INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2017

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
TABLE OF CONTENTS

Pages

Roster of School Officials 1

Independent Auditor's Report 2-4

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis 5-13

BASIC FINANCIAL STATEMENTS

Statement of Net Position 14

Statement of Activities 15

Balance Sheet - Governmental Funds 16

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position 17

Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds 18

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities 19

Statement of Fiduciary Net Position 20

Statement of Changes in Fiduciary Net Position 21

Notes to Basic Financial Statements 22-44

REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Comparison Schedule for the General Fund 45

Schedule of Funding Progress for Other Postemployment Benefits 46

Schedule of District Contributions 47

Schedule of District's Share of Net Pension Liability 48

Notes to Required Supplementary Information 49

SUPPLEMENTARY INFORMATION

Combining Balance Sheet - Nonmajor Governmental Funds 50

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds 51

Schedule of Changes in Fund Balances 52

TABLE OF CONTENTS *(CONTINUED)*

	Pages
Independent Auditor's Report on Minnesota Legal Compliance	53
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*	54-55
Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance	56-57
Schedule of Expenditures of Federal Awards	58
Notes to Schedule of Expenditures of Federal Awards	59
Schedule of Findings and Questioned Costs	60-63
Summary Schedule of Prior Audit Findings	64-65
Corrective Action Plan	66
SUPPLEMENTARY INFORMATION	
Student Activity Detail	67
Uniform Financial Accounting and Reporting Standards Compliance Table	68

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
ROSTER OF SCHOOL OFFICIALS
June 30, 2017

School Board Members and Officers

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

Administration

Dr. Anne M. Lundquist (Through June 30, 2017)	Superintendent
Melinda Crowley (Effective July 1, 2017)	Superintendent
Willie Larson	Business Manager

BRADY MARTZ
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, 2017, 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, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of funding progress for other postemployment benefits, 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, 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 27, 2017 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Brady Martz

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

December 27, 2017

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, 2017. Please read it in conjunction with the District's financial statements, which immediately follow this section. Certain reclassifications have been made to the 2016 financial statements in order to conform with the 2017 presentation.

Financial Highlights

Key financial highlights for the 2016-2017 fiscal year include the following:

- General fund balance increased by $2,278,112.

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.

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.

Financial Analysis of the District as a Whole

Net Position

The District's combined net position was $(66,722,748) on June 30, 2017 (see details in Table A-1). This was a decrease of 17.1 percent from the prior year.

Table A-1
Statement of Net Position

	2017	2016	Total Percentage Change
Current and Other Assets	$ 19,368,824	$ 18,150,598	6.7 %
Capital Assets	52,325,388	53,663,689	(2.5)
Total Assets	71,694,212	71,814,287	(0.2)
Deferred Outflows of Resources	34,836,057	3,101,801	1,023.1
Long-term Liabilities	167,705,419	124,353,581	34.9
Other Liabilities	3,335,441	4,496,684	(25.8)
Total Liabilities	171,040,860	128,850,265	32.7
Deferred Inflows of Resources	2,212,157	3,037,569	(27.2)
Net Position			
Net Investment in Capital Assets	(4,287,053)	(2,887,205)	(48.5)
Restricted	1,364,113	824,928	65.4
Unrestricted	(63,799,808)	(54,909,469)	(16.2)
Total Net Position	$ (66,722,748)	$ (56,971,746)	(17.1) %

Change in Net Position

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

Table A-2
Change in Net Position

	2017	2016	Total Percentage Change
Revenues			
Program Revenues			
Charges for Services	$ 268,478	$ 256,364	4.7 %
Operating Grants and Contributions	11,749,745	11,305,618	3.9
Capital Grants and Contributions	558,689	312,805	78.6
General Revenues			
Property Taxes	5,938	6,056	(1.9)
Unrestricted State Aid	13,207,227	12,550,148	5.2
Unrestricted Federal Aid	9,310,129	9,769,394	(4.7)
Other Sources	337,641	132,363	155.1
Total Revenues	35,437,847	34,332,748	3.2
Expenses			
Administration	1,946,472	1,762,051	10.5
District Support Services	1,084,452	1,033,524	4.9
Elementary & Secondary Regular Instruction	21,442,125	13,816,911	55.2
Vocational Education Instruction	227,095	214,867	5.7
Special Education Instruction	4,718,905	4,284,610	10.1
Community Education and Services	639,430	519,494	23.1
Instructional Support Services	2,200,593	1,666,226	32.1
Pupil Support Services	2,997,146	2,978,453	0.6
Sites and Buildings	4,338,513	4,009,670	8.2
Fixed Costs	173,507	179,311	(3.2)
Interest on Long-Term Debt	4,243,172	4,015,868	5.7
Depreciation - Unallocated	1,304,267	1,305,530	(0.1)
Total Expenses	45,315,677	35,786,515	26.6
Change in Net Position	(9,877,830)	(1,453,767)	(579.5)
Net Position - Beginning	(56,971,746)	(55,517,979)	(2.6)
Prior Period Adjustment - See Note 2	126,828		100.0
Net Position - Beginning, Restated	(56,844,918)	(55,517,979)	(2.4)
Net Position - Ending	$ (66,722,748)	$ (56,971,746)	(17.1) %

The District's total revenues were $35,437,847 for the year ended June 30, 2017. Federal and state aid payments accounted for 96 percent of total revenue for the year.

The total cost of all programs and services was $45,315,677. The District's expenses are predominantly related to educating and caring for students.

Total expenses surpassed revenues, decreasing net position $9,877,830 over last year. Of the decrease, approximately $6,540,000 is due to accounting for the District's proportionate share of the TRA and PERA pension liabilities. The change in net position also includes $4,238,000 interest expense on the state capital loan.

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 Percentage	Net Cost of Services		Total Percentage
	2017	2016	Change	2017	2016	Change
Expenses						
Administration	$ 1,946,472	$ 1,762,051	10.5 %	$ 1,946,472	$ 1,762,051	10.5 %
District Support Services	1,084,452	1,033,524	4.9	1,084,452	1,024,983	5.8
Elementary & Secondary						
Regular Instruction	21,442,125	13,816,911	55.2	14,277,093	7,253,848	96.8
Vocational Education Instruction	227,095	214,867	5.7	204,208	123,727	65.0
Special Education Instruction	4,718,905	4,284,610	10.1	2,088,270	1,689,668	23.6
Community Education and Services	639,430	519,494	23.1	115,005	(11,530)	1,097.4
Instructional Support Services	2,200,593	1,666,226	32.1	1,832,611	1,498,023	22.3
Pupil Support Services	2,997,146	2,978,453	0.6	1,401,155	1,695,668	(17.4)
Sites and Buildings	4,338,513	4,009,670	8.2	4,068,553	3,374,583	20.6
Fixed Costs	173,507	179,311	(3.2)	173,507	179,311	(3.2)
Interest on Long-Term Debt	4,243,172	4,015,868	5.7	4,243,172	4,015,868	5.7
Depreciation - Unallocated	1,304,267	1,305,530	(0.1)	1,304,267	1,305,530	(0.1)
	$ 45,315,677	$ 35,786,515	26.6 %	$ 32,738,765	$ 23,911,730	36.9 %

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, Restated		Increase	Percentage Increase
	2017	2016	(Decrease)	(Decrease)
Governmental Funds				
General	$ 14,414,160	$ 12,136,048	$ 2,278,112	18.8 %

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

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

	2017	2016	Amount of Increase (Decrease)	Percent Increase (Decrease)
Local Sources				
Property Taxes	$ 2,778	$ 2,524	$ 254	10.1 %
Interest Earnings	106,931	41,320	65,611	158.8
Other	317,129	125,935	191,194	151.8
State Sources	21,243,774	20,443,292	800,482	3.9
Federal Sources	11,317,896	11,767,405	(449,509)	(3.8)
Other		10,661	(10,661)	(100.0)
Total General Fund Revenue	$ 32,988,508	$ 32,391,137	$ 597,371	1.8 %

Total general fund revenue increased by $597,371 or 1.8 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

	2017	2016	Amount of Increase (Decrease)	Percent Increase (Decrease)
Salaries	$ 17,040,070	$ 16,243,021	$ 797,049	4.9 %
Employee Benefits	7,363,857	6,896,587	467,270	6.8
Purchased Services	3,068,257	3,123,691	(55,434)	(1.8)
Supplies and Materials	1,886,453	1,578,994	307,459	19.5
Capital Expenditures	1,399,309	1,386,369	12,940	0.9
Debt Service	180,708		180,708	100.0
Other Expenditures	164,630	74,684	89,946	120.4
Total General Fund Expenditures	$ 31,103,284	$ 29,303,346	$ 1,799,938	6.1 %

Total general fund expenditures increased $1,799,938 or 6.1 percent from the previous year.

General Fund Budgetary Highlights

During the year, the District did not revise its budget.

The District's budget for the general fund anticipated that expenditures and other financing uses would exceed revenues and other financing sources by $1,135,594 and the actual results for the year show a surplus of $2,278,112.

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, 2017. Additions totaling $799,926 mainly consisted of building signage, window replacement, laptops, desks, roof repairs, and 2 buses. The District also had disposals of $536,290 which consisted of audio visual and communication equipment, fencing, building improvements, 3 buses, and a vehicle.

Long-Term Debt

At year-end, the District had $109,300,294 of long-term debt. This consisted of capital loan payable of $56,612,441, accrued interest on the capital loan payable of $52,338,279, and capital lease payable of $349,574. 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.

District enrollment trends reveal a steady increases in the K-12 enrollment. This is due to the following factors.

- An increase in 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 2018 and 2019. The District is expecting retirements of four (4) at the end of FY 2018.

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, 2017, the District has entered into employment agreements with the Teachers Union, Principals Union and all non-union staff. These agreements expire on June 30, 2019. The District is in negotiation with the MSEA Union.

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 Impact 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, and 2014. 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, which in the initial year of implementation have resulted in a rise in the percent of students scoring proficient of 3% in reading and 7% in math. This increase is significant as it meets or exceeds the growth in the percent proficient statewide. The District high school graduation rate increased from 22.6% in May 2017 to 33% in May 2017.

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, 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, 2017

GOVERNMENTAL ACTIVITIES		
ASSETS		
Cash and Investments	$	15,039,953
Property Taxes Receivable		568
Accounts Receivable		11,889
Interest Receivable		7,242
Due From Department of Education		2,342,985
Due From Federal Govt. - DOE		306,201
Due from Other Governments		3,912
Inventory		42,954
Net Other Postemployment Benefit Asset		1,613,120
Capital Assets		
Other Capital Assets, Net of Depreciation		52,325,388
TOTAL ASSETS		71,694,212
DEFERRED OUTFLOWS OF RESOURCES		
Cost Sharing Defined Benefit Pension Plan		34,836,057
TOTAL DEFERRED OUTFLOWS OF RESOURCES		34,836,057
LIABILITIES		
Accounts Payable		311,769
Salaries Payable		1,322,780
Payroll Deductions		1,397,017
Due to Other MN Districts		111,561
Unearned Revenue		19,472
Long-Term Liabilities Due Within One Year		172,842
Long-Term Liabilities		
Compensated Absences Payable		156,104
Severance Payable		1,751,027
Capital Loan		56,612,441
Capital Lease		349,574
Accrued Interest Payable		52,338,279
Net Pension Liability		56,670,836
Less Amounts Due Within One Year		(172,842)
Total Long-Term Liabilities		167,705,419
TOTAL LIABILITIES		171,040,860
DEFERRED INFLOWS OF RESOURCES		
Property Taxes Levied - Subs. Years		7,515
Cost Sharing Defined Benefit Pension Plan		2,204,642
TOTAL DEFERRED INFLOWS OF RESOURCES		2,212,157
NET POSITION		
Net Investment in Capital Assets		(4,287,053)
Restricted		
Health and Safety		147
Operating Capital		119,087
Learning and Development		3,344
St. Approved Alt Program		702,018
Basic Skills		223,921
Long-Term Facilities Maint.		16,809
Medical Assistance		19,541
Building Construction		109,346
Food Service		62,568
Community Education		1,053
ECFE		74,073
School Readiness		2,701
Community Service		28,375
Building Fund		1,130
Unrestricted		(63,799,808)
TOTAL NET POSITION	$	(66,722,748)

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

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017

		Program Revenues			Net (Expense)
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position
GOVERNMENTAL ACTIVITIES					
Administration	$ 1,946,472	$	$	$	$ (1,946,472)
District Support Services	1,084,452				(1,084,452)
Elementary & Secondary					
Regular Instruction	21,442,125	62,788	7,018,963	83,281	(14,277,093)
Vocational Education Instruction	227,095		22,887		(204,208)
Special Education Instruction	4,718,905	23,265	2,607,370		(2,088,270)
Community Education and Services	639,430	158,596	365,829		(115,005)
Instructional Support Services	2,200,593	9,048	358,934		(1,832,611)
Pupil Support Services	2,997,146	14,781	1,375,762	205,448	(1,401,155)
Sites and Buildings	4,338,513			269,960	(4,068,553)
Fixed Costs	173,507				(173,507)
Interest on Long-Term Debt	4,243,172				(4,243,172)
Depreciation - Unallocated	1,304,267				(1,304,267)
TOTAL GOVERNMENTAL ACTIVITIES	$ 45,315,677	$ 268,478	$ 11,749,745	$ 558,689	(32,738,765)

GENERAL REVENUES	
Taxes	
Property Taxes, Levied for General Purposes	2,778
Property Taxes, Levied for Debt Services	3,160
Unrestricted State Aid	13,207,227
Unrestricted Federal Aid	9,310,129
Unrestricted Investment Earnings	106,973
Other General Revenue	230,668
TOTAL GENERAL REVENUES	22,860,935
Change in Net Position	(9,877,830)
Net Position - Beginning	(56,971,746)
Prior Period Adjustment, See Note 2	126,828
Net Position - Beginning, Restated	(56,844,918)
Net Position - Ending	$ (66,722,748)

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, 2017

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash and Investments	$ 14,859,823	$ 180,130	$ 15,039,953
Current Property Taxes Receivable	321	247	568
Accounts Receivable	7,820	4,069	11,889
Interest Receivable	7,242		7,242
Due From Department of Education	2,309,302	33,683	2,342,985
Due From Federal Govt. - DOE	268,237	37,964	306,201
Due From Other Governments	3,912		3,912
Inventory	26,766	16,188	42,954
TOTAL ASSETS	$ 17,483,423	$ 272,281	$ 17,755,704
LIABILITIES			
Accounts Payable	$ 305,113	$ 6,656	$ 311,769
Salaries Payable	1,232,909	89,871	1,322,780
Payroll Deductions	1,397,017		1,397,017
Due to Other MN Districts	111,561		111,561
Unearned Revenue	19,472		19,472
TOTAL LIABILITIES	3,066,072	96,527	3,162,599
DEFERRED INFLOWS OF RESOURCES			
Property Taxes Levied - Subs. Years	3,191	4,324	7,515
TOTAL DEFERRED INFLOWS OF RESOURCES	3,191	4,324	7,515
FUND BALANCES			
Nonspendable: Inventory	23,987	16,187	40,174
Restricted for Health and Safety	147		147
Restricted for Operating Capital	119,087		119,087
Restricted for Learning and Development	3,344		3,344
Restricted for St. Approved Alt Program	702,018		702,018
Restricted for Basic Skills	223,921		223,921
Restricted for Long-Term Facilities Maint.	16,809		16,809
Restricted for Medical Assistance	19,541		19,541
Restricted for Building Construction	109,346		109,346
Restricted for Food Service		46,381	46,381
Restricted for Community Education		1,053	1,053
Restricted for ECFE		74,073	74,073
Restricted for School Readiness		2,701	2,701
Restricted for Community Service		28,375	28,375
Restricted for Building Fund		1,130	1,130
Restricted for Debt Service		1,530	1,530
Assigned for Other Post-Employment Benefits	2,916,477		2,916,477
Unassigned	10,279,483		10,279,483
TOTAL FUND BALANCES	14,414,160	171,430	14,585,590
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	$ 17,483,423	$ 272,281	$ 17,755,704

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, 2017

Total fund balances - governmental funds	$	14,585,590
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		79,617,979
Less accumulated depreciation		(27,292,591)
Net other postemployment benefit assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.		1,613,120
Deferred outflows 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.		34,836,057
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		(156,104)
Severance Payable		(1,751,027)
Capital Loan		(56,612,441)
Capital Lease		(349,574)
Accrued Interest Payable		(52,338,279)
Net Pension Liability		(56,670,836)
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.		(2,204,642)
Net position - governmental activities	$	(66,722,748)

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, 2017

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES			
Local Property Tax Levies	$ 2,778	$ 3,228	$ 6,006
Other Local & County Revenues	424,060	167,211	591,271
Revenue From State Sources	21,243,774	356,103	21,599,877
Revenue From Federal Sources	11,317,896	1,272,901	12,590,797
Sale/Other Conversion of Asset		14,781	14,781
TOTAL REVENUES	32,988,508	1,814,224	34,802,732
EXPENDITURES			
Current			
Administration	1,944,766		1,944,766
District Support Services	1,078,354		1,078,354
Elementary & Secondary Regular Instruction	14,450,306		14,450,306
Vocational Instruction	225,532		225,532
Special Education Instruction	4,710,511		4,710,511
Community Education and Services		634,564	634,564
Instructional Support Services	1,617,724		1,617,724
Pupil Support Services	1,519,341	1,199,230	2,718,571
Sites and Buildings	3,803,226		3,803,226
Fixed Costs	173,507		173,507
Debt Service			
Principal	177,971		177,971
Interest	2,737	5,137	7,874
Capital Outlay	1,399,309	66,028	1,465,337
TOTAL EXPENDITURES	31,103,284	1,904,959	33,008,243
Revenues Over (Under) Expenditures	1,885,224	(90,735)	1,794,489
OTHER FINANCING SOURCES (USES)			
Debt Issued	527,546	61,547	589,093
Transfers In		134,658	134,658
Transfers Out	(134,658)		(134,658)
TOTAL OTHER FINANCING SOURCES (USES)	392,888	196,205	589,093
Net Change in Fund Balances	2,278,112	105,470	2,383,582
Fund Balances - Beginning	12,009,220	65,960	12,075,180
Prior Period Adjustment - See Note 2	126,828		126,828
Fund Balances - Beginning, Restated	12,136,048	65,960	12,202,008
Fund Balances - Ending	$ 14,414,160	$ 171,430	$ 14,585,590

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, 2017

Total net change in fund balances - governmental funds	$ 2,383,582
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	799,926
Depreciation expense	(2,024,332)
The net effect of various capital asset transactions decreases net position.	(113,895)
The issuance of long-term debt provides current financial resources to governmental funds, but the issuance of long-term debt increases the liabilities in the statement of net position.	(589,093)
Payment of debt principal is an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of net position.	177,972
Change in net pension liability	(39,101,947)
Changes in deferred outflows and inflows of resources related to net pension liability	32,561,673
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.	(4,238,035)
The District recognized 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	16,061
Severance payable	262,302
Compensated absences payable	(12,044)
Change in net position - governmental activities	$ (9,877,830)

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, 2017

	Scholarship Trust Fund
ASSETS	
Cash and Investments	$ 18,714
Interest Receivable	8
TOTAL ASSETS	18,722
LIABILITIES	
Other Payables	17,625
TOTAL LIABILITIES	17,625
NET POSITION	
Held in Trust	$ 1,097

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, 2017

	Scholarship Trust Fund
ADDITIONS	
Donations	$ 3,475
Investment Earnings	12
TOTAL ADDITIONS	3,487
DEDUCTIONS	
Scholarship Payments	5,050
TOTAL DEDUCTIONS	5,050
Change in Net Position	(1,563)
Net Position - Beginning	2,660
Net Position - End of Year	$ 1,097

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

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.

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:

<u>Revenue Recognition</u> – 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.

<u>Recording of Expenditures</u> – 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

<u>General Fund</u> – 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

<u>Scholarship Trust Fund</u> – 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.

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 2016 which are not payable until 2017, 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 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.

<u>Inventory</u> – 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.

<u>Capital Assets</u> – Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market 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.

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

<u>Vacation and Sick Leave</u> – 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.

<u>Compensated Absences</u> – 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.

<u>Severance Pay</u> – 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 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.

<u>Long-Term Obligations</u> – 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.

<u>Pensions</u> – 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.

<u>Deferred Outflows/Inflows of Resources</u> – 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 one item that qualifies for reporting in this category named *Cost Sharing Defined Benefit Pension Plan* 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.

<u>Net Position</u> – 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.

<u>Net Position Flow Assumption</u> – 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.

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

> <u>Nonspendable</u> – Consists of amounts that are not in spendable form (such as inventory) or are required to be maintained intact.
>
> <u>Restricted</u> – 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.
>
> <u>Committed</u> – 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.

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 PRIOR PERIOD ADJUSTMENT

Beginning net position and fund balances have been restated to reflect the correct amount of payroll liabilities at June 30, 2016. This adjustment increased net position in the governmental activities and fund balance in the general fund by $126,828.

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, 2017, was $106,984.

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

	Governmental Activities	Fiduciary Funds	Total
Cash	$ 2,642,043	$ 18,714	$ 2,660,757
Investments	12,397,910		12,397,910
Total	$ 15,039,953	$ 18,714	$ 15,058,667

As of June 30, 2017, the District's investments were in the Minnesota School District Liquid Asset Fund external investment pool.

Investment	Fair Value (Level 1)
Minnesota School District Liquid Asset Fund	$12,397,910

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.
(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, 2017, 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, 2017, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Not Being Depreciated:				
Construction in Process	$ 334,381	$	$ 334,381	$
Total Capital Assets, Not Being Depreciated	334,381		334,381	
Capital Assets, Being Depreciated:				
Land Improvements	656,447	36,967	29,537	663,877
Buildings	71,625,920	660,860	185,785	72,100,995
Equipment	6,737,594	436,480	320,968	6,853,106
Total Capital Assets, Being Depreciated	79,019,961	1,134,307	536,290	79,617,978
Less Accumulated Depreciation For:				
Land Improvements	514,646	14,241	29,537	499,350
Buildings	20,292,835	1,509,807	64,954	21,737,688
Equipment	4,876,236	500,284	320,968	5,055,552
Total Accumulated Depreciation	25,683,717	2,024,332	415,459	27,292,590
Total Capital Assets, Being Depreciated, Net	53,336,244	(890,025)	120,831	52,325,388
Governmental Activities Capital Assets, Net	$ 53,670,625	$ (890,025)	$ 455,212	$ 52,325,388

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		222,230
Vocational Education Instruction		1,563
Special Education Instruction		163
Community Education and Services		385
Instructional Support Services		48,149
Pupil Support Services		138,140
Sites and Buildings		307,205
		720,065
Unallocated		1,304,267
Total Depreciation Expense	$	2,024,332

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.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

The benefit provisions stated in the following paragraphs of this section are current provisions and apply to active plan participants. 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 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.

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 their annual covered salary in fiscal year 2017. 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, 2017, were $437,086. The District's contributions were equal to the required contributions for each year as set by state statute.

Pension Costs – At June 30, 2017, the District reported a liability of $7,153,283 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 $93,372. The net pension liability was measured as of June 30, 2016, 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, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the District's proportion was 0.0881% which was a decrease of 0.0080% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the District recognized pension expense of $678,626 for its proportionate share of the General Employee Plan's pension expense. In addition, the District recognized an additional $27,841 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, 2017, 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:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 25,040	$ 596,981
Difference between projected and actual investment earnings	777,279	
Changes in actuarial assumptions	1,568,772	13,070
Changes in proportion		660,751
Contributions paid to PERA subsequent to the measurement date	437,086	
Total	$ 2,808,177	$ 1,270,802

$437,086 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, 2018. 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
2018	$ 269,871
2019	91,694
2020	480,333
2021	258,391

Actuarial Assumptions – The total pension liability in the June 30, 2016, 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, 2016, 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 2016:

General Employees Fund

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.
- 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% to 3.25% for payroll growth and 2.50% for inflation.

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 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:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	45%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Cash	2%	0.50%

Discount Rate – The discount rate used to measure the total pension liability in 2016 was 7.50%, a reduction from the 7.9% used in 2015. 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%)
$ 10,159,782	$ 7,153,283	$ 4,676,746

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.

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 the Minnesota State College and Universities (MnSCU) 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.

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:

Tier I	Step Rate Formula	Percentage
Basic	1st ten years	2.2 percent per year
	All years after	2.7 percent per year
Coordinated	1st ten years if service years are prior to July 1, 2006	1.2 percent per year
	1st 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.

Contribution Rate - Per Minnesota Statutes, Chapter 354 sets the contribution rates for employees and employers. Rates for each fiscal years ended June 30, 2015, June 30, 2016 and June 30, 2017, were:

	Employee	Employer
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 Statement of Changes in Fiduciary Net Position	$ 354,961,140
Add employer contributions not related to future contribution efforts	26,356
Deduct TRA's contributions not included in allocation	(442,978)
Total employer contributions	354,544,518
Total non-employer contributions	35,587,410
Total contributions reported in *Schedule of Employer and Non-Employer Allocations*	$ 390,131,928

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, 2015, 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, 2016
Experience Study	June 5, 2015
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Investment Rate of Return	4.66%, from the Single Equivalent Interest Rate calculation
Price Inflation	2.75%
Wage Growth Rate	3.5%
Projected Salary Increase	3.5 – 9.5%
Cost of Living Adjustment	2.0%

Mortality Assumption

Pre-retirement	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.
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:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	45%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Unallocated Cash	2%	0.50%

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" 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.

<u>Discount Rate</u> - The discount rate used to measure the total pension liability was 4.66 percent. This is a decrease from the discount rate at the prior measurement date of 8.00 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 2052 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 was applied to periods before 2052 and the Municipal Bond Index Rate of 3.01 percent was applied to periods on and after 2052, resulting in a SEIR of 4.66 percent. Based on Fiduciary Net Position at prior year measurement date, the discount rate of 8.00 percent was used and it was not necessary to calculate the SEIR.

<u>Net Pension Liability</u> - On June 30, 2017, the District reported a liability of $49,517,553 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, 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 0.2076% at the end of the measurement period and 0.2035% 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:

District's proportionate share of net pension liability	$	49,517,553
State's proportionate share of the net pension liability associated with the district	$	4,969,452

There was a change in actuarial assumptions that affected the measurement of the total liability since the prior measurement date. Post-retirement benefit adjustments are now assumed to remain level at 2.0 percent annually. While in the previous measurement the COLA increased to 2.5 percent in 2034.

For the year ended June 30, 2017, the District recognized pension expense of $7,081,097. It also recognized $693,902 as an increase to pension expense for the support provided by direct aid.

On June 30, 2017, 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	$ 539,357	$ 103,148
Net difference between projected and actual earnings on plan inv.	2,254,769	
Changes in actuarial assumptions	28,184,082	
Changes in proportion	219,361	830,692
Contributions paid to TRA subsequent to the measurement date	830,311	
Total	$ 32,027,880	$ 933,840

$830,311 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, 2018. 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
2018	$ 5,907,588
2019	5,907,581
2020	6,712,902
2021	6,204,180
2022	5,531,478

<u>Pension Liability Sensitivity</u> - The following presents the district's proportionate share of the net pension liability calculated using the discount rate of 4.66 percent as well as the liability measured using one percent lower and one percent higher.

District Proportionate Share of NPL		
1% Decrease (3.66%)	Current (4.66%)	1% Increase (5.66%)
$ 63,790,795	$ 49,517,553	$ 37,892,308

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, 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.

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. At July 1, 2015, thirteen retired employees and spouses were eligible to participate. 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.

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.

The District may contribute the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with parameters of GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. For the year ended June 30, 2017, the District made no contributions and instead elected to continue funding on a pay-as-you-go basis, which amounted to $177,550 {$123,242 District paid premiums and $54,308 implicit subsidy}. These costs are recognized as an expense when claims or premiums are paid.

Annual OPEB Cost and Net OPEB Obligation. The components of the District's annual OPEB (other postemployment benefit) cost for the year, the amount actually contributed to the Plan, and changes in the District's net OPEB obligation to the Plan were as follows:

	2017	2016	2015
Annual Required Contribution	$ 132,033	$ 132,033	$ 210,896
Interest on Net OPEB Asset	(55,897)	(54,938)	
Adjustment and Annual Required Contribution	85,353	83,890	
Annual OPEB Cost	161,489	160,985	210,896
Contributions or Payments Made	(177,550)	(185,316)	(254,084)
Increase (Decrease) in Net OPEB Asset	(16,061)	(24,331)	(43,188)
Net OPEB Asset, Beginning of Year	(1,597,059)	(1,572,728)	(1,529,540)
Net OPEB Asset, End of Year	$ (1,613,120)	$ (1,597,059)	$ (1,572,728)
Percentage of Annual OPEB Cost Contributed	109.9%	115.1%	120.5%

Funded Status and Funding Progress. The funded status of the Plan as of July 1, 2015, the date of the most recent actuarial valuation, is as follows:

Actuarial Accrued Liability (AAL)	$ 1,129,354
Actuarial Value of Assets	
Unfunded AAL (UAAL)	$ 1,129,354
Funded Ratio	0.0%
Covered Payroll	$ 10,035,527
UAAL as a Percent of Covered Payroll	11.3%

Actuarial Methods and Assumptions. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of potential occurrences of certain events in the future. Examples include assumption about future employment, mortality, healthcare costs trends, inflation, etc. Amounts determined regarding the funded status of the plan and the annual required contributions of the District are subject to constant changes and modifications as actual results are compared with past expectations and new estimates and assumptions are formed regarding the future. Projections of retiree benefits for financial reporting purposes are based on current plan activities as it is handled by the District and the benefits are received by the eligible plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit cost between the District and plan members. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2015 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.5% a year rate of investment return, compounded annually net after investment expense, which is the expected long-term investment return on plan assets. There was also an inflationary rate assumption factored into the calculation. Per the actuarial study, the assumed rate ranges from 7.5% to 5% for health care related costs. The UAAL is being amortized as a level percentage of active member payroll over a period of 30 years.

NOTE 7 LONG-TERM LIABILITIES

Changes in the District's long-term liabilities for the year ended June 30, 2017 are as follows:

Summary of Long-Term Liabilities

	Beginning Balance	Additions	Retired	Ending Balance	Due Within One Year
Capital Loans Payable	$ 56,550,894	$ 61,547	$	$ 56,612,441	$
Defaulted Interest on Capital Loan	48,100,244	4,243,171	5,136	52,338,279	
Capital Lease		527,546	177,972	349,574	172,842
Severance Payable	2,013,329	(102,519)	159,783	1,751,027	
Total Long-Term Liabilities	$ 106,664,467	$ 4,729,745	$ 342,891	$ 111,051,321	$ 172,842

The District's interest expense for the year ended June 30, 2017 was $4,245,907.

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 6/30/2017	Amounts Due in 2017-2018 Principal	Amounts Due in 2017-2018 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	5,257,101	61,547	5,318,648		
			$ 56,550,894	$ 61,547	$ 56,612,441	$	$

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.

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, 2017, are as follows:

Year Ending June 30	Amount
2018	$ 180,708
2019	180,708
Total Minimum Lease Payments	361,416
Less: Amounts Representing Interest	(11,842)
Present Value of Minimum Lease Payments	$ 349,574

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, 2017, the estimated liability under these plans was $1,751,027.

NOTE 9 INTERFUND TRANSFERS

Transfer In	Transfer Out	Amount
Nonmajor Governmental Funds	General	$134,658

The purpose of the transfers is to cover the operating deficit in the community service fund.

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 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, 2017.

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. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement is effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.

GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67 and No. 73*, provides further guidance regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement amends GASB Statements No. 67 and No. 68 to require the presentation of covered payroll to be defined as the payroll on which contributions to a pension plan are based, rather than the payroll of employees that are provided with pensions through the pension plan. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. 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. 85, *Omnibus 2017*, addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

GASB Statement No. 86, *Certain Debt Extinguishment Issues*, provides guidance for derecognizing debt that is defeased in substance, regardless of how cash and other monetary assets placed in an irrevocable trust for the purpose of extinguishing that debt were acquired. This Statement requires that any remaining prepaid insurance related to the extinguished debt be included in the net carrying amount of that debt for the purpose of calculating the difference between the reacquisition price and the net carrying amount of the debt. In addition, this Statement will enhance the decision-usefulness of information in notes to financial statements regarding debt that has been defeased in substance. This Statement is effective for reporting periods beginning after June 15, 2017. 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 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.

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, 2017

	Original and Final Budgeted Amounts	Actual	Over (Under) Final Budget
REVENUES			
Local Property Tax Levies	$ 2,491	$ 2,778	$ 287
Other Local & County Revenues	174,000	424,060	250,060
Revenue From State Sources	20,943,140	21,243,774	300,634
Revenue From Federal Sources	10,432,099	11,317,896	885,797
TOTAL REVENUES	31,551,730	32,988,508	1,436,778
EXPENDITURES			
Current			
Administration	1,923,364	1,944,766	21,402
District Support Services	1,281,135	1,078,354	(202,781)
Elementary & Secondary Regular Instruction	15,254,709	14,450,306	(804,403)
Vocational Education Instruction	9,232	225,532	216,300
Special Education Instruction	5,007,905	4,710,511	(297,394)
Instructional Support Services	1,752,948	1,617,724	(135,224)
Pupil Support Services	1,669,237	1,519,341	(149,896)
Sites and Buildings	4,149,653	3,803,226	(346,427)
Fixed Costs	181,800	173,507	(8,293)
Debt Service			
Principal	180,708	177,971	(2,737)
Interest		2,737	2,737
Capital Outlay	1,276,633	1,399,309	122,676
TOTAL EXPENDITURES	32,687,324	31,103,284	(1,584,040)
Revenues Over (Under) Expenditures	(1,135,594)	1,885,224	3,020,818
OTHER FINANCING SOURCES (USES)			
Debt Issued		527,546	527,546
Transfer Out		(134,658)	(134,658)
TOTAL OTHER FINANCING SOURCES (USES)		392,888	392,888
Net Change in Fund Balances	(1,135,594)	2,278,112	3,413,706
Fund Balances - Beginning	12,009,220	12,009,220	
Prior Period Adjustment - See Note 2	126,828	126,828	
Fund Balances - Beginning, Restated	12,136,048	12,136,048	
Fund Balances - Ending	$ 11,000,454	$ 14,414,160	$ 3,413,706

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

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
SCHEDULE OF FUNDING PROGRESS FOR OTHER POSTEMPLOYMENT BENEFITS
June 30, 2017

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
7/1/2015	$	$ 1,129,354	$ 1,129,354	%	$ 10,035,527	11.3 %
7/1/2012		1,946,023	1,946,023		8,892,104	21.9
7/1/2009		2,916,477	2,916,477		8,632,459	33.8

The District implemented GASB No. 45 for fiscal year ended June 30, 2010. Information for 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

	Fiscal Year Ended June 30	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
PERA						
	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
TRA						
	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

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

Fiscal Year Ended June 30	District's Proportion of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability	State's Proportionate Share of the Net Pension Liability Associated with the District (if Applicable)	Total	District's Covered-Employee Payroll	District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
PERA							
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
TRA							
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

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.

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

Changes in Actuarial Assumptions:

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.
- 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% to 3.25% for payroll growth and 2.50% for inflation.

TRA

Changes in Actuarial Assumptions:

- The Cost of Living Adjustment was not assumed to increase for funding or GASB calculations (it remained at 2% for all future years).
- The price inflation assumption was lowered from 3.00% to 2.75%.
- The general wage growth and payroll growth assumptions were lowered from 3.75% to 3.50%.
- Minor changes at some durations for the merit scale of the salary increase assumption.
- The pre-retirement mortality assumption was changed to the RP-2014 white collar employee table, male rates set back 6 years and female rates set back 5 years. Generational projection uses the MP-2015 scale.
- The post-retirement mortality assumption was changed to the RP-2014 white collar annuitant table, male rates set back 3 years and female rates set back 3 years, with further adjustments of the rates. Generational projection uses the MP-2015 scale.
- The post-disability mortality assumption was changed to the RP-2014 disabled retiree mortality table, without adjustment.
- Separate retirement assumptions for members hired before or after July 1, 1989 were created to better reflect each group’s behavior in light of different requirements for retirement eligibility.
- Assumed termination rates were changed to be based solely on years of service in order to better fit the observed experience.
- A minor adjustment and simplification of the assumption regarding the election of optional forms of payment at retirement were made.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS
June 30, 2017

	Special Revenue Funds				Total
	Food Service Fund	Community Service Fund	Building Construction Fund	Debt Redemption Fund	Nonmajor Governmental Funds
ASSETS					
Cash and Investments	$ 37,773	$ 135,955	$ 1,130	$ 5,272	$ 180,130
Accounts Receivable	4,069				4,069
Current Property Taxes Receivable		9		238	247
Due From Department of Education		33,496		187	33,683
Due From Federal Govt. - DOE	37,964				37,964
Inventory	16,188				16,188
TOTAL ASSETS	$ 95,994	$ 169,460	$ 1,130	$ 5,697	$ 272,281
LIABILITIES					
Accounts Payable	$ 4,826	$ 1,830	$	$	$ 6,656
Salary Payable	28,600	61,271			89,871
TOTAL LIABILITIES	33,426	63,101			96,527
DEFERRED INFLOWS OF RESOURCES					
Property Taxes Levied - Subs. Years		157		4,167	4,324
TOTAL DEFERRED INFLOWS OF RESOURCES		157		4,167	4,324
FUND BALANCES					
Nonspendable: Inventory	16,187				16,187
Restricted for Food Service	46,381				46,381
Restricted for Building Construction			1,130		1,130
Restricted for Debt Redemption				1,530	1,530
Restricted for Community Education		1,053			1,053
Restricted for ECFE		74,073			74,073
Restricted for School Readiness		2,701			2,701
Restricted for Community Service		28,375			28,375
TOTAL FUND BALANCES	62,568	106,202	1,130	1,530	171,430
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	$ 95,994	$ 169,460	$ 1,130	$ 5,697	$ 272,281

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, 2017

	Special Revenue Funds				
	Food Service Fund	Community Service Fund	Building Construction Fund	Debt Redemption Fund	Total Nonmajor Governmental Funds
REVENUES					
Local Property Tax Levies	$	$ 68	$	$ 3,160	$ 3,228
Other Local & County Revenues		167,169	42		167,211
Revenue From State Sources	32,511	321,721		1,871	356,103
Revenue From Federal Sources	1,214,506	58,395			1,272,901
Sale/Other Conversion of Asset	14,781				14,781
TOTAL REVENUES	1,261,798	547,353	42	5,031	1,814,224
EXPENDITURES					
Current					
Community Education and Services		634,564			634,564
Pupil Support Services	1,199,230				1,199,230
Debt Service					
Interest				5,137	5,137
Capital Outlay		4,481	61,547		66,028
TOTAL EXPENDITURES	1,199,230	639,045	61,547	5,137	1,904,959
Revenues Over (Under) Expenditures	62,568	(91,692)	(61,505)	(106)	(90,735)
OTHER FINANCING SOURCES					
Debt Issued			61,547		61,547
Transfer In		134,658			134,658
TOTAL OTHER FINANCING SOURCES		134,658	61,547		196,205
Net Change in Fund Balances	62,568	42,966	42	(106)	105,470
Fund Balances - Beginning		63,236	1,088	1,636	65,960
Fund Balances - Ending	$ 62,568	$ 106,202	$ 1,130	$ 1,530	$ 171,430

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
SCHEDULE OF CHANGES IN FUND BALANCES
For the Year Ended June 30, 2017

	Balance Beginning of Year	Revenues	Expenditures	Transfers	Debt Issued	Prior Period Adjustment	Balance End of Year
Governmental Funds							
General Fund							
Nonspendable	$ 23,987	$	$	$	$	$	$ 23,987
Restricted for:							
Health and Safety		147					147
Operating Capital	40,502	338,853	260,268				119,087
Learning and Development	3,344						3,344
St. Approved Alt Program	369,330	472,561	139,873				702,018
Basic Skills	223,921						223,921
Long-Term Facilities Maint.	12,525	220,167	215,883				16,809
Building Construction	109,346						109,346
Medical Assistance		23,265	3,724				19,541
Assigned for:							
Other Post-Employment Benefits (OPEB)	2,916,477						2,916,477
Unassigned	8,309,788	31,933,515	30,483,536	(134,658)	527,546	126,828	10,279,483
Food Service Fund							
Nonspendable	13,696			2,491			16,187
Restricted: Food Service		1,261,798	1,199,230	(16,187)			46,381
Unassigned	(13,696)			13,696			
Community Service Fund							
Restricted for:							
Community Education	13,879	115,791	130,698	2,081			1,053
ECFE	44,768	126,144	96,839				74,073
School Readiness		274,935	404,811	132,577			2,701
Community Service	4,589	30,483	6,697				28,375
Building Fund							
Restricted for Building Fund	1,088	42	61,547		61,547		1,130
Debt Service Fund							
Restricted for Debt Service	1,636	5,031	5,137				1,530
Fiduciary Fund							
Scholarship Trust Fund							
Net Position Held in Trust	2,660	3,487	5,050				1,097

BRADY MARTZ
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, 2017, and the related notes to the financial statements, and have issued our report thereon dated December 27, 2017.

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* except as described in the schedule of findings and questioned costs as item 2017-003. 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.

Brady Martz

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

December 27, 2017

This page intentionally left blank

BRADY MARTZ
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, 2017, 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 27, 2017.

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 2017-001 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 deficiency described in the accompanying schedule of findings and questioned costs as item 2017-002 to be a significant deficiency.

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

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

December 27, 2017

BRADY MARTZ
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, 2017. 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 opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

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 major federal programs for the year ended June 30, 2017.

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. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*. However, material weaknesses may exist that have not been identified.

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.

Brady Martz

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

December 27, 2017

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2017

Federal Grantor/ Pass-Through Grantor/ Program Title	Pass-Through Number	Federal CFDA Number	Amount
U.S. Department of Education			
Direct Programs:			
Impact Aid		84.041	$ 9,310,129
Indian Education		84.060	330,379
Total Direct			9,640,508
Passed-Through Minnesota Department of Education:			
Title I		84.010	1,167,524
Title II, Part A		84.367	124,258
Special Education Grants for Infants and Families		84.181	25,967
Rural Education Achievement Program		84.358	24,475
Special Education (IDEA) Cluster:			
Special Education Grants to States		84.027	363,677
Special Education Preschool Grants		84.173	16,523
Total Special Education (IDEA) Cluster:			380,200
Passed-Through Bemidji Regional Inter-District Council:			
Special Education Grants for Infants and Families		84.181	7,259
Passed-Through North Country Vocational Cooperative:			
Carl Perkins		84.048	6,100
Total Indirect			1,735,783
Total U.S. Department of Education			11,376,291
U.S. Department of Agriculture			
Passed-Through Minnesota Department of Education:			
After School Snacks		10.558	11,896
Fresh Fruit and Vegetable Program		10.582	56,543
Child Nutrition Cluster:			
School Breakfast Program		10.553	332,302
National School Lunch Program		10.555	711,400
Commodity Distribution		10.555	40
Commodity Distribution (Nonmonetary Assistance)		10.555	64,361
Summer Food Program		10.559	37,964
Total Child Nutrition Cluster			1,146,067
Total U.S. Department of Agriculture			1,214,506
TOTAL FEDERAL AWARDS			$ 12,590,797

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, 2017 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 SUBRECIPENTS

During 2017, the District did not pass any federal money to subrecipients.

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?	_x_ yes ___ no
Significant deficiency(ies) identified?	_x_ yes ___ none reported
Noncompliance material to financial statements noted?	___ yes _x_ no

Federal Awards

Internal Control over major programs:	
Material weakness(es) identified?	___ yes _x_ no
Significant deficiency(ies) identified?	___ yes _x_ none reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	___ yes _x_ no

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.041	Impact Aid

Dollar threshold used to distinguish between Type A and Type B programs:	$750,000
Auditee qualified as low-risk auditee?	_x_ yes ___ no

Section II-Financial Statement Findings

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.

Repeat Finding
Yes. Prior audit finding 2007-001

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.

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.

Repeat Finding
No

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.

Section III-Federal Award Findings and Questioned Costs

There are no findings which are required to be reported under this section.

Section IV-Minnesota Legal Compliance Findings

2017-003 FINDING

Criteria
Minnesota Statute Section 471.38 requires a list of electronic funds transactions to be submitted to the School Board at the next regular meeting after the transaction for approval.

Condition
The District had electronic funds transactions that were not submitted and approved by the Board.

Cause
Oversight by the District staff.

Effect
The District was not in compliance with Minnesota State Statutes.

Repeat Finding
No.

Recommendation
The District should comply with the statute.

Views of Responsible Officials and Planned Corrective Actions
The District agrees with the recommendation and all future electronic funds transfers will be approved by the Board and the next regular meeting after the transaction has occurred.

2016-001 FINDING

Criteria
The District should follow controls in place ensuring that semi-annual certifications are obtained and kept on file for employees working under a single cost objective (ie: 100% of their time is charged to one federal program), and that employees working under multiple cost objectives, (including at least one federal program) document their time allocation at least monthly.

Condition
The District did not consistently compile adequate and proper documentation in support of wages and benefits paid to employees working under the Title I Grants to Local Education Agencies federal award program (CFDA 84.010). In accordance with 2 CFR Part 225, *Cost Principles for State, Local, and Indian Tribal Governments*, depending on whether an employee works on a single federal award or multiple awards, salaries and wages must be supported by either periodic certifications or personnel activity reports or equivalent documentation.

Cause
Controls in place were not followed to ensure required documentation supporting time allocation is being completed and maintained on file.

Effect
Possible financial statement misstatement could exist.

Recommendation
Management follow written controls and procedures to ensure documentation supporting time allocation is being completed and maintained on file.

Corrective Action Taken
The District is following the written controls and procedures for documenting time allocation.

2007-001 FINDING

Criteria
The District should have controls in place to prevent or detect a material misstatement in the annual financial statements including footnote disclosures.

Condition
The District's Auditor prepares the financial statements. This is not unusual in Districts the size of Independent School District No. 38; however Independent School District No. 38's management and governance personnel should be aware that even though they assume responsibility for the financial statements the fact that the Auditor has prepared the financial statements indicates a significant deficiency by management.

Cause
The District has not adopted an internal control policy over the annual financial reporting under generally accepted accounting principles (GAAP), however, management has reviewed and approved the annual financial statements as prepared by the audit firm.

Effect
The impact on the financial statements is that the potential exists that a material misstatement could exist in the financial statements.

Recommendation
We recommend that management become knowledgeable in financial statement preparation so that management can prepare the financial statements for audit purposes. If management does not feel that it desires to obtain this knowledge and expertise then it should consider contracting with a third party accountant that would prepare year end adjusting entries to the financial records and also prepare the financial statements for audit purposes.

Corrective Action Taken
No action taken. See current year finding 2017-001 and Corrective Action Plan.

2017-001 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.

2017-002 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

2017-003 FINDING

Contact Person – Superintendent

Corrective Action Plan – Staff responsible for submitting payments to the Board for approval will be given a copy of the state statute and will be responsible for following the laws.

Completion Date – Immediately

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
STUDENT ACTIVITY DETAIL
For the Year Ended June 30, 2017

	Fund Balance 6-30-16	Receipts	Disbursements	Transfers	Fund Balance 6-30-17
8th Grade Class	$ 442	$	$	$ (442)	$
Band Activity Club	36	5,637	5,673		
Boys Basketball	364	3,100			3,464
Community Gardening Project	5,921		5,634		287
Concessions		18,872	13,168		5,704
Design Club	1,270	18,409	17,607		2,072
Freshman Class	(349)	4,859	4,503		7
Middle School Library Club	(831)			831	
National Honor Society	1,945		80		1,865
Pep Club	404			(404)	
PES ELC	741			639	1,380
Ponemah 6th Grade	54			(54)	
PES Anishanabe Day	1,309				1,309
Ponemah Pop Fund	585			(585)	
Prom	492	2,270	2,179		583
RLE Archery Club	2,465		722		1,743
RLE Elementary Activity	(398)	1,255	743		114
RLHS Art Club	927		100		827
RLHS Student Council	483	3,243	5,686	4,458	2,498
RLMS Art Club	1,200	46		(1,200)	46
RLMS Student Council	4,460	49		810	5,319
Skateboard Club	194	335	325		204
Ski Club	3,386				3,386
Special Ed	579	390	157		812
Special Olympics	205				205
Taste of Red Lake Cookbook	4,053			(4,053)	
	$ 29,937	$ 58,465	$ 56,577	$	$ 31,825

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS COMPLIANCE TABLE
June 30, 2017

District Name: INDEPENDENT SCHOOL DISTRICT NO. 38 **District Number:** 38

	Audit	UFARS	Variance
01 GENERAL FUND			
Total Revenue	32,988,508	32,988,508	
Total Expenditures	31,103,284	31,103,285	(1)
Non Spendable			
460 Non Spendable Fund Balance	23,987	23,987	
Restricted/Reserved:			
403 Staff Development			
406 Health & Safety	147	147	
407 Capital Projects Levy			
408 Cooperative Revenue			
409 Alternative Fac Program			
413 Project Funded by COP			
414 Operating Debt			
416 Levy Reduction			
417 Taconite Building Maintenance			
423 Certain Teacher Programs			
424 Operating Capital	119,087	119,087	
426 $25 Taconite			
427 Disabled Accessibility			
428 Learning & Development	3,344	3,344	
434 Area Learning Center			
435 Contracted Alt Programs			
436 State Approved Alt Program	702,018	702,018	
438 Gifted & Talented			
440 Teacher Development and Eval			
441 Basic Skills Programs	223,921	223,921	
445 Career and Technical Programs			
448 Achievement and Integration			
449 Safe Schools Levy			
450 Prekindergarten			
451 QZAB Payments			
452 OPEB Liab Not In Trust			
453 Unfnded Sev & Retiremt Levy			
467 LTFM	16,809	16,809	
472 Medical Assistance	19,541	19,541	
Restricted			
464 Restricted Fund Balance	109,346	109,346	
Committed			
418 Committed for Separation			
461 Committed			
Assigned			
462 Assigned Fund Balance	2,916,477	2,916,477	
Unassigned:			
422 Unassigned Fund Balance	10,279,483	10,279,481	2
Reconciliation of General	78,505,952	78,505,951	1
02 FOOD SERVICE			
Total Revenue	1,261,798	1,261,798	
Total Expenditures	1,199,230	1,199,230	
Non Spendable			
460 Non Spendable Fund Balance	16,187	16,188	(1)
Restricted/Reserved:			
452 OPEB Liab Not In Trust			
Restricted			
464 Restricted Fund Balance	46,381	46,381	
Unassigned			
463 Unassigned Fund Balance			
Reconciliation of Food Service	2,523,596	2,523,597	(1)
04 COMMUNITY SERVICE			
Total Revenue	547,353	547,353	
Total Expenditures	639,045	639,045	
Non Spendable			
460 Non Spendable Fund Balance			
Restricted/Reserved:			
426 $25 Taconite			
431 Community Education	1,053	1,053	
432 E.C.F.E.	74,073	74,073	
440 Teacher Development and Eval			
444 School Readiness	2,701	2,701	
447 Adult Basic Education			
452 OPEB Liab Not In Trust			
Restricted			
464 Restricted Fund Balance	28,375	28,374	1
Unassigned			
463 Unassigned Fund Balance			
Reconciliation of Community Service	1,292,600	1,292,599	1

	Audit	UFARS	Variance
06 BUILDING CONSTRUCTION			
Total Revenue	42	42	
Total Expenditures	61,547	61,547	
Non Spendable			
460 Non Spendable Fund Balance			
Restricted/Reserved:			
407 Capital Projects Levy			
413 Projects Funded By COP			
467 LTFM			
Restricted			
464 Restricted Fund Balance	1,130	1,130	
Unassigned:			
463 Unassigned Fund Balance			
Reconciliation of Building Construction	62,719	62,719	
07 DEBT SERVICE			
Total Revenue	5,031	5,031	
Total Expenditures	5,137	5,137	
Non Spendable			
460 Non Spendable Fund Balance			
Restricted/Reserved:			
425 Bond Refundings			
451 QZAB Payments			
Restricted			
464 Restricted Fund Balance	1,530	1,530	
Unassigned:			
463 Unassigned Fund Balance			
Reconciliation of Debt Service	11,698	11,698	
08 TRUST			
Total Revenue	3,487	3,487	
Total Expenditures	5,050	5,050	
Unassigned:			
422 Unassigned Fund Balance	1,097	1,097	
Reconciliation of Trust	9,634	9,634	
20 INTERNAL SERVICE			
Total Revenue			
Total Expenditures			
Unassigned:			
422 Unassigned Fund Balance			
Reconciliation of Internal Service			
25 OPEB REVOCABLE TRUST FUND			
Total Revenue			
Total Expenditures			
Unassigned:			
422 Unassigned Fund Balance			
Reconciliation of OPEB Revocable Trust			
45 OPEB IRREVOCABLE TRUST FUND			
Total Revenue			
Total Expenditures			
Unassigned:			
422 Unassigned Fund Balance			
Reconciliation of OPEB Irrevocable Trust			
47 OPEB DEBT SERVICE FUND			
Total Revenue			
Total Expenditures			
Non Spendable			
460 Non Spendable Fund Balance			
Restricted			
425 Bond Refunding			
464 Restricted Fund Balance			
Unassigned			
463 Unassigned Fund Balance			
Reconciliation of OPEB Debt Service			