

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**FINANCIAL STATEMENTS**  
**AND**  
**INDEPENDENT AUDITOR'S REPORT**  
**JUNE 30, 2016**

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**JUNE 30, 2016**

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**RED LAKE, MINNESOTA**  
**JUNE 30, 2016**

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**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**YEAR ENDED JUNE 30, 2016**

**OFFICIAL DIRECTORY**  
**(Unaudited)**

<b><u>School Board Members and Officers</u></b>	<b>July 1, 2015 to December 31, 2015</b>	<b>January 1, 2016 to June 30, 2016</b>
<b>Chairperson</b>	<b>Mike Barrett</b>	<b>Mike Barrett</b>
<b>Vice-Chairperson</b>	<b>Robert McClain</b>	<b>Robert McClain</b>
<b>Treasurer</b>	<b>Roy Nelson</b>	<b>Roy Nelson</b>
<b>Clerk</b>	<b>Barbara Thomas</b>	<b>Barbara Thomas</b>
<b>Director</b>	<b>Darwin Summer</b>	<b>Darwin Summer</b>
<b>Director</b>	<b>Tina Stately</b>	<b>Tina Stately</b>
<b><u>Administration</u></b>		
<b>Superintendent</b>	<b>Dr. Anne M. Lundquist</b>	<b>Dr. Anne M. Lundquist</b>
<b>Business Manager</b>	<b>Willie Larson</b>	<b>Willie Larson</b>



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## **INDEPENDENT AUDITOR'S REPORT**

**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 Independent School District No. 38 – Red Lake, Minnesota, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Independent School District No. 38 – Red Lake, Minnesota'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 misstatements.

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 – Red Lake, Minnesota, as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison information, the Schedule of Funding Progress for Post-Employment Benefit Plan, the Schedule of the District's and Non-Employer Proportionate Share of the Net Pension Liability and the Schedule of District's Contributions on pages 5 through 17 and 53 through 59, respectively, 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 Independent School District No. 38 – Red Lake, Minnesota's basic financial statements. The Official Directory, nonmajor fund financial statements, other schedules, and statistical section, 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 also not a required part of the basic financial statements.

The nonmajor fund financial statements, other schedules, and the Schedule of Expenditures of Federal Awards 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 nonmajor fund financial statements, other schedules, and the Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The Official Directory and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2016, on our consideration of Independent School District No. 38 – Red Lake, Minnesota’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 Independent School District No. 38 – Red Lake, Minnesota’s internal control over financial reporting and compliance.

*Miller McDonald, Inc.*

December 16, 2016  
Bemidji, Minnesota

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED JUNE 30, 2016**

This section of Independent School District No. 38 – Red Lake, Minnesota's, annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2016. Please read it in conjunction with the District's financial statements, which immediately follow this section.

**FINANCIAL HIGHLIGHTS**

Key financial highlights for the year ended June 30, 2016 include the following:

- Net position decreased by 2.62% from the prior year.
- Overall revenues were \$34,332,748 and overall expenses were \$35,786,515. Expenses exceeded revenues in the district-wide statement mainly due to depreciation expense, accrued interest on capital loans, and overall operational expenses exceeding revenues in the governmental activities.
- The General fund balance increased by \$2,993,640.
- The Building Construction fund balance increased by \$70 and the Community Service fund balance increased by \$44,850. The Debt Service fund balance decreased by \$177 and there was no change in the Food Service fund balance.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

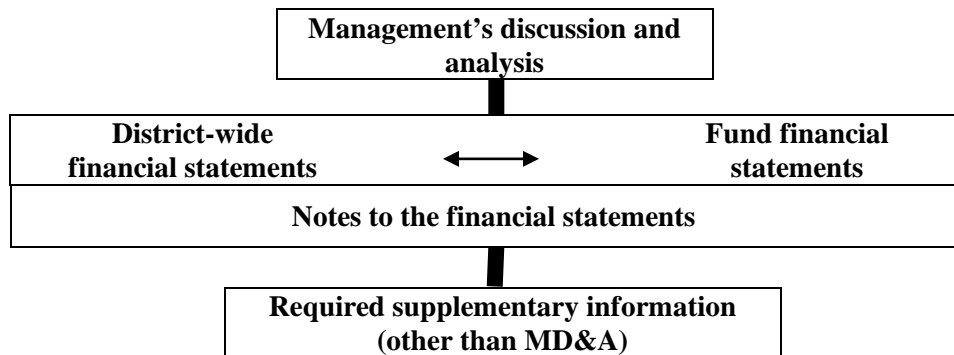
- The first two statements are *district-wide financial statements* that provide both *short-term* and *long-term* information about the District's overall financial status.
- The remaining statements are *fund-financial statements* that focus on individual parts of the District, reporting on the District's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



**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED JUNE 30, 2016**

**OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)**

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 and special revenue funds budgets for the year. The following diagram explains how the various parts of this annual report are arranged and related to one another.



The major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain, are summarized below. The remainder of the overview section of the MD&A highlights the structure and content of each of the statements.

	District-wide Statements	Fund Financial Statements	
		Governmental Funds	Fiduciary Funds
Scope	Entire district except fiduciary funds	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Instances in which the district administers resources on behalf of someone else, such as retiree benefits and student activities
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net position</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net position</li> <li>• Statement of changes in fiduciary net position</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus
Type of assets/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED JUNE 30, 2016**

**OVERVIEW OF THE FINANCIAL STATEMENTS** (Continued)

**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, deferred outflows of resources, liabilities and deferred inflows of resources. All of the current years' revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The district-wide statements report the District's net position and how it changed. Net position – the difference between the District's assets, deferred outflows of resources, liabilities and deferred inflows 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 overall health of the District you need to consider additional non-financial factors such as changes in the District's property tax base and 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** – The majority of the District's basic services are included within these activities; such as regular and special education, transportation, administration, food services, and community education. Federal and state aids finance the majority of these activities.

**Fund Financial Statements**

The fund financial statements provide more detailed information about the District's funds – focusing on its most significant or “major” funds – not the District as a whole. 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 (e.g., repaying its long-term debts) or to show that it is properly using certain revenues (e.g., federal grants).

The District has two types of funds:

**Governmental Funds** – The majority of 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 to 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, we provide additional information following the governmental funds statements that explains the relationship (or differences) between them.

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED JUNE 30, 2016**

**OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)**

**Fiduciary Fund** – The District is the trustee, or fiduciary, for assets that belong to others. The District is responsible for ensuring that only those to whom the assets belong use the assets reported in these funds. The District's fiduciary activities are reported in separate statements: Statement of Fiduciary Net Position and Statement of Changes in 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**  
**(DISTRICT-WIDE FINANCIAL STATEMENTS)**

**Net Position**

The District's combined net position was \$(56,971,746) at June 30, 2016 (see the following table). At June 30, 2015 the net position was \$(55,517,979) with a decrease of \$1,453,767 from operating activities for the year ended June 30, 2016. The District's unrestricted net position is negative due to the capital loans and defaulted interest which totaled \$104,651,138 and \$95,834,630 for the years ended June 30, 2016 and 2015, respectively.

	2016	As Restated 2015	Net Changes	
			Amount	Percent
Current and other assets	\$ 18,150,598	\$ 13,925,326	\$ 4,225,272	30.34%
Capital assets, net of depreciation	53,663,689	49,767,639	3,896,050	7.83%
<b>Total assets</b>	<b>71,814,287</b>	<b>63,692,965</b>	<b>8,121,322</b>	<b>12.75%</b>
Deferred outflows of resources	3,101,801	2,679,273	422,528	100.00%
Current payables	4,472,849	3,317,566	1,155,283	34.82%
Long-term liabilities:				
Due within one year	23,835	228,030	(204,195)	-89.55%
Due after one year	124,353,581	113,514,264	10,839,317	9.55%
<b>Total liabilities</b>	<b>128,850,265</b>	<b>117,059,860</b>	<b>11,790,405</b>	<b>10.07%</b>
Deferred inflows of resources	3,037,569	4,830,357	(1,792,788)	-37.12%
<b>Net position:</b>				
Restricted	824,928	529,940	294,988	55.66%
Unrestricted (deficit)	(57,796,674)	(56,047,919)	(1,748,755)	-3.12%
<b>Total net position (deficit)</b>	<b>\$ (56,971,746)</b>	<b>\$ (55,517,979)</b>	<b>\$ (1,453,767)</b>	<b>-2.62%</b>

The change amounted to a 2.62% decrease in net position.

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED JUNE 30, 2016**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**  
**(DISTRICT-WIDE FINANCIAL STATEMENTS) (Continued)**

**Change in Net Position**

The decrease in net position occurs as a result of the District's expenditures being more than its revenues for the years ended June 30, 2016 and 2015. A summary of the District's revenues and expenses, along with the percentages for each category follows:

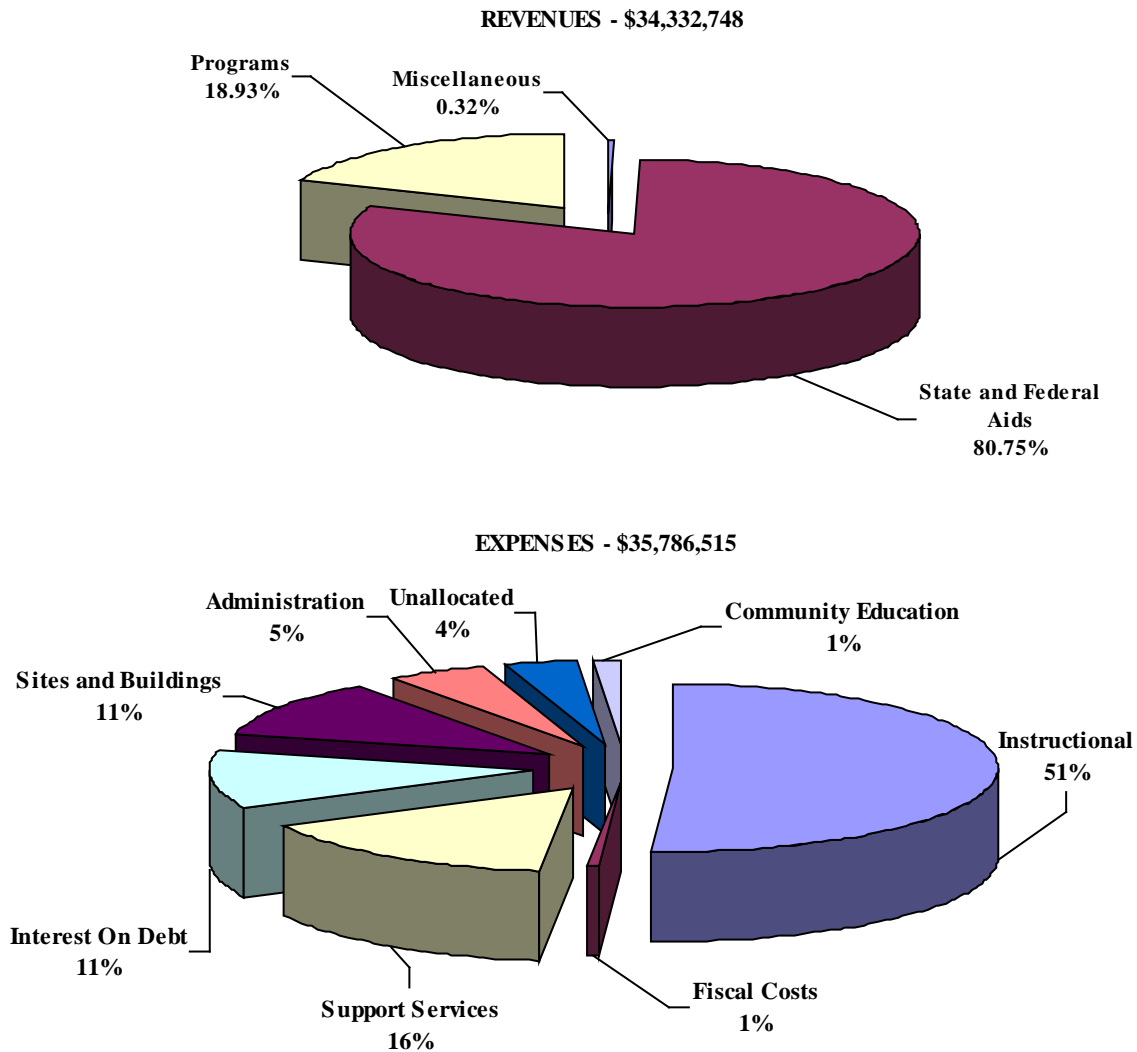
	2016		As Restated 2015		Net Change	
	Amounts	Percent	Amounts	Percent	Amount	Percent
<b>Revenues:</b>						
<b>Program Revenues:</b>						
Charges for Services	\$ 90,113	0.26%	\$ 103,420	0.32%	\$ (13,307)	-12.87%
Operating Grants and Contributions	6,409,384	18.67%	6,642,850	20.40%	(233,466)	-3.51%
<b>Total Program Revenues</b>	<b>6,499,497</b>	<b>18.93%</b>	<b>6,746,270</b>	<b>20.72%</b>	<b>(246,773)</b>	<b>-3.66%</b>
<b>General Revenues:</b>						
Property Taxes	6,192	0.02%	6,783	0.02%	(591)	-8.71%
Aids and Payments from State and Federal Sources	27,724,019	80.75%	25,700,215	78.94%	2,023,804	7.87%
Other Sources	103,040	0.30%	103,777	0.32%	(737)	-0.71%
<b>Total General Revenues</b>	<b>27,833,251</b>	<b>81.07%</b>	<b>25,810,775</b>	<b>79.28%</b>	<b>2,022,476</b>	<b>7.84%</b>
<b>Total Revenues</b>	<b>34,332,748</b>	<b>100.00%</b>	<b>32,557,045</b>	<b>100.00%</b>	<b>1,775,703</b>	<b>5.45%</b>
<b>Expenses:</b>						
<b>Instructional:</b>						
Regular Instruction	13,816,911	38.61%	14,094,077	39.73%	(277,166)	-1.97%
Vocational Instruction	214,867	0.60%	224,499	0.63%	(9,632)	-4.29%
Special Education Instruction	4,284,610	11.97%	4,183,300	11.79%	101,310	2.42%
<b>Total Instructional</b>	<b>18,316,388</b>	<b>51.18%</b>	<b>18,501,876</b>	<b>52.15%</b>	<b>(185,488)</b>	<b>-1.00%</b>
<b>Support Services:</b>						
District Support Services	1,033,524	2.89%	1,132,394	3.19%	(98,870)	-8.73%
Instructional Support Services	1,666,226	4.66%	1,202,823	3.39%	463,403	38.53%
Pupil Support Services	2,978,453	8.32%	2,876,250	8.11%	102,203	3.55%
<b>Total Support Services</b>	<b>5,678,203</b>	<b>15.87%</b>	<b>5,211,467</b>	<b>14.69%</b>	<b>466,736</b>	<b>8.96%</b>
Administration	1,762,051	4.92%	1,612,303	4.54%	149,748	9.29%
Community Education and Services	519,494	1.45%	556,500	1.57%	(37,006)	-6.65%
Sites and Buildings	4,009,670	11.20%	4,153,413	11.71%	(143,743)	-3.46%
Fiscal and Other Fixed Costs	179,311	0.50%	189,797	0.53%	(10,486)	-5.52%
Interest on Long-Term Debt	4,015,868	11.22%	3,946,742	11.12%	69,126	1.75%
Unallocated Depreciation	1,305,530	3.65%	1,305,858	3.68%	(328)	-0.03%
<b>Total Expenses</b>	<b>35,786,515</b>	<b>100.00%</b>	<b>35,477,956</b>	<b>100.00%</b>	<b>308,559</b>	<b>0.87%</b>
<b>Changes in Net Position</b>	<b>\$ (1,453,767)</b>		<b>\$ (2,920,911)</b>		<b>\$ 1,467,144</b>	

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED JUNE 30, 2016**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**  
**(DISTRICT-WIDE FINANCIAL STATEMENTS) (Continued)**

The District's total revenues consisted of program revenues of \$6,499,497, aids and payments from the state and federal sources of \$27,724,019 and \$109,232 from miscellaneous other sources. Expenses totaling \$35,786,515 consisted of regular, vocational and special education instructional costs of \$18,316,388; district, instructional and pupil support services of \$5,678,203; sites and buildings costs of \$4,009,670; interest, fiscal, and fixed-cost programs of \$4,195,179; community education and services costs of \$519,494; administrative costs of \$1,762,051; and unallocated depreciation costs of \$1,305,530.

The following charts express revenues and expenses for the year in broad categories:



**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED JUNE 30, 2016**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**  
**(DISTRICT-WIDE FINANCIAL STATEMENTS) (Continued)**

The net cost of governmental activities is the total costs less program revenues applicable to each category. Total and net costs for the years ended June 30, 2016 and 2015 are as follows:

	<u>Cost of Services - 2016</u>		<u>Cost of Services - 2015</u>	
	<u>Total</u>	<u>Net</u>	<u>Total</u>	<u>Net</u>
<b>Expenses:</b>				
Administration	\$ 1,762,051	\$ 1,762,051	\$ 1,612,303	\$ 1,612,303
District Support Services	1,033,524	1,033,524	1,132,394	1,132,394
Regular Instruction	13,816,911	12,167,039	14,094,077	11,590,213
Vocational Instruction	214,867	214,867	224,499	224,499
Special Education Instruction	4,284,610	1,690,165	4,183,300	2,218,769
Community Education and Services	519,494	6,169	556,500	47,219
Instructional Support Services	1,666,226	1,617,124	1,202,823	1,163,723
Pupil Support Services	2,978,453	1,821,008	2,876,250	1,741,305
Sites and Buildings	4,009,670	3,476,177	4,153,413	3,560,819
Fiscal and Other Fixed Costs	179,311	177,496	189,797	187,842
Interest on Long-Term Debt	4,015,868	4,015,868	3,946,742	3,946,742
Unallocated Depreciation	<u>1,305,530</u>	<u>1,305,530</u>	<u>1,305,858</u>	<u>1,305,858</u>
<b>Total Expenses</b>	<u>\$ 35,786,515</u>	<u>\$ 29,287,018</u>	<u>\$ 35,477,956</u>	<u>\$ 28,731,686</u>

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**  
**(FUND FINANCIAL STATEMENTS)**

**Fund Balances**

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported a combined fund balance of \$12,075,180. This was up from \$9,036,797 at the end of the prior year, an increase of \$3,038,383. The General fund balance increased by \$2,993,640. The Building Construction fund balance and the Community Service fund balance increased by \$70 and \$44,850, respectively. The Debt Redemption fund balance decreased by \$177 and there was no change in the Food Service fund balance.

The District believes that prudent fiscal management requires the maintenance of a reasonable fund balance, to help in the event of unexpected conditions. The Board has adopted a Fund Balance Policy that provides for an unassigned General fund balance of at least three months average General Fund expenditures. The calculation for the June 30, 2016 fund balance follows:

Three months average expenditures for 2015-16	\$ 7,325,837
June 30, 2016 unassigned General fund balance	\$ 8,309,788

The District's unassigned General fund balance met this goal.

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED JUNE 30, 2016**

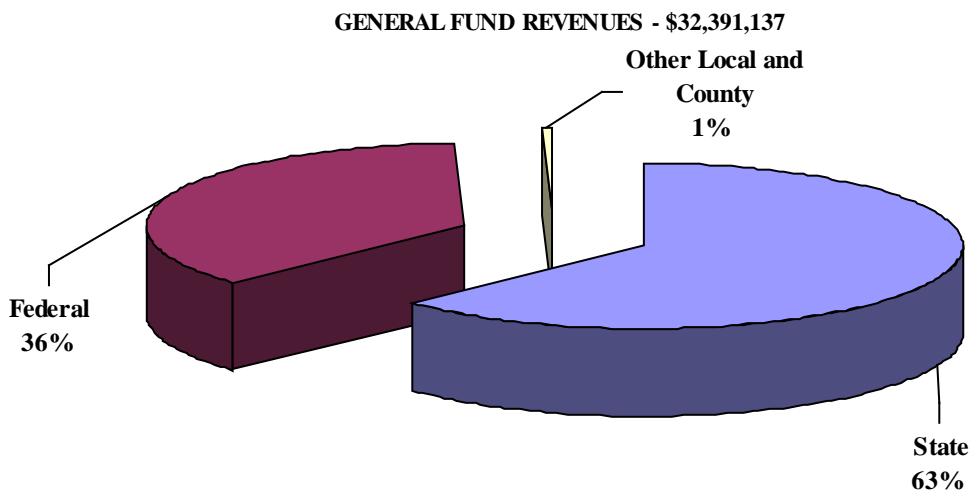
**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**  
**(FUND FINANCIAL STATEMENTS) (Continued)**

**Revenue and Expenditures**

Revenues of the District's governmental funds totaled \$34,059,725 while total expenditures were \$35,833,032. A summary of the revenues, expenditures, and other financing sources (uses) reported on the governmental fund financial statements is as follows:

	<u>Revenues</u>	<u>Expenditures</u>	<u>Other Financing Sources (Uses)</u>	<u>Fund Balance Increase (Decrease)</u>
General Fund	\$ 32,391,137	\$ 29,303,346	\$ (94,151)	\$ 2,993,640
Food Service Fund	1,094,967	1,189,118	94,151	-
Community Service Fund	568,203	523,353	-	44,850
Building Construction	70	4,811,690	4,811,690	70
Debt Redemption Fund	5,348	5,525	-	(177)
<b>Totals</b>	<b><u>\$ 34,059,725</u></b>	<b><u>\$ 35,833,032</u></b>	<b><u>\$ 4,811,690</u></b>	<b><u>\$ 3,038,383</u></b>

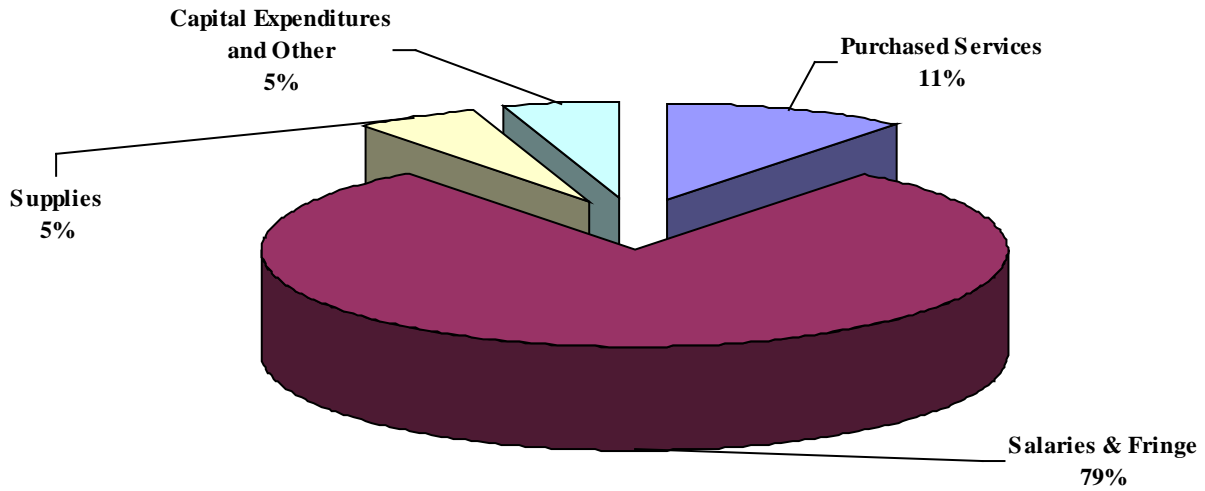
The following graphs are presented for the General Fund revenues and expenditures:



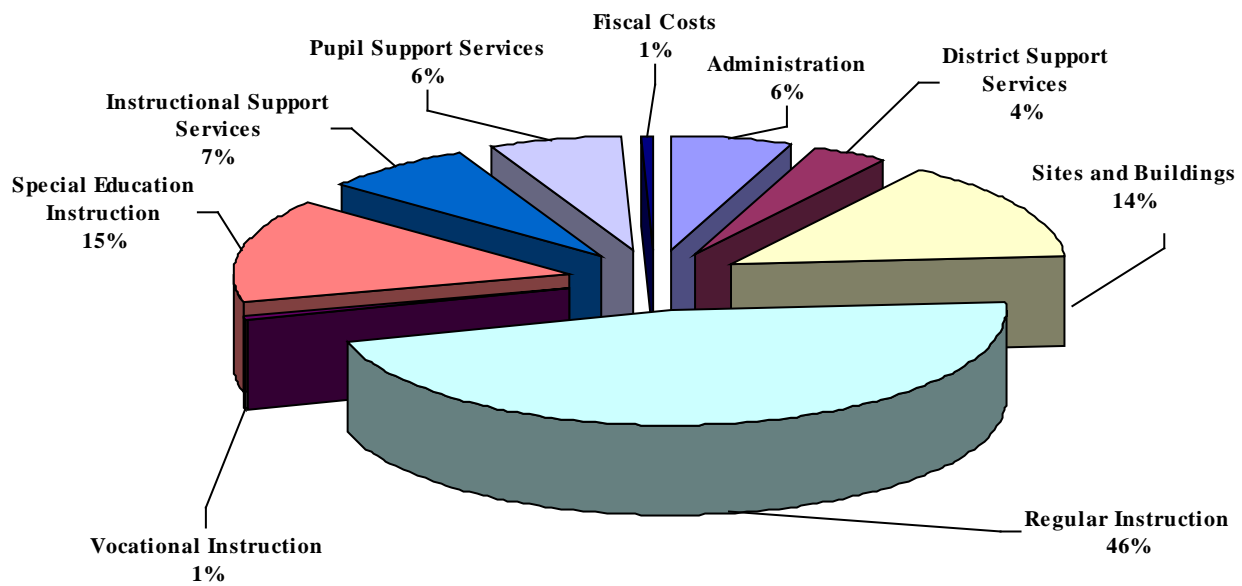
**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED JUNE 30, 2016**

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**  
**(FUND FINANCIAL STATEMENTS) (Continued)**

**GENERAL FUND EXPENSES BY OBJECT - \$29,303,346**



**GENERAL FUND EXPENSES BY PROGRAM - \$29,303,346**





**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED JUNE 30, 2016**

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**  
**(FUND FINANCIAL STATEMENTS) (Continued)**

**General Fund Budgetary Highlights**

During the year, the District may make several revisions to its operating budget. The first revision is planned and necessary because an initial budget, adopted prior to June 30, 2015, was adopted for the sole purpose of satisfying the state requirement of having an adopted budget in place prior to spending funds for the next fiscal year. In the State of Minnesota, a budget is also an appropriating document. If necessary, the first revision occurs in the fall of 2015 after student enrollment numbers, staffing levels and other significant informational items are made available. Other revisions occur as financial information becomes available that is of a significant nature and therefore necessitated for any revision.

The District's General Fund final budget anticipated that revenues would exceed expenditures by \$1,992,773 before other financing sources and uses. The actual results for the year reported revenues exceeding expenditures by \$3,087,791. Revenues were more than budget by \$123,760. This was primarily driven by revenues from state sources being \$433,535 greater than budgeted. This was somewhat offset by revenues from Federal sources being \$227,685 less than budgeted.

Expenditures for the District's General Fund final budget were \$971,258 under budget.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

Additions during the year ended June 30, 2016 totaled \$5,816,629. This included \$4,844,578 of buildings and improvements, \$637,670 for equipment and vehicles, and \$334,381 of construction in progress. The District also disposed of fully depreciated equipment with an original cost of \$212,454 for the year ended June 30, 2016.

**Long-Term Liabilities**

At June 30, 2016 the District's long-term liabilities totaled \$124,377,416. This consisted of capital loans payable of \$56,550,894, defaulted interest on capital loans of \$48,100,244, severance payable of \$2,013,329, net pension liability of \$17,568,889 and compensated absences payable of \$144,060. As of June 30, 2016, Other Post-Employment Benefits (OPEB) has a surplus and is included as an asset on the Statement of Net Position.

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**MANAGEMENT’S DISCUSSION AND ANALYSIS**  
**YEAR ENDED JUNE 30, 2016**

**FACTORS BEARING ON THE DISTRICT’S FUTURE**

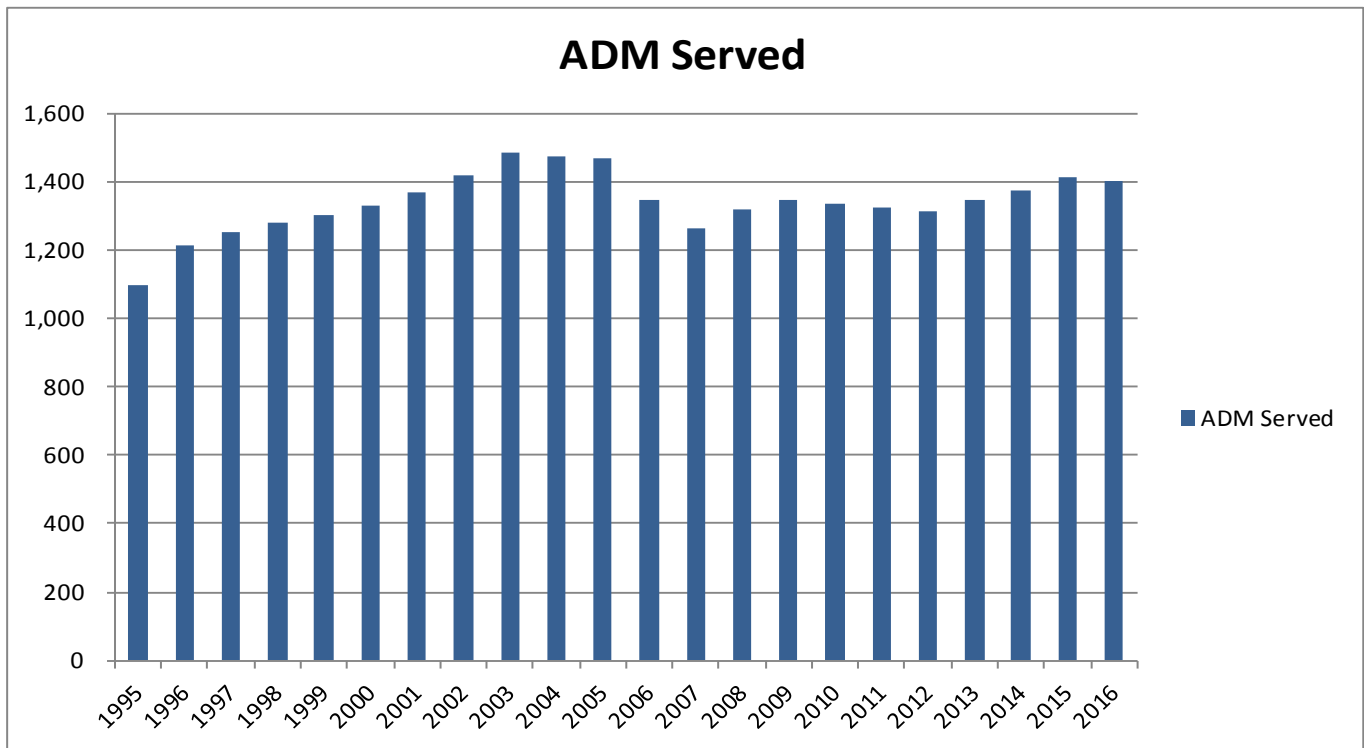
**Student Enrollment**

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 projections for FY 2017 show significant increases in the K-12 enrollment. This is due to the following factors.

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



**Staffing**

The District estimates the annual rate of staff turnover will be approximately 4% during FY 2017. The District is expecting retirements of three (3) in FY 2017.

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED JUNE 30, 2016**

**FACTORS BEARING ON THE DISTRICT'S FUTURE (Continued)**

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.

All of the District's union employment contracts will expire on June 30, 2017.

**Political Environment - Federal**

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

**Political Environment - State**

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

Due to 99% of the real property within the District boundaries being held in federal trust, the District does not have a large enough tax base to be able to issue capital building bonds to build or remodel capital facilities. Rather, the Red Lake School District must request Maximum Effort Capital Loans from the State of Minnesota. As per Minnesota Statute 126C.69, the District may apply to the State for a Maximum Effort Capital Loan. The loan must be approved by the legislature and approved by the governor. The District first requested a capital loan in 1992 to build a new elementary school and develop a plan for further improvement of facilities. The legislature has never fully funded the District's loan requests, but provided partial funding in 2000, 2002, 2005 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 .02% in reading and .09% in math. This increase is significant as it meets or exceeds the growth in the percent proficient statewide.

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED JUNE 30, 2016**

**FACTORS BEARING ON THE DISTRICT'S FUTURE (Continued)**

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 of an initiative to install for a guaranteed and viable curriculum that is culturally responsive, partnered with Tribal agencies to provide for Tribal Truancy Court to increase attendance, enrollment and ultimately, graduation.

**Food Service Program**

The District's Food Service Program has operated with deficits for many years. Each year funds are transferred from the General Fund to cover these deficits. District staff has worked to reduce the deficit from a high of \$862,607 in 2008. This has been accomplished through staff reductions, inventory control, asset management and cycle menus. Moving forward the District will continue to seek out ways to increase revenue, decrease expenses while still providing high quality meals.

During FY 2014, the District applied for the Community Eligibility Provision. This program is available to schools with a free/reduced rate greater than 50%. The District was approved to participate in the program beginning FY 2015. The additional revenue generated from this program reduced the food service operating deficit from \$162,350 in FY 2015 to \$94,150 in FY 2016.

The District implemented a wellness policy that included reducing the fat and caloric makeup of the meals that are being served. This is due in part to the high incidence of childhood obesity and adolescent diabetes. The changes included adding more fresh fruits and vegetables to the menu, reducing the amount of sugar on the menu by providing more scratch cooking, using standardized recipes and educating the food service staff to help them more fully understand the rationale for appropriate portion size and providing well balanced meals. It is the District's belief that these changes will have a positive impact on student attendance.

The District participates in the Fresh Fruit and Vegetable Grant. This grant allows a fresh fruit or vegetable snack to be served to students in the elementary grades each school day.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the District's citizens, taxpayers, customers, 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 any questions about this report or would like additional information, contact Willie Larson, Business Manager, at the District Administration Office, PO Box 499, Red Lake, Minnesota 56671.

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2016**

**ASSETS**

Cash and Investments		\$ 13,302,628
Property Taxes Receivable		93
Due from Other Governmental Units		3,207,567
Other Accounts Receivable		1,697
Interest Receivable		3,871
Inventories		37,683
Net OPEB Benefit		1,597,059
Capital Assets:		
Construction in Progress	\$ 334,381	
Depreciable Capital Assets, Net of Depreciation	53,329,308	<u>53,663,689</u>
<b>Total Assets</b>		<u><b>71,814,287</b></u>

**DEFERRED OUTFLOWS OF RESOURCES**

Deferred Outflows of Resources Related to Pensions		<u>3,101,801</u>
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**LIABILITIES**

Salaries Payable		1,107,540
Accounts Payable		1,623,704
Payroll Deductions and Employer Contributions		1,741,605
Long-Term Liabilities:		
Portion Due Within One Year		23,835
Due After One Year		<u>124,353,581</u>
<b>Total Liabilities</b>		<u><b>128,850,265</b></u>

**DEFERRED INFLOWS OF RESOURCES**

Deferred Inflows of Resources Related to Pensions		3,032,059
Property Taxes Levied for Subsequent Years' Expenditures		<u>5,510</u>
<b>Total Deferred Inflows of Resources</b>		<u><b>3,037,569</b></u>

**NET POSITION**

Restricted for:		
State Mandated Programs		712,858
Capital Projects		110,434
Debt Redemption		1,636
Unrestricted (Deficit)		<u>(57,796,674)</u>
<b>Total Net Position (Deficit)</b>		<u><b>\$ (56,971,746)</b></u>

See Accompanying Notes to Financial Statements.

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2016**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
<b>Governmental Activities</b>				
Administration	\$ 1,762,051	\$ -	\$ -	\$ (1,762,051)
District Support Services	1,033,524	-	-	(1,033,524)
Regular Instruction	13,816,911	36,209	1,613,663	(12,167,039)
Vocational Instruction	214,867	-	-	(214,867)
Special Education Instruction	4,284,610	14,266	2,580,179	(1,690,165)
Community Education and Services	519,494	-	513,325	(6,169)
Instructional Support Services	1,666,226	9,102	40,000	(1,617,124)
Pupil Support Services	2,978,453	30,536	1,126,909	(1,821,008)
Sites and Buildings	4,009,670	-	533,493	(3,476,177)
Fiscal and Other Fixed Costs	179,311	-	1,815	(177,496)
Interest on Long-Term Debt	4,015,868	-	-	(4,015,868)
Unallocated Depreciation*	1,305,530	-	-	(1,305,530)
<b>Total Governmental Activities</b>	<b>\$ 35,786,515</b>	<b>\$ 90,113</b>	<b>\$ 6,409,384</b>	<b>(29,287,018)</b>
<b><u>General Revenues:</u></b>				
<b>Property Taxes:</b>				
Levied for General Purposes				2,524
Levied for Community Education and Services				135
Levied for Debt Service				3,533
Aids and Payments from State and Federal Sources				27,724,019
Investment Earnings				41,390
Miscellaneous Revenues				61,650
<b>Total General Revenues</b>				<b>27,833,251</b>
<b><u>Change in Net Position</u></b>				<b>(1,453,767)</b>
<b><u>Net Position (Deficit) - Beginning of Year, as Restated</u></b>				<b>(55,517,979)</b>
<b><u>Net Position (Deficit) - End of Year</u></b>				<b>\$ (56,971,746)</b>

\* - This amount excludes the depreciation that is included in the direct expenses of the various programs.

See Accompanying Notes to Financial Statements.

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**JUNE 30, 2016**

	General Fund	Building Construction	Other Governmental Funds	Totals
<b><u>ASSETS</u></b>				
Cash and Investments	\$ 13,193,143	\$ 1,088	\$ 108,397	\$ 13,302,628
Property Taxes Receivable	88	-	5	93
Due from Other Funds	26,164	-	-	26,164
Due from Other Governmental Units	2,245,818	909,273	52,476	3,207,567
Other Accounts Receivable	1,697	-	-	1,697
Interest Receivable	3,871	-	-	3,871
Inventories	23,987	-	13,696	37,683
<b>Total Assets</b>	<b>\$ 15,494,768</b>	<b>\$ 910,361</b>	<b>\$ 174,574</b>	<b>\$ 16,579,703</b>
<b><u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</u></b>				
<b><u>Liabilities</u></b>				
Salaries Payable	\$ 1,024,256	\$ -	\$ 83,284	\$ 1,107,540
Accounts Payable	717,172	890,890	15,642	1,623,704
Due to Other Funds	-	18,383	7,781	26,164
Payroll Deductions and Employer Contributions	1,741,605	-	-	1,741,605
<b>Total Liabilities</b>	<b>3,483,033</b>	<b>909,273</b>	<b>106,707</b>	<b>4,499,013</b>
<b><u>Deferred Inflows of Resources</u></b>				
Property Taxes Levied for Subsequent Years' Expenditures	2,515	-	2,995	5,510
<b><u>Fund Balance</u></b>				
Nonspendable	23,987	-	13,696	37,683
Restricted	758,968	1,088	64,872	824,928
Assigned	2,916,477	-	-	2,916,477
Unassigned	8,309,788	-	(13,696)	8,296,092
<b>Total Fund Balance</b>	<b>12,009,220</b>	<b>1,088</b>	<b>64,872</b>	<b>12,075,180</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balance</b>	<b>\$ 15,494,768</b>	<b>\$ 910,361</b>	<b>\$ 174,574</b>	<b>\$ 16,579,703</b>

See Accompanying Notes to Financial Statements.

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**RECONCILIATION OF THE BALANCE SHEET -**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION**  
**JUNE 30, 2016**

Total Fund Balances - Governmental Funds \$ 12,075,180

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 the governmental funds.

Cost	\$ 79,347,406	
Accumulated Depreciation	(25,683,717)	
Net Depreciated Value of Capital Assets		53,663,689

Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.

Capital Loans Payable and Defaulted Interest	(104,651,138)	
Net Pension Liability	(17,568,889)	
Other Post-Employment Benefits Surplus	1,597,059	
Severance Payable	(2,013,329)	
Compensated Absences Payable	(144,060)	(122,780,357)

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

Deferred Outflows of Resources	3,101,801	
Deferred Inflows of Resources	(3,032,059)	69,742

Total Net Position - Governmental Activities \$ (56,971,746)



**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2016**

	General Fund	Building Construction	Other Governmental Funds	Totals
<b>Revenues</b>				
Local Property Taxes	\$ 2,524	\$ -	\$ 3,668	\$ 6,192
Other Local and County Revenues	125,935	-	180,338	306,273
Revenues from State Sources	20,443,292	-	300,405	20,743,697
Revenues from Federal Sources	11,767,405	-	1,153,840	12,921,245
Sales and Other Conversions of Assets	10,661	-	15,807	26,468
Investment Earnings	41,320	70	-	41,390
Miscellaneous Revenue	-	-	14,460	14,460
<b>Total Revenues</b>	<b>32,391,137</b>	<b>70</b>	<b>1,668,518</b>	<b>34,059,725</b>
<b>Expenditures</b>				
Administration	1,705,657	-	-	1,705,657
District Support Services	1,056,092	-	-	1,056,092
Regular Instruction	13,634,871	-	-	13,634,871
Vocational Instruction	214,392	-	-	214,392
Special Education Instruction	4,314,414	-	-	4,314,414
Community Education and Services	-	-	523,353	523,353
Instructional Support Services	2,116,139	-	-	2,116,139
Pupil Support Services	1,820,068	-	1,189,118	3,009,186
Sites and Buildings	4,262,402	4,811,690	-	9,074,092
Fiscal and Other Fixed Costs	179,311	-	-	179,311
Debt Service	-	-	5,525	5,525
<b>Total Expenditures</b>	<b>29,303,346</b>	<b>4,811,690</b>	<b>1,717,996</b>	<b>35,833,032</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>3,087,791</b>	<b>(4,811,620)</b>	<b>(49,478)</b>	<b>(1,773,307)</b>
<b>Other Financing Sources (Uses)</b>				
Capital Loan Proceeds	-	4,811,690	-	4,811,690
Operating Transfers In	-	-	94,151	94,151
Operating Transfers Out	(94,151)	-	-	(94,151)
<b>Total Other Financing Sources (Uses)</b>	<b>(94,151)</b>	<b>4,811,690</b>	<b>94,151</b>	<b>4,811,690</b>
<b>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</b>	<b>2,993,640</b>	<b>70</b>	<b>44,673</b>	<b>3,038,383</b>
<b>Fund Balances, Beginning of Year</b>	<b>9,015,580</b>	<b>1,018</b>	<b>20,199</b>	<b>9,036,797</b>
<b>Fund Balances, End of Year</b>	<b>\$ 12,009,220</b>	<b>\$ 1,088</b>	<b>\$ 64,872</b>	<b>\$ 12,075,180</b>

See Accompanying Notes to Financial Statements.

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2016**

Net Change in Fund Balances - Total Governmental Funds \$ 3,038,383

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

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

Capital Outlay	\$ 5,816,629	
Depreciation	(1,920,579)	
Excess Capital Outlay Over Depreciation Expense		3,896,050

Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces the long-term liabilities on the Statement of Net position. In the current period these amounts consist of:

Net Change in Capital Loans and Defaulted Interest	(4,004,818)	
Capital Lease Principal Payments	228,030	
Net Change in Other Post-Employment Benefits (OPEB)	24,331	
Net Change in Severance Payable	(42,081)	
Net Change in Compensated Absences Payable	(2,429)	
Total Long-Term Debt Change		(3,796,967)

Interest is recognized as an expenditure in the governmental funds when it is due. In the Statement of Activities, however, interest expense is recognized as it accrues, regardless of when it is due. In the current period accrued interest consists of:

Accrued Interest at June 30, 2015	7,275	
Accrued Interest at June 30, 2016	-	
Net Accrued Interest		7,275

Capital Loan proceeds provide current financial resources to governmental funds but issuing debt increases long-term liabilities in the Statement of Net Position. (4,811,690)

Governmental funds report District pension contributions as expenditures. In the statement of activities, however, the cost of pension benefits earned net of employee contributions is reported as pension expense.

District Pension Contributions	1,227,161	
Cost of Benefits Earned Net of Employee Contributions	(1,013,979)	
		213,182

Change in Net Position of Government Activities \$ (1,453,767)

See Accompanying Notes to Financial Statements.

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**STATEMENT OF FIDUCIARY NET POSITION -**  
**SCHOLARSHIP TRUST FUND**  
**JUNE 30, 2016**

**ASSETS**

Cash and Investments	\$ 18,730
Accounts Receivable	<u>5</u>

**Total Assets**18,735**LIABILITIES**

Other Payables	<u>16,075</u>
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**NET POSITION**

Net Position Held in Trust	<u>\$ 2,660</u>
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See Accompanying Notes to Financial Statements.

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION -**  
**SCHOLARSHIP TRUST FUND**  
**YEAR ENDED JUNE 30, 2016**

<b><u>Additions</u></b>	
Donations	\$ 4,500
Investment Earnings	24
Total Additions	<u>4,524</u>
<b><u>Deductions</u></b>	
Scholarship Payments	<u>2,000</u>
<b><u>Change in Net Position</u></b>	<b>2,524</b>
<b><u>Net Position, Beginning of Year</u></b>	<u>136</u>
<b><u>Net Position, End of Year</u></b>	<u><u>\$ 2,660</u></u>

See Accompanying Notes to Financial Statements.

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1 – Summary of Significant Accounting Policies**

The financial statements of Independent School District No. 38, Red Lake, Minnesota have been prepared in conformity with U. S. generally accepted accounting principles (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. The GASB has issued codification of governmental accounting and financial reporting standards dated June 30, 2016. This codification and subsequent GASB pronouncements are recognized as U.S. generally accepted accounting principles for state and local government.

**A. 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 separate 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 component units include 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 depended upon by the potential component unit.

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

Student activities are determined primarily by student participants under the guidance of an adult and are generally conducted outside of school hours. The School Board does have a fiduciary responsibility in establishing broad policies and ensuring that appropriate financial records are maintained for student activities. The District’s School Board has elected to control or exercise oversight responsibility with respect to the underlying student activities. Accordingly, the student activity accounts are included in these financial statements.

**B. 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.

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1 – Summary of Significant Accounting Policies (Continued)**

The statement of activities demonstrates the degree to which the direct expenses have a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. The District does not allocate indirect expenses. 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 capital requirements of a particular function or segment. Operating grants include operating-specific and discretionary grants while the capital grants column includes only capital-specific grants. Taxes and other items not properly included among program revenues are reported instead as general revenues.

As a general rule the District does not engage in inter-fund activities or fund transfers, but if necessary, inter-fund activities and fund transfers are eliminated from the district-wide financial statements. See Note 12 regarding current year inter-fund transfers.

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

Proprietary funds are used to report business-type activities carried on by a school district. No activities of the District were determined to be of this nature, so no proprietary funds are present in the financial statements.

**C. 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.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. The modified accrual basis of accounting recognizes expenses when incurred, except principal and interest on general long-term debt which is recognized when due, and revenue under the following principles:

Property tax revenue is recorded under the intact levy concept, whereby taxes collectible during a calendar year are recorded as revenue in the fiscal year beginning within the year of collection. A portion of the 2015 payable 2016 levy has been recognized as revenue during the current year, as discussed in Note 3.

State aids are recorded as revenue in the fiscal year for which the aids are designated by statute.

Other revenues are recognized when susceptible to accrual, i.e., when they become both 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.

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1 – Summary of Significant Accounting Policies (Continued)**

**Description of Funds**

The existence of the various District funds has been established by the Minnesota Department of Education, and is accounted for as an independent entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund balance, revenues and expenditures.

GASB Statement No. 34 specified that the accounts and activities of each of the District's most significant governmental funds (termed "major funds") be reported in separate columns on the fund financial statements.

A description of the major governmental funds and fiduciary funds in this report are as follows:

**Governmental Funds**

**General Fund** – Accounts for all financial resources and transactions relating to the administration, instruction, pupil transportation, and maintenance of the District, which are not accounted for in other District funds.

**Building Construction Fund** – Accounts for the acquisition or construction of major capital assets, generally financed through the issuance of general long-term debt.

**Fiduciary Fund**

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

All of the District's fiduciary activities are reported in separate statements: Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

Additionally, the District reports the following non-major funds:

**Governmental Funds**

**Special Revenue Funds** – Accounts for the proceeds of specific revenue sources (other than expendable trust and major capital projects) that are legally restricted to expenditures for specified purposes. The District's special revenue funds and their purposes are as follows:

**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 the revenues and expenditures related to recreation, public use of school facilities, non-public pupils, adult education programs, and early childhood and family development.

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1 – Summary of Significant Accounting Policies (Continued)**

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

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

**D. Assets, Deferred Outflows/Inflows of Resources, Liabilities, Net Position, and Fund Balances**

**Cash and Investments** – Cash balances for all funds except capital project funds are maintained on a combined basis and invested, to the extent possible, in allowable investments. The District’s general policy is to report money market investments at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term “nonparticipating” means that the investment’s value does not vary with market interest rate changes.

**Property Taxes Receivable** – Property taxes receivable represents current and delinquent taxes receivable at June 30, 2016. Current taxes receivable represent real and personal property tax levies certified the previous December and collectible in the current calendar year, which have not been received by the District. Delinquent property taxes receivable represents taxes collectible for the prior six calendar years that remain uncollected.

**Due From Other Governmental Units** – Amounts due from other governmental units consist of amounts primarily due from the other Minnesota school districts, Beltrami County, the Minnesota Department of Education and from the Federal Government through the Minnesota Department of Education for state and federal aids and grants under various specific programs are reported at estimated amounts based on available information at the date of the report. Adjustments and pro-rations may be made by the applicable agencies based on the amount of funds available for distribution and may result in differing amounts actually being received. The differences between the receivable recorded and the actual amount received will be recognized as a revenue adjustment in the subsequent year. Federal and state revenues are recorded as revenue at the time of receipt or when they are both measurable and available.

**Inventories** – Purchased inventory is recorded at the lower of cost (first-in, first-out) or market method. Inventory consists of purchased food commodities, fuel and donated United States Department of Agriculture (USDA) commodities. The donated USDA commodities are stated at standardized cost as determined by the USDA.

**Capital Assets** – Capital assets are capitalized at historical cost, or estimated historical cost based on an inventory dated June 30, 2002. 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. The system for accumulation of fixed assets cost data does not provide the means for determining the percentage of assets valued at actual and those valued at estimated cost.



**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1 – Summary of Significant Accounting Policies (Continued)**

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

Capital assets not being depreciated include land and construction in progress, if any.

The District does not possess any material amounts of infrastructure capital assets, such as sidewalks and parking lots. Such items are considered to be part of the cost of buildings or other improvable property.

**Unearned Revenue** – Unearned revenue represents revenues, other than property taxes, collected before they are earned.

**Deferred Outflows of Resources** – In addition to assets, the statement of financial 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 or fund balance that applies to future periods and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. The District has only one item that qualifies for reporting in this category. It is the deferred resources related to pension reported in the government-wide Statement of Net Position.

**Deferred Inflows of Resources** – In addition to liabilities, statements of financial position or balance sheets will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The District has two types of items which qualify for reporting in this category: property taxes levied for subsequent years and deferred resources related to pensions.

Property taxes levied for subsequent years, which represent property taxes received or reported as a receivable before the period for which the taxes are levied, and is reported as a deferred inflow of resources in both the government-wide Statement of Net Position and the governmental funds Balance Sheet. Property taxes levied for subsequent years are deferred and recognized as an inflow of resources in the government-wide financial statements in the year for which they are levied, and in the governmental fund financial statements during the year for which they are levied, if available.

**Deferred Outflows and Inflows Related to Pensions** – For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employers Retirement Association (PERA) and the Teachers Retirement Association (TRA) and additions to/deductions from PERA's and TRA's fiduciary net position have been determined on the same basis as they are reported by PERA and TRA.

For PERA's purpose, plan contributions are recognized as 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.

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1 – Summary of Significant Accounting Policies (Continued)**

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 and the Duluth Teachers' Retirement Fund Association merger into TRA in 2015. Additional information can be found in Note 6.

**Net Position** – Net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources in the school-wide financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted in the district-wide financial statements when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

**Fund Balance** – The District classifies fund balances in the governmental funds as follows:

- **Nonspendable fund balance** – amounts are in a nonspendable form (such as inventory or prepaid items) or are required to be maintained intact.
- **Restricted fund balance** – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- **Committed fund balance** – amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (i.e., School Board). To be reported as committed, amounts cannot be used for any purpose unless the District takes the same highest level action to remove or change the constraint.
- **Assigned fund balance** – amounts the District intends to use for a specific purpose. Intent can be expressed by the School Board or by an official or body to which the School Board delegates the authority.
- **Unassigned fund balance** – amounts that are available for any purpose. Positive amounts are reported only in the General Fund.

The School Board establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by the School Board through adoption or amendment of the budget as intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes). The District did not have any committed fund balance for the year ended June 30, 2016.

The District's fund balance policy strives to have an unassigned General fund balance that is at least three months of average General Fund expenditures. The District met this goal for the year ended June 30, 2016.

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1 – Summary of Significant Accounting Policies (Continued)**

As of June 30, 2016, fund balances are composed of the following:

	General Fund	Building Construction	Other Governmental Funds	Totals
<b>Fund Balances:</b>				
<b>Nonspendable:</b>				
Inventory	\$ 23,987	\$ -	\$ 13,696	\$ 37,683
<b>Restricted:</b>				
Deferred Maintenance	12,525	-	-	12,525
Operating Capital	40,502	-	-	40,502
Learning and Development	3,344	-	-	3,344
State Approved Alt. Program	369,330	-	-	369,330
Basic Skills	223,921	-	-	223,921
Community Education	-	-	13,879	13,879
Early Childhood and Family Education	-	-	44,768	44,768
Community Service	-	-	4,589	4,589
Building Construction	109,346	1,088	-	110,434
Debt Reduction	-	-	1,636	1,636
<b>Assigned:</b>				
Other Post-Employment Benefits (OPEB)	2,916,477	-	-	2,916,477
<b>Unassigned</b>	8,309,788	-	(13,696)	8,296,092
<b>Totals</b>	<u>\$ 12,009,220</u>	<u>\$ 1,088</u>	<u>\$ 64,872</u>	<u>\$ 12,075,180</u>

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless School Board has provided otherwise in its commitment or assignment actions.

**E. Compensated Absences**

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

**Personal Leave** – 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, “Accrued compensated absences payable” has been recorded on the Statement of Net Assets for the qualifying accumulated personal leave.

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1 – Summary of Significant Accounting Policies (Continued)**

**Severance Pay** – A maximum of five full-time teacher employees per year who have attained the age of 50 and accumulated 15 years of full-time service are eligible to receive severance benefits in the amount of accumulated unused sick leave up to a maximum of one year's 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 year's 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 as 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 provision of the matching deferred compensation plan contributed by the District will be subtracted from the qualifying severance amount.

**Post-Employment Benefits** – Post-employment health benefits are provided under collective bargaining agreements for retired teachers and administrators. As of July 1, 2015, the most recent actuarial valuation date, 13 former teachers are receiving benefits. The District pays in full the premium for a medical insurance plan for each teacher that is granted early retirement upon submission of accepted written resignation. The teacher must have completed at least 15 years of service with the District and be at least 50 years of age. Upon request of the teacher, said plan will be single or family and will be paid each year until the person becomes eligible for Medicare. Said plan will be the same plan negotiated in the Agreement for 1991-93. Only those teachers who commenced employment by the District as a teacher prior to March 1, 1989 are eligible for benefits under this section. Expenditures for retiree health benefits are recognized as premiums become due. The District's contributions are financed on a pay-as-you-go-basis.

**F. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 2 – Deposit and Investments**

The Districts deposits and investments are as follows:

	<b>Governmental Funds</b>	<b>Trust Fund</b>
<b>Deposits:</b>		
Money Market Account	\$ 6,858	\$ -
Checking Account	132,106	13,152
Certificates of Deposit	1,000,000	5,578
<b>Investments:</b>		
MSDLAF+	<u>12,163,664</u>	<u>-</u>
<b>Total Deposits and Investments</b>	<b><u>\$ 13,302,628</u></b>	<b><u>\$ 18,730</u></b>

**A. Deposits**

**Authority** - In accordance with *Minnesota Statutes*, the District maintains deposits at those depository banks authorized by the Board. All such depositories 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% of the deposits not covered by insurance or bonds. Authorized collateral includes treasury bills, notes and bonds; issues of U.S. Government agencies; general obligations rated “A” or better, revenue obligations rated “AA” or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. *Minnesota Statutes* require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution not owned or controlled by the financial institution furnishing the collateral.

**Custodial Credit Risk** – The custodial credit risk for deposits is the risk that in the event of a bank failure, the District’s deposits may not be recovered. The District’s policy for custodial credit risk is to maintain compliance with *Minnesota Statutes* that require all the District’s deposits to be protected by insurance, surety bond, or pledged collateral. As a result, the District was not exposed to credit risk during the year.

**B. Investments**

**Authority**

*Minnesota Statutes* authorize the District to invest in the following types of investments:

1. securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as “high risk” by *Minnesota Statutes*;
2. mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 2 – Deposit and Investments (Continued)**

3. general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
4. bankers' acceptances of United States banks;
5. commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
6. with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

The District has not adopted a formal investment policy. The District's only investment is through the Minnesota School District Liquid Asset Fund Plus (MSDLAF+), which is a local government investment pool. Local government investment pools are not assigned a level in the fair value hierarchy established by generally accepted accounting principles. The investment's net asset value was determined using the amortized cost method. Because the District's only investment is through MSDLAF+, there are no disclosure requirements for custodial credit risk, concentration of credit risk, interest rate risk and foreign currency risk.

The District reports its investment in the Pool at the NAV per share, the fair value established by the Pool.

The District's investment in the Pool is included in two share classes, as follows:

	<u>Net Asset Value</u>	<u>Unfunded Commitments</u>
MSDLAF+ Liquid Class	\$ 80,728	\$ -
MSDLAF+ MAX Class	12,082,936	-

The Liquid Class has no redemption requirements. The Max Class may not be redeemed for at least 14 days, and a 24 hour hold is placed on redemption requests. Redemptions prior to 14 days may be subject to penalty.

**Credit Risk** – The MSDLAF+ is rated AAAM by Standard and Poor's. The rating signifies excellent safety of invested principal and superior capacity to maintain a \$1.00 per share net asset value.

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 3 – Property Taxes**

The School Board certifies property tax levies in December of each year to Beltrami County for collection in the following year. In Minnesota, counties act as collection agents for all property taxes. The County spreads all levies over assessable property. Such taxes become a lien on January 2, and are recorded as receivables by the District at that date.

Property taxes may be paid by taxpayers in two equal installments, on May 15, and October 15. The County provides tax settlements to districts and other local governments three times a year, on or before April 15, June 30 and December 30.

Prior year's taxes, which remain unpaid at June 30, are classified as delinquent taxes receivable and the portion not receivable within 60 days is offset by deferred revenue because they are not available to finance current expenditures.

The maximum amount of property taxes the District may levy is subject to state levy limitations.

Current property taxes receivable consist of the current tax levy less collection prior to June 30. The current tax levy, net of a state mandated property tax shift, is offset by property taxes levied for subsequent years, a deferred inflow of resources.

**NOTE 4 – Due From Other Governmental Units**

Amounts due from other governmental units at June 30, 2016 are as follows:

	<u>General Fund</u>	<u>Food Service Fund</u>	<u>Community Service Fund</u>	<u>Building Construction Fund</u>	<u>Debt Redemption Fund</u>	<u>Totals</u>
<b>Minnesota Department of Education:</b>						
State Aids and Grants	\$1,901,355	\$ -	\$ 18,716	\$ 463,862	\$ 182	\$2,384,115
Federal Aids and Grants	24,056	33,578	-	-	-	57,634
Federal Aids and Grants	283,953	-	-	-	-	283,953
Other Governmental Units	36,454	-	-	-	-	36,454
Capital Loan Proceeds	-	-	-	445,411	-	445,411
<b>Totals</b>	<u>\$2,245,818</u>	<u>\$ 33,578</u>	<u>\$ 18,716</u>	<u>\$ 909,273</u>	<u>\$ 182</u>	<u>\$3,207,567</u>

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 5 – Capital Assets**

Capital asset activity for the year ended June 30, 2016 is as follows:

	<b>Capital Assets</b>			
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Sales and Retirements</b>	<b>Ending Balance</b>
<b><u>Capital Assets Not Being Depreciated</u></b>				
Construction in Progress	<u>\$ 542,434</u>	<u>\$ 334,381</u>	<u>\$ 542,434</u>	<u>\$ 334,381</u>
<b><u>Depreciable Capital Assets</u></b>				
Land Improvements	656,447	-	-	656,447
Buildings	66,231,972	5,387,012	-	71,618,984
Equipment	<u>6,312,378</u>	<u>637,670</u>	<u>212,454</u>	<u>6,737,594</u>
<b>Total Depreciable Assets</b>	<u><b>73,200,797</b></u>	<u><b>6,024,682</b></u>	<u><b>212,454</b></u>	<u><b>79,013,025</b></u>
<b><u>Accumulated Depreciation</u></b>				
Land Improvements	501,000	13,646	-	514,646
Buildings	18,851,566	1,441,269	-	20,292,835
Equipment	<u>4,623,026</u>	<u>465,664</u>	<u>212,454</u>	<u>4,876,236</u>
<b>Total Accumulated Depreciation</b>	<u><b>23,975,592</b></u>	<u><b>1,920,579</b></u>	<u><b>212,454</b></u>	<u><b>25,683,717</b></u>
<b>Total Capital Assets</b>	<u><b>\$ 49,767,639</b></u>	<u><b>\$ 4,438,484</b></u>	<u><b>\$ 542,434</b></u>	<u><b>\$ 53,663,689</b></u>

Depreciation expense was charged to the following program services:

Administration	\$ 6,686
District Support Services	262
Regular Instruction	212,433
Vocational Instruction	1,563
Special Education Instruction	2,721
Community Education and Services	385
Instructional Support Services	24,074
Pupil Support Services	135,382
Sites and Buildings	231,543
Unallocated	<u>1,305,530</u>
<b>Total Depreciation Expense</b>	<u><b>\$ 1,920,579</b></u>



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**NOTE 6 – Pension Plans**

**A. 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 school, charter schools, and certain educational institutions maintained by the state (except those teachers employed by the city of 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 as described:

<b><u>Tier 1:</u></b>	<b><u>Step Rate Formula</u></b>	<b><u>Percentage</u></b>
Basic	First ten years of service	2.2 percent per year
	All years after	2.7 percent per year
Coordinated	First ten years if service years are up to July 1, 2006	1.2 percent per year
	First 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 up 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 factor 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).

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**NOTE 6 – Pension Plans (Continued)**

or

**Tier II:**

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 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 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 year were:

	<u>Ending June 30, 2016</u>		<u>Ending June 30, 2015</u>	
	<u>Employee</u>	<u>Employer</u>	<u>Employee</u>	<u>Employer</u>
Basic	11.0%	11.5%	11.0%	11.5%
Coordinated	7.5%	7.5%	7.5%	7.5%

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.

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**NOTE 6 – Pension Plans (Continued)**

Employer contributions reported in TRA’s CAFR Statement of Changes in Fiduciary Net Position	\$ 340,207,590
Deduct employer contributions not related to future contribution efforts	(704,635)
Deduct TRA’s contributions not included in allocation	<u>(435,999)</u>
Total employer contributions	\$ 339,066,956
Total non-employer contributions	<u>41,587,410</u>
Employer contributions reported in Schedule of Employer and Non-Employer Pension Allocations	<u>\$ 380,654,366</u>

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

**Merger of Duluth Teacher’s Retirement Fund Association (DTRFA)**

Legislation enacted in 2014 merged the Duluth Teachers Retirement Fund Association (DTRFA) with TRA effective June 30, 2015. The beginning balance of total pension liability and fiduciary net position were adjusted to reflect the merger of DTRFA.

	<u>6/30/14 CAFR</u>	<u>Restated</u>
Total Pension Liability (A)	\$24,901,612,000	\$25,299,564,000
Plan Fiduciary Net Position (B)	<u>20,293,684,000</u>	<u>20,519,756,000</u>
Net Pension Liability (A-B)	<u>\$ 4,607,928,000</u>	<u>\$ 4,779,808,000</u>

**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.

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**NOTE 6 – Pension Plans (Continued)**

**Key Methods and Assumptions Used in Valuation of Total Pension Liability**

**Actuarial Information**

Measurement Date	June 30, 2015
Valuation Date	July 1, 2015
Experience Study	October 30, 2009
Actuarial Cost Method	Entry Age Normal
<b>Actuarial Assumptions:</b>	
Investment Rate of Return	8.0%
Wage Inflation	3.0%
Projected Salary increase	3.5-12%, based on years of service
Cost of living adjustment	2.0%

**Mortality Assumption**

Pre-retirement	RP 2000 non-annuitant generational mortality, white collar adjustment, male rates set back 5 years and female rates set back 7 years.
Post-retirement	RP 2000 annuitant generational mortality, white collar adjustment, male rates set back 2 years and female rates set back 3 years.
Post-disability	RP 2000 disabled retiree mortality, without adjustment.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2004, to June 30, 2008, and a limited scope experience study dated August 29, 2014. The limited scope experience study addressed only inflation and long-term rate of return for the GASB 67 valuation.

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

The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Stocks	45%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Unallocated Cash	2%	0.50%
Total	<u>100%</u>	

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**NOTE 6 – Pension Plans (Continued)**

The TRA actuary has determined the average of the expected remaining service lives of all members for fiscal year 2015 is 5.73 years. The “Difference Between Expected and Actual Experience” and “Changes of Assumptions” use the amortization period of 5.73 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. The “Changes in Proportion” uses a rounded amortization period of 5 years.

**Discount Rate**

The discount rate used to measure the total pension liability was 8.0 percent. This is a decrease from the discount rate in the prior measurement date of 8.25%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal 2016 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 available to make all projected future benefit payments of current active and inactive employees. 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.

**Net Pension Liability**

On June 30, 2016, the District reported a liability of \$12,588,488 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District’s proportion of the net pension liability was based on the District’s 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 0.2035% at the end of the measurement period and 0.2316% 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	\$ 12,588,488
State's proportionate share of the net pension liability associated with the District	1,544,360

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 be 2.0 percent annually with no increase to 2.5 percent projected. The prior valuation assumed a 2.5 percent increase commencing July 1, 2034.

For the year ended June 30, 2016, the District recognized pension expense of \$476,942. It also recognized \$273,023 as an increase to pension expense for the support provided by direct aid.

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
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**NOTE 6 – Pension Plans (Continued)**

On June 30, 2016 the District had deferred resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 596,758	\$ -
Changes in actuarial assumptions	967,720	-
Net difference between projected and actual earnings on plan investments	-	861,025
Changes in proportion	-	1,084,521
Contributions paid to TRA subsequent to the measurement date	<u>805,447</u>	<u>-</u>
<b>Total</b>	<b><u>\$ 2,369,925</u></b>	<b><u>\$ 1,945,546</u></b>

\$805,447 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 ended June 30, 2017. Other amounts reported as deferred outflows of resources and (deferred inflows of resources) related to TRA pensions will be recognized in pension expense as follows:

2017	\$ (296,594)
2018	(296,594)
2019	(296,598)
2020	508,718

**Pension Liability Sensitivity**

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 8.0 percent as well as the liability measured using one percent lower and one percent higher.

District proportionate share of NPL		
1 percent decrease <u>(7.0%)</u>	Current <u>(8.0%)</u>	1 percent increase <u>(9.0%)</u>
\$19,161,308	\$12,588,488	\$7,103,279

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
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**NOTE 6 – Pension Plans (Continued)**

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

**Pension Plan Fiduciary Net Position**

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

**B. Public Employees Retirement Association**

**Plan Description**

The District participates in the following 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 (GERF)**

All full-time and certain part-time employees other than teachers of the District are covered by the General Employees Retirement Fund (GERF). GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

**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.

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**NOTE 6 – Pension Plans (Continued)**

**GERF Benefits**

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 and Basic 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 Basic Plan member is 2.2% of average salary for each of the first ten years of service and 2.7% for each remaining year. 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 2.7% of average salary for Basic Plan members and 1.7% 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. Disability benefits are available for vested members, and are based upon years of service and average high-five salary.

**Contributions**

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

**GERF Contributions**

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.5%, of pay, respectively, in fiscal year 2016. In fiscal year 2016, the School was required to contribute 11.78% of pay for Basic Plan members and 7.5% for the Coordinated Plan. The District's contributions to the GERF for the year ended June 30, 2016 were \$421,714. The District's contributions were equal to the required contributions for each year as set by State Statute.

**Pension Costs**

**GERF Pension Costs**

At June 30, 2016, the District reported a liability of \$4,980,401 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the District's proportion was 0.0961%, which was a decrease of .0081% from its proportion measured as of June 30, 2014.

GERF benefit provisions changes during the measurement period included (1) the merger of the former Minneapolis Employees Retirement Fund division into GERF, effective January 1, 2015, and (2) revisions to *Minnesota Statutes* to make changes to contribution rates less prescriptive and more flexible.



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**NOTE 6 – Pension Plans (Continued)**

The discount rate used to calculate liabilities for the June 30, 2015, measurement date was 7.9%. The Legislature has since set the discount rate in statute at 8%. Beginning with the June 30, 2016, measurement date the discount rate used when calculating liabilities based on GASB 68 accounting requirements will be increased to 8% to be consistent with the rate set in statute used for funding purposes.

For the year ended June 30, 2016, the District recognized pension expense of \$537,037 for its proportionate share of GERS's pension expense.

At June 30, 2016, the District reported its proportionate share of GERS's deferred outflows of resources and deferred inflows of resources from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 204,910
Changes in actuarial assumptions	310,162	-
Net difference between projected and actual earnings on plan investments	-	443,349
Changes in proportion	-	438,254
Contributions paid to PERA subsequent to the measurement date	<u>421,714</u>	<u>-</u>
Total	<u>\$ 731,876</u>	<u>\$ 1,086,513</u>

\$421,714 reported as deferred outflows of resources related to pensions resulting from District contributions to GERS subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and (deferred inflows of resources) related to GERS pensions will be recognized in pension expense as follows:

2017	\$ (202,158)
2018	(202,159)
2019	(380,336)
2020	8,302

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**NOTE 6 – Pension Plans (Continued)**

**Actuarial Assumptions**

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.75% per year
Active Member Payroll Growth	3.50% per year
Investment Rate of Return	7.90%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments.

Actuarial assumptions used in the June 30, 2015 valuation were based on the results of actuarial experience studies. The experience study in the GEF was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014. Experience studies have not been prepared for PERA's other plans, but assumptions are reviewed annually.

The long-term expected rate of return on pension plan investments is 7.9%. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis 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 arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Stocks	45%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Cash	2%	0.50%
Total	<u>100%</u>	

**Discount Rate**

The discount rate used to measure the total pension liability was 7.9%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. 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.

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**NOTE 6 – Pension Plans (Continued)**

**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:

	<b><u>1% Decrease in Discount Rate (6.9%)</u></b>	<b><u>Discount Rate (7.9%)</u></b>	<b><u>1% Increase in Discount Rate (8.9%)</u></b>
District’s proportionate share of the GERS net pension liability:	\$7,830,960	\$4,980,401	\$2,626,277

**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 report may be obtained on the Internet at [www.mnpera.org](http://www.mnpera.org); by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088; or by calling (651)296-7460 or 1-800-652-9026.

**NOTE 7 – Post-Employment Health Care Benefits**

The District engaged an actuary to determine the District’s liability for post-employment healthcare benefits other than pensions as of July 1, 2015.

**A. Plan Description**

The District operates an employer retiree benefit plan for principals and teachers. The plan provides single or family medical coverage until the employee is eligible for Medicare.

**B. Funding Policy**

The District pays for post-employment health care benefits on a pay-as-you-go basis.

**C. Annual OPEB Cost and Net OPEB Obligation**

The District’s annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any un-funded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the District’s annual OPEB cost for the year, the amount actually paid from the plan, and changes in the District’s net OPEB obligation.

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**NOTE 7 – Post-Employment Health Care Benefits (Continued)**

Annual Required Contribution	\$ 132,033
Interest on Net OPEB Obligation	(54,938)
Adjustment to Annual Required Contribution	<u>83,890</u>
Annual OPEB Cost (Expense)	160,985
Contributions Made	<u>(185,316)</u>
Decrease in Net OPEB Obligation	(24,331)
Net OPEB Obligation (Surplus) - Beginning of Year	<u>(1,572,728)</u>
Net OPEB Obligation (Surplus) - End of Year	<u><u>\$ (1,597,059)</u></u>

The District's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB obligation through June 30, 2016 is as follows:

Fiscal Year Ended	Annual OPEB Cost	Annual Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Surplus)
06/30/14	\$ 210,314	\$ 402,329	191.3%	\$ (1,529,540)
06/30/15	210,896	254,084	120.5%	(1,572,728)
06/30/16	160,985	185,316	115.1%	(1,597,059)

**D. Funded Status and Funding Progress**

As of July 1, 2015, the most recent actuarial valuation date, the District's unfunded actuarial accrued liability (UAAL) was \$1,129,354. The annual payroll for active employees covered by the plan in the actuarial valuation was \$10,035,527 for a ratio of UAAL to covered payroll of 11.3%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 7 – Post-Employment Health Care Benefits (Continued)**

**E. Actuarial Methods and Assumptions**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effect 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 included a 4.5% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date. The 2015 healthcare trend rate was 7.5%, reduced by decrements to an ultimate rate of 5% over nine years. The UAAL is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at June 30, 2016 was 29 years.

**NOTE 8 – Capital Leases**

The District entered into lease agreements with Apple, GE Capital and Advanced Acceptance to lease various pieces of equipment. These lease agreements qualify as capital leases for accounting purposes. A summary of changes in capital leases is as follows:

	<u>Interest Rate</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments and Subtractions</u>	<u>Ending Balance</u>
IPAD Lease	2.64%	\$ 228,030	\$ -	\$ 228,030	\$ -

The District's capital lease assets are \$687,348 with accumulated depreciation of \$343,674. The payments on the capital leases are accounted for in the General Fund.

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**RED LAKE, MINNESOTA**  
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**NOTE 9 - Long-Term Liabilities**

A summary of changes in long-term liabilities is as follows:

	Beginning Balance	Additions	Payments and Retirements	Ending Balance	Current Amounts	
					Principal	Interest
<b>Capital Loans:</b>						
Capital Loans Payable	\$ 51,739,204	\$ 4,811,690	\$ -	\$ 56,550,894	\$ -	\$ -
Defaulted Interest on Capital Loan	44,095,426	4,010,343	5,525	48,100,244	-	-
<b>Total</b>	<b>95,834,630</b>	<b>8,822,033</b>	<b>5,525</b>	<b>104,651,138</b>	<b>-</b>	<b>-</b>
<b>Capital Leases (See Note 8):</b>						
Capital Leases Payable	228,030	-	228,030	-	-	-
<b>Separation and Retirement Benefits:</b>						
Net Pension Liability	15,566,755	2,002,134	-	17,568,889	-	-
Other Post-Employment Benefits	(1,572,728)	160,985	185,316	(1,597,059)	-	-
Severance Payable	1,971,248	52,755	10,674	2,013,329	23,835	-
Compensated Absences Payable	141,631	2,429	-	144,060	-	-
<b>Total</b>	<b>16,106,906</b>	<b>2,218,303</b>	<b>195,990</b>	<b>18,129,219</b>	<b>23,835</b>	<b>-</b>
<b>Total</b>	<b>\$ 112,169,566</b>	<b>\$ 11,040,336</b>	<b>\$ 429,545</b>	<b>122,780,357</b>	<b>\$ 23,835</b>	<b>\$ -</b>
Add-back Net Post-Employment Benefits Reported as an Asset				1,597,059		
<b>Total Long-Term Liabilities</b>				<b>\$ 124,377,416</b>		

**Capital Loan Payable** - 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 Childhood 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.

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.

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 9 - Long-Term Liabilities (Continued)**

There were no authorized and un-issued bonds at June 30, 2016.

**NOTE 10 - Risk Management**

The District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; and natural disaster. The District has purchased commercial insurance to cover workers' compensation liabilities, school leaders' errors and omissions, and property and casualty liabilities. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

**NOTE 11 - Commitments and Contingencies**

The District participates in numerous State and Federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at June 30, 2016 may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

The District entered into several construction contracts during the 2015 fiscal year, which includes a new kitchen and cafeteria project. As of June 30, 2016, the District had outstanding construction contracts totaling \$124,833. The contracts will be paid with State Capital Loan funding.

**NOTE 12 – Transfers**

In the fiscal year ended June 30, 2016, a transfer was made from the General Fund to the Food Service Fund for \$94,151 to eliminate a deficit fund balances in the Food Service Fund.

**NOTE 13 – Restatement of Net Position**

The District has determined that the severance payable amount was reported incorrectly in the previous year. They discovered that the calculation inadvertently omitted the 403(b) contribution reduction. As a result, the District has restated previously reported net position in the governmental activities increasing it \$633,486 from (\$56,151,465) to (\$55,517,979).

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**GENERAL FUND -**  
**BUDGETARY COMPARISON SCHEDULE**  
**YEAR ENDED JUNE 30, 2016**

	Original and Final Budget	Actual	Variance with Final Budget - Positive (Negative)
<b><u>Revenues</u></b>			
Local Property Taxes	\$ 2,409	\$ 2,524	\$ 115
Other Local and County Revenues	231,121	125,935	(105,186)
Revenues from State Sources	20,009,757	20,443,292	433,535
Revenues from Federal Sources	11,995,090	11,767,405	(227,685)
Sales and Other Conversions of Assets	-	10,661	10,661
Investment Earnings	29,000	41,320	12,320
<b><u>Total Revenues</u></b>	<b><u>32,267,377</u></b>	<b><u>32,391,137</u></b>	<b><u>123,760</u></b>
<b><u>Expenditures</u></b>			
Alternative Learning Programs	112,374	91,923	20,451
Alternative Delivery (ADSIS)	618,793	620,570	(1,777)
Athletics	356,145	368,616	(12,471)
Board of Education	218,326	218,311	15
Building & Grounds/Security	3,611,661	3,308,369	303,292
Capital Programs	326,575	885,408	(558,833)
District Administration	1,492,480	1,134,405	358,075
Early Childhood Center	1,145,334	1,248,422	(103,088)
Federal Programs	1,637,365	1,445,286	192,079
Gifted and Talented	18,511	19,653	(1,142)
Health and Safety	216,053	269,645	(53,592)
Homebound Instruction	35,395	5,458	29,937
Indian Teacher Grant	40,000	40,328	(328)
Juvenile Detention Facility	66,203	56,179	10,024
Property Insurance	217,000	211,963	5,037
State Indian Education	546,619	534,201	12,418
Targeted Services	291,280	377,951	(86,671)
Tuition Payments	150,000	111,129	38,871
Retiree Health Insurance	159,030	185,316	(26,286)
Special Education Services	3,994,096	3,693,844	300,252
Staff Development	187,053	175,395	11,658
Technology Department	670,863	587,370	83,493
Transportation	1,731,296	1,634,022	97,274
Unemployment Insurance	35,000	18,974	16,026
Worker's Compensation Insurance	247,700	257,277	(9,577)
Ponemah Elementary	2,223,494	2,140,525	82,969
Red Lake Elementary	4,935,590	4,732,067	203,523
Red Lake High School	2,620,506	2,699,907	(79,401)
Red Lake Middle School	2,369,862	2,230,832	139,030
<b><u>Total Expenditures</u></b>	<b><u>30,274,604</u></b>	<b><u>29,303,346</u></b>	<b><u>971,258</u></b>

See Accompanying Notes to Required Supplementary Information.



**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**GENERAL FUND -**  
**BUDGETARY COMPARISON SCHEDULE**  
**YEAR ENDED JUNE 30, 2016**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
<u>Excess of Revenues Over (Under) Expenditures</u>	<u>1,992,773</u>	<u>3,087,791</u>	<u>1,095,018</u>
<u>Other Financing Sources (Uses)</u>			
<u>Operating Transfers Out</u>	<u>(125,992)</u>	<u>(94,151)</u>	<u>31,841</u>
<u>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</u>	<u>1,866,781</u>	<u>2,993,640</u>	<u>1,126,859</u>
<u>Fund Balances, Beginning of Year</u>	<u>9,015,580</u>	<u>9,015,580</u>	<u>-</u>
<u>Fund Balances, End of Year</u>	<u>\$ 10,882,361</u>	<u>\$ 12,009,220</u>	<u>\$ 1,126,859</u>

See Accompanying Notes to Required Supplementary Information.

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FUNDING PROGRESS FOR POST-EMPLOYMENT BENEFIT PLAN**  
**JUNE 30, 2016**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability (AAL)</b>	<b>Unfunded Actuarial Accrued Liability (UAAL)</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>UAAL as a Percentage of Covered Payroll</b>
July 1, 2009	\$ -	\$ 2,916,477	\$ 2,916,477	0.00%	\$ 8,632,459	33.8%
July 1, 2012	-	1,946,023	1,946,023	0.00%	8,892,104	21.9%
July 1, 2015	-	1,129,354	1,129,354	0.00%	10,035,527	11.3%

See Accompanying Notes to Required Supplementary Information.

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF THE DISTRICT'S AND NON-EMPLOYER PROPORTIONATE SHARE**  
**OF THE NET PENSION LIABILITY**  
**JUNE 30, 2016**

Last 10 Fiscal Years\*

For Fiscal Year Ended June 30:	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	State's Proportionate Share of the Net Pension Liability (Asset) Associated with the District	Total	District's Covered- Employee Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of it's Covered- Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
<b>PERA</b>							
2015	0.0961%	\$ 4,980,401	\$ -	\$ 4,980,401	\$ 5,403,218	92.17%	78.2%
2014	0.1042%	4,894,794	-	4,894,794	5,325,479	91.91%	78.7%
<b>TRA</b>							
2015	0.2035%	12,588,488	1,544,360	14,132,848	8,739,215	161.72%	76.8%
2014	0.2316%	10,671,961	750,870	11,422,831	9,111,648	125.37%	81.5%

\* - Schedule is intended to show a 10-year trend. Additional years will be reported as they become available.

See Accompanying Notes to Required Supplementary Information.

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF DISTRICT'S CONTRIBUTIONS**  
**JUNE 30, 2016**

Last 10 Fiscal Years\*

For 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
<b>PERA</b>					
2016	\$ 421,714	421,714	\$ -	\$ 5,553,075	7.59%
2015	418,071	418,071	-	5,403,218	7.74%
<b>TRA</b>					
2016	805,447	805,447	-	10,800,663	7.46%
2015	771,018	771,018	-	8,739,215	8.82%

\* - Schedule is intended to show a 10-year trend. Additional years will be reported as they become available.

See Accompanying Notes to Required Supplementary Information.

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2016**

**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 in accordance with accounting principles generally accepted in the United States of America. Formal budgetary integration is employed as a management control device during the year for the General Fund and Special Revenue Funds.

**Legal Compliance – Budgets**

- The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for all funds of the District. However, the General and Special Revenue Funds are the only funds that are legally adopted through the budgetary process as documented below.
- The budget is legally enacted through passage of a School Board resolution by July 1.
- The School Board may authorize transfer of budgeted amounts between funds.
- Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds. Formal budgetary integration is not employed for the Debt Service Fund because effective budgetary control is alternatively achieved through general obligation bond indenture provisions.
- General and Special Revenue Funds expenditures may not legally exceed budgeted appropriations at the total fund level without School Board approval. Monitoring of budgets is maintained at the expenditure category level.

**NOTE 2 – Other Post-Employment Benefit Plan Funding Progress**

Multi-year trend information is available as Governmental Accounting Standards Board Statement 45 was implemented during the 2007 fiscal year. See Note 7 –Post-Employment Health Care Benefits for more information.

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2016**

**NOTE 3 – Pensions**

**TRA**

**Changes of Benefit Terms**

The DTRFA was merged into TRA on June 30, 2015.

**Changes of Assumptions**

The annual COLA for the June 30, 2015, valuation assumed 2.0%. The prior year valuation used 2.0% with an increase to 2.5% commencing in 2034. The discount rate used to measure the total pension liability was 8.0%. This is a decrease from the discount rate at the prior measurement date of 8.25%. Details, if necessary, can be obtained from the TRA CAFR.

**PERA**

Details, if necessary, can be obtained from the PERA CAFR for their pension plan.

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**COMBINING BALANCE SHEET**  
**JUNE 30, 2016**

	<u>Special Revenue Funds</u>			<u>Totals</u>
	<u>Food Service</u>	<u>Community Service</u>	<u>Debt Redemption</u>	
<b>ASSETS</b>				
Cash and Investments	\$ -	\$ 104,012	\$ 4,385	\$ 108,397
Property Taxes Receivable	-	5	-	5
Due from Other Governmental Units	33,578	18,716	182	52,476
Inventories	13,696	-	-	13,696
<b>Total Assets</b>	<b>\$ 47,274</b>	<b>\$ 122,733</b>	<b>\$ 4,567</b>	<b>\$ 174,574</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>				
<b>Liabilities</b>				
Salaries Payable	\$ 29,238	\$ 54,046	\$ -	\$ 83,284
Accounts Payable	10,255	5,387	-	15,642
Due to Other Funds	7,781	-	-	7,781
Total Liabilities	47,274	59,433	-	106,707
<b>Deferred Inflows of Resources</b>				
Property Taxes Levied for Subsequent Years' Expenditures	-	64	2,931	2,995
<b>Fund Balance</b>				
Nonspendable	13,696	-	-	13,696
Restricted	-	63,236	1,636	64,872
Unassigned	(13,696)	-	-	(13,696)
Total Fund Balance	-	63,236	1,636	64,872
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balance</b>	<b>\$ 47,274</b>	<b>\$ 122,733</b>	<b>\$ 4,567</b>	<b>\$ 174,574</b>

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES**  
**YEAR ENDED JUNE 30, 2016**

	<u>Special Revenue Funds</u>		<u>Debt Redemption</u>	<u>Totals</u>
	<u>Food Service</u>	<u>Community Service</u>		
<b><u>Revenues</u></b>				
Local Property Taxes	\$ -	\$ 135	\$ 3,533	\$ 3,668
Other Local and County Revenues	-	180,338	-	180,338
Revenues from State Sources	27,570	271,020	1,815	300,405
Revenues from Federal Sources	1,051,590	102,250	-	1,153,840
Sales and Other Conversions of Assets	15,807	-	-	15,807
Miscellaneous Revenue	-	14,460	-	14,460
Total Revenues	<u>1,094,967</u>	<u>568,203</u>	<u>5,348</u>	<u>1,668,518</u>
<b><u>Expenditures</u></b>				
Community Education and Services	-	523,353	-	523,353
Pupil Support Services	1,189,118	-	-	1,189,118
Debt Service	-	-	5,525	5,525
Total Expenditures	<u>1,189,118</u>	<u>523,353</u>	<u>5,525</u>	<u>1,717,996</u>
<b><u>Excess of Revenues Over (Under) Expenditures</u></b>	(94,151)	44,850	(177)	(49,478)
<b><u>Other Financing Sources</u></b>				
Operating Transfer In	<u>94,151</u>	<u>-</u>	<u>-</u>	<u>94,151</u>
<b><u>Excess of Revenues and Other Financing Sources Over (Under) Expenditures</u></b>	-	44,850	(177)	44,673
<b><u>Fund Balances, Beginning of Year</u></b>	<u>-</u>	<u>18,386</u>	<u>1,813</u>	<u>20,199</u>
<b><u>Fund Balances, End of Year</u></b>	<u>\$ -</u>	<u>\$ 63,236</u>	<u>\$ 1,636</u>	<u>\$ 64,872</u>



**FISCAL COMPLIANCE REPORT - 6/30/2016**  
**District: RED LAKE (0038-01)**

	Audit (-)				Audit (-)		
	Audit	UFARS	UFARS		Audit	UFARS	UFARS
<b>01 GENERAL FUND</b>				<b>06 BUILDING CONSTRUCTION</b>			
Total Revenue	\$32,391,137	\$32,391,136	\$1	Total Revenue	\$70	\$70	\$0
Total Expenditures	\$29,303,346	\$29,303,346	\$0	Total Expenditures	\$4,811,690	\$4,811,690	\$0
Non Spendable:				Non Spendable:			
4.60 Non Spendable Fund Balance	\$23,987	\$23,987	\$0	4.60 Non Spendable Fund Balance	\$0	\$0	\$0
Restricted/Reserved:				Restricted/Reserved:			
4.03 Staff Development	\$0	\$0	\$0	4.07 Capital Projects Levy	\$0	\$0	\$0
4.05 Deferred Maintenance	\$12,525	\$12,525	\$0	4.09 Alternative Facility Program	\$0	\$0	\$0
4.06 Health and Safety	\$0	\$0	\$0	4.13 Project Funded by COP	\$0	\$0	\$0
4.07 Capital Projects Levy	\$0	\$0	\$0	4.67 LTFM	\$0	\$0	\$0
4.08 Cooperative Revenue	\$0	\$0	\$0	Restricted:			
4.09 Alternative Facility Program	\$0	\$0	\$0	4.64 Restricted Fund Balance	\$1,088	\$1,088	\$0
4.13 Project Funded by COP	\$0	\$0	\$0	Unassigned:			
4.14 Operating Debt	\$0	\$0	\$0	4.63 Unassigned Fund Balance	\$0	\$0	\$0
4.16 Levy Reduction	\$0	\$0	\$0				
4.17 Taconite Building Maint	\$0	\$0	\$0	<b>07 DEBT SERVICE</b>			
4.23 Certain Teacher Programs	\$0	\$0	\$0	Total Revenue	\$5,348	\$5,348	\$0
4.24 Operating Capital	\$40,502	\$40,502	\$0	Total Expenditures	\$5,525	\$5,525	\$0
4.26 \$25 Taconite	\$0	\$0	\$0	Non Spendable:			
4.27 Disabled Accessibility	\$0	\$0	\$0	4.60 Non Spendable Fund Balance	\$0	\$0	\$0
4.28 Learning & Development	\$3,344	\$3,344	\$0	Restricted/Reserved:			
4.34 Area Learning Center	\$0	\$0	\$0	4.25 Bond Refundings	\$0	\$0	\$0
4.35 Contracted Alt. Programs	\$0	\$0	\$0	4.51 QZAB Payments	\$0	\$0	\$0
4.36 State Approved Alt. Program	\$369,330	\$369,330	\$0	Restricted:			
4.38 Gifted & Talented	\$0	\$0	\$0	4.64 Restricted Fund Balance	\$1,636	\$1,636	\$0
4.40 Teacher Development and Eval	\$0	\$0	\$0	Unassigned:			
4.41 Basic Skills Program	\$223,921	\$223,921	\$0	4.63 Unassigned Fund Balance	\$0	\$0	\$0
4.45 Career Tech Programs	\$0	\$0	\$0				
4.48 Achievement and Integration	\$0	\$0	\$0	<b>08 TRUST</b>			
4.49 Safe School Crime - Crime Levy	\$0	\$0	\$0	Total Revenue	\$4,524	\$4,524	\$0
4.50 Pre-Kindergarten	\$0	\$0	\$0	Total Expenditures	\$2,000	\$2,000	\$0
4.51 QZAB Payments	\$0	\$0	\$0	4.22 Unassigned Fund Balance	\$2,660	\$2,660	\$0
4.52 OPEB Liab Not in Trust	\$0	\$0	\$0				
4.53 Unfunded Sev & Retirement Levy	\$0	\$0	\$0	<b>20 INTERNAL SERVICE</b>			
4.67 LTFM	\$0	\$0	\$0	Total Revenue	\$0	\$0	\$0
Restricted:				Total Expenditures	\$0	\$0	\$0
4.64 Restricted Fund Balance	\$109,346	\$109,346	\$0	4.22 Unassigned Fund Balance	\$0	\$0	\$0
Committed:							
4.18 Committed for Separation	\$0	\$0	\$0	<b>25 OPEB REVOCABLE TRUST</b>			
4.61 Committed Fund Balance	\$0	\$0	\$0	Total Revenue	\$0	\$0	\$0
Assigned:				Total Expenditures	\$0	\$0	\$0
4.62 Assigned Fund Balance	\$2,916,477	\$2,916,477	\$0	4.22 Unassigned Fund Balance	\$0	\$0	\$0
Unassigned:							
4.22 Unassigned Fund Balance	\$8,309,788	\$8,309,788	\$0	<b>45 OPEB IRREVOCABLE TRUST</b>			
				Total Revenue	\$0	\$0	\$0
<b>02 FOOD SERVICES</b>				Total Expenditures	\$0	\$0	\$0
Total Revenue	\$1,094,967	\$1,094,964	\$3	4.22 Unassigned Fund Balance	\$0	\$0	\$0
Total Expenditures	\$1,189,118	\$1,189,115	\$3				
Non Spendable:				<b>47 OPEB DEBT SERVICE</b>			
4.60 Non Spendable Fund Balance	\$13,696	\$13,696	\$0	Total Revenue	\$0	\$0	\$0
Restricted/Reserved:				Total Expenditures	\$0	\$0	\$0
4.52 OPEB Liab Not in Trust	\$0	\$0	\$0	Non Spendable:			
Restricted:				4.60 Non Spendable Fund Balance	\$0	\$0	\$0
4.64 Restricted Fund Balance	\$0	\$0	\$0	Restricted:			
Unassigned:				4.25 Bond Refunding	\$0	\$0	\$0
4.63 Unassigned Fund Balance	-\$13,696	-\$13,696	\$0	4.64 Restricted Fund Balance	\$0	\$0	\$0
				Unassigned:			
				4.63 Unassigned Fund Balance	\$0	\$0	\$0
<b>04 COMMUNITY SERVICE</b>							
Total Revenue	\$568,203	\$568,203	\$0				
Total Expenditures	\$523,353	\$523,354	-\$1				
Non Spendable:							
4.60 Non Spendable Fund Balance	\$0	\$0	\$0				
Restricted/Reserved:							
4.26 \$25 Taconite	\$0	\$0	\$0				
4.31 Community Education	\$13,879	\$13,879	\$0				
4.32 E.C.F.E.	\$44,768	\$44,768	\$0				
4.40 Teacher Development and Eval	\$0	\$0	\$0				
4.44 School Readiness	\$0	\$0	\$0				
4.47 Adult Basic Education	\$0	\$0	\$0				
4.52 OPEB Liab Not in Trust	\$0	\$0	\$0				
Restricted:							
4.64 Restricted Fund Balance	\$4,589	\$4,589	\$0				
Unassigned:							
4.63 Unassigned Fund Balance	\$0	\$0	\$0				

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**STUDENT ACTIVITY DETAIL**  
**YEAR ENDED JUNE 30, 2016**

<u>Account</u>	<u>Balance 7/1/15</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Balance 6/30/16</u>
Community Gardening Project	\$ 5,921	\$ -	\$ -	\$ 5,921
Ponemah 7th Grade	1,309	-	-	1,309
National Honor Society	1,949	640	644	1,945
Prom	966	2,205	2,679	492
RLHS Student Council	262	321	100	483
RLMS Student Council	4,460	-	-	4,460
Concessions	3,013	16,515	19,528	-
Ski Club	2,507	-	-	2,507
PES ELC	741	-	-	741
Pep Club	1,951	-	-	1,951
Boys Basketball	364	-	-	364
RLHS Art Club	927	-	-	927
RLMS Art Club	1,200	-	-	1,200
Skateboard Club	271	1,203	1,280	194
Middle School Library Club	(831)	-	-	(831)
Special Ed	771	1,200	1,392	579
Ponemah 6th Grade	54	-	-	54
Ponemah Pop Fund	585	-	-	585
RLE Archery Club	2,465	-	-	2,465
Taste of Red Lake Cookbook	4,053	-	667	3,386
Band Activity Club	1,359	1,019	2,342	36
Special Olympics	205	-	-	205
Design Club	374	5,206	4,310	1,270
Freshman Class	131	4,588	5,068	(349)
8th Grade Class	442	-	-	442
RLE Elementary Activity	(1,554)	1,428	272	(398)
<b>Totals</b>	<b><u>\$ 33,895</u></b>	<b><u>\$ 34,325</u></b>	<b><u>\$ 38,282</u></b>	<b><u>\$ 29,938</u></b>

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2016**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>		<u>Federal Expenditures</u>
<b><u>U. S. Department of Agriculture</u></b>			
<b>Pass-Through Minnesota Department of Education:</b>			
<b>Clustered Programs:</b>			
National School Lunch Program	10.555	\$ 597,634	
National School Snacks	10.555	12,702	
National School Lunch Program - Commodity Distribution Cash Rebate	10.555	95	
National School Lunch Program - Commodity Distribution	10.555	<u>56,439</u>	\$ 666,870
National School Breakfast Program	10.553		298,538
Summer Food Service Program for Children	10.559		<u>34,650</u>
Total Clustered Programs			1,000,058
Fresh Fruit and Vegetables Grant Program	10.582		<u>51,532</u>
<b><u>Total Department of Agriculture</u></b>			<u>1,051,590</u>
<b><u>National Endowment for the Arts</u></b>			
<b>Pass-Through Minnesota State Arts Board:</b>			
Promotion of the Arts Partnership Agreements	45.025		<u>50,000</u>
<b><u>U. S. Department of Education</u></b>			
<b>Direct Programs:</b>			
Impact Aid	84.041		9,769,394
Indian Education Grants to Local Education Agencies	84.060		334,075
<b>Pass-Through Minnesota Department of Education:</b>			
<b>Clustered Programs:</b>			
Special Education Grants to States	84.027	372,921	
Special Education Preschool Grants	84.173	<u>12,718</u>	
Total Special Education Cluster			385,639
Title I Grants to Local Education Agencies	84.010		1,104,100
Special Education Grants for Infants and Families	84.181		29,841
Improving Teacher Quality State Grants	84.367		120,600
Race to the Top - Early Learning Challenge	84.412		47,507
Rural Education	84.358		22,399
<b>Received from Other Pass-Through Entities:</b>			
<b>North Country Vocational Co-op:</b>			
Career and Technical Education - Basic Grants to States	84.048A		<u>6,100</u>
<b><u>Total Department of Education</u></b>			<u>11,819,655</u>
<b><u>Total Federal Assistance Expended</u></b>			<u>\$ 12,921,245</u>

See Accompanying Notes to the Schedule of Federal Awards.

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**JUNE 30, 2016**

**NOTE 1 - Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Independent School District No. 38 and is presented on the modified 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* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Therefore, some amounts in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

**NOTE 2 - Child Nutrition Cluster**

Cash receipts from the U. S. Department of Agriculture through the Minnesota Department of Education are included in revenues from federal sources. It is assumed that federal funds are expended first.

**NOTE 3 - Food Donation Program**

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This non-monetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

**NOTE 4 - Matching Requirements**

Certain Federal programs require that the District contribute non-federal funds (matching funds) to support the Federally-funded programs. The District has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.

**NOTE 5 – Pass-through Entities**

All pass-through entities listed above use the same CFDA numbers as the federal grantors to identify these grants, and have not assigned any additional identifying numbers.

**NOTE 6 – Indirect Cost Rate**

Independent School District No. 38 – Red Lake, Minnesota has not elected to use the 10 percent de Minimis indirect cost rate as allowed under the Uniform Guidance.

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**STUDENT CENSUS**  
**JUNE 30, 2016**  
**(unaudited)**

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
<b><u>Students Served (WADM/PUN's)*</u></b>										
Residents	1,870.86	1,889.38	1,914.00	1,865.49	1,799.48	1,821.93	1,817.11	1,802.58	1,739.07	1,716.27
Nonresidents in District										
Tuition	-	-	-	-	-	-	-	1.37	0.74	-
Enrollment Options	0.24	0.10	-	-	-	-	-	-	1.19	3.05
Residents Outside District										
Enrollment Options	<u>(386.04)</u>	<u>(388.46)</u>	<u>(393.15)</u>	<u>(367.15)</u>	<u>(333.76)</u>	<u>(341.31)</u>	<u>(307.43)</u>	<u>(274.43)</u>	<u>(246.53)</u>	<u>(300.37)</u>
<b><u>Adjusted WADM/PUN's*</u></b>	<b><u>1,485.06</u></b>	<b><u>1,501.02</u></b>	<b><u>1,520.85</u></b>	<b><u>1,498.34</u></b>	<b><u>1,465.72</u></b>	<b><u>1,480.62</u></b>	<b><u>1,509.68</u></b>	<b><u>1,528.15</u></b>	<b><u>1,493.73</u></b>	<b><u>1,418.95</u></b>
<b><u>Resident ADM's</u></b>	<b><u>1,753.23</u></b>	<b><u>1,767.47</u></b>	<b><u>1,706.91</u></b>	<b><u>1,656.09</u></b>	<b><u>1,595.50</u></b>	<b><u>1,616.14</u></b>	<b><u>1,598.09</u></b>	<b><u>1,582.24</u></b>	<b><u>1,525.77</u></b>	<b><u>1,512.37</u></b>

\* The State of Minnesota changed to Pupil Unit Weightings (PUN) from Weighted Average Daily Membership (WADM) in the year ended June 30, 2015 to calculate general education aid.



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE BASED ON AN AUDIT  
 OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
 WITH THE MINNESOTA LEGAL COMPLIANCE AUDIT GUIDE  
 FOR SCHOOL DISTRICTS**

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 – Red Lake, Minnesota as of and for the year ended June 30, 2016, and the related notes to the financial statements, and have issued our report thereon dated December 16, 2016.

The *Minnesota Legal Compliance Audit Guide for School Districts*, promulgated by the State Auditor pursuant to *Minnesota Statutes* §6.65, contains seven main 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 Independent School District No. 38 - Red Lake, Minnesota, failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for School Districts*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding Independent School District No. 38 – Red Lake, Minnesota's noncompliance with the above referenced provisions.

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.

*Miller McDonald, Inc.*

December 16, 2016  
 Bemidji, Minnesota



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**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**

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 – Red Lake, Minnesota, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Independent School District No. 38 – Red Lake, Minnesota's basic financial statements, and have issued our report thereon dated December 16, 2016.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Independent School District No. 38 – Red Lake, Minnesota'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 Independent School District No. 38 – Red Lake, Minnesota's internal control. Accordingly, we do not express an opinion on the effectiveness of Independent School District No. 38 – Red Lake, Minnesota's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency: 2007-001.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Independent School District No. 38 – Red Lake, Minnesota’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

**Independent School District No. 38, Red Lake, Minnesota’s Response to Findings**

Independent School District No. 38, Red Lake, Minnesota’s response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Independent School District No. 38, Red Lake, Minnesota’s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**Purpose of this Report**

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

*Miller McDonald, Inc.*

December 16, 2016  
Bemidji, Minnesota





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

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 – Red Lake, Minnesota’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 Independent School District No. 38 – Red Lake, Minnesota’s major federal programs for the year ended June 30, 2016. Independent School District No. 38 – Red Lake, Minnesota’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 the requirements of 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 Independent School District No. 38 – Red Lake, Minnesota’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 Independent School District No. 38 – Red Lake, Minnesota’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 Independent School District No. 38 – Red Lake, Minnesota’s compliance.

Opinion on Each Major Federal Program

In our opinion, Independent School District No. 38 – Red Lake, Minnesota 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 programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of Independent School District No. 38 – Red Lake, Minnesota 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 Independent School District No. 38 – Red Lake, Minnesota’s internal control over compliance with 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 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 Independent School District No. 38 – Red Lake, Minnesota’s internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2016-001 that we consider to be a significant deficiency.

Independent School District No. 38, Red Lake, Minnesota’s response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Independent School District No. 38, Red Lake, Minnesota’s response was not subjected to the auditing procedures applied in the audit compliance and, accordingly, we express no opinion on the response.

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.

*Miller McDonald, Inc.*

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2016**

**I. SUMMARY OF AUDITOR'S RESULTS**

- A.) An unmodified opinion on the financial statements was issued.
- B.) One significant deficiency in internal control was reported on the audit of the financial statements, but the deficiency was not identified as a material weakness.
- C.) The audit did not disclose any noncompliance which was material to the financial statements.
- D.) One significant deficiency in internal control over compliance relating to the audit of the major federal award programs was reported in the *Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance*.
- E.) An unmodified opinion on compliance for major federal award programs was issued.
- F.) Audit findings that are required to be reported in accordance with 2 CFR section 200.516(a) are reported in this schedule.
- G.) Major programs:
- |  |                 |
|--|-----------------|
| Impact Aid                                 | CFDA No. 84.041 |
| Special Education Cluster:                 |                 |
| Special Education Grants to States         | CFDA No. 84.027 |
| Special Education Preschool Grants         | CFDA No. 84.173 |
| Title I Grants to Local Education Agencies | CFDA No. 84.010 |
- H.) A \$750,000 threshold was used to distinguish between Type A and Type B programs.
- I.) Independent School District No. 38 qualifies as a low-risk auditee.

**II. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.**

**PREVIOUSLY REPORTED ITEM NOT RESOLVED DURING THE YEAR**

**Finding: 2007-001 Preparation of Financial Statements**

**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.

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2016**

**Criteria**

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

**Effect**

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

**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.

**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.

**Management's Response - Corrective Action Plan (CAP)**

1. **Explanation of Disagreement with Audit Finding**

*There is no disagreement with the finding.*

2. **Actions Planned in Response to Finding**

*The District will investigate the practicality of contracting with a third party accountant who would prepare year end adjusting entries to the financial records and prepare the financial statements prior to next year's audit.*

3. **Official Responsible for Ensuring CAP Implementation**

*Administration.*

4. **Planned Completion of CAP**

*June 30, 2017.*

5. **Plan to Monitor Completion of CAP**

*Policy will be reviewed annually by District.*

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2016**

**III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS**

**Internal Control Findings**

**Finding 2016-001 – Title I Grants to Local Education Agencies, CFDA 84.010 – Inadequate Support of Salaries and Benefits**

**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.

**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.

**Effect**

Possible financial statement misstatement could exist.

**Cause**

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

**Recommendation**

We recommend that management follow the written controls and procedures to ensure documentation supporting time allocation is being completed and maintained on file.

**Management's Response – Corrective Action Plan (CAP)**

**1. Explanation of Disagreement with Audit Finding**

*There is no disagreement with the finding.*

**2. Actions Planned in Response to Finding**

*At the beginning of each fiscal year the business manager will prepare a report of staff who are paid with federal funds. This report will also include whether the staff has a single or multiple cost objective.*

**Semi-Annual Time Certification**

*Staff with a single cost objective will be required to sign a Single Cost Objective report each December and June and attach a copy of their schedule. After review for accuracy and approved by their supervisor, the reports will be kept on file by the human resource coordinator.*

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2016**

**Monthly Personnel Activity Report (PARS)**

*Staff with a schedule that varies or is determined to be working multiple activities or cost objectives will, by the 10th day of each month, complete the PARS indicating the percentage of time spent on each activity or cost objective. The employee will sign the PARS and send it to their supervisor. The supervisor will assure each identified employee on the Multiple Activity/Cost Objectives list has completed a monthly report and ensure the PARS reports are accurate based on employees current schedule, lesson plans or work assignment when compared to the corresponding activity log. The supervisor will sign the PARS and forward to the human resource coordinator.*

**3. Official Responsible for Ensuring CAP Implementation**

*Business Manager*

**4. Planned Completion of CAP**

*December 9, 2016*

**5. Plan to Monitor Completion of CAP**

*The human resource coordinator will collect the monthly PARS and Semi-annual certifications from each supervisor.*

*Quarterly, the business manager and human resource coordinator will review the monthly PARS reports to 1) ensure all reports are on file and 2) compare the actual costs to the budget distribution and make necessary adjustments if the quarterly comparisons show the difference between budgeted and actual costs are greater than 10%. If the difference between budgeted and actual costs is less than 10%, the adjustments will be made annually.*

*Semi-annually, the business manager will review semi-annual reports 1) to ensure all reports are on file and 2) to compare actual costs to the budget distribution and make any necessary adjustments.*

**Questioned Costs**

None reported.

**IV. MINNESOTA LEGAL COMPLIANCE FINDINGS**

**Items Arising during the Year**

None reported.