employer Contributions  
 North Dakota Teachers Fund for Retirement  
 Last 10 Fiscal Years**

<b>ND TFFR - Pension</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Statutorily required contribution	\$ 418,300	\$ 397,502	\$ 389,367	\$ 314,678
Contributions in relation to the statutorily required contribution	\$ 418,300	\$ 397,502	\$ 389,367	\$ 314,678
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
School District's covered-employee payroll	\$ 3,394,364	\$ 3,280,787	\$ 3,117,666	\$ 3,054,003
Contributions as a percentage of covered-employee payroll	12.32%	12.12%	12.49%	10.30%

**KINDRED PUBLIC SCHOOL DISTRICT NO. 2**

## Schedule of Employer's Share of Net Pension Liability and Employer Contributions - Continued

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

<b>ND PERS - Pension</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
School District's proportion of the net pension liability (asset)	0.041205%	0.043749%	0.048847%	0.049495%
School District's proportionate share of the net pension liability (asset)	\$ 662,300	\$ 426,377	\$ 332,151	\$ 314,155
School District's covered-employee payroll	\$ 420,638	\$ 440,889	\$ 435,169	\$ 416,934
School District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	157.45%	96.71%	76.33%	75.35%
Plan fiduciary net position as a percentage of the total pension liability	61.98%	70.46%	77.15%	77.70%

**Schedule of Employer Contributions  
North Dakota Public Employees Retirement System  
Last 10 Fiscal Years**

<b>ND PERS - Pension</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Statutorily required contribution	\$ 30,501	\$ 31,919	\$ 33,054	\$ 29,686
Contributions in relation to the statutorily required contribution	\$ 33,868	\$ 34,756	\$ 34,798	\$ 29,686
Contribution deficiency (excess)	\$ (3,367)	\$ (2,837)	\$ (1,744)	\$ -
School District's covered-employee payroll	\$ 528,578	\$ 420,638	\$ 440,889	\$ 435,169
Contributions as a percentage of covered-employee payroll	6.41%	8.26%	7.89%	6.82%

The notes to the required supplementary information are an integral part of this statement.

**KINDRED PUBLIC SCHOOL DISTRICT NO. 2**

Schedule of Employer's Share of Net OPEB Liability and Employer Contributions  
 For the Year Ended June 30, 2018

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**Schedule of Employer's Share of Net OPEB Liability  
 North Dakota Public Employees Retirement System  
 Last 10 Fiscal Years**

<b>ND PERS - OPEB</b>	<b>2018</b>
School District's proportion of the net OPEB liability (asset)	0.038882%
School District's proportionate share of the net OPEB liability (asset)	\$ 30,756
School District's covered-employee payroll	\$ 420,638
School District's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	7.31%
Plan fiduciary net position as a percentage of the total OPEB liability	59.78%

**Schedule of Employer Contributions  
 North Dakota Public Employees Retirement System  
 Last 10 Fiscal Years**

<b>ND PERS - OPEB</b>	<b>2018</b>
Statutory required contribution	\$ 4,890
Contributions in relation to the statutory required contribution	\$ 5,423
Contribution deficiency (excess)	\$ (533)
School District's covered-employee payroll	\$ 528,578
Contributions as a percentage of covered-employee payroll	1.03%

The notes to the required supplementary information are an integral part of this statement.

## **KINDRED PUBLIC SCHOOL DISTRICT NO. 2**

Notes to the Required Supplementary Information  
For the Year Ended June 30, 2018

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### **NOTE 1: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

#### **Budgetary Information**

The School District 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: SCHEDULE OF EMPLOYER PENSION AND OPEB LIABILITY AND CONTRIBUTIONS**

GASB Statements No. 68 and 75 require ten years of information to be presented in these tables. However, until a full 10-year trend is compiled, the School District will present information for those years for which information is available.

### **NOTE 3: CHANGES OF ASSUMPTIONS – PENSION AND OPEB**

Amounts reported reflect actuarial assumption changes effective July 1, 2017 based on the results of an actuarial experience study completed in 2017. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

**KINDRED PUBLIC SCHOOL DISTRICT NO. 2**  
 Combining Balance Sheet - Nonmajor Governmental Funds  
 June 30, 2018

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	Food Service Fund	Building Fund	Total Nonmajor Governmental Funds
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 29,560	\$ 298,487	\$ 328,047
Intergovernmental Receivable	-	-	-
Due from County Treasurer	-	3,078	3,078
Taxes Receivable	-	10,477	10,477
	<hr/>		
Total Assets	\$ 29,560	\$ 312,042	\$ 341,602
	<hr/>		
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>			
Liabilities			
Accounts payable	\$ 300	\$ 12,521	\$ 12,821
	<hr/>		
Deferred Inflows of Resources			
Uncollected Taxes	\$ -	\$ 10,477	\$ 10,477
	<hr/>		
Total Liabilities and Deferred Inflows of Resources	\$ 300	\$ 22,998	\$ 23,298
	<hr/>		
Fund Balances			
Restricted			
Capital Projects	\$ -	\$ 289,044	\$ 289,044
Committed			
Food Service	29,260	-	29,260
	<hr/>		
Total Fund Balances	\$ 29,260	\$ 289,044	\$ 318,304
	<hr/>		
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 29,560	\$ 312,042	\$ 341,602
	<hr/>		

**KINDRED PUBLIC SCHOOL DISTRICT NO. 2**

Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds  
 For the Year Ended June 30, 2018

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	Food Service Fund	Building Fund	Total Nonmajor Governmental Funds
<b>REVENUES</b>			
Local Sources	\$ 295,449	\$ 254,528	\$ 549,977
State Sources	4,069	7,002	11,071
Federal Sources	111,350	-	111,350
	<hr/>		
Total Revenues	\$ 410,868	\$ 261,530	\$ 672,398
<b>EXPENDITURES</b>			
Current			
Capital Outlay	\$ -	\$ 140,002	\$ 140,002
Operation and Maint. of Plant	-	106,323	106,323
School Food Services	417,870	-	417,870
	<hr/>		
Total Expenditures	\$ 417,870	\$ 246,325	\$ 664,195
	<hr/>		
Net Change in Fund Balances	\$ (7,002)	\$ 15,205	\$ 8,203
	<hr/>		
Fund Balances - July 1	\$ 36,262	\$ 273,839	\$ 310,101
	<hr/>		
Fund Balances - June 30	\$ 29,260	\$ 289,044	\$ 318,304
	<hr/> <hr/>		

STATE AUDITOR

JOSHUA C. GALLION  
Phone (701) 328-2241



Local Government Division  
FARGO OFFICE  
MANAGER – CRAIG HASHBARGER  
Phone (701) 239-7250

STATE OF NORTH DAKOTA  
**OFFICE OF THE STATE AUDITOR**  
FARGO OFFICE BRANCH  
1655 43<sup>RD</sup> STREET SOUTH, SUITE 203  
FARGO, NORTH DAKOTA 58103

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

Independent Auditor’s Report

School Board of Directors  
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, each major fund, and the aggregate remaining fund information of the Kindred Public School District No. 2, as of and for the year ended June 30, 2018, 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 May 2, 2019.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying *schedule of audit findings* as items 2018-001, 2018-002, 2018-003, 2018-004, 2018-005, and 2018-006 that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Kindred Public School District No. 2’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**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 Findings**

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

/s/

Joshua C. Gallion  
State Auditor

Fargo, North Dakota  
May 2, 2019



**KINDRED PUBLIC SCHOOL DISTRICT NO. 2**

Summary of Auditor's Results  
For the Year Ended June 30, 2018

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**Financial Statements**

Type of Report Issued?	
Governmental Activities	Unmodified
Major Funds	Unmodified
Aggregate Remaining Fund Information	Unmodified

**Internal control over financial reporting**

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

## **KINDRED PUBLIC SCHOOL DISTRICT NO. 2**

Schedule of Audit Findings

For the Year Ended June 30, 2018

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### **Repeat Findings**

#### **2018-001 – LACK OF SEGREGATION OF DUTIES**

##### **Condition**

The Kindred Public School District 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, issue checks, send checks to vendors, record receipts and disbursements in journals, maintain the general ledger, perform bank reconciliations, and prepare financial statements.

##### **Effect**

Limited segregation of duties exposes Kindred Public School District to risk of loss of assets, potential liabilities, and damage to the reputation, whether due to error or fraud.

##### **Cause**

Due to the size, complexity, organizational structure and the economic realities Kindred Public School District faces, it is presently not economically feasible to have more than one person responsible for the accounting functions.

##### **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.

##### **Recommendation**

To mitigate the risk associated with this lack of segregation of duties, we recommend the following:

- Financial statements, credit memos, and payroll registers should be reviewed, analyzed, and spot-checked by a responsible official.
- Where possible, segregate the functions of approval, posting, custody of assets, and reconciliation as they relate to any amounts which impact the financial statements.

##### **Kindred Public School District's Response**

Agree. When possible, we will segregate duties to reduce the risk of fraud.

**2018-002 – CASH GL RECONCILIATION DIFFERENCES**

**Condition**

For the year ended June 30, 2018, during our review of bank reconciliations, a total cash amount of \$78,265 was not reconciled to the general ledger cash trial balance. This difference fluctuates every month and was not resolved as of the report date.

**Effect**

The cash balances included in the financial statements may be misstated, which could have a material effect on the financial statements as a whole.

**Cause**

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.

**Criteria**

A proper system of internal controls require personnel to prepare a reconciliation of cash that compares bank statement balances to general ledger balance.

**Recommendation**

We recommend the Kindred Public School District balance the bank reconciliation accurately on a monthly basis. We further recommend that management take appropriate action to resolve the multi-year difference between the bank reconciliation and general ledger cash.

**Kindred Public School District's Response**

Agree. I will continue to work on finding the remaining difference, and hope it is resolved in FY2019. Some of this difference is stated by tax payments not cleared as the end of June. This should be cleared up in the new year with the changes made in the reconciliation process and working with SUI to make sure my balance sheet entries are correct. I do not like having the difference continue and would prefer to find it to make sure I am not continually making the wrong entry.

## **New Findings**

### **2018-003 – PREPARATION OF FINANCIAL STATEMENTS**

#### **Condition**

Kindred Public School District does not have an internal control system over financial reporting designed to provide for the preparation of the financial statements, including the accompanying note disclosures, for external reporting. Thus, management has elected to have the financial statements and note disclosures be prepared by the auditors.

#### **Effect**

This increases the risk of material misstatement of the Kindred Public School District's financial statements.

#### **Cause**

This deficiency is due to limited resources coupled with the fact that Kindred Public School District may not know how to prepare basic financial statements that comply with GAAP.

#### **Criteria**

Management of Kindred Public School District is responsible for establishing proper internal control over the preparation of Kindred Public School District's annual financial statements to ensure that financial statements and note disclosures are reliable, accurate, free of material misstatement, and in accordance with GAAP.

#### **Recommendation**

We recognize that Kindred Public School District is not staffed with personnel fully knowledgeable of GAAP. However, it is important that the School District is aware of this weakness and that management accepts responsibility for the preparation and fair presentation of the financial statements in accordance with GAAP, even if the auditor assisted in drafting those financial statements. We recommend that Kindred Public School District prepare financial statements and note disclosures in accordance with GAAP.

#### **Kindred Public School District's Response**

Agree. Kindred Public School District is aware that there is a risk having the State Auditor's Office prepare and approve our financial statements and note disclosures. We may attempt to prepare the financial statements and note disclosures in the future.

**2018-004 – ADJUSTING JOURNAL ENTRIES**

**Condition**

Material auditor-identified adjusting entries to the financial statements were proposed to properly reflect the financial statements in accordance with Generally Accepted Accounting Principles (GAAP).

**Effect**

Inadequate internal controls over recording of transactions affects Kindred Public School District's ability to detect misstatements in amounts that could be material in relation to the financial statements.

**Cause**

Management of Kindred Public School District does not have adequate resources to obtain proper internal controls and training to ensure fair presentation of Kindred Public School District's financial statements in accordance with GAAP.

**Criteria**

Kindred Public School District is required to maintain internal controls at a level where support for general ledger accounts can be developed and a determination can be made that the general ledger accounts are properly reflected in accordance with GAAP.

**Recommendation**

We recognize Kindred Public School District is not staffed with personnel fully knowledgeable of GAAP. However, it is important that management is aware of this weakness and that management accepts responsibility for the audit adjustments. We recommend Kindred Public School District implement internal controls to ensure financial statements are free from material misstatement.

**Kindred Public School District's Response**

Agree. Kindred Public School District does not have adequate resources to obtain proper internal controls and training to make and identify all necessary adjustments. We will continue to try to identify all items in need of adjustment at year end to comply with GAAP.

**2018-005 – SOFTWARE TRAINING**

**Condition**

Currently, Kindred Public School District personnel are unable to complete accurate bank reconciliations, general journal entries, or payroll entries from Software Unlimited.

**Effect**

Without properly trained personnel, Kindred Public School District runs the risk of misclassifying journal entries and exposes itself to material misappropriation of asset.

**Cause**

The client may not be aware of training available from Software Unlimited.

**Criteria**

Proper training with Software Unlimited will assist with the ability to complete accurate and appropriate journal entries and bank reconciliations.

**Recommendation**

We recommend accounting personnel receive adequate software training in order to prevent errors in data entry, general ledger reports, and bank reconciliations.

**Kindred Public School District's Response**

Agree. I have already had discussions with SUI and changed some of the variables in the check reconciliation management to the way the auditors would like to see it done. Will continue discussion with SUI to make sure entries are done properly and to work on our summer payroll postings.

**2018-006 – TIMELY BANK DEPOSITS**

**Condition**

Per review of deposit slip images on bank statements, the school district frequently holds deposits up to four weeks before depositing in the bank.

**Effect**

Collected funds that are not deposited at the bank in a timely manner are susceptible to theft and/or fraud.

**Cause**

The Business Manager does not find it necessary to deposit cash and checks on each day that they are received.

**Criteria**

Lack of timely depositing increases the likelihood of loss due to error or fraud. If errors occur, it will be more difficult finding them the longer checks/funds are allowed to accumulate over days instead of doing daily deposits.

**Recommendation**

We recommend that the Kindred Public School District consistently perform timely deposits of all cash and checks received daily on days that monies are collected.

**Kindred Public School District's Response**

I disagree with the lack of timely deposits statement increasing the likelihood of loss due to error or fraud. Our items are all receipted in a timely manner and stored in a locked safe only accessed by our office staff until the deposits go to the bank. The fact that they go to the bank later doesn't affect finding them on receipts.

**Auditor's Concluding Comments**

We stand by our recommendation that Kindred Public School District perform more timely bank deposits to help mitigate the potential loss of funds through fraud or error.



STATE OF NORTH DAKOTA  
**OFFICE OF THE STATE AUDITOR**  
FARGO OFFICE BRANCH  
1655 43<sup>RD</sup> STREET SOUTH, SUITE 203  
FARGO, NORTH DAKOTA 58103

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## GOVERNANCE COMMUNICATION

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

We have audited the financial statements of the governmental activities, each major fund and aggregate remaining fund information of the Kindred Public School District No. 2, North Dakota, as of and for the year ended June 30, 2018, which collectively comprise the Kindred Public School District No. 2's basic financial statements and have issued our report thereon dated May 2, 2019. 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 and Government Auditing Standards**

As stated in our engagement letter dated November 26, 2018, 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 opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

As part of obtaining reasonable assurance about whether the Kindred Public School District No. 2, North Dakota'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, 2018. 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. Management has corrected all such misstatements. The schedules below list all misstatements detected as a result of audit procedures were corrected by management.

**Client Provided Adjustments**

Intergovernmental Receivables	17,451	
Revenue		17,451
Expenditures	123,412	
Accounts Payable		123,412

**Audit Adjustments**

Due From County	32,549	
Revenue		32,549
Cash	253,483	
Salaries Payable		253,483
Commodities Expenditures	36,542	
Commodities Revenue		36,542

**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 **REPORT DATE**.

**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.

\* \* \* \* \*

**FRAUD RISK ASSESSMENT**

Kindred Public School District No. 2 does not currently prepare a fraud risk assessment of the entire entity. If Kindred Public School District No. 2 does not prepare an adequate fraud risk assessment, there is an increased risk of fraudulent financial reporting, asset misappropriation, and corruption.

Fraud risk governance is a key component of entity-wide governance and the internal control environment according to the COSO framework principles. This entity-wide governance addresses the manner in which the board of directors and management meet their respective obligations to achieve the park district's goals in reporting, reliance, and accountability.

We recommend Kindred Public School District No. 2 prepare a fraud risk assessment in order to identify areas of concern within the entity to appropriately mitigate the risk of fraudulent financial reporting, misappropriation of assets, and corruption.

\* \* \* \* \*

This information is intended solely for the use of the Board of Education and management of the Kindred Public School District No. 2, North Dakota and should not be used for any other purpose. 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.

/s/

Joshua C. Gallion  
State Auditor

Fargo, North Dakota  
May 2, 2019

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