NORTH DAKOTA
OFFICE OF THE STATE AUDITOR

State Auditor Joshua C. Gallion

Kindred Public School District

Kindred, North Dakota

Audit Report for the Year Ended June 30, 2020

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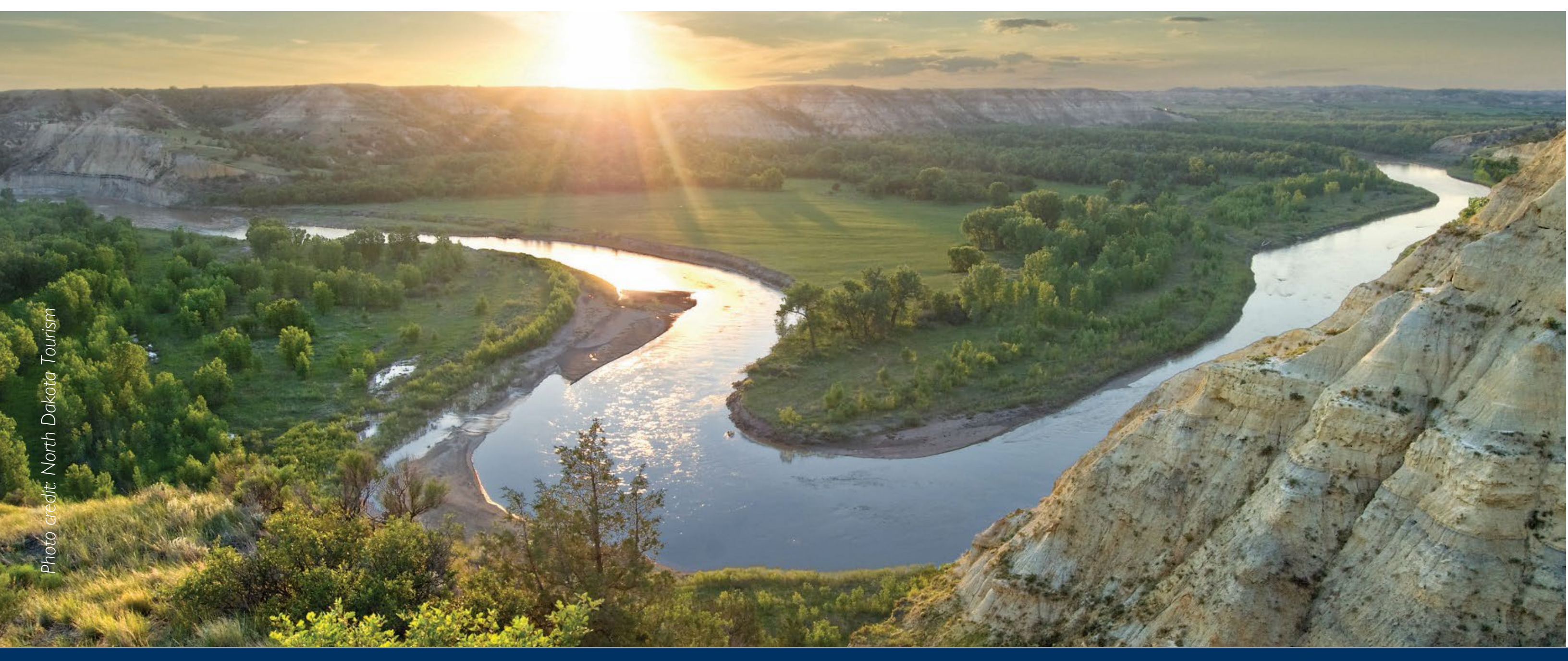

Office of the
State Auditor

KINDRED PUBLIC SCHOOL DISTRICT NO. 2
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For the Year Ended June 30, 2020

SCHOOL OFFICIALS

Brian McDonald	President
Jesse Cook	Vice-President
Heidi McQuillan	Board Member
Jim Huesman	Board Member
Kyle Freier	Board Member
Mark Richard	Board Member
Robbert Maddock	Board Member
Steve Hall	Superintendent
Melanie Moffet	Business Manager

AUDIT PERSONNEL

Heath Erickson, CPA	Audit Manager
Michael Schmitcke, CPA	Audit In-Charge

STATE AUDITOR
Joshua C. Gallion

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INDEPENDENT AUDITOR'S REPORT

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, 2020, 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, 2020, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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* as presented in the table of contents 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 8, 2021 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

Bismarck, North Dakota
March 8, 2021

KINDRED PUBLIC SCHOOL DISTRICT NO. 2
Statement of Net Position
June 30, 2020

		Governmental Activities
ASSETS		
Cash	$	4,399,137
Restricted Investment		7,994,674
Due from County		14,137
Intergovermental Receivable		11,553
Taxes Receivable		153,484
Capital Assets		
Nondepreciable		570,075
Depreciable, Net		19,717,694
Total Assets	$	32,860,754
DEFERRED OUTFLOWS OF RESOURCES		
Derived from Pension & OPEB	$	1,409,803
LIABILITIES		
Accounts Payable	$	30,558
Salaries & Benefits Payable		288,973
Interest Payable		367,829
Retainages Payable		30,345
Long-Term Liabilities		
Due Within One Year		
Long Term Debt		82,344
Compensated Absences Payable		29,801
Due After One Year		
Long Term Debt		14,700,000
Compensated Absences Payable		89,403
Net Pension & OPEB Liability		7,565,387
Total Liabilities	$	23,184,640
DEFERRED INFLOWS OF RESOURCES		
Derived from Pension & OPEB	$	672,587
NET POSITION		
Net Investment in Capital Assets	$	5,107,251
Restricted		
Debt Service		9,190,223
Building Projects		151,558
Unrestricted		(4,035,702)
Total Net Postion	$	10,413,330

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, 2020

		Program Revenue			Net (Expense) Revenue and Changes in Net Position
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities					
Regular Instruction	$ 5,180,586	$ 7,790	$ -	$ -	$ (5,172,796)
Special Education	723,430	-	-	-	(723,430)
Vocational Education	260,524	-	-	-	(260,524)
Federal Programs	159,151	-	133,746	-	(25,405)
District Wide Services	793,503	-	-	-	(793,503)
Administration	869,355	-	-	-	(869,355)
School Food Services	438,789	252,463	149,558	-	(36,768)
Operations and Maintenance	1,192,987	-	-	-	(1,192,987)
Transportation	457,045	-	251,973	-	(205,072)
Co-Curricular Activities	511,736	-	-	51,156	(460,580)
Interest on Long-Term Debt	885,560	-	-	-	(885,560)
Fiscal Charges	1,800	-	-	-	(1,800)
Total Governmental Activities	$ 11,474,466	$ 260,253	$ 535,277	$ 51,156	$ (10,627,780)
	General Revenues				
	Property Taxes				$ 2,839,050
	Unrestricted State Grants				6,973,208
	Interest Earnings				872,692
	Miscellaneous Revenue				90,679
	Change in Investment Market Value				166,710
	Total General Revenues				$ 10,942,339
	Change in Net Position				$ 314,559
	Net Position - July 1				$ 10,098,771
	Net Position - June 30				$ 10,413,330

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, 2020

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash	$ 3,154,776	$ 1,150,410	$ 93,951	$ 4,399,137
Restricted Investment	-	7,994,674	-	7,994,674
Due from County	8,831	3,840	1,466	14,137
Intergovermental Receivable	11,553	-	-	11,553
Taxes Receivable	95,999	41,299	16,186	153,484
Total Assets	$ 3,271,159	$ 9,190,223	$ 111,603	$ 12,572,985
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities				
Accounts Payable	$ 30,046	$ -	$ 512	$ 30,558
Salaries & Benefits Payable	288,973	-	-	288,973
Total Liabilities	$ 319,019	$ -	$ 512	$ 319,531
Deferred Inflows of Resources				
Uncollected Taxes	$ 95,999	$ 41,299	$ 16,186	$ 153,484
Total Liabilities and Deferred Inflows of Resources	$ 415,018	$ 41,299	$ 16,698	$ 473,015
Fund Balances				
Restricted				
Debt Service	$ -	$ 9,148,924	$ -	$ 9,148,924
Capital Projects	-	-	135,372	135,372
Unassigned				
General Fund	2,856,141	-	-	2,856,141
Negative Fund Balance	-	-	(40,467)	(40,467)
Total Fund Balances	$ 2,856,141	$ 9,148,924	$ 94,905	$ 12,099,970
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 3,271,159	$ 9,190,223	$ 111,603	$ 12,572,985

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, 2020

Total Fund Balances for Governmental Funds		$ 12,099,970
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, therefore, are not reported in the governmental funds.		20,287,769
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 inflow of resources in the funds.		153,484
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	$ 1,409,803	
Deferred Inflows Related to Pensions & OPEB	(672,587)	737,216
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	$ (14,782,344)	
Interest Payable	(367,829)	
Retainages Payable	(30,345)	
Net Pension & OPEB Liability	(7,565,387)	
Compensated Absences Payable	(119,204)	(22,865,109)
Total Net Position of Governmental Activities		$ 10,413,330

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, 2020

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
REVENUES				
Local Sources	$ 1,925,492	$ 1,600,389	$ 554,857	$ 4,080,738
State Sources	7,142,551	-	4,597	7,147,148
Federal Sources	133,746	-	144,961	278,707
Other Sources	39,370	-	51,156	90,526
Total Revenues	$ 9,241,159	$ 1,600,389	$ 755,571	$ 11,597,119
EXPENDITURES				
Current				
Regular Instruction	$ 4,473,108	$ -	$ -	$ 4,473,108
Special Education	716,231	-	-	716,231
Vocational Education	246,965	-	-	246,965
Federal Programs	151,413	-	-	151,413
District Wide Services	790,406	-	-	790,406
Administration	826,084	-	-	826,084
School Food Services	-	-	432,680	432,680
Operations and Maintenance	949,972	-	126,845	1,076,817
Transportation	441,737	-	-	441,737
Co-Curricular Activities	386,756	-	-	386,756
Capital Outlay	-	-	551,603	551,603
Debt Service				
Principal	79,191	-	-	79,191
Interest	3,877	882,000	-	885,877
Fiscal Charges	-	1,800	-	1,800
Total Expenditures	$ 9,065,740	$ 883,800	$ 1,111,128	$ 11,060,668
Excess (Deficiency) of Revenues Over Expenditures	$ 175,419	$ 716,589	$ (355,557)	$ 536,451
OTHER FINANCING SOURCES (USES)				
Change in Investment Market Value	$ -	$ 166,710	$ -	$ 166,710
Net Change in Fund Balances	$ 175,419	$ 883,299	$ (355,557)	$ 703,161
Fund Balances - July 1	$ 2,680,722	$ 8,265,625	$ 450,462	$ 11,396,809
Fund Balance - June 30	$ 2,856,141	$ 9,148,924	$ 94,905	$ 12,099,970

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, 2020

Net Change in Fund Balances - Total Governmental Funds		$ 703,161
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.		
Capital Outlay	$ 623,083	
Depreciation Expense	(740,510)	(117,427)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		79,191
The Net Pension and 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	$ (91,825)	
Net Change in Deferred Outflows of Resources Related to Pensions and OPEB	(2,379)	
Net Change in Deferred Inflows of Resources Related to Pensions and OPEB	(245,265)	(339,469)
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	$ 317	
Net Change in Retainages Payable	(30,345)	
Net Change in Compensated Absences	(6,065)	(36,093)
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.		25,196
Change in Net Position of Governmental Activities		$ 314,559

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, 2020

		Agency Funds
ASSETS		
Cash	$	176,322
LIABILITIES		
Due to Student Activities Groups	$	176,322

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

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.

Reporting Entity

The accompanying financial statements present the activities of the School District. The School District has considered all potential component units for which it 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).

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.

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.

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.

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:

Asset	Years
Buildings	50
Vehicles	15
Equipment	5-10
Infrastructure	50

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.

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

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/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.

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.

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 3rd 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 3rd parties but have been committed by the School Board for specific purposes.

Unassigned Fund Balances. Unassigned fund balances are reported in the general fund.

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.

Interfund Transactions

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

All other interfund transactions, except reimbursements, are reported as transfers. In the government-wide financial statements, interfund transactions have been eliminated.

NOTE 2 DEPOSITS AND INVESTMENTS

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, 2020, the School District's carrying amount of deposits was $12,254,152 and the bank balances totaled $12,925,945. Of the bank balances, $750,000 was covered by Federal Depository Insurance, $7,994,674 was held in US Treasury Notes, which is backed by the full faith of the United States Treasury, while the remaining 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.
(e) Commercial paper issued by a United States corporation rated in the highest quality category by at least two nationally recognized rating agencies and matures in 270 days or less.

As of June 30, 2020, the School District held investments in US Treasury notes in the amount of $7,992,112. The market value of the investments and their maturity dates can be seen below:

Investment Type	Total Fair Value	Less Than 1 Year *	1-6 Years	6-10 Years	More Than 10 Years
Government Bonds	$ 7,992,112	$ 7,992,112	$ -	$ -	$ -

*$7,992,112 mature July 31, 2020.

NOTE 3 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.

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, 2020:

Asset	Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total
Government Bonds	$ -	$ 7,992,112	$ -	$ 7,992,112

NOTE 4 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 5 CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended June 30, 2020:

	Balance July 1	Increases	Decreases	Transfers	Balance June 30
Capital Assets Not Being Depreciated					
Land	$ 250,807	$ -	$ -	$ -	$ 250,807
Construction in Progress	188,680	285,190	-	(154,602)	319,268
Total Capital Assets, Not Being Depreciated	$ 439,487	$ 285,190	$ -	$ (154,602)	$ 570,075
Capital Assets Being Depreciated					
Buildings	$ 28,186,250	$ 215,257	$ -	$ 154,602	$ 28,556,109
Equipment	730,255	51,156	-	-	781,411
Vehicles	1,214,666	71,479	-	-	1,286,145
Total Capital Assets, Being Depreciated	$ 30,131,171	$ 337,892	$ -	$ 154,602	$ 30,623,665
Less Accumulated Depreciation					
Buildings	$ 9,317,296	$ 625,941	$ -	$ -	$ 9,943,237
Equipment	416,258	40,679	-	-	456,937
Vehicles	431,908	73,889	-	-	505,797
Total Accumulated Depreciation	$ 10,165,462	$ 740,509	$ -	$ -	$ 10,905,971
Total Capital Assets Being Depreciated, Net	$ 19,965,709	$ (402,617)	$ -	$ 154,602	$ 19,717,694
Governmental Activities Capital Assets, Net	$ 20,405,196	$ (117,427)	$ -	$ -	$ 20,287,769

Depreciation expense was charged to functions/programs of the School District as follows:

Regular Instruction	$ 463,256
Operations/Maintenance	100,202
Co-Curricular	93,248
Transportation	80,389
District Wide Services	3,097
Food Services	317
Total Depreciation Expense	$ 740,509

NOTE 6 LONG-TERM LIABILITIES

During the year ended June 30, 2020, the following changes occurred in liabilities reported in long-term liabilities:

	Balance July 1	Increases	Decreases	Balance June 30	Due Within One Year
Long-Term Debt					
General Obligation Bonds	$ 14,700,000	$ -	$ -	$ 14,700,000	$ -
Lease Revenue Bonds	161,535	-	79,191	82,344	82,344
Total Long-Term Debt	$ 14,861,535	$ -	$ 79,191	$ 14,782,344	$ 82,344
Compensated Absences *	$ 113,139	$ 6,065	$ -	$ 119,204	$ 29,801
Net Pension and OPEB Liability *	7,473,562	91,825	-	7,565,387	-
Total Long-Term Liabilities	$ 22,448,236	$ 97,890	$ 79,191	$ 22,466,935	$ 112,145

* - The change in compensated absences and net pension & OPEB liability are 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, 2020 are as follows:

Year Ending June 30	G.O. Bonds Payable		Lease Revenue Bonds	
	Principal	Interest	Principal	Interest
2021	$ -	$ 882,000	$ 82,344	$ 1,976
2022	-	882,000	-	-
2023	-	882,000	-	-
2024	-	882,000	-	-
2025	-	882,000	-	-
2026-2030	14,700,000	2,205,000	-	-
Totals	$ 14,700,000	$ 6,615,000	$ 82,344	$ 1,976

NOTE 7 PENSION PLANS

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.

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

Death and Disability Benefits

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

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

Member and Employer Contributions

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

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

Inflows of Resources Related to Pensions

At June 30, 2020, the School District reported a liability of $6,948,612 for its proportionate share of net pension liability. The net pension liability was measured as of July 1, 2019, 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, 2019, the district's proportion was 0.504527%, an increase of .005216%.

For the year ended June 30, 2020, the district recognized pension expense of $757,100. At June 30, 2020, the district reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	$ 9,922	$ 250,778
Changes of Assumptions	97,810	-
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Invesments	246,965	-
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	221,195	110,318
District Contributions Subsequent to the Measurement Date	479,925	-
Total	$ 1,055,817	$ 361,096

$479,925, 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, 2021.

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

2021	$ 167,796
2022	2,881
2023	(4,524)
2024	59,358
2025	(3,441)
Thereafter	(7,275)

Actuarial Assumptions

The total pension liability in the July 1, 2019 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, 2019, funding actuarial valuation for TFFR.

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

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan’s target asset allocation as of July 1, 2019 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equities	58%	6.90%
Global Fixed Income	23%	2.10%
Global Real Assets	18%	5.40%
Cash Equivalents	1%	0.00%

Discount Rate

The discount rate used to measure the total pension liability was 7.75% percent as of June 30, 2019. 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, 2019, 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 July 1, 2019. 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, 2019.

Sensitivity of the District'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 7.75 percent, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's Proportionate Share of the Net Pension Liability	$ 9,384,171	$ 6,948,612	$ 4,924,600

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued TFFR financial report. TFFR's Comprehensive Annual Financial Report (CAFR) is located at www.nd.gov/rio/sib/publications/cafr/default.htm.

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 was 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. For members hired on or after January 1, 2020 the 2.00% multiplier was replaced with a 1.75% multiplier. 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 salaries and wages. Member contribution rates are 7% and employer contribution rates are 7.12% of covered compensation. For members hired on or after January 1, 2020 member contribution rates are 7% and employer contribution rates are 8.26% 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, 2020, the School District reported a liability of $579,742 for its proportionate share of net pension liability. The net pension liability was measured as of June 30, 2019, 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, 2019, the School District's proportion was 0.049463%, which was an increase of .003001% from its proportion measured at June 30, 2018.

For the year ended June 30, 2020, the School District recognized pension expense of $113,601. At June 30, 2020, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	$ 343	$ 105,212
Changes of Assumptions	216,634	185,999
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Invesments	10,101	-
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	65,163	19,123
District Contributions Subsequent to the Measurement Date	44,054	-
Total	$ 336,295	$ 310,334

$44,054 was reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2021.

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

2021	$ 27,336
2022	15,869
2023	(4,861)
2024	(41,758)
2025	(14,679)

Actuarial Assumptions

The total pension liability in the July 1, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%	
Salary increases	Service at Beginning of year:	Increase Rate:
	0	15.00%
	1	10.00%
	2	8.00%
	Age*	
	Under 30	10.00%
	30 – 39	7.50%
	40 – 49	6.75%
	50 – 59	6.50%
	60+	5.25%
	* Age-based salary increase rates apply for employees with three or more years of service	
Investment rate of 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%.

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

Asset Class	Target Allocation	Long -Term Expected Real Rate of Return
Domestic Equity	30%	6.25%
International Equity	21%	6.95%
Private Equity	7%	10.15%
Domestic Fixed Income	23%	2.11%
International Fixed Income	0%	0.00%
Global Real Assets	19%	5.41%
Cash Equivalents	0%	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).

For the purpose of this valuation, the expected rate of return on pension plan investments is 7.50%; the municipal bond rate is 3.13%; and the resulting Single Discount Rate is 7.50%.

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 7.50 percent, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
School District's Proportionate Share of the Net Pension Liability	$ 831,225	$ 579,742	$ 368,452

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 8 OPEB PLAN

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. Effective August 1, 2019 the benefit may be used for any eligible health, prescription drug plan, dental, vision, or long term care plan premium expense. 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. Beginning January 1, 2020, members first enrolled in the NDPERS Main System and the Defined Contribution Plan on or after that date will not be eligible to participate in RHIC. Therefore, RHIC will become for the most part a closed plan. There were no other benefit changes during the year.

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. Effective August 1, 2019 the benefit may be used for any eligible health, prescription drug plan, dental, vision, or long term care plan premium expense. 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, 2020, the School District reported a liability of $37,033 for their proportionate shares of the net OPEB liability. The net OPEB liability was measured as of June 30, 2019, 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, 2019 the School District's proportion was 0.046108%, which was an increase of .002487% from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the School District recognized OPEB expense of $6,011. At June 30, 2020, the School District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	$ 915	$ 1,157
Changes of Assumptions	4,414	-
Net Difference Between Projected and Actual Investment Earnings on OPEB Plan Investments	41	-
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	5,444	-
Employer Contributions Subsequent to the Measurement Date	6,876	-
Total	$ 17,690	$ 1,157

$6,876 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, 2021.

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

2021	$ 1,658
2022	1,658
2023	2,003
2024	1,939
2025	1,508
2026	774
2027 and Thereafter	117

Actuarial assumptions

The total OPEB liability in the July 1, 2018 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 of Return	7.25%, net of investment expenses
Cost-of-Living Adjustments	None

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

The 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, 2019 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Large Cap Domestic Equities	33%	6.00%
Small Cap Domestic Equities	6%	7.30%
Domestic Fixed Income	40%	2.07%
International Equities	21%	6.95%

Discount rate

The discount rate used to measure the total OPEB liability was 7.25%. 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, 2018, and July 1, 2017, 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 School District'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, 2019, calculated using the discount rate of 7.25%, 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 (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
School District's Proportionate Share of the Net OPEB Liability	$ 47,268	$ 37,033	$ 28,272

NOTE 9 TRANSFERS

Transfers are used to move unrestricted general revenue to finance programs that the School District accounts for in other funds in accordance with budget authority and to subsidize other programs.

NOTE 10 RISK MANAGEMENT

The School District 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 ten million dollars per occurrence for general liability and automobile and $130,301 for mobile equipment and portable property.

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 the School District 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 11 CONSTRUCTION COMMITMENTS

The School District had an open construction commitment as of June 30, 2020 as follows:

Project	Contract Amount	Total Completed	Retainage	Remaining Balance
Baseball Complex	$ 382,213	$ 303,451	$ 30,345	$ 109,107

NOTE 12 OPERATING LEASES

The School District leases copiers under non-cancelable operating leases. Total costs for such leases were $32,638 for the year ended June 30, 2020.

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

Year Ending June 30	Amounts
2021	$ 31,676
2022	31,676
2023	25,574
2024	5,450
Total	$ 94,376

KINDRED PUBLIC SCHOOL DISTRICT NO. 2
Budgetary Comparison Schedule - General Fund
June 30, 2020

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES				
Local Sources	$ 1,981,828	$ 1,981,828	$ 1,925,492	$ (56,336)
State Sources	7,193,611	7,193,611	7,142,551	(51,060)
Federal Sources	182,881	182,881	133,746	(49,135)
Other Sources	26,500	26,500	39,370	12,870
Total Revenues	$ 9,384,820	$ 9,384,820	$ 9,241,159	$ (143,661)
EXPENDITURES				
Current				
Regular Instruction	$ 4,776,980	$ 4,776,980	$ 4,473,108	$ 303,872
Special Education	724,626	724,626	716,231	8,395
Vocational Education	272,510	272,510	246,965	25,545
Federal Programs	95,961	95,961	151,413	(55,452)
District Wide Services	998,132	998,132	790,406	207,726
Administration	861,594	861,594	826,084	35,510
Operations and Maintenance	1,005,035	1,005,035	949,972	55,063
Transportation	603,798	603,798	441,737	162,061
Co-Curricular Activities	398,804	398,804	386,756	12,048
Debt Service				
Principal	80,000	80,000	79,191	809
Interest and Fees	3,900	3,900	3,877	23
Total Expenditures	$ 9,821,340	$ 9,821,340	$ 9,065,740	$ 755,600
Excess (Deficiency) of Revenues Over Expenditures	$ (436,520)	$ (436,520)	$ 175,419	$ (899,261)
OTHER FINANCING SOURCES (USES)				
Transfers Out	$ 100,000	$ 100,000	$ -	$ -
Net Change in Fund Balances	$ (336,520)	$ (336,520)	$ 175,419	$ (899,261)
Fund Balance - July 1	$ 2,680,722	$ 2,680,722	$ 2,680,722	$ -
Fund Balance - June 30	$ 2,344,202	$ 2,344,202	$ 2,856,141	$ (899,261)

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

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

	Proportion of the Net Pension Liability (Asset)	Proportionate Share of the Net Pension Liability (Asset)	Covered-Employee Payroll	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2020	0.504527%	$ 6,948,612	$ 3,539,400	196.32%	65.50%
2019	0.499311%	6,655,110	3,394,364	196.06%	65.50%
2018	0.486063%	6,676,203	3,280,787	203.49%	63.20%
2017	0.479844%	7,029,996	3,117,666	225.49%	59.20%
2016	0.496501%	6,493,514	3,054,003	212.62%	62.10%
2015	0.504655%	5,287,890	2,927,266	180.64%	66.60%

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

	Statutory Required Contribution	Contributions in Relation to the Statutory Required Contribution	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2020	$ 451,273	$ 451,273	-	$ 3,539,400	12.75%
2019	432,782	432,782	-	3,394,364	12.75%
2018	418,300	418,300	-	3,280,787	12.75%
2017	397,502	397,502	-	3,117,666	12.75%
2016	389,367	389,367	-	3,054,003	12.75%
2015	314,678	314,678	-	2,927,266	7.12%

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

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

	Proportion of the Net Pension Liability (Asset)	Proportionate Share of the Net Pension Liability (Asset)	Covered-Employee Payroll	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2020	0.049463%	$ 579,742	$ 514,498	112.68%	71.66%
2019	0.046462%	784,097	477,312	164.27%	62.80%
2018	0.043749%	662,300	420,638	157.45%	61.98%
2017	0.048606%	426,377	440,889	96.71%	70.46%
2016	0.048847%	332,151	435,169	76.33%	77.15%
2015	0.049495%	315,155	416,934	75.59%	77.70%

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

	Statutory Required Contribution	Contributions in Relation to the Statutory Required Contribution	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2020	$ 37,458	$ 40,045	$ (2,587)	$ 514,498	7.78%
2019	35,156	39,803	(4,647)	477,312	8.34%
2018	30,501	33,868	(3,367)	420,638	8.05%
2017	31,919	34,756	(2,837)	440,889	7.88%
2016	33,054	34,798	(1,744)	435,169	8.00%
2015	29,686	29,686	-	416,934	7.12%

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

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

	Proportion of the Net OPEB Liability (Asset)	Proportionate Share of the Net OPEB (Asset)	Covered-Employee Payroll	Proportionate Share of the Net OPEB (Asset) as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
2020	0.046108%	$ 37,033	$ 514,498	7.20%	63.13%
2019	0.043621%	34,355	477,312	7.20%	61.89%
2018	0.038882%	30,756	420,638	7.31%	59.78%

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

	Statutory Required Contribution	Contributions in Relation to the Statutory Required Contribution	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2020	$ 5,984	$ 6,412	$ (428)	$ 514,498	1.25%
2019	5,599	6,373	(774)	477,312	1.34%
2018	4,890	5,423	(533)	420,638	1.29%

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

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 superintendent and 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 BENEFIT TERMS

Pension

The interest rate earned on member contributions will decrease from 7.25 percent to 7.00 percent effective January 1, 2020 (based on the adopted decrease in the investment return assumption). New Main System members who are hired on or after January 1, 2020 will have a benefit multiplier of 1.75 percent (compared to the current benefit multiplier of 2.00 percent). The fixed employer contribution for new members of the Main System will increase from 7.12 percent to 8.26 percent. For members who terminate after December 31, 2019, final average salary is the higher of the final average salary calculated on December 31, 2019 or the average salary earned in the three highest periods of twelve consecutive months employed during the last 180 months of employment. There have been no other changes in plan provisions since the previous actuarial valuation as of July 1, 2018.

OPEB

Beginning January 1, 2020, members first enrolled in the NDPERS Main System and the Defined Contribution Plan on or after that date will not be eligible to participate in RHIC. Therefore, RHIC will become for the most part a closed plan. There have been no other changes in plan provisions since the previous actuarial valuation as of July 1, 2018.

NOTE 4 CHANGES OF ASSUMPTIONS

North Dakota Teachers Fund for Retirement

Amounts reported in 2016 and later reflect the following actuarial assumption changes based on the results of an actuarial experience study dated April 30, 2015.

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

Pension

The Board approved the following changes to the actuarial assumptions beginning with the July 1, 2019 valuation:

- The investment return assumption was lowered from 7.75% to 7.50%

All other actuarial assumptions and the actuarial cost method are unchanged from the last actuarial valuation as of July 1, 2018.

OPEB

The Board approved the following changes to the actuarial assumptions beginning with the July 1, 2019 valuation:

- The investment return assumption was lowered from 7.50% to 7.25%

All other actuarial assumptions and the actuarial cost method are unchanged from the last actuarial valuation as of July 1, 2018.

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

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, 2020, and the related notes to the financial statements, which collectively comprise the Kindred Public School District No. 2's basic financial statements, and have issued our report thereon dated March 8, 2021.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying *schedule of audit findings*, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying *schedule of audit findings* as items *2020-001, 2020-002, 2020-03, and 2020-004* to be material weaknesses.

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. We consider the deficiency described in the accompanying *schedule of audit findings* as item *2020-005* to be a significant deficiency.

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’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

Bismarck, North Dakota
March 8, 2021

KINDRED PUBLIC SCHOOL DISTRICT NO. 2
Summary of Auditor's Results
For the Year Ended June 30, 2020

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?	X	Yes		None Noted
Significant deficiencies identified not considered to be material weaknesses?	X	Yes		None Noted
Noncompliance material to financial statements noted?		Yes	X	None Noted

2020-001 LACK OF SEGREGATION OF DUTIES – MATERIAL WEAKNESS

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, and prepare financial statements.

Effect

The lack of segregation of duties increases the risk of material misstatement to the Kindred Public School District's financial condition, whether due to error or fraud.

Cause

Management has chosen to allocate its economic resources to other functions of the Kindred Public School District.

Criteria

According to the COSO framework, 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 district.

Repeat Finding

Yes.

Recommendation

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

- Financial statements and credit memos should be reviewed 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.
- Include the board in reviewing credit memos, manual adjustments, etc.

Kindred Public School District's Response

Agree. When possible, we will segregate duties to reduce the risk of fraud and we will begin to include bank reconciliation reports in the board reports.

2020-002 –BANK RECONCILIATION DIFFERENCES – MATERIAL WEAKNESS

Condition

For the year ended June 30, 2020, a difference of $27,018 was noted on the bank reconciliation. As of the audit report date this difference has not been resolved.

Effect

Kindred Public School District increases its risk of material misstatement to the financial statements, whether due to error or fraud.

Cause

Kindred Public School District has approved an adjustment to resolve the difference but has not properly recorded the adjustment as of the audit report date.

Criteria

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) model defines internal control as a process designed to provide reasonable assurance of the achievement of objectives that involve the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. Pertaining to the monthly bank reconciliations, management is responsible for adequate internal controls to ensure they are timely and free from errors.

Repeat Finding

Yes.

Recommendation

We recommend the Kindred Public School District review the difference noted on the bank reconciliation and record the approved adjustment.

Kindred Public School District's Response

Agree. The Board has approved the entry to zero this out. The entry has been made and the reconciliations balance. The difference is believed to be a year end journal entry for Health Insurance to clear the balance sheet which is done in another manner now.

2020-003 FINANCIAL STATEMENT PREPARATION – MATERIAL WEAKNESS

Condition

Kindred Public School District currently does not prepare the financial statements, including various adjusting entries and accompanying note disclosures, as required by generally accepted accounting principles (GAAP). Thus, management has elected to have the auditors assist in the preparation of the financial statements and note disclosures.

Effect

There is an increased risk of material misstatement to the Kindred Public School District's financial statements.

Cause

Management chose not to allocate School resources for preparation of the financial statements and note disclosures.

Criteria

Kindred Public School District is responsible for the preparation of its annual financial statements and related note disclosures to ensure they are reliable, accurate, free of material misstatement, and in accordance with GAAP.

Repeat Finding

Yes.

Recommendation

We recommend Kindred Public School District consider the additional risk of having the auditors assist in the preparation of the financial statements, note disclosures, and adjusting entries, and consider preparing them in the future.

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.

2020-004 FRAUD RISK DOCUMENTATION – MATERIAL WEAKNESS

Condition

Kindred Public School District did not prepare a fraud risk assessment for fiscal year 2020.

Effect

If the School District does not prepare an adequate fraud risk assessment, there is an increased risk of fraudulent financial reporting, asset misappropriation, and corruption.

Cause

The School District intended to update their risk assessment in March of 2020. However, due to the COVID-19 pandemic, resources were not available to complete the assessment.

Criteria

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 entities goals in reporting, reliance, and accountability.

Repeat Finding

No.

Recommendation

We recommend the Kindred Public School District prepare a fraud risk assessment annually in order to identify areas of concern within the entity to appropriately mitigate the risk of fraudulent financial reporting, misappropriation of assets, and corruption.

Kindred Public School District's Response

Agree. We have the information to do this—just have not gotten it done this year. Will put it on the finance committee agenda to go over.

2020-005 CAPITAL ASSET MAINTENANCE – SIGNIFICANT DEFICIENCY

Condition

Kindred Public School District did not record all capital asset additions in the capital asset listing. Missing assets included a security system, baseball scoreboard, 2 vehicles, and the elementary roof. A total adjustment of $237,261 was proposed and accepted by management to properly reflect the financial statements in accordance with generally accepted accounting principles (GAAP).

Effect

The financial statements may have been misstated if the capital assets had not been adjusted during the audit.

Cause

Kindred Public School District may not be tracking capital asset purchases throughout the year to ensure all items are reported during the preparation of the yearly capital asset listing.

Criteria

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) model defines internal control as a process designed to provide reasonable assurance of the achievement of objectives that involve the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. Pertaining to the capital assets, management is responsible for adequate internal controls surrounding the review process and subsidiary ledger reconciliations.

Repeat Finding

No.

Recommendation

We recommend Kindred Public School District track capital asset purchases throughout the year to ensure that the capital asset listing is accurate and free of material misstatement.

Kindred Public School District's Response

Agree. Have talked about new software and have a company come in to do a complete asset listing. Possibly be done if we pass a bond issue and add on to our buildings.

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GOVERNANCE COMMUNICATION

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, 2020, which collectively comprise the Kindred Public School District No. 2's basic financial statements and have issued our report thereon dated March 8, 2021. 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 January 7, 2021, 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 grant agreements and other matters, 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, 2020. 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 identified by the District or detected as a result of audit procedures that were corrected by management.

	Client Provided Adjustments		Audit Adjustments		Total Adjustment	
General Fund						
Record Receivables						
Intergovernmental Receivables	11,553	-	-	-	11,553	-
Revenue	-	11,553	-	-	-	11,553
Record Accounts Payable						
Expenditures	3,822	-	26,224	-	30,046	-
Accounts Payable	-	3,822	-	26,224	-	30,046
Record Due From County						
Due From County	-	-	8,831	-	8,831	-
Revenue	-	-	-	8,831	-	8,831
Record Salaries Payable						
Cash	288,973	-	-	-	288,973	-
Salaries Payable	-	288,973	-	-	-	288,973
Debt Service Fund						
Record Due From County						
Due From County	3,840	-	-	-	3,840	-
Revenue	-	3,840	-	-	-	3,840
Nonmajor Funds						
Record Due From County						
Due From County	1,466	-	-	-	1,466	-
Revenue	-	1,466	-	-	-	1,466
Record Accounts Payable						
Expenditures	512	-	-	-	512	-
Accounts Payable	-	512	-	-	-	512
Record Donated Commodities						
Commodities Expenditures	-	-	37,478	-	37,478	-
Commodities Revenue	-	-	-	37,478	-	37,478
Government-Wide Ajustment						
Record Capital Assets						
Capital Outlay/Construction	-	-	237,261	-	237,261	-
Non-Capital Items -Oper/Mtce.	-	-	-	237,261	-	237,261

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 March 8, 2021.

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.

This information is intended solely for the use of the Board of Directors 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

Bismarck, North Dakota
March 8, 2021

Office of the
State Auditor

NORTH DAKOTA STATE AUDITOR
JOSHUA C. GALLION

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