



Kindred Public School District No. 2

Kindred, North Dakota

Audit Report

For the Year Ended June 30, 2016

ROBERT R. PETERSON
STATE AUDITOR

Office of the State Auditor
Division of Local Government

KINDRED PUBLIC SCHOOL DISTRICT NO. 2
Kindred, North Dakota

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For the Year Ended June 30, 2016

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KINDRED PUBLIC SCHOOL DISTRICT NO. 2
Kindred, North Dakota

SCHOOL OFFICIALS

June 30, 2016

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

Current

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

STATE AUDITOR

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

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Kindred Public School District No. 2, Kindred, North Dakota, as of and for the year ended June 30, 2016, 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, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Accounting principles generally accepted in the United States of America require that the *budgetary comparison information, pension schedules and the notes to the required supplementary information* on pages 31-36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2016 on our consideration of the Kindred Public School District No. 2's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Kindred Public School District No. 2's internal control over financial reporting and compliance.



Robert R. Peterson
State Auditor

Fargo, North Dakota
November 25, 2016

KINDRED PUBLIC SCHOOL DISTRICT NO. 2
Kindred, North Dakota

STATEMENT OF NET POSITION
June 30, 2016

	Governmental Activities
ASSETS:	
Cash and Cash Equivalents	\$ 2,879,802
Restricted Investment	4,480,279
Due from County Treasurer	119,860
Taxes Receivable	92,576
Capital Assets (not being depreciated):	
Land	250,807
Construction in Progress	1,306,589
Capital Assets (net of accumulated depreciation):	
Buildings/Improvements	18,615,917
Equipment	295,468
Vehicles	375,973
Total Capital Assets	\$ 20,844,754
 Total Assets	 \$ 28,417,271
 DEFERRED OUTFLOWS OF RESOURCES:	
Pension Items	\$ 1,220,584
 LIABILITIES:	
Accounts Payable	\$ 9,373
Salaries & Benefits Payable	223,100
Contracts Payable	123,883
Retainages Payable	16,397
Interest Payable	373,627
Long-Term Liabilities:	
Due Within One Year:	
General Obligation Bonds Payable	30,000
Lease Revenue Bonds Payable	73,684
Leases Payable	95,684
Compensated Absences Payable	21,937
Due After One Year:	
General Obligation Bonds Payable	14,700,000
Lease Revenue Bonds Payable	319,478
Leases Payable	98,171
Compensated Absences Payable	65,811
Net Pension Liability	6,825,665
 Total Liabilities	 \$ 22,976,810
 DEFERRED INFLOWS OF RESOURCES:	
Pension Items	\$ 194,804
 NET POSITION:	
Net Investment in Capital Assets	\$ 5,705,195
Restricted for:	
Debt Service	4,958,118
Building Projects	154,880
Special Purpose	19,907
Unrestricted	(4,371,859)
 Total Net Position	 \$ 6,466,241

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

KINDRED PUBLIC SCHOOL DISTRICT NO. 2
Kindred, North Dakota

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016

Function/Program	Expenses	Program Revenues		Capital Grants and Contributions	Governmental Activities	Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions			
Governmental Activities:						
Regular Instruction	\$ 4,018,611	\$ 24,470	\$ -	\$ -		\$ (3,994,141)
Special Education	490,177	-	-	-		(490,177)
Vocational Education	248,950	-	-	-		(248,950)
Federal Programs	118,712	-	140,560	-		21,848
District Wide Services	695,185	-	9,872	-		(685,313)
Administration	599,728	-	-	-		(599,728)
School Food Services	351,746	280,248	113,406	-		41,908
Operations and Maintenance	489,831	-	-	-		(489,831)
Transportation	316,992	-	254,989	-		(62,003)
Co-Curricular Activities	400,563	-	-	218,000		(182,563)
Interest on Long-Term Debt	899,249	-	-	-		(899,249)
Fiscal Charges	10	-	-	-		(10)
Total Governmental Activities	\$ 8,629,754	\$ 304,718	\$ 518,827	\$ 218,000		\$ (7,588,209)
General Revenues:						
Property taxes; levied for general purposes						\$ 1,549,620
Property taxes; levied for debt service						968,777
Property taxes; levied for building purposes						222,966
State aid-unrestricted						5,763,799
Investment earnings						889,497
Miscellaneous revenue						68,768
Unrealized gain on investment						7,041
Total General Revenues						\$ 9,470,468
Change in Net Position						\$ 1,882,259
Net Position - July 1						\$ 4,544,302
Prior Period Adjustments						39,680
Net Position - July 1, as restated						\$ 4,583,982
Net Position - June 30						\$ 6,466,241

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

KINDRED PUBLIC SCHOOL DISTRICT NO. 2
Kindred, North Dakota

BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2016

	General	Building Fund	Debt Service	Food Service Fund	Total Governmental Funds
<u>ASSETS</u>					
Cash and Cash Equivalents	\$ 1,632,694	\$ 258,499	\$ 968,702	\$ 19,907	\$ 2,879,802
Restricted Investment	-	-	4,480,279	-	4,480,279
Due from County Treasurer	65,320	11,657	42,883	-	119,860
Taxes Receivable	50,233	8,607	33,736	-	92,576
Total Assets	<u>\$ 1,748,247</u>	<u>\$ 278,763</u>	<u>\$ 5,525,600</u>	<u>\$ 19,907</u>	<u>\$ 7,572,517</u>
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</u>					
<u>Liabilities:</u>					
Accounts Payable	\$ 9,373	\$ -	\$ -	\$ -	\$ 9,373
Salaries & Benefits Payable	223,100	-	-	-	223,100
Contracts Payable	-	123,883	-	-	123,883
Total Liabilities	<u>\$ 232,473</u>	<u>\$ 123,883</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 356,356</u>
<u>Deferred Inflows of Resources:</u>					
Uncollected Taxes	\$ 50,233	\$ 8,607	\$ 33,736	\$ -	\$ 92,576
Total Liabilities and Deferred Inflows of Resources	<u>\$ 282,706</u>	<u>\$ 132,490</u>	<u>\$ 33,736</u>	<u>\$ -</u>	<u>\$ 448,932</u>
<u>Fund Balances:</u>					
<u>Restricted for:</u>					
Debt Service	\$ -	\$ -	\$ 5,491,864	\$ -	\$ 5,491,864
Capital Projects	-	146,273	-	-	146,273
<u>Committed to:</u>					
Food Service	-	-	-	19,907	19,907
Unassigned:	1,465,541	-	-	-	1,465,541
Total Fund Balances	<u>\$ 1,465,541</u>	<u>\$ 146,273</u>	<u>\$ 5,491,864</u>	<u>\$ 19,907</u>	<u>\$ 7,123,585</u>
Total Liabilities and Fund Balances	<u>\$ 1,748,247</u>	<u>\$ 278,763</u>	<u>\$ 5,525,600</u>	<u>\$ 19,907</u>	<u>\$ 7,572,517</u>

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

KINDRED PUBLIC SCHOOL DISTRICT NO. 2
Kindred, North Dakota

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2016

Total *Fund Balances* for Governmental Funds \$ 7,123,585

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

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

Cost of Capital Assets	\$ 29,235,856	
Less Accumulated Depreciation	<u>(8,391,102)</u>	20,844,754

Property taxes receivable will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and therefore are reported as deferred revenues in the funds. 92,576

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

Retainages Payable		(16,397)
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Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds.

Deferred Inflows of Resources - Pensions	\$ 1,220,584	
Deferred Outflows of Resources - Pensions	<u>(194,804)</u>	1,025,780

Long-term liabilities applicable to the School District's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities- both current and long-term- are reported in the statement of net position. Balances at June 30, 2016 are:

General Obligation Bonds Payable	\$ (14,730,000)	
Lease Revenue Bonds Payable	(393,162)	
Net Pension Liability	(6,825,665)	
Leases Payable	(193,855)	
Interest Payable	(373,627)	
Compensated Absences Payable	<u>(87,748)</u>	<u>(22,604,057)</u>

Total Net Position - Governmental Activities		<u>\$ 6,466,241</u>
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The notes to the financial statements are an integral part of this statement.

KINDRED PUBLIC SCHOOL DISTRICT NO. 2
Kindred, North Dakota

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2016

	General	Building Fund	Debt Service	Food Service Fund	Total Governmental Funds
<u>Revenues:</u>					
Local Sources	\$ 1,597,438	\$ 445,321	\$ 1,710,533	\$ 280,248	\$ 4,033,540
State Sources	6,035,260	-	-	4,645	6,039,905
Federal Sources	140,560	-	-	108,761	249,321
Other Sources	43,602	-	150,043	-	193,645
Total Revenues	\$ 7,816,860	\$ 445,321	\$ 1,860,576	\$ 393,654	\$ 10,516,411
<u>Expenditures:</u>					
Current:					
Regular Instruction	\$ 3,539,710	\$ -	\$ -	\$ -	\$ 3,539,710
Special Education	490,177	-	-	-	490,177
Vocational Education	248,471	-	-	-	248,471
Federal Programs	118,198	-	-	-	118,198
District Wide Services	681,185	-	-	-	681,185
Administration	599,224	-	-	-	599,224
School Food Services	-	-	-	354,125	354,125
Operations and Maintenance	719,814	74,833	-	-	794,647
Transportation	375,949	-	-	-	375,949
Co-Curricular Activities	328,741	-	-	-	328,741
Capital Outlay	-	806,605	-	-	806,605
Debt Service:					
Principal	228,496	25,000	-	-	253,496
Interest	14,506	1,650	882,000	-	898,156
Fiscal Charges	-	-	10	-	10
Total Expenditures	\$ 7,344,471	\$ 908,088	\$ 882,010	\$ 354,125	\$ 9,488,694
Excess (Deficiency) of Revenues Over Expenditures	\$ 472,389	\$(462,767)	\$ 978,566	\$ 39,529	\$ 1,027,717
<u>Other Financing Sources (Uses):</u>					
Transfers In	\$ -	\$ 562,072	\$ 732,042	\$ -	\$ 1,294,114
Market Value Change in Investment	-	-	7,041	-	7,041
Transfers Out	(562,072)	-	(732,042)	-	(1,294,114)
Total Other Financing Sources and Uses	\$ (562,072)	\$ 562,072	\$ 7,041	\$ -	\$ 7,041
Net Change in Fund Balances	\$ (89,683)	\$ 99,305	\$ 985,607	\$ 39,529	\$ 1,034,758
Fund Balances - July 1	\$ 1,555,224	\$ 46,968	\$ 4,506,257	\$ (19,622)	\$ 6,088,827
Fund Balance - June 30	\$ 1,465,541	\$ 146,273	\$ 5,491,864	\$ 19,907	\$ 7,123,585

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

KINDRED PUBLIC SCHOOL DISTRICT NO. 2
Kindred, North Dakota

RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016

Net Change in *Fund Balances* - Total Governmental Funds \$ 1,034,758

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

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

Capital Asset Additions	\$ 1,225,540	
Current Year Depreciation Expense	<u>(665,220)</u>	560,320

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

Loss on Disposals of Capital Assets		(1,500)
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Debt proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of Net Position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of Net Position. This is the amount of debt repayment for the year ended June 30, 2016:

Repayment of General Obligation Bonds	\$ 25,000	
Repayment of Leases Payable	98,930	
Repayment of Lease Revenue Bonds	<u>129,566</u>	253,496

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

Decrease in Net Pension Liability	\$ (1,223,620)	
Increase in Deferred Outflows of Resources	745,783	
Increase in Deferred Inflows of Resources	<u>467,237</u>	(10,600)

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

Net Change in Interest Payable	\$ (1,093)	
Net Change in Retainages Payable	62,581	
Net Change in Compensated Absences Payable	<u>(4,264)</u>	57,224

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

(11,439)

Change in Net Position of Governmental Activities		<u>\$ 1,882,259</u>
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The notes to the financial statements are an integral part of this statement.

KINDRED PUBLIC SCHOOL DISTRICT NO. 2
Kindred, North Dakota

STATEMENT OF FIDUCIARY ASSETS & LIABILITIES
AGENCY FUNDS
June 30, 2016

	<u>Agency Funds</u>
<u>Assets:</u>	
Cash	<u>\$ 161,611</u>
<u>Liabilities:</u>	
Due to Student Activities Groups	<u>\$ 161,611</u>

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

KINDRED PUBLIC SCHOOL DISTRICT NO. 2
Kindred, North Dakota

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

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

B. Basis of Presentation, Basis of Accounting

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

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

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

The School District reports the following major governmental funds:

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

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

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

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

The School District reports the following fund type:

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

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

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

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

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

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

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

D. Cash and Investments

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

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

E. Capital Assets

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

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

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

F. Compensated Absences

At the beginning of each school year each teacher with zero to seven years teaching experience with the Kindred School district will be credited with three (3) personal days. Any unused personal days will accumulate from year-to-year up to a maximum of four (4) days. When a teacher has accumulated four days and does not use two in the current year the district will buy the third and/or fourth days at 100% of the current substitute teacher rate of pay. A teacher with more than seven years teaching experience with the Kindred School district will be credited with four (4) personal days. Any unused personal days will accumulate from year-to-year up to a maximum of six (6) days. When a teacher has accumulated six days and does not use three in the current year the district will buy the fourth, fifth, and/or sixth days at 100% of the current substitute teacher rate of pay. Upon retirement or resignation, the school district will pay 100% of substitute teacher's pay (\$110 per day) for accumulated personal days.

Sick leave benefits are earned at the rate of 12 days per year for teachers with zero to seven years of teaching experience. A teacher with more than seven years of experience earns sick leave benefits at the rate of 11 days per year. Unused sick leave may accumulate to a maximum of 72 days. Employees accumulating sick leave in excess of 72 days as of the end of the school year are reimbursed at a rate equivalent to 50% of a substitute teacher's daily pay for all days exceeding 72 days. Employees may carry over a maximum of 72 days of sick leave at each year-end. Upon retirement or resignation, the school district will pay 25% of substitute teacher's pay (\$110 per day) for accumulated sick days. A liability for the vested portion of compensated absences related to sick leave is reported in the government-wide statement of net position.

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

G. Long-Term Obligations

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

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

H. Fund Balances / Net Position

Fund Balances:

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

Fund Balance Spending Policy:

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

Fund Balance Reporting and Governmental Fund Type Definitions

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

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

Restricted Fund Balances – consist of the following items at June 30, 2016:

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

- (a) Restricted investment held in trust and in checking for the payment of construction costs related to the new school and other projects in fund 03 – total of \$146,273.

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

- (b) Bond payments restricted by bond indenture and specified tax levies reported in the major debt service fund – consists of bonds in the sinking and interest 04 fund for debt service – totaling \$5,491,864 at June 30, 2016.

Committed Fund Balance

Committed fund balance consists of the amount reported in the food service fund at year-end totaling \$19,907.

Unassigned Fund Balance – consists of the amount reported in the general fund at year-end totaling \$1,465,541.

Net Position:

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

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

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

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

I. Interfund Transactions

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

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

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

J. Pensions

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

NOTE 2: DEPOSITS AND INVESTMENTS

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

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

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

At year ended June 30, 2016, the school district's carrying amount of deposits and investments was \$7,294,185, and the bank balances totaled \$7,546,766. Of the bank balances, \$750,000 was covered by Federal Depository Insurance. Additionally, \$4,480,279 of the bank balance does not need pledging as the deposits are invested in U.S treasuries which are fully insured by the federal government. The remaining bank balances were collateralized with securities held by the pledging financial institution's agent in the government's name.

Credit Risk:

The School District may invest idle funds as authorized in North Dakota Statutes, as follows:

- (a) Bonds, treasury bills and notes, or other securities that are a direct obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of congress.
- (b) Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are the type listed above.
- (c) Certificates of Deposit fully insured by the federal deposit insurance corporation.
- (d) Obligations of the state.

Restricted Investments:

As of June 30, 2016 the school district had the following investment held in trust by U.S. Bank for construction and debt-service purposes (invested by PFM Group) with a fair market value and carrying value of \$4,480,279 with differing maturities that was not credit risked:

Investment Type	Fair Value
Bonds – Federal Agency	\$4,480,279
Total – Market value at 6/30/15	\$4,480,279

Concentration of Credit Risk:

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

NOTE 3: DUE FROM COUNTY TREASURER

The amount due from county treasurer consists of the cash on hand for taxes collected but not remitted to the school at June 30, 2016.

NOTE 4: TAXES RECEIVABLE

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

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

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

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

NOTE 5: DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows of resources in the government wide financial statements consist of amounts related to pensions representing changes in assumptions, differences in actual and expected experience, changes in proportion and differences between employer contributions and proportionate share of contributions, the difference in expected and actual experience, and contributions made subsequent to the measurement date totaling \$1,220,584.

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

NOTE 6: CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended June 30, 2016:

	Balance July 1	Increases	Decreases	Balance June 30
Governmental Activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 250,807	\$ -	\$ -	\$ 250,807
Construction in Progress	1,086,077	1,114,540	894,028	1,306,589
Total Capital assets, not being depreciated:	\$ 1,336,884	\$ 1,114,540	\$ 894,028	\$ 1,557,396
<i>Capital assets being depreciated:</i>				
Buildings	\$ 25,248,914	\$ 894,028	\$ -	\$ 26,142,942
Equipment	641,816	-	-	641,816
Vehicles	822,551	111,000	39,850	893,701
Total Capital Assets, Being Depreciated	\$ 26,713,281	\$ 1,005,028	\$ 39,850	\$ 27,678,459
<i>Less Accumulated Depreciation for:</i>				
Buildings	\$ 6,939,219	\$ 587,806	\$ -	\$ 7,527,025
Equipment	312,978	33,370	-	346,348
Vehicles	512,035	44,043	38,350	517,728
Total Accumulated Depreciation	\$ 7,764,232	\$ 665,219	\$ 38,350	\$ 8,391,101
Total Capital Assets Being Depreciated, Net	\$ 18,949,049	\$ 339,809	\$ 1,500	\$ 19,287,358
Governmental Activities Capital Assets, Net	\$ 20,285,933	\$ 1,454,349	\$ 895,528	\$ 20,844,754

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

Governmental Activities:	Amounts
Regular Instruction	\$ 460,056
District Wide Services	13,144
Food Services	317
Operations/Maintenance	70,830
Transportation	50,543
Co-Curricular	70,329
Total Depreciation Expense - Governmental Activities	\$ 665,219

NOTE 7: ACCOUNTS PAYABLE

Accounts payable consists of amounts owed for goods and services received prior to June 30, 2016 and chargeable to the appropriations for the year then ended, but paid subsequent to that date.

NOTE 8: SALARIES AND BENEFITS PAYABLE

Salaries and benefits payable consists of salaries earned by employees and teachers but not paid until after year-end. It also consists of benefits owed to federal, state, and private agencies for amounts withheld from teacher's salaries as of June 30, 2016.

NOTE 9: CONTRACTS PAYABLE

Contracts payable consist of amounts owed to various construction contractors for the athletic complex concessions stand, and for elementary lockers and roof repair at June 30, 2016, but not paid until after year-end.

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

NOTE 10: RETAINAGE PAYABLE

Retainage payable consists of a portion of the agreed upon contract price related to the concession stand deliberately withheld until the work is substantially completed.

NOTE 11: INTEREST PAYABLE

Interest payable consists of the portion of interest accrued on long-term debt (bonds and leases payable) outstanding at June 30, 2016.

NOTE 12: DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources in the fund financial statements consist of amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable but not available and include taxes receivable (\$92,576). Deferred inflows of resources on the statement of net position consist of amounts related to various pension items including the difference between projected and actual investment earnings, changes in assumptions, and changes in proportion and differences between employer contributions and proportionate share of contributions totaling \$194,804.

NOTE 13: LONG-TERM LIABILITIES

Changes in Long-Term Liabilities - During the year ended June 30, 2016, the following changes occurred in liabilities reported in long-term liabilities:

	Balance July 1	Increases	Decreases	Balance June 30	Due Within One Year
General Obligation Bonds	\$14,755,000	\$ -	\$ 25,000	\$ 14,730,000	\$ 30,000
Lease Revenue Bonds	522,728	-	129,566	393,162	73,684
Leases Payable	292,785	-	98,930	193,855	95,684
Compensated Absences *	83,484	4,264	-	87,748	21,937
Net Pension Liability *	5,602,045	1,223,620	-	6,825,665	-
TOTAL	\$21,256,042	\$ 1,227,884	\$ 253,496	\$ 22,230,430	\$ 221,305

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

Outstanding debt at June 30, 2016 consists of the following individual issues (excluding net pension liability, and compensated absences):

General Obligation Bonds Payable:

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

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

Total General Obligation Bonds Payable \$14,730,000

Lease Revenue Bonds Payable:

\$467,728 of 2015 Lease Revenue Refunding Bonds, due in annual installments of \$73,684 to \$82,344 through May 2021; interest at 2.4%. \$ 393,162

Total Bonds Payable \$15,123,162

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

Lease Payable:

\$292,785 Lease Payable for computers, due in annual installments of \$100,724 through July 15, 2017; interest at 2.6%. \$ 193,855

Total Long-Term Liabilities (excluding compensated absences & net pension liability) \$15,317,017

Debt service requirements on long-term liabilities (excluding net pension liability and compensated absences payable) at June 30, 2016 are as follows:

Primary Government - Governmental Activities						
Year Ending June 30	GO Bonds Payable		Lease Revenue Bonds		Total Bonds Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 30,000	\$ 882,900	\$ 73,684	\$ 9,436	\$ 103,684	\$ 892,336
2018	-	882,000	77,274	7,667	77,274	889,667
2019	-	882,000	80,669	5,813	80,669	887,813
2020	-	882,000	79,191	3,877	79,191	885,877
2021	-	882,000	82,344	1,976	82,344	883,976
2022-2026	-	4,410,000	-	-	-	4,410,000
2027-2031	14,700,000	1,323,000	-	-	14,700,000	1,323,000
Total	\$ 14,730,000	\$ 10,143,900	\$ 393,162	\$ 28,769	\$ 15,123,162	\$ 10,172,669

Year Ending June 30	Lease Payable	
	Principal	Interest
2017	\$ 95,684	\$ 5,040
2018	98,171	2,553
Total	\$ 193,855	\$ 7,593

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

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

No debt defeasance / refunding was done in 2016.

NOTE 14: RISK MANAGEMENT

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

In 1986, state agencies and political subdivisions of the state of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDRIF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. Kindred Public School District No. 2 pays an annual premium to NDRIF for its general liability, automobile, and inland marine insurance coverage. The coverage by NDRIF is limited to losses of two million dollars per occurrence for general liability and automobile. Public assets (mobile equipment and portable property) coverage is limited to \$131,931.

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

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

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

NOTE 15: PENSION PLANS

1. North Dakota Teachers' Fund for Retirement TFFR

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

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

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

Pension Benefits

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

Tier 1 Grandfathered

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

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

Tier 1 Non-grandfathered

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

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

Tier 2

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

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

Death and Disability Benefits

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

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

Member and Employer Contributions

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

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

Inflows of Resources Related to Pensions

At June 30, 2016, the Kindred Public School District reported a liability of \$6,493,514 for its proportionate share of net pension liability. The net pension liability was measured as of July 1, 2015, 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, 2015, the district's proportion was .496501 percent, a decrease of .008154 percent.

For the year ended June 30, 2016, the district recognized pension expense of \$417,262. At June 30, 2016, 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	\$ 42,552	\$ -
Changes of Assumptions	729,110	-
Changes in proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	-	80,993
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	-	73,224
District Contributions Subsequent to the Measurement Date	397,503	-
TOTAL	\$1,169,125	\$154,217

\$397,503 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, 2017.

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

2016	\$ 60,972
2017	60,972
2018	60,972
2019	208,725
2020	116,216
Thereafter	109,587

Actuarial Assumptions

The total pension liability in the July 1, 2015 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 4 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, 2015 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 adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Fund's target asset allocation are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equities	57%	7.5%
Global Fixed Income	22%	1.3%
Global Real Assets	20%	5.4%
Cash Equivalents	1%	0.0%

Discount Rate

The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2015. 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, 2015, Actuarial Valuation Report. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not

included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members as of June 30, 2015. 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, 2015. The discount rate used to measure the total pension liability changed from 8% to 7.75% based on the investment return assumption change as a result of the April 30, 2015 actuarial experience study.

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

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's Proportionate Share of the Net Pension Liability	\$8,631,136	\$6,493,514	\$4,752,190

Pension Plan Fiduciary Net Position

Detailed information is located in the North Dakota Retirement and Investments Office's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2015. Additional financial and actuarial information is available on their website, www.nd.gov/rio, or may be obtained by writing to RIO at ND Retirement and Investment Office, 1930 Burnt Boat Drive, PO Box 7100, Bismarck, North Dakota, 58507-7100 or by calling (701) 328-9885.

General Information about the NDPERS Pension Plan

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

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

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

Responsibility for administration of the NDPERS defined benefit pension plan is assigned to a Board comprised of seven members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system; and one member elected by the retired public employees. Effective July 1, 2015, the board was expanded to include two members of the legislative assembly appointed by the chairman of the legislative management.

Pension Benefits

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

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

Death and Disability Benefits

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

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

Refunds of Member Account Balance

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

Member and Employer Contributions

Member and employer contributions paid to NDPERS are set by statute and are established as a percent of covered compensation. Member contribution rates are 7% and employer contributions rates are 7.12% of covered compensation.

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

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

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

At June 30, 2016, the Kindred Public School District reported a liability of \$332,151 for its proportionate share of net pension liability. The net pension liability was measured as of July 1, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The district's proportion of the net pension liability was based on the district's share of covered payroll in the main system pension plan relative to the covered payroll of all participating main system employers. At July 1, 2015, the district's proportion was .048847 percent, a decrease of .000648 percent.

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

For the year ended June 30, 2016, the district recognized pension expense of \$31,155. At June 30, 2016, 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	\$ 9,636	\$ -
Changes of Assumptions	-	29,593
Changes in proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	1,452	3,982
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	-	7,012
District Contributions Subsequent to the Measurement Date	40,331	-
TOTAL	\$51,419	\$40,587

\$40,331 reported as deferred outflows of resources related to pensions resulting from district contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

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

2016	\$(9,501)
2017	(9,501)
2018	(9,501)
2019	4,988
2020	(5,975)

Actuarial Assumptions

The total pension liability in the July 1, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Salary Increases	4.50% per annum
Investment Rate of Return	8.00%, net of investment expenses
Cost-of-Living Adjustments	None

For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table 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 actuarial assumptions used were based on the results of an actuarial experience study completed in 2015. They are the same as the assumptions used in the July 1, 2015, funding actuarial valuation for NDPERS.

As a result of the 2015 actuarial experience study, the NDPERS Board adopted several changes to the actuarial assumptions effective July 1, 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

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

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

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

Discount Rate

The discount rate used to measure the total pension liability was 8 percent as of June 30, 2015. 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, 2015, Actuarial Valuation Report. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members as of June 30, 2015. 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, 2015.

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

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

	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
District's Proportionate Share of the Net Pension Liability	\$509,337	\$332,151	\$187,181

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 16: OPERATING LEASES

The Kindred Public School District leases copiers under non-cancelable operating leases. Total costs for such leases were \$13,944 for the year ended June 30, 2016. The future minimum lease payments for these leases are as follows:

Year Ending June 30	Amounts
2017	\$13,944
2018	13,944
2019	12,352
2020	963
TOTAL	\$41,203

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

NOTE 17: TRANSFERS

The following is a reconciliation between transfers in and transfers out as reported in the financial statements for the year ended June 30, 2016:

Fund	Transfers In	Transfers Out
Major Funds:		
General Fund	\$ -	\$ 562,072
Debt Service Fund - on book	-	732,042
Debt Service Fund - off book	732,042	-
Building Fund	562,072	-
Total Transfers	\$ 1,294,114	\$ 1,294,114

NOTE 18: CONSTRUCTION COMMITMENTS

The Kindred Public School District No. 2 had the following commitment for construction contracts as of June 30, 2016 for the concession stand:

Project	Contract Amount	Total Completed	Remaining Balance	Retainage	Total
Concession Stand					
Morton Building	\$ 110,700	\$ 62,369	\$ 48,331	\$ 16,397	\$ 64,728

Retainages payable of \$16,397 is associated with this project.

NOTE 19: SUBSEQUENT EVENT – PARKING LOT

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

The approximate original project cost was \$727,438. It was assumed at this point that at least 20% of the useful life of the lot is gone, or approximately \$181,000 of the total cost of the project.

Kindred Public School commenced an action in April 2015 against the defendants Northern Improvement that sought, among other things, damages totaling the cost of replacing the parking lots, drop-off areas, curbs, gutters and sidewalks of the project. Northern Improvement asserted a counterclaim against Kindred to seek recovery of \$36,372 in retainage withheld from the \$727,438 subcontract.

The parties agreed to mediate all remaining claims in the action on July 18th, 2016. On August 9th, 2016, the Kindred Public School District and Northern Improvement agreed to approve the mediation settlement.

The school district accepted the sum of \$295,000 as a global settlement from all contractors as outlined in the settlement agreement relating to and arising from all claims the parties or could have asserted in the action. Parties were responsible for their own attorneys' fees, costs, disbursements, and expenses incurred in connection with the action.

NOTE 20: PRIOR PERIOD ADJUSTMENTS

Capital Asset Errors:

There were prior period adjustments for the period ending June 30, 2016 for governmental activities involving adjustments to capital assets.

The effect of the prior period adjustments to beginning net position for the capital asset errors to equipment are as follows:

Governmental Activities):	Amounts
Beginning Net Position, as previously reported	\$ 4,544,302
Adjustments to restate the July 1, 2016 Net Position:	
Capital Asset cost adjustment - equipment	21,673
Capital Asset depreciation adjustment - equipment	18,007
Net Position June 30, 2016, as restated	\$ 4,583,982

KINDRED PUBLIC SCHOOL DISTRICT NO. 2
Kindred, North Dakota

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Local Sources	\$ 1,636,483	\$ 1,636,483	\$ 1,597,438	\$ (39,045)
State Sources	6,110,999	6,110,999	6,035,260	(75,739)
Federal Sources	159,657	159,657	140,560	(19,097)
Other Sources	60,100	60,100	43,602	(16,498)
Total Revenues	\$ 7,967,239	\$ 7,967,239	\$ 7,816,860	\$ (150,379)
<u>Expenditures:</u>				
Current:				
Regular Instruction	\$ 3,738,816	\$ 3,738,816	\$ 3,539,710	\$ 199,106
Special Education	506,500	506,500	490,177	16,323
Vocational Education	259,638	259,638	248,471	11,167
Federal Programs	118,067	118,067	118,198	(131)
District Wide Services	768,670	768,670	681,185	87,485
Administration	613,120	613,120	599,224	13,896
Operations and Maintenance	779,026	779,026	719,814	59,212
Transportation	430,392	430,392	375,949	54,443
Co-Curricular Activities	339,979	339,979	328,741	11,238
Debt Service:				
Principal	129,400	129,400	228,496	(99,096)
Interest and Fees	12,800	12,800	14,506	(1,706)
Total Expenditures	\$ 7,696,408	\$ 7,696,408	\$ 7,344,471	\$ 351,937
Excess (Deficiency) of Revenues Over Expenditures	\$ 270,831	\$ 270,831	\$ 472,389	\$ 201,558
<u>Other Financing Sources (Uses):</u>				
Transfers Out	\$ (562,072)	\$ (562,072)	\$ (562,072)	\$ -
Net Change in Fund Balances	\$ (291,241)	\$ (291,241)	\$ (89,683)	\$ 201,558
Fund Balance - July 1	\$ 1,555,224	\$ 1,555,224	\$ 1,555,224	\$ -
Fund Balance - June 30	\$ 1,263,983	\$ 1,263,983	\$ 1,465,541	\$ 201,558

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

KINDRED PUBLIC SCHOOL DISTRICT NO. 2
Kindred, North Dakota

BUDGETARY COMPARISON SCHEDULE
FOOD SERVICE FUND
For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Local Sources	\$ 262,000	\$ 262,000	\$ 280,248	\$ 18,248
State Sources	5,000	5,000	4,645	(355)
Federal Sources	60,000	60,000	77,660	17,660
Total Revenues	<u>\$ 327,000</u>	<u>\$ 327,000</u>	<u>\$ 362,553</u>	<u>\$ 35,553</u>
<u>Expenditures:</u>				
Current:				
School Food Services	\$ 324,900	\$ 324,900	\$ 323,024	\$ 1,876
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 2,100</u>	<u>\$ 2,100</u>	<u>\$ 39,529</u>	<u>\$ 37,429</u>
Fund Balance - July 1	<u>\$ (19,622)</u>	<u>\$ (19,622)</u>	<u>\$ (19,622)</u>	<u>\$ -</u>
Fund Balance - June 30	<u>\$ (17,522)</u>	<u>\$ (17,522)</u>	<u>\$ 19,907</u>	<u>\$ 37,429</u>

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

KINDRED PUBLIC SCHOOL DISTRICT NO. 2
Kindred, North Dakota

PENSION SCHEDULES
June 30, 2016

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

	FY2016	FY2015
District's proportion of the net pension liability (asset)	0.496501%	0.504655%
District's proportionate share of the net pension liability (asset)	\$ 6,493,514	\$ 5,287,890
District's covered-employee payroll	\$ 3,054,003	\$ 2,927,266
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	212.62%	180.64%
Plan fiduciary net position as a percentage of the total pension liability	62.10%	66.60%

*Complete data for this schedule is not available prior to FY2015.

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

	FY2016	FY2015
Statutorily required contribution	\$ 389,367	\$ 314,678
Contributions in relation to the statutorily required contribution	\$ (389,367)	\$ (314,678)
Contribution deficiency (excess)	\$ -	\$ -
District's covered-employee payroll	\$ 3,054,003	\$ 2,927,266
Contributions as a percentage of covered-employee payroll	12.75%	10.75%

*Complete data for this schedule is not available prior to FY2015.

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

	FY2016	FY2015
District's proportion of the net pension liability (asset)	0.048847%	0.049495%
District's proportionate share of the net pension liability (asset)	\$ 332,151	\$ 314,165
District's covered-employee payroll	\$ 435,169	\$ 416,934
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	76.33%	75.35%
Plan fiduciary net position as a percentage of the total pension liability	77.15%	77.70%

*Complete data for this schedule is not available prior to FY2015.

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

	FY2016	FY2015
Statutorily required contribution	\$ 33,054	\$ 29,686
Contributions in relation to the statutorily required contribution	\$ (33,054)	\$ (29,686)
Contribution deficiency (excess)	\$ -	\$ -
District's covered-employee payroll	\$ 435,169	\$ 416,934
Contributions as a percentage of covered-employee payroll	7.60%	7.12%

*Complete data for this schedule is not available prior to FY2015.

KINDRED PUBLIC SCHOOL DISTRICT NO. 2
Kindred, North Dakota

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2016

NOTE 1: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information:

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

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

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

NOTE 2: BUDGET TO ACTUAL AMOUNTS

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

Food Service Fund:	Combined Statement	Adjustment	Budget to Actual
Revenues	\$393,654	(\$31,101)	\$362,553
Expenditures	354,125	(31,101)	323,024

KINDRED PUBLIC SCHOOL DISTRICT NO. 2

Notes to the Required Supplementary Information - Continued

NOTE 3: PENSIONS - CHANGES OF ASSUMPTIONS

North Dakota Teacher's Fund for Retirement:

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.

North Dakota Public Employees Retirement System:

Amounts reported in 2016 reflect actuarial assumption changes effective July 1, 2015 based on the results of an actuarial experience study completed in 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

STATE AUDITOR

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

Independent Auditor's Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, and each major fund, and the aggregate remaining fund information of Kindred Public School District No. 2, Kindred, North Dakota, as of and for the year ended June 30, 2016, 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 November 25, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Kindred Public School District No. 2's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Kindred Public School District No. 2's internal control. Accordingly, we do not express an opinion on the effectiveness of Kindred Public School District No. 2's internal control.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying *schedule of findings and questioned costs* to be a material weakness [2016-001].

Compliance and Other Matters

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

KINDRED PUBLIC SCHOOL DISTRICT NO. 2

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* - Continued

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

Kindred Public School District No. 2's response to the finding identified in our audit is described in the accompanying *schedule of findings and questioned costs*. Kindred Public School District No. 2's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Robert R. Peterson
State Auditor

Fargo, North Dakota
November 25, 2016

KINDRED PUBLIC SCHOOL DISTRICT NO. 2
Kindred, North Dakota

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2016

Section I - Summary of Auditor's Results

Financial Statements

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

Section II - Financial Statement Findings

2016-001 – LACK OF SEGREGATION OF DUTIES

Condition:

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

Criteria:

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

Effect:

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

Recommendation:

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

Views of Responsible Officials:

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

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BISMARCK, NORTH DAKOTA 58505

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Kindred Public School District No. 2, Kindred, North Dakota, as of and for the year ended June 30, 2016, which collectively comprise the Kindred Public School District No. 2's basic financial statements and have issued our report thereon dated November 25, 2016. Professional standards require that we provide you with the following information related to our audit.

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

As stated in our engagement letter dated November 10, 2016, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors or fraud may exist and not be detected by us.

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

As part of obtaining reasonable assurance about whether Kindred Public School District No. 2's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit.

SIGNIFICANT ACCOUNTING POLICIES/QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Kindred Public School District No. 2 are described in Note 1 to the financial statements. Application of existing policies was not changed during the year ended June 30, 2016. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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

CORRECTED AND UNCORRECTED MISSTATEMENTS

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

DISAGREEMENTS WITH MANAGEMENT

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

MANAGEMENT REPRESENTATIONS

We have requested certain representations from management that are included in the management representation letter dated November 25, 2016.

MANAGEMENT CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS

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

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

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

OTHER AUDIT FINDINGS OR ISSUES

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

The following presents our informal recommendation:

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CAPITAL ASSETS POLICY & ERRORS

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

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

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

Additionally, capital asset beginning cost and accumulated depreciation errors were noted totaling \$39,680 due to incorrect depreciation reported in the year of acquisition for certain equipment capital assets.

KINDRED PUBLIC SCHOOL DISTRICT NO. 2
Management's Letter - Continued

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

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

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



Robert R. Peterson
State Auditor

Fargo, North Dakota
November 25, 2016

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