

**INDEPENDENT SCHOOL DISTRICT NO. 38  
RED LAKE, MINNESOTA**

*AUDITED FINANCIAL STATEMENTS*

FOR THE YEAR ENDED JUNE 30, 2018

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RED LAKE, MINNESOTA  
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**INDEPENDENT SCHOOL DISTRICT NO. 38  
RED LAKE, MINNESOTA  
ROSTER OF SCHOOL OFFICIALS  
June 30, 2018**

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School Board Members and Officers

Michael Barrett	Chairperson
Chris Jourdain	Vice-Chairperson
Roy Nelson	Treasurer
Barbara Thomas	Clerk
Douglas Desjarlait	Director
Tina Stately	Director

Administration

Melinda Crowley	Superintendent
Willie Larson	Business Manager



CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Education  
Independent School District No. 38  
Red Lake, Minnesota

### **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 Independent School District No. 38, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District'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 Independent School District No. 38, as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As discussed in Note 2 to the financial statements, the District adopted the provisions of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. As discussed in Note 2 to the financial statements, the District has retroactively restated the previously reported Net Position in accordance with this statement.

Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of changes in the District's total OPEB liability and related ratios, schedule of District contributions, schedule of District's share of net pension liability, and notes to required supplementary information as listed in the table of contents as required supplementary information 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 Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining statements, schedule of changes in fund balances, compliance table, and student activity detail as listed in the table of contents as supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements.

The combining statements, schedule of changes in fund balances, compliance table, schedule of expenditures of federal awards, notes to schedule of expenditures of federal awards, and student activity detail are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to

prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statements, schedule of changes in fund balances, compliance table, schedule of expenditures of federal awards, and student activity detail are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2018 on our consideration of the District'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's 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 District's internal control over financial reporting and compliance.



**BRADY, MARTZ & ASSOCIATES, P.C.**  
**Thief River Falls, Minnesota**

December 5, 2018

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**INDEPENDENT SCHOOL DISTRICT NO. 38  
RED LAKE, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2018**

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This section of Independent School District No. 38's annual financial report presents its discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2018. Please read it in conjunction with the District's financial statements, which immediately follow this section.

### **Financial Highlights**

Key financial highlights for the 2017-2018 fiscal year include the following:

- General fund balance increased by \$2,944,665.

### **Overview of the Financial Statements**

This annual report consists of four parts: management's discussion and analysis (this section), the basic financial statements, required supplementary information, and supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *district-wide financial statements* that provide both *short-term* and *long-term* information about the District's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District's operations in *more detail* than the district-wide statements.
  - The *governmental funds statements* tell how basic services such as regular and special education were financed in the *short-term* as well as what remains for future spending.
  - The *fiduciary fund statement* provides information about the financial relationship in which the District acts solely as an agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's general fund budget for the year, and supplementary information that is presented for additional analysis.

### District-wide Statements

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the District's assets, liabilities, and deferred inflows/outflows of resources with the difference reported as net position. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District's *net position* and how they have changed. Net position – the difference between the District's assets, liabilities, and deferred inflows/outflows of resources – is one way to measure the District's financial health or *position*.

- Over time, increases or decreases in the District's net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the District's overall health, you need to consider additional nonfinancial factors such as the condition of school buildings and other facilities.

**INDEPENDENT SCHOOL DISTRICT NO. 38  
RED LAKE, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2018**

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In the district-wide financial statements, the District's activities are shown in one category:

- *Governmental activities:* All of the District's basic services are included here, such as regular and special education, transportation, and administration. Federal and state formula aid finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (such as accounting for capital projects) or to show that it is properly using certain revenues.

The District has two kinds of funds:

- **Governmental funds:** The District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, reconciliations have been provided following the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances to help explain the relationship (or differences) between the governmental funds and governmental activities.

The District maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, which is considered to be a major fund. Data from the other four governmental funds are combined into a single, aggregated presentation. Individual fund data is provided in the form of combining statements elsewhere in this report.

- **Fiduciary funds:** The District is the trustee, or fiduciary, for assets that belong to others. The District is responsible for ensuring that the assets reported in the funds are used only by those to whom the assets belong. The District's fiduciary activities (Scholarship Trust Fund) are reported in a separate Statement of Fiduciary Net Position. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

**INDEPENDENT SCHOOL DISTRICT NO. 38  
RED LAKE, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2018**

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**Financial Analysis of the District as a Whole**

Net Position

The District's combined net position was \$(77,262,389) on June 30, 2018 (see details in Table A-1). This was a decrease of 15.8 percent from the prior year.

**Table A-1  
Statement of Net Position**

	<u>2018</u>	<u>2017</u>	<u>Total Percentage Change</u>
Current and Other Assets	\$ 21,068,139	\$ 19,368,824	8.8 %
Capital Assets	<u>51,078,071</u>	<u>52,325,388</u>	(2.4)
Total Assets	<u>72,146,210</u>	<u>71,694,212</u>	0.6
Deferred Outflows of Resources	<u>25,640,059</u>	<u>34,836,057</u>	(26.4)
Long-term Liabilities	162,491,229	167,705,419	(3.1)
Other Liabilities	<u>3,814,032</u>	<u>3,335,441</u>	14.3
Total Liabilities	<u>166,305,261</u>	<u>171,040,860</u>	(2.8)
Deferred Inflows of Resources	<u>8,743,397</u>	<u>2,212,157</u>	295.2
Net Position			
Net Investment in Capital Assets	(5,534,370)	(4,287,053)	(29.1)
Restricted	1,617,556	1,364,113	18.6
Unrestricted	<u>(73,345,575)</u>	<u>(63,799,808)</u>	(15.0)
Total Net Position	<u>\$ (77,262,389)</u>	<u>\$ (66,722,748)</u>	(15.8) %

**INDEPENDENT SCHOOL DISTRICT NO. 38  
RED LAKE, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2018**

Change in Net Position

Table A-2 presents the change in net position of the District.

**Table A-2  
Change in Net Position**

	<u>2018</u>	<u>2017</u>	<u>Total Percentage Change</u>
Revenues			
Program Revenues			
Charges for Services	\$ 222,097	\$ 268,478	(17.3) %
Operating Grants and Contributions	11,091,951	11,749,745	(5.6)
Capital Grants and Contributions	689,933	558,689	23.5
General Revenues			
Property Taxes	7,567	5,938	27.4
Unrestricted State Aid	13,814,922	13,207,227	4.6
Unrestricted Federal Aid	10,832,148	9,310,129	16.3
Other Sources	423,845	337,641	25.5
Total Revenues	<u>37,082,463</u>	<u>35,437,847</u>	4.6
Expenses			
Administration	1,868,120	1,946,472	(4.0)
District Support Services	1,019,611	1,084,452	(6.0)
Elementary & Secondary Regular Instruction	20,055,093	21,442,125	(6.5)
Vocational Education Instruction	234,011	227,095	3.0
Special Education Instruction	5,273,597	4,718,905	11.8
Community Education and Services	618,693	639,430	(3.2)
Instructional Support Services	2,129,020	2,200,593	(3.3)
Pupil Support Services	3,265,139	2,997,146	8.9
Sites and Buildings	4,473,755	4,338,513	3.1
Fixed Costs	169,364	173,507	(2.4)
Interest on Long-Term Debt	4,445,305	4,243,172	4.8
Depreciation - Unallocated	1,302,364	1,304,267	(0.1)
Total Expenses	<u>44,854,072</u>	<u>45,315,677</u>	(1.0)
Change in Net Position	(7,771,609)	(9,877,830)	21.3
Net Position - Beginning	(66,722,748)	(56,971,746)	(17.1)
Prior Period Adjustment - See Note 2	<u>(2,768,032)</u>	<u>126,828</u>	(2,282.5)
Net Position - Beginning, Restated	<u>(69,490,780)</u>	<u>(56,844,918)</u>	(22.2)
Net Position - Ending	<u>\$ (77,262,389)</u>	<u>\$ (66,722,748)</u>	(15.8) %

The District's total revenues were \$37,082,463 for the year ended June 30, 2018. Federal and state aid payments accounted for 98 percent of total revenue for the year.

**INDEPENDENT SCHOOL DISTRICT NO. 38  
RED LAKE, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2018**

The total cost of all programs and services was \$44,854,072. The District's expenses are predominantly related to educating and caring for students.

Total expenses surpassed revenues, decreasing net position \$7,771,609 over last year. The net effect of the District's deferred inflows and outflows of resources and net pension liability related to TRA and PERA decreased net position by \$5,383,453.

The net cost of governmental activities is their total costs less program revenues applicable to each category.

Table A-3 presents these net costs.

**Table A-3  
Net Cost of Governmental Activities**

	Total Cost of Services		Total	Net Cost of Services		Total
	2018	2017	Percentage Change	2018	2017	Percentage Change
Expenses						
Administration	\$ 1,868,120	\$ 1,946,472	(4.0) %	\$ 1,868,120	\$ 1,946,472	(4.0) %
District Support Services	1,019,611	1,084,452	(6.0)	1,019,611	1,084,452	(6.0)
Elementary & Secondary						
Regular Instruction	20,055,093	21,442,125	(6.5)	13,842,385	14,277,093	(3.0)
Vocational Education Instruction	234,011	227,095	3.0	210,624	204,208	3.1
Special Education Instruction	5,273,597	4,718,905	11.8	2,557,110	2,088,270	22.5
Community Education and Services	618,693	639,430	(3.2)	144,002	115,005	25.2
Instructional Support Services	2,129,020	2,200,593	(3.3)	1,741,847	1,832,611	(5.0)
Pupil Support Services	3,265,139	2,997,146	8.9	1,507,389	1,401,155	7.6
Sites and Buildings	4,473,755	4,338,513	3.1	4,041,970	4,068,553	(0.7)
Fixed Costs	169,364	173,507	(2.4)	169,364	173,507	(2.4)
Interest on Long-Term Debt	4,445,305	4,243,172	4.8	4,445,305	4,243,172	4.8
Depreciation - Unallocated	1,302,364	1,304,267	(0.1)	1,302,364	1,304,267	(0.1)
	<u>\$ 44,854,072</u>	<u>\$ 45,315,677</u>	(1.0) %	<u>\$ 32,850,091</u>	<u>\$ 32,738,765</u>	0.3 %

**Financial Analysis of the District's Funds**

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Table A-4  
Major Funds**

	Fund Balance		Increase	Percentage Increase
	2018	2017		
Governmental Funds				
General	\$ 17,358,825	\$ 14,414,160	\$ 2,944,665	20.4 %

The general fund balance increased as a result of the District monitoring and controlling expenses.

**INDEPENDENT SCHOOL DISTRICT NO. 38  
RED LAKE, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2018**

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General Fund

The general fund includes the primary operations of the District in providing educational services to students from kindergarten through grade 12, including pupil transportation activities and capital outlay projects.

Table A-5 presents a summary of general fund revenue.

**Table A-5  
General Fund Revenue**

	<u>2018</u>	<u>2017</u>	Amount of Increase (Decrease)	Percent Increase (Decrease)
Local Sources				
Property Taxes	\$ 3,349	\$ 2,778	\$ 571	20.6 %
Interest Earnings	229,411	106,931	122,480	114.5
Other	240,527	317,129	(76,602)	(24.2)
State Sources	22,093,452	21,243,774	849,678	4.0
Federal Sources	12,749,824	11,317,896	1,431,928	12.7
Other	10,279		10,279	100.0
Total General Fund Revenue	<u>\$ 35,326,842</u>	<u>\$ 32,988,508</u>	<u>\$ 2,338,334</u>	7.1 %

Total general fund revenue increased by \$2,338,334 or 7.1 percent from the previous year. Basic general education revenue is determined by a state per student funding formula.

Table A-6 presents a summary of general fund expenditures.

**Table A-6  
General Fund Expenditures**

	<u>2018</u>	<u>2017</u>	Amount of Increase (Decrease)	Percent Increase (Decrease)
Salaries	\$ 17,799,788	\$ 17,040,070	\$ 759,718	4.5 %
Employee Benefits	7,675,146	7,363,857	311,289	4.2
Purchased Services	3,496,802	3,068,257	428,545	14.0
Supplies and Materials	2,031,900	1,886,453	145,447	7.7
Capital Expenditures	913,097	1,399,309	(486,212)	(34.7)
Debt Service	180,708	180,708		
Other Expenditures	168,852	164,630	4,222	2.6
Total General Fund Expenditures	<u>\$ 32,266,293</u>	<u>\$ 31,103,284</u>	<u>\$ 1,163,009</u>	3.7 %

Total general fund expenditures increased \$1,163,009 or 3.7 percent from the previous year.

**INDEPENDENT SCHOOL DISTRICT NO. 38  
RED LAKE, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2018**

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General Fund Budgetary Highlights

The District adopted its original budget in June 2017. During the year ended June 30, 2018, the District revised its budget.

The District's budget for the general fund anticipated that revenues would exceed expenditures and other financing uses by \$2,117,996 and the actual results for the year show a surplus of \$2,944,665.

**Capital Assets and Debt Administration**

Capital Assets

Note 4 to the financial statements presents an analysis of capital asset transactions occurring during the year ended June 30, 2018. Additions totaling \$817,859 mainly consisted classroom furniture, radio, computer, and medical equipment, a floor scrubber, AED's, a sound system, building repairs, two buses, and a vehicle. The District also had disposals of \$225,766 which consisted of iPads, one bus, and a vehicle.

Long-Term Debt

At year-end, the District had \$113,557,387 of long-term debt. This consisted of capital loan payable of \$56,612,441, accrued interest on the capital loan payable of \$56,768,214, and capital lease payable of \$176,732. Note 7 to the financial statements presents the details and payment provisions of these items.

**Factors Bearing on the District's Future**

Student Enrollment

The District closely monitors and evaluates student enrollment (ADM) and attendance.

In the FY 2007 the District adopted a strategic plan which included a comprehensive review of its curriculum and a student behavior management plan that focuses on community building and personal responsibility. The implementation of these and many other initiatives are designed to help bolster the District's academic rigor and provide students with a safe and healthy learning environment. With the implementation of these initiatives, the District has seen an increase in student enrollment, a decrease in student absenteeism and a decrease in student disciplinary referral actions.

An analysis of District enrollment trends reveals steady to slight increase in K-12 enrollment. This is due to the following factors.

- A flattening of the birth rate among district residents.
- A decrease in the number of students who open enroll out of the District beginning in the 5th grade.
- A decrease in the number of students dropping out of school.
- An increase in the number of students accessing district alternative education programs.

The District anticipates enrollment growth will begin to level off beginning in FY 2020.

Staffing

The District estimates the annual rate of staff turnover will be approximately 4% for FY 2019 and 2020. The District is expecting retirements of three (3) at the end of FY 2019.

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RED LAKE, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2018**

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The District continues to struggle with attracting adequate pools of candidates for open positions. Looking forward, the District anticipates that it will not be able to fill all open positions. Specifically, positions in special education, language arts and mathematics will go unfilled or will be filled with licensed staff requiring personnel variances.

As of June 30, 2018, the District entered into employment agreements with the Teachers Union, Principals Union, MSEA Union and all non-union staff. These agreements expire on June 30, 2019.

Political Environment - Federal

The political environment at the Federal level has a significant effect on Red Lake School District's future finances. Federal funding accounts for approximately 40% of the District's General Fund budget. Federal Impact Aid, which accounts for 28% of the District's general fund budget is not forward funded and therefore subject to the annual appropriation process. The District is a member of the National Association of Federally Impacted Schools (NAFIS) which provides Congress and the President with eligibility data regarding federally impacted students who reside on Indian lands, military bases, federal properties and low rent units. NAFIS members actively receive the support of a bipartisan coalition in both the U.S. Senate and U.S. House of Representatives in regard to Federal Impact Aid Appropriations.

Political Environment - State

State General Education Aid accounts for 60% of the District's General Fund budget.

Due to 99% of the real property within the District boundaries being held in federal trust, the District does not have a large enough tax base to be able to issue capital building bonds to build or remodel capital facilities. Rather, the Red Lake School District must request Maximum Effort Capital Loans from the State of Minnesota. As per Minnesota Statute 126C.69, the District may apply to the State for a Maximum Effort Capital Loan. The loan must be approved by the legislature and approved by the governor. The District first requested a capital loan in 1992 to build a new elementary school and develop a plan for further improvement of facilities. The legislature has never fully funded the District's loan requests, but provided partial funding in 2000, 2002, 2005, 2014 and 2018. The term of each loan is 50 years. Since the District is not able to levy adequate funds to fully pay the loan, the State of Minnesota will forgive the unpaid balance at the maturity of each loan.

Educational Initiatives – School Improvements

Four of the district's schools continue to be designated as Priority or Focus Schools, which is an indicator that they are performing among the lowest five percent in academically, and/or among those with the highest achievement gap. The designation, first assigned in October of 2014, by the Minnesota Department of Education (MDE), requires ongoing documentation of continuous improvement efforts. The District high school graduation rate increased from 22.6% in May 2016, to 33% in May 2017 to 36% in May 2018.

There are currently a number of interventions and improvement initiatives underway in all Red Lake Schools including Professional Learning Communities (PLC) that support job-embedded professional development on a weekly basis, and engage teachers in data-driven discussion regarding curriculum, instruction and assessment. Principals in all schools facilitate school leadership teams, which engage teacher leaders in continuous school improvement planning, and oversight of the implementation of research-based instructional strategies to improve outcomes for all students. The district superintendent meets weekly with the principals in each building, individually and also in small groups to provide coaching in the development of instructional leadership skills. To ensure teachers receive support to improve their practices, all licensed staff are evaluated between one and three times each year by the building principals, and engage in a summative conference at the conclusion of the school year. Instructional time has also been increased, by lengthening the school day,



**INDEPENDENT SCHOOL DISTRICT NO. 38  
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MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2018**

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providing for afterschool programming, and summer school. Finally, the District has taken steps to increase parent and community involvement, launched the implementation an initiative to install for a guaranteed and viable curriculum that is culturally responsive, and partnered with Tribal agencies to provide for Tribal Truancy Court to increase attendance, enrollment and ultimately, graduation.

**Contacting the District's Financial Management**

This financial report is designed to provide the District's citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Willie Larson, Business Manager, at the District Administration Office, PO Box 499, Red Lake, MN 56671.

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**STATEMENT OF NET POSITION**  
**June 30, 2018**

GOVERNMENTAL ACTIVITIES

ASSETS

Cash and Investments	\$ 19,023,799
Property Taxes Receivable	266
Accounts Receivable	88,623
Interest Receivable	8,251
Due From Department of Education	1,478,818
Due From Federal Govt. - DOE	329,431
Due From Federal Govt.	80,650
Due from Other Governments	20,702
Inventory	37,599
Capital Assets	
Other Capital Assets, Net of Depreciation	<u>51,078,071</u>

TOTAL ASSETS

72,146,210

DEFERRED OUTFLOWS OF RESOURCES

Cost Sharing Defined Benefit Pension Plan	25,474,273
Other Postemployment Benefit	<u>165,786</u>

TOTAL DEFERRED OUTFLOWS OF RESOURCES

25,640,059

LIABILITIES

Accounts Payable	307,622
Salaries Payable	1,427,204
Payroll Deductions	1,748,019
Due to Other MN Districts	110,080
Long-Term Liabilities Due Within One Year	221,107
Long-Term Liabilities	
Compensated Absences Payable	152,170
Severance Payable	1,604,080
Capital Loan	56,612,441
Capital Lease	176,732
Accrued Interest Payable	56,768,214
Total Other Postemployment Benefit Liability	1,240,823
Net Pension Liability	46,157,876
Less Amounts Due Within One Year	<u>(221,107)</u>
Total Long-Term Liabilities	<u>162,491,229</u>

TOTAL LIABILITIES

166,305,261

DEFERRED INFLOWS OF RESOURCES

Property Taxes Levied - Subs. Years	4,126
Cost Sharing Defined Benefit Pension Plan	<u>8,739,271</u>

TOTAL DEFERRED INFLOWS OF RESOURCES

8,743,397

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

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**STATEMENT OF NET POSITION (CONTINUED)**  
**June 30, 2018**

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NET POSITION	
Net Investment in Capital Assets	(5,534,370)
Restricted	
Staff Development	14,665
Health and Safety	147
Operating Capital	332,513
Learning and Development	3,344
St. Approved Alt Program	398,044
Gifted and Talented	4,221
Basic Skills	411,662
Basic Skills Extended Time	70,198
Long-Term Facilities Maintenance	2,513
Building Construction	109,346
Medical Assistance	19,061
Impact Aid	177,896
Community Education	4,238
ECFE	45,900
Community Service	22,676
Building Fund	1,132
Unrestricted	<u>(73,345,575)</u>
TOTAL NET POSITION	<u>\$ (77,262,389)</u>

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

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**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended June 30, 2018**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>GOVERNMENTAL ACTIVITIES</b>					
Administration	\$ 1,868,120	\$	\$	\$	(1,868,120)
District Support Services	1,019,611				(1,019,611)
Elementary & Secondary					
Regular Instruction	20,055,093	56,472	6,150,515	5,721	(13,842,385)
Vocational Education Instruction	234,011		23,387		(210,624)
Special Education Instruction	5,273,597	50	2,716,437		(2,557,110)
Community Education and Services	618,693	140,401	334,290		(144,002)
Instructional Support Services	2,129,020	5,536	381,637		(1,741,847)
Pupil Support Services	3,265,139	19,638	1,485,685	252,427	(1,507,389)
Sites and Buildings	4,473,755			431,785	(4,041,970)
Fixed Costs	169,364				(169,364)
Interest on Long-Term Debt	4,445,305				(4,445,305)
Depreciation - Unallocated	1,302,364				(1,302,364)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>\$ 44,854,072</b>	<b>\$ 222,097</b>	<b>\$ 11,091,951</b>	<b>\$ 689,933</b>	<b>(32,850,091)</b>
<b>GENERAL REVENUES</b>					
Taxes					
Property Taxes, Levied for General Purposes					3,349
Property Taxes, Levied for Debt Services					4,218
Unrestricted State Aid					13,814,922
Unrestricted Federal Aid					10,832,148
Unrestricted Investment Earnings					229,413
Other General Revenue					194,432
<b>TOTAL GENERAL REVENUES</b>					<b>25,078,482</b>
Change in Net Position					(7,771,609)
Net Position - Beginning					(66,722,748)
GASB 75 Adjustment - See Note 2					(2,768,032)
Net Position - Beginning, Restated					(69,490,780)
Net Position - Ending					<b>\$ (77,262,389)</b>

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

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**BALANCE SHEET – GOVERNMENTAL FUNDS**  
**June 30, 2018**

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>			
Cash and Investments	\$ 18,887,144	\$ 136,655	\$ 19,023,799
Current Property Taxes Receivable	266		266
Accounts Receivable	25,200	63,423	88,623
Interest Receivable	8,251		8,251
Due From Department of Education	1,446,734	32,084	1,478,818
Due From Federal Gov. - DOE	289,637	39,794	329,431
Due From Federal Gov.	80,650		80,650
Due From Other Governments	4,899	15,803	20,702
Due From Other Funds	84,356		84,356
Inventory	26,787	10,812	37,599
<b>TOTAL ASSETS</b>	<b>\$ 20,853,924</b>	<b>\$ 298,571</b>	<b>\$ 21,152,495</b>
<b>LIABILITIES</b>			
Accounts Payable	\$ 301,190	\$ 6,432	\$ 307,622
Salaries Payable	1,331,684	95,520	1,427,204
Payroll Deductions	1,748,019		1,748,019
Due to Other MN Districts	110,080		110,080
Due to Other Funds		84,356	84,356
<b>TOTAL LIABILITIES</b>	<b>3,490,973</b>	<b>186,308</b>	<b>3,677,281</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Property Taxes Levied - Subs. Years	4,126		4,126
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>4,126</b>		<b>4,126</b>
<b>FUND BALANCES</b>			
Nonspendable: Inventory	26,787	10,812	37,599
Restricted for Staff Development	14,665		14,665
Restricted for Health and Safety	147		147
Restricted for Operating Capital	332,513		332,513
Restricted for Learning and Development	3,344		3,344
Restricted for St. Approved Alt Program	398,044		398,044
Restricted for Gifted and Talented	4,221		4,221
Restricted for Basic Skills	411,662		411,662
Restricted for Basic Skills Extended Time	70,198		70,198
Restricted for Long-Term Facilities Maintenance	2,513		2,513
Restricted for Building Construction	109,346		109,346
Restricted for Medical Assistance	19,061		19,061
Restricted for Impact Aid	177,896		177,896
Restricted for Community Education		4,238	4,238
Restricted for ECFE		45,900	45,900
Restricted for Community Service		22,676	22,676
Restricted for Building Fund		1,132	1,132
Restricted for Debt Service		459	459
Restricted for Max Effort Loan		27,046	27,046
Assigned for Other Post-Employment Benefits	2,916,477		2,916,477
Unassigned	12,871,951		12,871,951
<b>TOTAL FUND BALANCES</b>	<b>17,358,825</b>	<b>112,263</b>	<b>17,471,088</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<b>\$ 20,853,924</b>	<b>\$ 298,571</b>	<b>\$ 21,152,495</b>

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

**INDEPENDENT SCHOOL DISTRICT NO. 38**

**RED LAKE, MINNESOTA**

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION**

**June 30, 2018**

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Total fund balances - governmental funds	\$ 17,471,088
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.	
Cost of capital assets	80,210,072
Less accumulated depreciation	(29,132,001)
Deferred outflows of resources relating to the cost sharing defined benefit plans and other postemployment benefits in the governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	
	25,640,059
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.	
Compensated Absences Payable	(152,170)
Severance Payable	(1,604,080)
Capital Loan	(56,612,441)
Capital Lease	(176,732)
Accrued Interest Payable	(56,768,214)
Total Other Postemployment Benefit Liability	(1,240,823)
Net Pension Liability	(46,157,876)
Deferred inflows of resources relating to the cost sharing defined benefit plans in the governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	<u>(8,739,271)</u>
Net position - governmental activities	<u>\$ (77,262,389)</u>

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

**INDEPENDENT SCHOOL DISTRICT NO. 38**

**RED LAKE, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –**

**GOVERNMENTAL FUNDS**

**For the Year Ended June 30, 2018**

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>			
Local Property Tax Levies	\$ 3,349	\$ 4,377	\$ 7,726
Other Local & County Revenues	469,938	156,206	626,144
Revenue From State Sources	22,093,452	354,901	22,448,353
Revenue From Federal Sources	12,749,824	1,238,211	13,988,035
Sale/Other Conversion of Asset	10,279	9,359	19,638
<b>TOTAL REVENUES</b>	<b>35,326,842</b>	<b>1,763,054</b>	<b>37,089,896</b>
<b>EXPENDITURES</b>			
Current			
Administration	1,866,414		1,866,414
District Support Services	1,016,582		1,016,582
Elementary & Secondary Regular Instruction	14,652,231		14,652,231
Vocational Instruction	232,448		232,448
Special Education Instruction	5,271,771		5,271,771
Community Education and Services		618,142	618,142
Instructional Support Services	2,066,035		2,066,035
Pupil Support Services	1,765,923	1,312,458	3,078,381
Sites and Buildings	4,131,720		4,131,720
Fixed Costs	169,364		169,364
Debt Service			
Principal	172,843		172,843
Interest	7,865	7,505	15,370
Capital Outlay	913,097		913,097
<b>TOTAL EXPENDITURES</b>	<b>32,266,293</b>	<b>1,938,105</b>	<b>34,204,398</b>
Revenues Over (Under) Expenditures	3,060,549	(175,051)	2,885,498
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers In		115,884	115,884
Transfers Out	(115,884)		(115,884)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(115,884)</b>	<b>115,884</b>	
Net Change in Fund Balances	2,944,665	(59,167)	2,885,498
Fund Balances - Beginning	14,414,160	171,430	14,585,590
Fund Balances - Ending	<u>\$ 17,358,825</u>	<u>\$ 112,263</u>	<u>\$ 17,471,088</u>

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



**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
**For the Year Ended June 30, 2018**

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Total net change in fund balances - governmental funds \$ 2,885,498

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.

Capital outlay	817,859
Depreciation expense	(2,065,176)

Payment of debt principal is an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of net position.	172,842
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Change in net pension liability.	10,512,960
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Changes in deferred outflows and inflows of resources related to net pension liability.	(15,896,413)
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Changes in deferred outflows and inflows of resources related to other postemployment benefit liability.	(11,764)
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Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.	(4,429,935)
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Recognition of additional pension expense and grant revenue for the District's proportionate share of the State of Minnesota's contribution to the PERA and TRA.

In the statement of activities, certain expenses are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts paid.)

Other postemployment benefits	91,639
Severance payable	146,947
Compensated absences payable	3,934
	<hr/>

Change in net position - governmental activities	\$ <u>(7,771,609)</u>
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The notes to basic financial statements are an integral part of this statement.

**INDEPENDENT SCHOOL DISTRICT NO. 38  
RED LAKE, MINNESOTA  
STATEMENT OF FIDUCIARY NET POSITION  
June 30, 2018**

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	<u>Scholarship Trust Fund</u>
ASSETS	
Cash and Investments	\$ 13,006
Interest Receivable	<u>20</u>
TOTAL ASSETS	<u>13,026</u>
LIABILITIES	
Other Payables	<u>12,025</u>
TOTAL LIABILITIES	<u>12,025</u>
NET POSITION	
Held in Trust	<u>\$ 1,001</u>

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

**INDEPENDENT SCHOOL DISTRICT NO. 38  
 RED LAKE, MINNESOTA  
 STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
 For the Year Ended June 30, 2018**

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	<u>Scholarship Trust Fund</u>
ADDITIONS	
Donations	\$ 2,956
Investment Earnings	<u>48</u>
TOTAL ADDITIONS	<u>3,004</u>
DEDUCTIONS	
Scholarship Payments	<u>3,100</u>
TOTAL DEDUCTIONS	<u>3,100</u>
Change in Net Position	(96)
Net Position - Beginning	<u>1,097</u>
Net Position - End of Year	<u>\$ 1,001</u>

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

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2018**

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**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Basis of Presentation**

The financial statements of Independent School District No. 38 have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

**B. Reporting Entity**

The District's policy is to include in the financial statements all funds, departments, agencies, boards, commissions, and other component units for which the District is considered to be financially accountable.

Component units are legally separated entities for which the District (primary government) is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit includes whether or not the primary government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally dependent upon by the potential component unit.

Based on these criteria, there are no organizations considered to be component units of the District.

Extracurricular student activities are carried on primarily by student participants under the guidance of an adult and are generally conducted outside of school hours. In accordance with Minnesota Statutes, the District's school board has elected to control or be otherwise financially accountable with respect to the underlying extracurricular activities. Accordingly, the extracurricular student activity accounts are included in these basic financial statements.

**C. Basic Financial Statement Presentation**

The district-wide financial statements (i.e. the statement of net position and the statement of activities) display information about the reporting government as a whole. These statements include all the financial activities of the District.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position are available. Depreciation expense that can be specifically identified by function is included in the direct expenses of each function.

Separate fund financial statements are provided for governmental funds. Major individual governmental funds are reported in separate columns in the fund financial statements.

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2018**

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**D. Measurement Focus and Basis of Accounting**

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing or related cash flows. Property taxes are generally recognized as revenues in the fiscal year for which they are levied, except for advance amounts recognized in accordance with a statutory "tax shift." Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis of accounting transactions are recorded in the following manner:

Revenue Recognition – Revenue is recognized when it becomes measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Property tax revenue is generally considered available if collected within 60 days after year-end. State revenue is recognized in the year to which it applies according to Minnesota Statutes and accounting principles generally accepted in the United States of America. Minnesota Statutes include state aid funding formulas for specific fiscal years. Federal revenue is recorded in the year in which the related expenditure is made. Other revenue is considered available if collected within one year.

Recording of Expenditures – Expenditures are generally recorded when a liability is incurred. However, expenditures are recorded as prepaid for approved disbursements or liabilities incurred in advance of the year in which the item is to be used. Principal and interest on long-term debt issues are recognized on their due dates.

As a general rule, the effect of interfund activity has been eliminated from the district-wide financial statements.

**Description of Funds**

The existence of the various District funds has been established by the State of Minnesota, Department of Education. Each fund is accounted for as an independent entity. Descriptions of the major funds included in this report are as follows:

**Major Governmental Funds**

General Fund – Accounts for all financial resources and transactions except those required to be accounted for in other funds including pupil transportation and capital outlay activities, which were previously (prior to July 1, 1996) accounted for in separate special revenue funds.

GASB No. 34 also requires that budget vs. actual information be presented for the general fund and all major special revenue funds.

**Fiduciary Funds**

Scholarship Trust Fund – The District is the trustee, or fiduciary, for assets that belong to others. The District is responsible for ensuring the assets reported in these funds are being used only for their intended purposes and by those to whom the assets belong.

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2018**

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**Nonmajor Governmental Funds**

Special Revenue Funds:

Food Service Fund – Accounts for all activities associated with the preparation and serving of regular and incidental meals, lunches, or snacks in connection with school activities.

Community Service Fund – Accounts for all resources designated for programs other than those for elementary and secondary students.

Building Construction Fund – Accounts for resources used for the acquisition and construction of major capital facilities.

Debt Redemption Fund – Accounts for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

**E. Specific Account Information**

Cash and Investments – Cash and temporary investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. Earnings from the pooled investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund.

Investments are carried at fair value. The District considers certificates of deposit to be cash.

When fair value measurements are required, various data is used in determining those values. Assets and liabilities that are carried at fair value must be classified and disclosed in the following levels based on the nature of the data used.

Level 1: Quoted market prices in active markets for identical assets or liabilities

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data

Level 3: Unobservable market inputs that are not corroborated by market data

Taxes Receivable – Taxes receivable represents taxes levied in 2017 which are not payable until 2018, net of the amount received prior to June 30.

Property Taxes – Property tax levies are certified to the County Auditor in December of each year for collection from taxpayers in May and October of the following year. In Minnesota, counties act as collection agents for all property taxes. The county spreads all levies over taxable property. Such taxes become a lien on property on the following January 1. The county generally remits taxes to the District at periodic intervals as the taxes are collected.

A portion of property taxes levied is paid by the State of Minnesota through various tax credits, which are included in revenue from state sources in the financial statements.

Generally, tax revenue is recognized in the fiscal year ending June 30, following the calendar year in which the tax levy is collectible, while the current calendar year tax levy is recorded as unavailable revenue (property taxes levied for subsequent years).

The majority of the revenue in the general fund is determined annually by statutory funding formulas. The total revenue allowed by these formulas is then allocated between property taxes and state aids by the legislature

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2018**

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based on education funding priorities. Changes in this allocation are periodically accompanied by a change in property tax revenue recognition referred to as the “tax shift.”

Taxes which remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is deferred in the fund based financial statements because it is not known to be available to finance the operations of the District in the current year.

Inventory – Inventory is recorded using the consumption method of accounting and consists of purchased food, supplies, and surplus commodities received from the federal government. Food and supply purchases are recorded at invoice cost, computed on a first-in, first-out method. Surplus commodities are stated at standardized costs, as determined by the Department of Agriculture.

Capital Assets – Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated capital assets are recorded at acquisition value at the date of donation. The District maintains a threshold level of \$5,000 or more for capitalizing capital assets. Expenditures for major additions and improvements that extend the useful lives of property and equipment are capitalized. Routine expenditures for repairs and maintenance are charged to expense as incurred.

Capital assets are recorded in the district-wide financial statements, but are not reported in the fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the District, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 20 to 50 years for land improvements and buildings, and 5 to 15 years for equipment.

Capital assets not being depreciated include land and construction in progress, if any. The District does not possess any material amounts of infrastructure capital assets, such as sidewalks and parking lots. Such items are considered to be part of the cost of buildings or other improvable property.

Unearned Revenue – Governmental funds report unearned revenue in connection with resources that have been received, but not yet earned.

Vacation and Sick Leave – Teachers and principals do not receive paid vacation but are paid only for the number of days they are required to work each year, 184 days for teachers and 209 days for principals. Employees other than teachers and principals earn vacation pay. Employees lose vacation time if not taken before August 15 and are not compensated for any unused time upon termination or retirement. Therefore, a liability for vacation is not recorded in the financial statements.

All employees are entitled to accrue sick leave days at various rates for each year of employment, with limits. Sick days do not vest, and accordingly, employees can be paid personal leave only when sick or for emergencies. Since the employees accumulating rights to receive compensation for future absences are contingent upon the absences being accrued by future illnesses and such amounts cannot be reasonably estimated, a liability for accrued sick leave is not recorded in the financial statements.

Compensated Absences – Employees are afforded two days leave each year with pay for emergency matters. After being in the District for five years, employees may accumulate the unused days to a maximum of five days. A liability named “Compensated Absences” has been recorded on the Statement of Net Position for the qualifying accumulated personal leave.

Severance Pay – A maximum of five full-time teacher employees per year who have attained the age of 50 and accumulated 15 years of full-time service are eligible to receive severance benefits in the amount of accumulated unused sick leave up to a maximum of one years’ pay. The teacher’s daily rate of pay at the time

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2018**

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of retirement is used to calculate this amount. Selection of teachers granted severance pay is based on seniority in the District. Severance is paid in one lump sum or equal annual installments over a period of time, at the discretion of the District, not to exceed two years from the effective date of severance.

Administrators shall receive as severance pay, accumulated sick leave, not to exceed one years' pay. Severance shall be paid by the District in one lump sum or equal annual installments not to exceed five years from the effective date of severance. The Superintendent shall receive severance pay, up to 130 days of accumulated sick leave upon separation.

Non-licensed employees who have completed 10 years of service in the District will receive 30 percent of the accumulated sick leave days as pay figured on the employees' average daily pay when leaving the District. Non-licensed employees who have completed 15 years of service in the District will receive 60 percent of the accumulated sick leave days as pay figured on the employees' average daily pay when leaving the District.

Non-licensed employees hired after February 1, 2004 are not eligible to participate in the severance plan, but may participate in the District's matching deferred compensation plan. Non-licensed employees hired prior to February 1, 2004 may participate in both the matching deferred compensation plan and the severance plan. Upon retirement, an employee's severance pay will be calculated and all matching contributions under the provisions of the matching deferred compensation plan contributed by the District will be subtracted from the qualifying severance amount.

Long-Term Obligations – In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Existing bonded debt is reported at the face value of remaining indebtedness. For any new indebtedness that may be issued in the future, bond premiums and discounts will be deferred and amortized over the life of the bonds using the effective interest method. Bonds payable will be reported net of the applicable bond premium or discount. Bond issuance costs will be expensed in the period incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued 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, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Pensions – For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and Teachers Retirement Association (TRA) and additions to/deductions from PERA and TRA's fiduciary net position have been determined on the same basis as they are reported by PERA and TRA. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

PERA has a special funding situation created by direct aid contributions of \$6,000,000 made by the State of Minnesota to the fund in 2017.

TRA has a special funding situation created by direct aid contributions made by the State of Minnesota, City of Minneapolis and Minneapolis School District. The direct aid is a result of the merger of the Minneapolis Teachers Retirement Fund Association merger into TRA in 2006. A second direct aid source is from the State of Minnesota for the merger of the Duluth Teacher's Retirement Fund Association (DTRFA) in 2015.



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Deferred Outflows/Inflows of Resources – In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resource (expense/expenditure) until then. The District has two items that qualify for reporting in this category named *Cost Sharing Defined Benefit Pension Plan* and *Other Postemployment Benefits* which represents actuarial differences within PERA and TRA pension plans as well as amounts paid to the plans after the measurement date.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has three types of items, one of which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue – delinquent taxes*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from one source, property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The item, *property taxes levied – subs. years*, is reported as a deferred inflow of resources for both the Balance Sheet – Governmental Funds and the Statement of Net Position as these amounts represent property tax revenue levied for a subsequent period. The third item, *Cost Sharing Defined Benefit Pension Plan*, represents actuarial differences within PERA and TRA pension plans.

Net Position – Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources in the District's financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any long-term debt attributable to the acquisition, construction, or improvement of those assets. Restricted Net Position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Unrestricted Net Position is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Net Position Flow Assumption – Sometimes the government will fund outlays for a particular purpose for both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Fund Balance – The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable – Consists of amounts that are not in spendable form (such as inventory) or are required to be maintained intact.

Restricted – Consists of amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions and administered by the Minnesota Department of Education.

Committed – Consists of amounts constrained to specific purposes by a government itself, using its highest level of decision making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint.

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Assigned – Consists of amounts a government intends to use for a specific purpose. These constraints are established by the Board of Education and/or management. The Board of Education delegates the power to assign fund balances to the superintendent and business manager.

Unassigned – Consists of amounts that are available for any purpose; positive amounts are reported only in the general fund.

When both restricted and unrestricted resources are available for use, it is the District’s policy to first use restricted resources, and then use unrestricted resources as they are needed. When committed, assigned or unassigned resources are available for use, it is the District’s policy to use resources in the following order: 1) committed, 2) assigned and 3) unassigned.

The District will strive to maintain a minimum unassigned general fund balance that is at least three months of average General Fund expenditures.

**F. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Ultimate results could differ from those estimates.

**NOTE 2 ACCOUNTING CHANGES**

**Restatement of Net Position**

The District implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement requires the District to record their total OPEB liability on the Statement of Net Position. Liabilities are calculated using the Entry Age actuarial cost method.

As a result, beginning net position has been restated as of July 1, 2017 as follows:

OPEB Balance as of June 30, 2017 (GASB 75)	\$ (1,332,462)
Net OPEB Asset (GASB 45)	(1,613,120)
Deferred Outflow of Resources, Contribution After Measurement Date	<u>177,550</u>
Decrease in Net Position as of July 1, 2017	<u>\$ (2,768,032)</u>

**NOTE 3 DEPOSITS AND INVESTMENTS**

The District maintains a cash account at its depository bank.

The District’s interest income for the year ended June 30, 2018, was \$229,413.

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The pooled cash and investment account is comprised of the following:

	Governmental Activities	Fiduciary Funds	Total
Cash	\$ 1,894,992	\$ 13,006	\$ 1,907,998
Investments	17,128,807		17,128,807
Total	<u>\$ 19,023,799</u>	<u>\$ 13,006</u>	<u>\$ 19,036,805</u>

As of June 30, 2018, the District's investments were in the Minnesota School District Liquid Asset Fund external investment pool.

<u>Investment</u>	<u>Fair Value (Level 1)</u>
Minnesota School District Liquid Asset Fund	\$17,128,807

The Minnesota School District Liquid Asset Fund is a common law trust organized and existing under the laws of the State of Minnesota, in accordance with the provisions of the Minnesota Joint Powers Act. The general objective of the Fund is to provide a high yield for the participants while maintaining liquidity and preserving capital by investing only in instruments authorized by Minnesota Statutes, which govern the temporary investment of School District monies. In addition, the fixed rate/fixed term portion of the program is also structured with safety of principal as the major objective.

The Minnesota School District Liquid Asset Fund is an external investment pool not registered with the Securities Exchange Commission (SEC) that follows the same regulatory rules of the SEC under 2a7. The fair value of the position in the pool is the same as the value of the pool shares.

Interest Rate Risk - The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk - The District may invest idle funds as authorized in Minnesota Statutes, as follows:

- (a) Direct obligations or obligations guaranteed or insured issued by the United States, its agencies, its instrumentalities, or organizations created by an act of Congress.
- (b) General obligations and revenue obligations of any state or local government with taxing powers rated "A" and "AA", respectively, and general obligations of the Minnesota Housing Finance Agency which is a moral obligation of the State of Minnesota and rated "A" or better.
- (c) Commercial paper issued by United States corporations or their Canadian subsidiaries, rated in the highest quality by at least two rating agencies, and maturing in 270 days or less.
- (d) Time deposits that are fully insured by the FDIC or bankers acceptances of U.S. banks.
- (e) Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above.
- (f) Repurchase or reverse repurchase agreements with banks that are qualified as a "depository" of public funds of the government entity, any other financial institution which is a member of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
- (g) Guaranteed investment contracts (GIC's) issued or guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is in the top two rating categories, or in the top three rating categories for long-term GIC's issued by Minnesota banks.

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(h) Securities lending agreements with financial institutions having its principal executive office in Minnesota and meeting the qualifications described in (f) above.

The Minnesota School District Liquid Asset Fund is rated AAA by Standard & Poor's.

Concentration of Credit Risk - The District places no limit on the amount the District may invest in any one issuer.

Custodial Credit Risk - Deposits - The District does not have a formal custodial credit risk policy. In accordance with Minnesota Statutes, the District maintains deposits at those depository banks authorized by the District's board, all of which are members of the Federal Reserve System. Minnesota Statutes require that all district deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds. As of June 30, 2018, the District was not exposed to custodial credit risk.

Custodial Credit Risk - Investments - The investment in the Minnesota School District Liquid Asset Fund is not subject to the credit risk classifications as noted in paragraph 9 of GASB Statement 40.

**NOTE 4 CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2018, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Being Depreciated:				
Land Improvements	\$ 663,877	\$	\$	\$ 663,877
Buildings	72,100,995	297,317		72,398,312
Equipment	6,853,106	520,542	225,766	7,147,882
Total Capital Assets, Being Depreciated	<u>79,617,978</u>	<u>817,859</u>	<u>225,766</u>	<u>80,210,071</u>
Less Accumulated Depreciation For:				
Land Improvements	499,350	14,196		513,546
Buildings	21,737,688	1,530,729		23,268,417
Equipment	5,055,552	520,251	225,766	5,350,037
Total Accumulated Depreciation	<u>27,292,590</u>	<u>2,065,176</u>	<u>225,766</u>	<u>29,132,000</u>
Total Capital Assets, Being Depreciated, Net	<u>52,325,388</u>	<u>(1,247,317)</u>		<u>51,078,071</u>
Governmental Activities Capital Assets, Net	<u>\$ 52,325,388</u>	<u>\$ (1,247,317)</u>	<u>\$</u>	<u>\$ 51,078,071</u>

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In the statement of activities, depreciation expense was charged to the following governmental functions:

Administration	\$ 1,706
District Support Services	524
Elementary & Secondary Regular Instruction	229,578
Vocational Education Instruction	1,563
Special Education Instruction	473
Community Education and Services	551
Instructional Support Services	48,149
Pupil Support Services	147,883
Sites and Buildings	<u>332,385</u>
	762,812
Unallocated	<u>1,302,364</u>
Total Depreciation Expense	<u>\$ 2,065,176</u>

**NOTE 5 DEFINED BENEFIT PENSION PLANS- STATEWIDE**

Substantially, all employees of the District are required by state law to belong to pension plans administered by Teachers Retirement Association (TRA) or Public Employees Retirement Association (PERA), all of which are administered on a statewide basis.

Disclosures relating to these plans follow:

**A. Public Employees Retirement Association**

Plan Description – The District participates in the following cost-sharing multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association (PERA). PERA’s defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. PERA’s defined benefit pension plans are tax qualified plans under Section 401 (a) of the Internal Revenue Code.

*General Employees Retirement Plan (General Employees Plan (accounted for in the General Employees Fund))*

All full-time and certain part-time employees of the District other than teachers are covered by the General Employees Plan. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

Benefits Provided – PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

Benefits are based on a member’s highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA’s Coordinated Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 1.7% of average salary for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service

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equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

Benefit recipients will receive a future annual increase equal to 50 percent of the Social Security Cost of Living Adjustment, not less than 1.0 percent and not more than 1.5 percent, beginning January 1, 2019. For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age (not applicable to Rule of 90 retirees, disability benefit recipients, or survivors). A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30 will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30 will receive a pro rata increase.

Contributions – Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

Coordinated Plan members were required to contribute 6.50% of pay in fiscal year 2018. The District was required to contribute 7.50% of pay for Coordinated Plan members. The District's contributions to the General Employee's Fund for the year ended June 30, 2018, were \$460,191. The District's contributions were equal to the required contributions as set by state statute.

Pension Costs – At June 30, 2018, the District reported a liability of \$5,675,317 for its proportionate share of the General Employees Fund's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6,000,000 to the fund in 2017. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled \$71,383. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the District's proportion was 0.0889% which was an increase of 0.0008% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the District recognized pension expense of \$514,856 for its proportionate share of the General Employee Plan's pension expense. In addition, the District recognized an additional \$2,062 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6,000,000 to the General Employees Fund.

At June 30, 2018, the District reported its proportionate share of General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 187,038	\$ 368,786
Difference between projected and actual investment earnings		257,667
Changes in actuarial assumptions	933,745	568,946
Changes in proportion	36,582	440,498
Contributions paid to PERA subsequent to the measurement date	460,191	
Total	<u>\$ 1,617,556</u>	<u>\$ 1,635,897</u>

\$460,191 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 ending June 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	Pension Expense Amount
2019	\$ (264,320)
2020	124,317
2021	(97,624)
2022	(240,905)

Actuarial Assumptions – The total pension liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Active Member Payroll Growth	3.25% per year
Investment Rate of Return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP 2014 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be: 1% per year for all future years.

Actuarial assumptions used in the June 30, 2017, valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015.

The following changes in actuarial assumptions occurred in 2017:

**General Employees Fund**

- The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness on a regular basis of the long-term expected rate of return using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These

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ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Stocks	39%	5.10%
International Stocks	19%	5.30%
Bonds	20%	0.75%
Alternative Assets	20%	5.90%
Cash	2%	0.00%

Discount Rate – The discount rate used to measure the total pension liability in 2017 was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. 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.

Pension Liability Sensitivity – The following presents the District’s proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

District Proportionate Share of NPL		
1% Decrease (6.5%)	Current (7.5%)	1% Increase (8.5%)
\$ 8,802,839	\$ 5,675,317	\$ 3,114,873

Pension Plan Fiduciary Net Position – Detailed information about each defined benefit pension plan’s fiduciary net position is available in a separately issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at [www.mnpera.org](http://www.mnpera.org).

**B. Teachers Retirement Association**

Plan Description - The Teachers Retirement Association (TRA) is an administrator of a multiple employer, cost-sharing, defined benefit retirement fund. TRA administers a Basic Plan (without Social Security coverage) and a Coordinated Plan (with Social Security coverage) in accordance with Minnesota Statutes, Chapters 354 and 356. TRA is a separate statutory entity and administered by a Board of Trustees. The Board consists of four active members, one retired member, and three statutory officials.

Teachers employed in Minnesota’s public elementary and secondary schools, charter schools, and certain educational institutions maintained by the state (except those teachers employed by the cities of Duluth and St. Paul and by the University of Minnesota system) are required to be TRA members. State university, community college, and technical college teachers first employed by Minnesota State may elect TRA coverage within one year of eligible employment. Alternatively, these teachers may elect coverage through the Defined Contribution Retirement Plan (DCR) administered by MnSCU.



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Benefits Provided - TRA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by Minnesota Statute and vest after three years of service credit. The defined retirement benefits are based on a member's highest average salary for any five consecutive years of allowable service, age, and a formula multiplier based on years of credit at termination of service.

Two methods are used to compute benefits for TRA's Coordinated and Basic Plan members. Members first employed before July 1, 1989, receive the greater of the Tier I or Tier II benefits as described:

Tier I Benefits:

<u>Tier I</u>	<u>Step Rate Formula</u>	<u>Percentage</u>
Basic	1 <sup>st</sup> ten years	2.2 percent per year
	All years after	2.7 percent per year
Coordinated	1 <sup>st</sup> ten years if service years are prior to July 1, 2006	1.2 percent per year
	1 <sup>st</sup> ten years if service years are July 1, 2006 or after	1.4 percent per year
	All other years of service if service years are prior to July 1, 2006	1.7 percent per year
	All other years of service if service years are July 1, 2006 or after	1.9 percent per year

With these provisions:

- a) Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.
- b) 3 percent per year early retirement reduction factors for all years under normal retirement age.
- c) Unreduced benefits for early retirement under a Rule of 90 (age plus allowable service equals 90 or more).

or

Tier II Benefits:

For years of service prior to July 1, 2006, a level formula of 1.7 percent per year for Coordinated members and 2.7 percent per year for Basic members is applied. For years of service July 1, 2006 and after, a level formula of 1.9 percent per year for Coordinated members and 2.7 percent for Basic members applies. Beginning July 1, 2015, the early retirement reduction factors are based on rates established under Minnesota Statute. Smaller reductions, more favorable to the member, will be applied to individuals who reach age 62 and have 30 years or more of service credit.

Members first employed after June 30, 1989, receive only the Tier II calculation with a normal retirement age that is their retirement age for full Social Security retirement benefits, but not to exceed age 66.

Six different types of annuities are available to members upon retirement. The No Refund Life Plan is a lifetime annuity that ceases upon the death of the retiree – no survivor annuity is payable. A retiring member may also choose to provide survivor benefits to a designated beneficiary(ies) by selecting one of the five plans that have survivorship features. Vested members may also leave their contributions in the TRA Fund upon termination of service in order to qualify for a deferred annuity at retirement age. Any member terminating service is eligible for a refund of their employee contributions plus interest.

The benefit provisions stated apply to active plan participants. Vested, terminated employees who are entitled to benefits but not yet receiving them are bound by the plan provisions in effect at the time they last terminated their public service.

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Contribution Rate - Per Minnesota Statutes, Chapter 354 sets the contribution rates for employees and employers. Rates for each fiscal years ended June 30, 2016, June 30, 2017, and June 30, 2018, were:

	<u>Employee</u>	<u>Employer</u>
Basic	11.00%	11.00%
Coordinated	7.50%	7.50%

The following is a reconciliation of employer contributions in TRA's CAFR "Statement of Changes in Fiduciary Net Position" to the employer contributions used in Schedule of Employer and Non-Employer Pension Allocations:

Employer contributions reported in TRA's CAFR	<i>in thousands</i>
Statement of Changes in Fiduciary Net Position	\$ 367,791
Add employer contributions not related to future contribution efforts	810
Deduct TRA's contributions not included in allocation	<u>(456)</u>
Total employer contributions	368,145
Total non-employer contributions	<u>35,588</u>
Total contributions reported in <i>Schedule of Employer and Non-Employer Allocations</i>	<u>\$ 403,733</u>

Amounts reported in the allocation schedules may not precisely agree with financial statement amounts or actuarial valuations due to the number of decimal places used in the allocations. TRA has rounded percentage amounts to the nearest ten thousandths.

Actuarial Assumptions - The total pension liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Key Methods and Assumptions Used in Valuation of Total Pension Liability

Actuarial Information

Valuation Date	July 1, 2017
Experience Study	June 5, 2015
	November 6, 2017 (economic assumptions)
Actuarial Cost Method	Entry Age Normal

Actuarial Assumptions:

Investment Rate of Return	5.12%, from the Single Equivalent Interest Rate calculation
Price Inflation	2.50%
Wage Growth Rate	2.85% for 10 years and 3.25% thereafter
Projected Salary Increase	2.85 to 8.85% for 10 years and 3.25 – 9.25% thereafter
Cost of Living Adjustment	2.0%

Mortality Assumption

RP-2014 white collar employee table, male rates set back six years and female rates set back five years. Generational projection uses the MP-2015 scale.

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Post-retirement	RP-2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of the rates. Generational projection uses the MP-2015 scale.
Post-disability	RP-2014 disabled retiree mortality table, without adjustment.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Stocks	39%	5.10%
International Stocks	19%	5.30%
Bonds	20%	0.75%
Alternative Assets	20%	5.90%
Unallocated Cash	2%	0.00%

The TRA actuary has determined the average of the expected remaining service lives of all members for fiscal year 2016 is 6 years. The “Difference Between Expected and Actual Experience” and “Changes of Assumptions” and “Changes in Proportion” use the amortization period of 6 years in the schedule presented. The amortization period for “Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments” is over a period of 5 years as required by GASB 68.

Discount Rate - The discount rate used to measure the total pension liability was 5.12 percent. This is an increase from the discount rate at the prior measurement date of 4.66 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal 2017 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan’s fiduciary net position was projected to be depleted in 2053 and, as a result, the Municipal Bond Index Rate was used in the determination of the Single Equivalent Interest Rate (SEIR). The long-term expected rate of return (7.50 percent) was applied to periods before 2053 and the Municipal Bond Index Rate of 3.56 percent was applied to periods on and after 2053, resulting in a SEIR of 5.12 percent. There was a change in the Municipal Bond Index Rate from the prior year measurement date (3.01 percent).

Net Pension Liability - On June 30, 2018, the District reported a liability of \$40,482,559 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District’s proportion of the net pension liability was based on the District’s contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis, and Minneapolis School District. District proportionate share was 0.2028% at the end of the measurement period and 0.2076% for the beginning of the year.

The pension liability amount reflected a reduction due to direct aid provided to TRA. The amount recognized by the District as its proportionate share of the net pension liability, the direct aid, and total portion of the net pension liability that was associated with the District were as follows:

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**RED LAKE, MINNESOTA**  
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District's proportionate share of net pension liability	\$ 40,482,559
State's proportionate share of the net pension liability associated with the District	\$ 3,913,248

For the year ended June 30, 2018, the District recognized pension expense of \$6,893,099. It also recognized \$75,053 as an increase to pension expense for the support provided by direct aid.

On June 30, 2018, the District had deferred resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 346,265	\$ 352,146
Net difference between projected and actual earnings on plan inv.		169,181
Changes in actuarial assumptions	22,450,497	5,670,967
Changes in proportion	172,960	911,080
Contributions paid to TRA subsequent to the measurement date	886,995	
Total	<u>\$ 23,856,717</u>	<u>\$ 7,103,374</u>

\$886,995 reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to TRA pensions will be recognized in pension expense as follows:

Year Ending June 30	Pension Expense Amount
2019	\$ 4,100,814
2020	4,906,135
2021	4,397,413
2022	3,724,706
2023	(1,262,720)

Pension Liability Sensitivity - The following presents the district's proportionate share of the net pension liability calculated using the discount rate of 5.12 percent as well as the liability measured using one percent lower and one percent higher.

District Proportionate Share of NPL		
1% Decrease (4.12%)	Current (5.12%)	1% Increase (6.12%)
\$ 53,429,177	\$ 40,482,559	\$ 29,566,985

The District's proportion of the net pension liability was based on the employer contributions to TRA in relation to TRA's total employer contributions including direct aid contributions from the State of Minnesota, City of Minneapolis, and Minneapolis School District.

Pension Plan Fiduciary Net Position - Detailed information about the plan's fiduciary net position is available in a separately-issued TRA financial report. That report can be obtained at [www.MinnesotaTRA.org](http://www.MinnesotaTRA.org), by writing to TRA at 60 Empire Drive, Suite 400, St. Paul, MN, 55103-4000; or by calling (651)-296-2409 or (800)-657-3669.

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The District recognized total pension expense of \$7,407,955 for all of the pension plans in which it participates.

**NOTE 6 OTHER POSTEMPLOYMENT BENEFITS**

Plan Description - The District's Plan is a single-employer defined benefit healthcare plan to eligible retirees and their spouses. The authority and requirement to provide these benefits is established in Minnesota Statutes Section 471.61, Subd. 2b. The benefit levels, employee contributions and employer contributions are governed by the District and can be amended by the District through the District's collective bargaining agreements with employee groups. In as much as the Plan has no assets, reporting another employee benefit trust fund in the accompanying financial statements is not required nor was a separate or stand-alone report issued.

Benefits Provided – The District provides healthcare benefits for retirees and their dependents. Benefits are provided through a third-party insurer, and the full cost of the benefits is covered by the plan. The District provides full single coverage healthcare for a retiring principal or teacher until Medicare eligibility. All principals and teachers have a service requirement of three years.

Funding Policy - Retirees and their spouses contribute to the healthcare plan at the same rate as District employees. Since the premium is a blended rate determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy. The District provides postemployment healthcare benefits to qualifying retirees.

Employees Covered by Benefit Term – At June 30, 2018, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefit payments	14
Active plan members	190
Total Members	<u>204</u>

Total OPEB Liability – The District's total OPEB liability of \$1,240,823 was measured as of July 1, 2017 and was determined by an actuarial valuation as of that date.

Actuarial Assumptions – The total OPEB liability in the July 1, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.5 percent
Salary increases	3.0 percent, average, including inflation
Healthcare Cost Trend Rates	6.5 percent decreasing to 5.0 percent over 6 years

Mortality rates were based on the RP-2014 White Collar Mortality Tables (de-trended to 2006) and the projected beyond the valuation date using scale MP-2016.

The discount rate is based on the estimated yield of 20-year AA-rated municipal bonds. The overall single discount rate is 3.40%.

In the July 1, 2017 actuarial valuation, the entry age, level percentage of pay actuarial cost method was used.

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Changes in the Total OPEB Liability:

	Total OPEB Liability
Balance at 6/30/2017	\$ 1,332,462
Changes for the year:	
Service Cost	42,167
Interest Cost	43,744
Benefit Payments	<u>(177,550)</u>
Net Changes	<u>(91,639)</u>
Balance at 6/30/2018	<u>\$ 1,240,823</u>

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate – The following presents the total OPEB liability of the District, as well as what the District’s total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.4 percent) or one percentage point higher (4.4 percent) than the current rate:

District Total OPEB Liability		
1% Decrease (2.4%)	Current (3.4%)	1% Increase (4.4%)
\$ 1,300,188	\$ 1,240,823	\$ 1,184,136

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates – The following presents the total OPEB liability of the District, as well as what the District’s total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (5.5 percent decreasing to 4.0 percent over 6 years) or one percentage point higher (7.5 percent decreasing to 6.0 percent over 6 years) than the current healthcare cost trend rates:

District Healthcare Cost Trend Rates		
(5.5% decreasing to 4.0% over 6 years)	(6.5% decreasing to 5.0% over 6 years)	(7.5% decreasing to 6.0% over 6 years)
\$ 1,166,621	\$ 1,240,823	\$ 1,326,030

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB – For the year ended June 30, 2018, the District recognized OPEB expense of \$85,911. At June 30, 2018, the District reported outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Employer contributions paid subsequent to the measurement date	\$ 165,786	\$ _____
Total	<u>\$ 165,786</u>	<u>\$ _____</u>

\$165,786 reported as deferred outflows of resources related to OPEB resulting from District contributions to OPEB subsequent to the measurement date will be recognized as a reduction of the total other postemployment benefit liability in the year ending June 30, 2019.

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**NOTE 7 LONG-TERM LIABILITIES**

Changes in the District's long-term liabilities for the year ended June 30, 2018 are as follows:

**Summary of Long-Term Liabilities**

	Beginning Balance	Additions	Retired	Ending Balance	Due Within One Year
Capital Loans Payable	\$ 56,612,441	\$	\$	\$ 56,612,441	\$
Defaulted Interest on Capital Loan	52,338,279	4,437,440	7,505	56,768,214	
Capital Lease	349,574		172,842	176,732	176,732
Severance Payable	1,751,027		146,947	1,604,080	44,375
Total Long-Term Liabilities	<u>\$ 111,051,321</u>	<u>\$ 4,437,440</u>	<u>\$ 327,294</u>	<u>\$ 115,161,467</u>	<u>\$ 221,107</u>

The District's interest expense for the year ended June 30, 2018 was \$4,445,305.

The severance payable is generally liquidated by the general fund.

**A. Capital Loan**

Date of Issue	Net Interest Rate	Maturity Dates	Original Amount	Current Year Additions	Balance 6/30/2018	Amounts Due in 2018-2019	
						Principal	Interest
1992	5.15-5.90%	2042	\$ 10,000,000	\$	\$ 10,000,000	\$	\$
2001	4.03-4.30%	2051	11,166,000		11,166,000		
2002	4.00-4.03%	2052	11,736,595		11,736,595		
2005	2.18-4.03%	2055	18,391,198		18,391,198		
2015	2.93%	2065	5,318,648		5,318,648		
			<u>\$ 56,612,441</u>	<u>\$</u>	<u>\$ 56,612,441</u>	<u>\$</u>	<u>\$</u>

During the 1992 fiscal year, the District received approval for a capital loan from the State of Minnesota through the Department of Education to fund the construction of a new school building and renovations to existing buildings. The loan is in the amount of \$10,000,000.

During the 2001 fiscal year, the District received approval for an additional capital loan from the State of Minnesota to fund construction and renovations for the Middle School, Ponemah Elementary and the Early Learning Center. The loan is for \$11,166,000.

During the 2002 fiscal year, the District received approval for new construction and remodeling of the Red Lake High School, Ponemah Elementary and the Early Learning Center. The loan is a capital loan from the State of Minnesota for \$11,736,595.

During the 2005 fiscal year, the District received an additional capital loan for \$18,391,198 from the State of Minnesota to remodel the Red Lake High School and Middle School.

During the 2015 fiscal year, the District received approval for the construction of the new kitchen and cafeteria at the Red Lake High/Middle School. The loan is a capital loan from the State of Minnesota for \$5,257,101. During fiscal year 2017, an additional amount of \$61,547 was recorded.

**INDEPENDENT SCHOOL DISTRICT NO. 38  
 RED LAKE, MINNESOTA  
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 June 30, 2018**

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The District will repay the loans out of the excess of its maximum effort debt service levy over its required debt service levy, including interest at a rate equal to the weighted average annual rate payable on Minnesota state school loan bonds issued for the project and disbursed to Districts on a reimbursement basis, but in no event less than 3 ½ percent per year on the principal amount from time to time unpaid. If the capital loan is not repaid within fifty years after the date it is granted, the District's liability on the loan will be satisfied and discharged and interest thereon shall cease.

**B. Capital Lease**

In 2016, the District entered into a three-year lease agreement as lessee for the purchase of computer equipment from Apple Inc. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date.

The future minimum lease obligations and the net present value of the minimum lease payments as of June 30, 2018, are as follows:

<u>Year Ending</u> <u>June 30</u>	<u>Amount</u>
2019	\$ 180,708
Less: Amounts Representing Interest	(3,976)
Present Value of Minimum Lease Payments	<u>\$ 176,732</u>

**NOTE 8 SEVERANCE PAY**

The District has several severance pay plans for various groups of employees. The plans call for employees to be paid for unused portions of their sick leave upon termination of employment. At June 30, 2018, the estimated liability under these plans was \$1,604,080.

**NOTE 9 INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

The composition of interfund balances as of June 30, 2018 is as follows:

Due to / from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Nonmajor Governmental Funds	General	\$84,356

The purpose of the interfund loan is to cover the cash shortage in the food service fund.

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Nonmajor Governmental Funds	General	\$115,884

The purpose of the transfers is to cover the operating deficit in the food service and community service funds.

**NOTE 10 CONTINGENCIES**

The District receives significant financial assistance from numerous federal, state, and local governmental agencies in the form of grants and aids. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by



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**June 30, 2018**

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grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District at June 30, 2018.

**NOTE 11 RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; natural disasters and workers compensation. The District purchases commercial insurance coverage for such risks.

The District has joined together with other school districts in Minnesota in the Northwest Service Cooperative's Minimum Premium Funding Plan (Plan). The Plan is a public entity risk pool established as a health insurance purchasing pool for its members. The agreement for the formation of the Plan provides that the Plan will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$300,000. The pool and its members purchase reinsurance, currently with a \$300,000 specific stop loss attachment point and 110% aggregate stop loss attachment point. If the assets of the Plan were to be exhausted, members would not be responsible for the Plan's liabilities. The Northwest Service Cooperative retains the risk of the Plan's liabilities.

There has been no significant reduction in insurance coverage from the previous year in any of the District's policies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

**NOTE 12 NEW PRONOUNCEMENTS**

GASB Statement No. 83, *Certain Asset Retirement Obligations*, addresses accounting and financial reporting for certain asset retirement obligations (AROs). This Statement establishes criteria for determining the timing and pattern of recognition of a liability and corresponding deferred outflow of resources for AROs. It also establishes disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

GASB Statement No. 84, *Fiduciary Activities*, provides guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

GASB Statement No. 87, *Leases*, establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This Statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby

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enhancing the relevance and consistency of information about governments' leasing activities. This Statement is effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. This Statement is effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

Management has not yet determined the effect these Statements will have on the District's financial statements.

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND**  
**For the Year Ended June 30, 2018**

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
<b>REVENUES</b>				
Local Property Tax Levies	\$ 2,610	\$ 2,610	\$ 3,349	\$ 739
Other Local & County Revenues	240,000	373,600	469,938	96,338
Revenue From State Sources	22,307,549	22,307,549	22,093,452	(214,097)
Revenue From Federal Sources	10,411,786	12,768,882	12,749,824	(19,058)
Sale/Other Conversion of Asset			10,279	10,279
<b>TOTAL REVENUES</b>	<b>32,961,945</b>	<b>35,452,641</b>	<b>35,326,842</b>	<b>(125,799)</b>
<b>EXPENDITURES</b>				
Current				
Administration	1,877,962	1,932,796	1,866,414	(66,382)
District Support Services	1,419,845	1,414,747	1,016,582	(398,165)
Elementary & Secondary Regular Instruction	15,829,144	15,132,570	14,652,231	(480,339)
Vocational Education Instruction	6,100	6,600	232,448	225,848
Special Education Instruction	5,132,898	5,220,963	5,271,771	50,808
Instructional Support Services	1,886,814	2,270,002	2,066,035	(203,967)
Pupil Support Services	1,572,541	1,864,557	1,765,923	(98,634)
Sites and Buildings	4,312,350	4,432,369	4,131,720	(300,649)
Fixed Costs	180,919	180,918	169,364	(11,554)
Debt Service				
Principal	180,708	172,843	172,843	
Interest		7,865	7,865	
Capital Outlay	634,809	622,508	913,097	290,589
<b>TOTAL EXPENDITURES</b>	<b>33,034,090</b>	<b>33,258,738</b>	<b>32,266,293</b>	<b>(992,445)</b>
Revenues Over (Under) Expenditures	(72,145)	2,193,903	3,060,549	866,646
<b>OTHER FINANCING USES</b>				
Transfer Out		(75,907)	(115,884)	(39,977)
<b>TOTAL OTHER FINANCING USES</b>		<b>(75,907)</b>	<b>(115,884)</b>	<b>(39,977)</b>
Net Change in Fund Balances	(72,145)	2,117,996	2,944,665	826,669
Fund Balances - Beginning	14,414,160	14,414,160	14,414,160	
Fund Balances - Ending	<u>\$ 14,342,015</u>	<u>\$ 16,532,156</u>	<u>\$ 17,358,825</u>	<u>\$ 826,669</u>

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

**INDEPENDENT SCHOOL DISTRICT NO. 38**

**RED LAKE, MINNESOTA**

**SCHEDULE OF CHANGES IN THE DISTRICT'S TOTAL OPEB LIABILITY AND RELATED RATIOS**

**Last 10 Years**

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	<u>2018</u>
Total OPEB Liability	
Service Cost	\$ 42,167
Interest	43,744
Benefit Payments	<u>(177,550)</u>
Net Change in Total OPEB Liability	(91,639)
Total OPEB Liability - Beginning	<u>1,332,462</u>
Total OPEB Liability - Ending	<u><u>\$ 1,240,823</u></u>
Covered Payroll	\$ 11,376,047
District's Total OPEB Liability as a Percentage of a Covered Payroll	10.91%

The District implemented GASB No. 75 for the fiscal year ended June 30, 2018. Information from prior years is not available.

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

**INDEPENDENT SCHOOL DISTRICT NO. 38  
RED LAKE, MINNESOTA  
SCHEDULE OF DISTRICT CONTRIBUTIONS  
Last 10 Years**

	<u>Fiscal Year Ended June 30</u>	<u>Statutorily Required Contribution</u>	<u>Contributions in Relation to the Statutorily Required Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>District's Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
<b>PERA</b>						
	2015	\$ 418,071	\$ 418,071	\$	5,403,218	7.74 %
	2016	421,714	421,714		5,553,075	7.59
	2017	429,139	437,086	(7,947)	5,721,852	7.64
	2018	460,191	460,191		6,135,866	7.50
<b>TRA</b>						
	2015	\$ 771,018	\$ 771,018	\$	8,739,215	8.82 %
	2016	805,447	805,447		10,800,663	7.46
	2017	832,845	830,311	2,534	11,104,508	7.48
	2018	886,995	886,995		11,777,290	7.53

The amounts presented for each fiscal year were determined as of the District's year end which is June 30th.

The District implemented GASB Statement No. 68 for its fiscal year ended June 30,2015. Information for the prior years is not available

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

**INDEPENDENT SCHOOL DISTRICT NO. 38  
RED LAKE, MINNESOTA  
SCHEDULE OF DISTRICT'S SHARE OF NET PENSION LIABILITY  
Last 10 Years**

<u>Fiscal Year Ended June 30</u>	<u>District's Proportion of the Net Pension Liability</u>	<u>District's Proportionate Share of the Net Pension Liability</u>	<u>State's Proportionate Share of the Net Pension Liability Associated with the District (if Applicable)</u>	<u>Total</u>	<u>District's Covered Payroll</u>	<u>District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
<b>PERA</b>							
2014	0.1042 %	\$ 4,894,794	\$	\$ 4,894,794	\$ 5,325,479	91.91 %	78.70 %
2015	0.0961	4,980,401		4,980,401	5,403,218	92.17	78.19
2016	0.0881	7,153,283	93,372	7,246,655	5,553,075	128.82	68.90
2017	0.0889	5,675,317	71,383	5,746,700	5,721,852	99.19	75.90
<b>TRA</b>							
2014	0.2316 %	\$ 10,671,961	\$ 750,870	\$ 11,422,831	\$ 9,111,648	117.12 %	81.50 %
2015	0.2035	12,588,488	1,544,360	14,132,848	8,739,215	144.05	76.80
2016	0.2076	49,517,553	4,969,452	54,487,005	10,800,663	458.47	44.88
2017	0.2028	40,482,559	3,913,248	44,395,807	11,104,508	364.56	51.57

The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension liability which is June 30 of the previous fiscal year.

The District implemented GASB Statement No. 68 for its fiscal year ended June 30, 2015. Information for the prior years is not available

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

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**June 30, 2018**

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**NOTE 1 BUDGETARY DATA**

Budgets are prepared for District funds on the same basis and using the same accounting practices as are used to account and prepare financial reports for the funds. Budgets presented in this report for comparison to actual amounts are presented in accordance with accounting principles generally accepted in the United States of America. All appropriations lapse at year-end. Encumbrances represent commitments related to unperformed contracts for goods and services. Encumbrance accounting is not utilized in the governmental funds of the District.

The budget is adopted through the passage of a resolution. Administration can authorize the transfer of budgeted amounts within any fund. Any revisions that alter the total expenditures of any fund must be approved by the governing board. The legal level of budgetary control is the fund level. The annual appropriated budget is not legally binding on the District unless the District has a deficit fund balance which exceeds 2.5% of expenditures.

**NOTE 2 DEFINED BENEFIT PLANS**

**PERA**

*2017 Changes*

Changes in Actuarial Assumptions:

- The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested deferred member liability.

- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

*2016 Changes*

Changes in Actuarial Assumptions:

- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2035 and 2.5 percent per year thereafter to 1.0 percent per year for all years.

- The assumed investment return was changed from 7.9 percent to 7.5 percent. The single discount rate was changed from 7.9 percent to 7.5 percent.

- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

*2015 Changes*

Changes in Plan Provisions:

- On January 1, 2015 the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised.

Changes in Actuarial Assumptions:

- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2030 and 2.5 percent per year thereafter to 1.0 percent per year through 2035 and 2.5 percent per year thereafter.

**INDEPENDENT SCHOOL DISTRICT NO. 38  
RED LAKE, MINNESOTA  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
June 30, 2018**

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**TRA**

Changes in Actuarial Assumptions Since the 2016 Valuation:

- The Cost of Living Adjustment (COLA) was assumed to increase from 2.0 percent annually to 2.5 percent annually on July 1, 2045.
- The COLA was not assumed to increase to 2.5 percent, but remain at 2.0 percent for all future years.
- Adjustments were made to the combined service annuity loads. The active load was reduced from 1.4 percent to 0.0 percent, the vested inactive load increased from 4.0 percent to 7.0 percent and the non-vested inactive load increased from 4.0 percent to 9.0 percent.
- The investment return assumption was changed from 8.00 percent to 7.50 percent.
- The price inflation assumption was lowered from 2.75 percent to 2.50 percent.
- The general wage growth assumption was lowered from 3.50 percent to 2.85 percent for ten years followed by 3.25 percent thereafter.
- The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.

**NOTE 3 OTHER POSTEMPLOYMENT BENEFITS**

**Liability (Gain) / Loss:** The plan experienced a liability loss due to several retirements with full postemployment subsidized benefits at earlier ages than expected. There was also an increase in the number of active employees included in the valuation.

**Plan Changes:** None.

**Assumption Changes:**

- The health care trend rates were changed to better anticipate short term and long term medical increases.
- The mortality table was updated from RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale to the RP-2014 White Collar Mortality Tables with MP-2016 Generational Improvement Scale.
- The discount rate was changed from 3.50% to 3.40%.

**Method Changes:** The actuarial cost method was changed from projected unit credit to entry age as prescribed by GASB 75.



**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS**  
**June 30, 2018**

	Special Revenue Funds		Building Construction Fund	Debt Redemption Fund	Total Nonmajor Governmental Funds
	Food Service Fund	Community Service Fund			
<b>ASSETS</b>					
Cash and Investments	\$	\$ 108,240	\$ 1,132	\$ 27,283	\$ 136,655
Accounts Receivable	63,423				63,423
Due From Department of Education		31,862		222	32,084
Due From Federal Govt. - DOE	39,794				39,794
Due From Other Govt.	15,803				15,803
Inventory	10,812				10,812
<b>TOTAL ASSETS</b>	<b>\$ 129,832</b>	<b>\$ 140,102</b>	<b>\$ 1,132</b>	<b>\$ 27,505</b>	<b>\$ 298,571</b>
<b>LIABILITIES</b>					
Accounts Payable	\$ 2,938	\$ 3,494	\$	\$	\$ 6,432
Salary Payable	31,726	63,794			95,520
Due to Other Funds	84,356				84,356
<b>TOTAL LIABILITIES</b>	<b>119,020</b>	<b>67,288</b>			<b>186,308</b>
<b>FUND BALANCES</b>					
Nonspendable: Inventory	10,812				10,812
Restricted for Building Fund			1,132		1,132
Restricted for Debt Service				459	459
Restricted for Max Effort Loan				27,046	27,046
Restricted for Community Education		4,238			4,238
Restricted for ECFE		45,900			45,900
Restricted for Community Service		22,676			22,676
<b>TOTAL FUND BALANCES</b>	<b>10,812</b>	<b>72,814</b>	<b>1,132</b>	<b>27,505</b>	<b>112,263</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 129,832</b>	<b>\$ 140,102</b>	<b>\$ 1,132</b>	<b>\$ 27,505</b>	<b>\$ 298,571</b>

**INDEPENDENT SCHOOL DISTRICT NO. 38**

**RED LAKE, MINNESOTA**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –  
NONMAJOR GOVERNMENTAL FUNDS**

**For the Year Ended June 30, 2018**

	Special Revenue Funds		Building Construction Fund	Debt Redemption Fund	Total Nonmajor Governmental Funds
	Food Service Fund	Community Service Fund			
<b>REVENUES</b>					
Local Property Tax Levies	\$	\$ 159	\$	\$ 4,218	\$ 4,377
Other Local & County Revenues	15,803	140,401	2		156,206
Revenue From State Sources	30,922	294,717		29,262	354,901
Revenue From Federal Sources	1,181,852	56,359			1,238,211
Sale/Other Conversion of Asset	9,359				9,359
<b>TOTAL REVENUES</b>	<u>1,237,936</u>	<u>491,636</u>	<u>2</u>	<u>33,480</u>	<u>1,763,054</u>
<b>EXPENDITURES</b>					
Current					
Community Education and Services		618,142			618,142
Pupil Support Services	1,312,458				1,312,458
Debt Service					
Interest				7,505	7,505
<b>TOTAL EXPENDITURES</b>	<u>1,312,458</u>	<u>618,142</u>	<u></u>	<u>7,505</u>	<u>1,938,105</u>
Revenues Over (Under) Expenditures	(74,522)	(126,506)	2	25,975	(175,051)
<b>OTHER FINANCING SOURCES</b>					
Transfer In	22,766	93,118			115,884
<b>TOTAL OTHER FINANCING SOURCES</b>	<u>22,766</u>	<u>93,118</u>	<u></u>	<u></u>	<u>115,884</u>
Net Change in Fund Balances	(51,756)	(33,388)	2	25,975	(59,167)
Fund Balances - Beginning	62,568	106,202	1,130	1,530	171,430
Fund Balances - Ending	<u>\$ 10,812</u>	<u>\$ 72,814</u>	<u>\$ 1,132</u>	<u>\$ 27,505</u>	<u>\$ 112,263</u>

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**SCHEDULE OF CHANGES IN FUND BALANCES**  
**For the Year Ended June 30, 2018**

	Balance Beginning of Year	Revenues	Expenditures	Transfers	Balance End of Year
<b>Governmental Funds</b>					
<b>General Fund</b>					
Nonspendable	\$ 23,987	\$	\$	\$ 2,800	\$ 26,787
Restricted for:					
Staff Development		200,497	185,832		14,665
Health and Safety	147				147
Operating Capital	119,087	349,107	135,681		332,513
Learning and Development	3,344	403,504	403,504		3,344
St. Approved Alt Program	702,018	509,831	813,805		398,044
Gifted and Talented		21,060	16,839		4,221
Basic Skills	223,921	4,059,122	3,871,381		411,662
Basic Skills Extended Time		70,198			70,198
Long-Term Facilities Maintenance	16,809	340,826	355,122		2,513
Building Construction	109,346				109,346
Medical Assistance	19,541	50	530		19,061
Impact Aid		10,832,148	10,654,252		177,896
Assigned for:					
Other Post-Employment Benefits (OPEB)	2,916,477				2,916,477
Unassigned	10,279,483	18,540,499	15,829,347	(118,684)	12,871,951
<b>Food Service Fund</b>					
Nonspendable	16,187			(5,375)	10,812
Restricted: Food Service	46,381	1,237,936	1,312,458	28,141	
<b>Community Service Fund</b>					
Restricted for:					
Community Education	1,053	105,536	102,351		4,238
ECFE	74,073	123,216	151,389		45,900
School Readiness	2,701	254,440	350,259	93,118	
Community Service	28,375	8,444	14,143		22,676
<b>Building Fund</b>					
Restricted for Building Fund	1,130	2			1,132
<b>Debt Service Fund</b>					
Restricted for Max Effort Loan		27,046			27,046
Restricted for Debt Service	1,530	6,434	7,505		459
<b>Fiduciary Fund</b>					
<b>Scholarship Trust Fund</b>					
Net Position Held in Trust	1,097	3,004	3,100		1,001

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CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

## **INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE**

To the Board of Education  
Independent School District No. 38  
Red Lake, Minnesota

We have audited 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 38 as of and for the year ended June 30, 2018, and the related notes to the financial statements, and have issued our report thereon dated December 5, 2018.

### **Legal Compliance**

The *Minnesota Legal Compliance Audit Guide for School Districts*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and uniform financial accounting and reporting standards for school districts. Our audit considered all of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe that the District failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for School Districts*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above referenced provisions.

### **Purpose of the Report**

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Brady Martz".

**BRADY, MARTZ & ASSOCIATES, P.C.**  
**Thief River Falls, Minnesota**

December 5, 2018

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CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

**INDEPENDENT AUDITOR'S 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**

To the Board of Education  
Independent School District No. 38  
Red Lake, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 38, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 5, 2018.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District'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 as item 2018-001 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We

consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2018-002 and 2018-003 to be significant deficiencies.

### **Compliance and Other Matters**

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

### **The District's Response to Findings**

The District's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs and corrective action plan. The District'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 result of that testing, and not to provide an opinion on the effectiveness of the District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**BRADY, MARTZ & ASSOCIATES, P.C.**  
**Thief River Falls, Minnesota**

December 5, 2018





CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

**INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND  
ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Education  
Independent School District No. 38  
Red Lake, Minnesota

**Report on Compliance for Each Major Federal Program**

We have audited Independent School District No. 38’s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District’s major federal programs for the year ended June 30, 2018. The District’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

***Management’s Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor’s Responsibility***

Our responsibility is to express an opinion on compliance for each of the District’s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our qualified and unmodified opinions on compliance for each major federal program. However, our audit does not provide a legal determination of the District’s compliance.

***Basis for Qualified Opinion on Child Nutrition Cluster***

As described in the accompanying schedule of findings and questioned costs, the District did not comply with requirements regarding the following:

Finding #	CFDA #	Cluster Name	Compliance Requirement
2018-004	10.553, 10.555, 10.559	Child Nutrition Cluster	Reporting

Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to that program.

### ***Qualified Opinion on Child Nutrition Cluster***

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Child Nutrition Cluster for the year ended June 30, 2018.

### ***Unmodified Opinion on Each of the Other Major Federal Programs***

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2018.

### **Report on Internal Control over Compliance**

Management of Independent School District No. 38 is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2018-004, that we consider to be a material weakness.

The District's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs and corrective action plan. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

## **Purpose of the Report**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Brady Martz". The signature is written in a cursive, flowing style.

**BRADY, MARTZ & ASSOCIATES, P.C.**  
**Thief River Falls, Minnesota**

December 5, 2018

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**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**June 30, 2018**

Federal Grantor/ Pass-Through Grantor/ Program Title	Pass- Through Number	Federal CFDA Number	Amount
<u>U.S. Department of Education</u>			
Direct Programs:			
Impact Aid		84.041	\$ 10,832,148
Indian Education		84.060	339,368
Total Direct			<u>11,171,516</u>
Passed-Through Minnesota Department of Education:			
Title I		84.010	1,054,194
Title II, Part A		84.367	101,238
Rural Education Achievement Program		84.358	18,044
<i>Special Education (IDEA) Cluster:</i>			
Special Education Grants to States		84.027	416,295
Special Education Preschool Grants		84.173	18,924
<i>Total Special Education (IDEA) Cluster:</i>			<u>435,219</u>
Special Education Grants for Infants and Families		84.181	12,873
Passed-Through Bemidji Regional Inter-District Council:			
Special Education Grants for Infants and Families		84.181	6,499
Total CFDA #84.181			<u>19,372</u>
Passed-Through North Country Vocational Cooperative:			
Carl Perkins		84.048	<u>6,600</u>
Total Indirect			<u>1,634,667</u>
Total U.S. Department of Education			<u>12,806,183</u>
<u>U.S. Department of Agriculture</u>			
Direct Programs:			
Healthier US School		10.543	5,000
Total Direct			<u>5,000</u>
Passed-Through Minnesota Department of Education:			
After School Snacks		10.558	13,477
Fresh Fruit and Vegetable Program		10.582	56,730
<i>Child Nutrition Cluster:</i>			
School Breakfast Program		10.553	325,827
National School Lunch Program		10.555	681,254
Commodity Distribution (Nonmonetary Assistance)		10.555	65,534
Summer Food Service Program for Children		10.559	34,030
<i>Total Child Nutrition Cluster</i>			<u>1,106,645</u>
Total U.S. Department of Agriculture			<u>1,181,852</u>
TOTAL FEDERAL AWARDS			<u>\$ 13,988,035</u>

The notes to the schedule of expenditures of federal awards are an integral part of this schedule.

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**June 30, 2018**

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**NOTE 1 BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Independent School District No. 38 under programs of the federal government for the year ended June 30, 2018 and is presented on the accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Independent School District No. 38, it is not intended to be and does not present the financial position or changes in net position of Independent School District No. 38.

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported under generally accepted accounting principles (U.S. GAAP). Such expenditures are recognized following the cost principles contained in Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**NOTE 3 COMMODITY DISTRIBUTION**

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed.

**NOTE 4 PASS-THROUGH ENTITIES**

Pass-through entities listed above without a pass-through number use the same CFDA numbers as the federal grantors to identify these grants and have not assigned any additional identifying numbers.

**NOTE 5 SUBRECIPIENTS**

During 2018, the District did not pass any federal money to subrecipients.

**INDEPENDENT SCHOOL DISTRICT NO. 38  
 RED LAKE, MINNESOTA  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 June 30, 2018**

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

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

yes  no

Significant deficiency(ies) identified?

yes  none reported

Noncompliance material to financial statements noted?

yes  no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified?

yes  no

Significant deficiency(ies) identified?

yes  none reported

Type of auditor's report issued on compliance for major programs:

Qualified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

yes  no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.041	Impact Aid
	<i>Child Nutrition Cluster:</i>
10.553	School Breakfast Program
10.555	National School Lunch Program
10.555	Commodity Distribution (Nonmonetary Assistance)
10.559	Summer Food Service Program for Children

Dollar threshold used to distinguish between Type A and Type B programs:

\$750,000

Auditee qualified as low-risk auditee?

yes  no

**INDEPENDENT SCHOOL DISTRICT NO. 38  
RED LAKE, MINNESOTA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
June 30, 2018**

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**Section II-Financial Statement Findings**

**2018-001 FINDING**

Criteria

The District does not have the internal resources to identify all journal entries required to maintain a general ledger and prepare full-disclosure financial statements in conformity with generally accepted accounting principles (GAAP).

Condition

The District's payroll liability accounts were not reconciled during the year. The District's personnel prepare periodic financial information for internal use that meets the needs of management and the Board of Education. For the year ended June 30, 2018, the District's personnel assisted in the preparation of the year-end journal entries and reviewed a disclosure checklist. However, the District does not have internal resources to identify all journal entries required to maintain a general ledger and prepare full-disclosure financial statements for external reporting. The Board of Education is aware of this significant deficiency and addresses it by obtaining our assistance in the preparation of the District's annual financial statements.

Cause

Payroll liabilities were not reconciled due to oversight by the staff. The District does not have the internal expertise needed to handle all aspects of the external financial reporting.

Effect

Failure to reconcile the payroll liability accounts resulted in a current year misstatement of liabilities and expenses of approximately \$303,000. The superintendent is aware of the financial statement reporting deficiency and addresses it by reviewing and approving the adjusting journal entries and the completed statements prior to distribution to the end users.

Repeat Finding

Yes. Prior audit finding 2017-001.

Recommendation

The District's staff should reconcile payroll liability accounts on a monthly basis. The District's financial statement preparation should be reviewed on an annual basis.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the recommendations and will review the payroll liabilities on a monthly basis. The financial statement preparation will be reviewed on an annual basis.



**INDEPENDENT SCHOOL DISTRICT NO. 38  
RED LAKE, MINNESOTA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
June 30, 2018**

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**2018-002 FINDING**

Criteria

The District has not established procedures to provide assurance that all cash collections are recorded in the accounting records of the student activity accounts. Adequate procedures should be established for completing an audit trail that creates sufficient documentary (physical) evidence for each step in the flow of transactions within the activity fund. These procedures include pre-numbered forms and receipts and maintaining a perpetual inventory of the pre-numbered cash receipts; depositing receipts intact; and making timely deposits.

Condition

Student activity account source documentation was not sufficient to support the amount of the receipts tested.

Cause

Oversight by the staff.

Effect

Failure to retain sufficient source documentation for the student activity accounts could result in misstatement of revenues and expenses.

Repeat Finding

Yes. Prior audit finding 2017-002.

Recommendation

All source documentation is retained by an advisor and or submitted to the business office. If the source documentation is retained by the advisor, the business manager performs an internal audit periodically.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the recommendations and will implement immediately.

**INDEPENDENT SCHOOL DISTRICT NO. 38  
RED LAKE, MINNESOTA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
June 30, 2018**

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**2018-003 FINDING**

Criteria

The District overpaid a severance payout to an employee.

Condition

Severance policy was not followed when the severance payment was calculated.

Cause

Oversight by the staff.

Effect

Failure to follow the severance policy resulted in a current year overpayment of \$25,000.

Repeat Finding

No.

Recommendation

The District's staff should review severance payouts to ensure that the calculations follow District policies.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the recommendations and will implement immediately.

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
**June 30, 2018**

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**Section III-Federal Award Findings and Questioned Costs**

**2018-004 FINDING**

Child Nutrition Cluster (School Breakfast Program, CFDA No. 10.553; National School Lunch Program, CFDA No. 10.555; Commodity Distribution, CFDA No. 10.555; Summer Food Service Program for Children, CFDA No. 10.559)

Criteria

To receive reimbursement payment for meals served, the District must submit the number of meals served and all claims must be supported by accurate meal counts by category and type.

Condition

Four instances were identified where the number of meals submitted for reimbursement was not accurate.

Questioned Costs

Undeterminable

Context

5 months of meal reimbursement claim reports were selected for testing. In one month, the District submitted 82 extra meals for reimbursement at one school and missed submitting 32 meals for reimbursement at another school. In two other months, the District missed submitting 2,758 meals and one meal, respectively. This was due to keying errors and software issues.

Cause

The District did not have sufficient procedures in place to ensure the correct number of meals are submitted for reimbursement.

Effect

The District submitted more meals for reimbursement in one instance and less meals for reimbursement in other instances than they were otherwise eligible for.

Recommendation

The District should review their policies and procedures for submitting meals for reimbursement.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the recommendation and will correct immediately.

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**June 30, 2018**

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**2017-001 FINDING**

Criteria

The District does not have the internal resources to identify all journal entries required to maintain a general ledger and prepare full-disclosure financial statements in conformity with generally accepted accounting principles (GAAP).

Condition

The District's payroll liability accounts were not reconciled during the year. The District's personnel prepare periodic financial information for internal use that meets the needs of management and the Board of Education. For the year ended June 30, 2017, the District's personnel assisted in the preparation of the year-end journal entries and reviewed a disclosure checklist. However, the District does not have internal resources to identify all journal entries required to maintain a general ledger and prepare full-disclosure financial statements for external reporting. The Board of Education is aware of this significant deficiency and addresses it by obtaining our assistance in the preparation of the District's annual financial statements.

Cause

Payroll liabilities were not reconciled due to oversight by the staff. The District does not have the internal expertise needed to handle all aspects of the external financial reporting.

Effect

Failure to reconcile the payroll liability accounts resulted in a current year misstatement of liabilities and expenses of approximately \$300,000. In addition, a prior period of adjustment of \$126,000 was needed to correct misstatements in payroll liabilities from previous years. The superintendent is aware of the financial statement reporting deficiency and addresses it by reviewing and approving the adjusting journal entries and the completed statements prior to distribution to the end users.

Recommendation

The District's staff should reconcile payroll liability accounts on a monthly basis. The District's financial statement preparation should be reviewed on an annual basis.

Corrective Action Taken

No action taken. See current year finding 2018-001 and Corrective Action Plan.

**INDEPENDENT SCHOOL DISTRICT NO. 38  
RED LAKE, MINNESOTA  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (CONTINUED)  
June 30, 2018**

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**2017-002 FINDING**

Criteria

The District has not established procedures to provide assurance that all cash collections are recorded in the accounting records of the student activity accounts. Adequate procedures should be established for completing an audit trail that creates sufficient documentary (physical) evidence for each step in the flow of transactions within the activity fund. These procedures include pre-numbered forms and receipts and maintaining a perpetual inventory of the pre-numbered cash receipts; depositing receipts intact; and making timely deposits.

Condition

Student activity account source documentation was not sufficient to support the amount of the receipt.

Cause

Oversight by the staff.

Effect

Failure to retain sufficient source documentation for the student activity accounts could result in misstatement of revenues and expenses.

Recommendation

All source documentation is retained by an advisor and or submitted to the business office. If the source documentation is retained by the advisor, the business manager performs an internal audit periodically.

Corrective Action Taken

No action taken. See current year finding 2018-002 and Corrective Action Plan.

**INDEPENDENT SCHOOL DISTRICT NO. 38  
RED LAKE, MINNESOTA  
CORRECTIVE ACTION PLAN  
June 30, 2018**

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**2018-001 FINDING**

Contact Person – Superintendent

Corrective Action Plan – The payroll and accounting staff will reconcile payroll liability accounts monthly. School district personnel will receive additional training to better prepare personnel to understand the financial statements and to work closely with an accounting firm in the preparation of the financial statements. The District staff will review the prior year journal entries to determine training needs. The District staff has worked with their auditors and the ESV Accounting Office and is in the process of identifying required year end journal entries. The District staff attended training during the year.

Completion Date – Reconciliation of the payroll liabilities will be reviewed monthly. The financial statement recommendation will be ongoing.

**2018-002 FINDING**

Contact Person – Superintendent

Corrective Action Plan – All source documentation is retained by the advisor and or submitted to the business office. If the source documentation is retained by the advisor, the business manager will perform an internal audit periodically.

Completion Date – Immediately

**2018-003 FINDING**

Contact Person – Superintendent

Corrective Action Plan – The District should review all severance payouts to ensure that the calculations follow District policies.

Completion Date – Immediately

**2018-004 FINDING**

Contact Person – Superintendent

Corrective Action Plan – The District will review their policies and procedures for submitting meals for reimbursement.

Completion Date – Immediately

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**STUDENT ACTIVITY DETAIL**  
**For the Year Ended June 30, 2018**

	Fund Balance 6-30-17	Receipts	Disbursements	Transfers	Fund Balance 6-30-18
Band Activity Club	\$	\$ 11,250	\$ 10,388	\$	\$ 862
Boys Basketball	3,464				3,464
Community Gardening Project	287				287
Concessions	5,704	16,123	11,021	(500)	10,306
Design Club	2,072	6,709	3,122		5,659
Freshman Class	7	7,197	6,861		343
National Honor Society	1,865	80			1,945
PES ELC	1,380				1,380
PES Anishanabe Day	1,309				1,309
Prom	583	325	810	500	598
RLE Archery Club	1,743		722		1,021
RLE Elementary Activity	114	915	662		367
RLHS Art Club	827				827
RLHS Student Council	2,498	900	2,144		1,254
RLMS Art Club	46	89			135
RLMS Student Council	5,319				5,319
Skateboard Club	204				204
Ski Club	3,386				3,386
Special Ed	812	2,260	1,007		2,065
Special Olympics	205				205
	<u>\$ 31,825</u>	<u>\$ 45,848</u>	<u>\$ 36,737</u>	<u>\$</u>	<u>\$ 40,936</u>

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS COMPLIANCE TABLE**  
**June 30, 2018**

District Name:	INDEPENDENT SCHOOL DISTRICT NO. 38			District Number:	38		
	Audit	UFARS	Variance		Audit	UFARS	Variance
<b>01 GENERAL FUND</b>				<b>06 BUILDING CONSTRUCTION</b>			
Total Revenue	35,326,842	35,326,841	1	Total Revenue	2	2	
Total Expenditures	32,266,293	32,266,294	(1)	Total Expenditures			
<i>Non Spendable</i>				<i>Non Spendable</i>			
460 Non Spendable Fund Balance	26,787	26,787		460 Non Spendable Fund Balance			
<i>Restricted/Reserved:</i>				<i>Restricted/Reserved:</i>			
403 Staff Development	14,665	14,655	10	407 Capital Projects Levy			
406 Health & Safety	147	147		413 Projects Funded By COP			
407 Capital Projects Levy				467 LTFM			
408 Cooperative Revenue				<i>Restricted</i>			
409 Alternative Fac Program				464 Restricted Fund Balance	1,132	1,132	
413 Project Funded by COP				<i>Unassigned:</i>			
414 Operating Debt				463 Unassigned Fund Balance			
416 Levy Reduction				Reconciliation of Building Construction	1,134	1,134	
417 Taconite Building Maintenance							
423 Certain Teacher Programs				<b>07 DEBT SERVICE</b>			
424 Operating Capital	332,513	332,514	(1)	Total Revenue	33,480	33,480	
426 \$25 Taconite				Total Expenditures	7,505	7,505	
427 Disabled Accessibility				<i>Non Spendable</i>			
428 Learning & Development	3,344	3,344		460 Non Spendable Fund Balance			
434 Area Learning Center				<i>Restricted/Reserved:</i>			
435 Contracted Alt Programs				425 Bond Refundings			
436 State Approved Alt Program	398,044	398,043	1	433 Max Effort Loan	27,046	27,047	(1)
438 Gifted & Talented	4,221	4,221		451 QZAB Payments			
440 Teacher Development and Eval				<i>Restricted</i>			
441 Basic Skills Programs	411,662	411,663	(1)	464 Restricted Fund Balance	459	459	
445 Career and Technical Programs				<i>Unassigned:</i>			
448 Achievement and Integration				463 Unassigned Fund Balance			
449 Safe Schools Levy				Reconciliation of Debt Service	68,490	68,491	(1)
450 Prekindergarten							
452 OPEB Liab Not In Trust				<b>08 TRUST</b>			
459 Basic Skills Ext Time	70,198	70,198		Total Revenue	3,004	3,004	
467 LTFM	2,513	2,513		Total Expenditures	3,100	3,100	
472 Medical Assistance	19,061	19,061		<i>Unassigned:</i>			
<i>Restricted</i>				422 Unassigned Fund Balance	1,001	1,000	1
464 Restricted Fund Balance	109,346	109,346		Reconciliation of Trust	7,105	7,104	1
475 Title VII - Impact Aid	177,896	177,896					
<i>Committed</i>				<b>20 INTERNAL SERVICE</b>			
418 Committed for Separation				Total Revenue			
461 Committed				Total Expenditures			
<i>Assigned</i>				<i>Unassigned:</i>			
462 Assigned Fund Balance	2,916,477	2,916,477		422 Unassigned Fund Balance			
<i>Unassigned:</i>				Reconciliation of Internal Service			
422 Unassigned Fund Balance	12,871,951	12,871,954	(3)				
Reconciliation of General	84,951,960	84,951,954	6	<b>25 OPEB REVOCABLE TRUST FUND</b>			
				Total Revenue			
<b>02 FOOD SERVICE</b>				Total Expenditures			
Total Revenue	1,237,936	1,237,936		<i>Unassigned:</i>			
Total Expenditures	1,312,458	1,312,458		422 Unassigned Fund Balance			
<i>Non Spendable</i>				Reconciliation of OPEB Revocable Trust			
460 Non Spendable Fund Balance	10,812	10,812					
<i>Restricted/Reserved:</i>				<b>45 OPEB IRREVOCABLE TRUST FUND</b>			
452 OPEB Liab Not In Trust				Total Revenue			
<i>Restricted</i>				Total Expenditures			
464 Restricted Fund Balance				<i>Unassigned:</i>			
<i>Unassigned</i>				422 Unassigned Fund Balance			
463 Unassigned Fund Balance				Reconciliation of OPEB Irrevocable Trust			
Reconciliation of Food Service	2,561,206	2,561,206					
				<b>47 OPEB DEBT SERVICE FUND</b>			
<b>04 COMMUNITY SERVICE</b>				Total Revenue			
Total Revenue	491,636	491,637	(1)	Total Expenditures			
Total Expenditures	618,142	618,142		<i>Non Spendable</i>			
<i>Non Spendable</i>				460 Non Spendable Fund Balance			
460 Non Spendable Fund Balance				<i>Restricted</i>			
<i>Restricted/Reserved:</i>				425 Bond Refunding			
426 \$25 Taconite				464 Restricted Fund Balance			
431 Community Education	4,238	4,238		<i>Unassigned</i>			
432 E. C. F. E.	45,900	45,899	1	463 Unassigned Fund Balance			
440 Teacher Development and Eval				Reconciliation of OPEB Debt Service			
444 School Readiness							
447 Adult Basic Education							
452 OPEB Liab Not In Trust							
<i>Restricted</i>							
464 Restricted Fund Balance	22,676	22,677	(1)				
<i>Unassigned</i>							
463 Unassigned Fund Balance							
Reconciliation of Community Service	1,182,592	1,182,593	(1)				