

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2015

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
JUNE 30, 2015

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RED LAKE, MINNESOTA
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INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
YEAR ENDED JUNE 30, 2015

OFFICIAL DIRECTORY
(Unaudited)

<u>School Board Members and Officers</u>	July 1, 2014 to December 31, 2014	January 1, 2014 to June 30, 2015
Chairperson	Mike Barrett	Mike Barrett
Vice-Chairperson	Robert McClain	Robert McClain
Treasurer	Roy Nelson	Roy Nelson
Clerk	Barbara Thomas	Barbara Thomas
Director	Darwin Summer	Darwin Summer
Director	Chris Jourdain	Tina Stately
<u>Administration</u>		
Superintendent	Dr. Anne M. Lundquist	Dr. Anne M. Lundquist
Business Manager	Willie Larson	Willie Larson



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Certified Public Accountants
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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, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material 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, 2015, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 1 to the financial statements, in the fiscal year ended June 30, 2015, the District adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, 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 52 through 57, 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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 31, 2015, on our consideration of Independent School District No. 38 – Red Lake, Minnesota’s internal control over financial reporting and 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 the 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 31, 2015
Bemidji, Minnesota

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015

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, 2015. 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, 2015 include the following:

- Net position decreased by 6.76% from the prior year.
- Overall revenues were \$32,557,045 and overall expenses were \$36,111,442. 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 \$2,026,319.
- There was no change in the Building Construction or Food Service fund balances, an increase occurred in the Community Service fund balance of \$18,386 and a decrease in Debt Service fund balance of \$476.

OVERVIEW OF THE FINANCIAL STATEMENTS

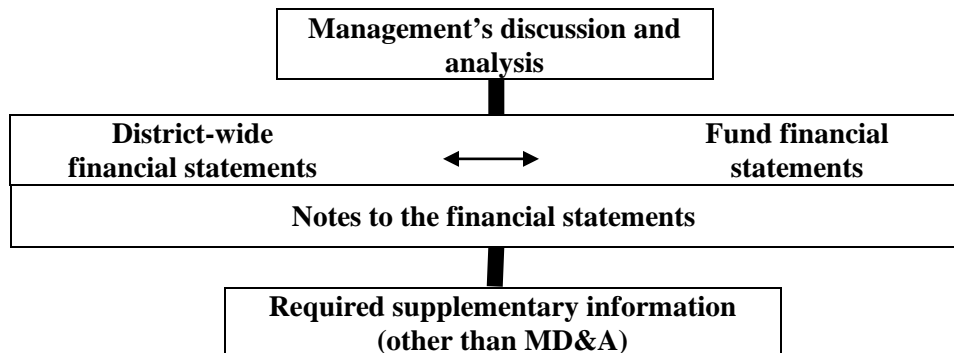
The financial section of the annual report consists of four parts – Independent Auditor's Report, required supplementary information, which includes the management's discussion and analysis (this section), the basic financial statements, and supplementary information. The basic financial statements include 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, 2015

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"> Statement of net position Statement of activities 	<ul style="list-style-type: none"> Balance sheet Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> Statement of fiduciary net position Statement of changes in fiduciary net position
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, 2015

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, 2015

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 \$(56,151,465) at June 30, 2015 (see the following table). At June 30, 2014 the net position was \$(52,597,068) with a decrease of \$3,554,397 from operating activities for the year ended June 30, 2015. The District's unrestricted net position is negative due to the capital loans and defaulted interest which totaled \$95,834,630 and \$91,450,330 for the years ended June 30, 2015 and 2014 respectively.

	2015	2014	Net Changes	
			Amount	Percent
Current and other assets	\$ 13,925,326	\$ 11,653,825	\$ 2,271,501	19.49%
Capital assets, net of depreciation	49,767,639	50,653,878	(886,239)	-1.75%
Total assets	63,692,965	62,307,703	1,385,262	2.22%
Deferred outflows of resources	2,679,273	1,136,598	1,542,675	100.00%
Current payables	3,317,566	3,237,529	80,037	2.47%
Long-term liabilities:				
Due within one year	228,030	223,696	4,334	1.94%
Due after one year	114,147,750	112,574,634	1,573,116	1.40%
Total liabilities	117,693,346	116,035,859	1,657,487	1.43%
Deferred inflows of resources	4,830,357	5,510	4,824,847	87565.28%
Net position:				
Restricted	529,940	237,220	292,720	123.40%
Unrestricted (Deficit)	(56,681,405)	(52,834,288)	(3,847,117)	-7.28%
Total net position (deficit)	\$ (56,151,465)	\$ (52,597,068)	\$ (3,554,397)	-6.76%

The change amounted to a 6.76% decrease in net position.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015

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, 2015 and 2014. A summary of the District's revenues and expenses, along with the percentages for each category follows:

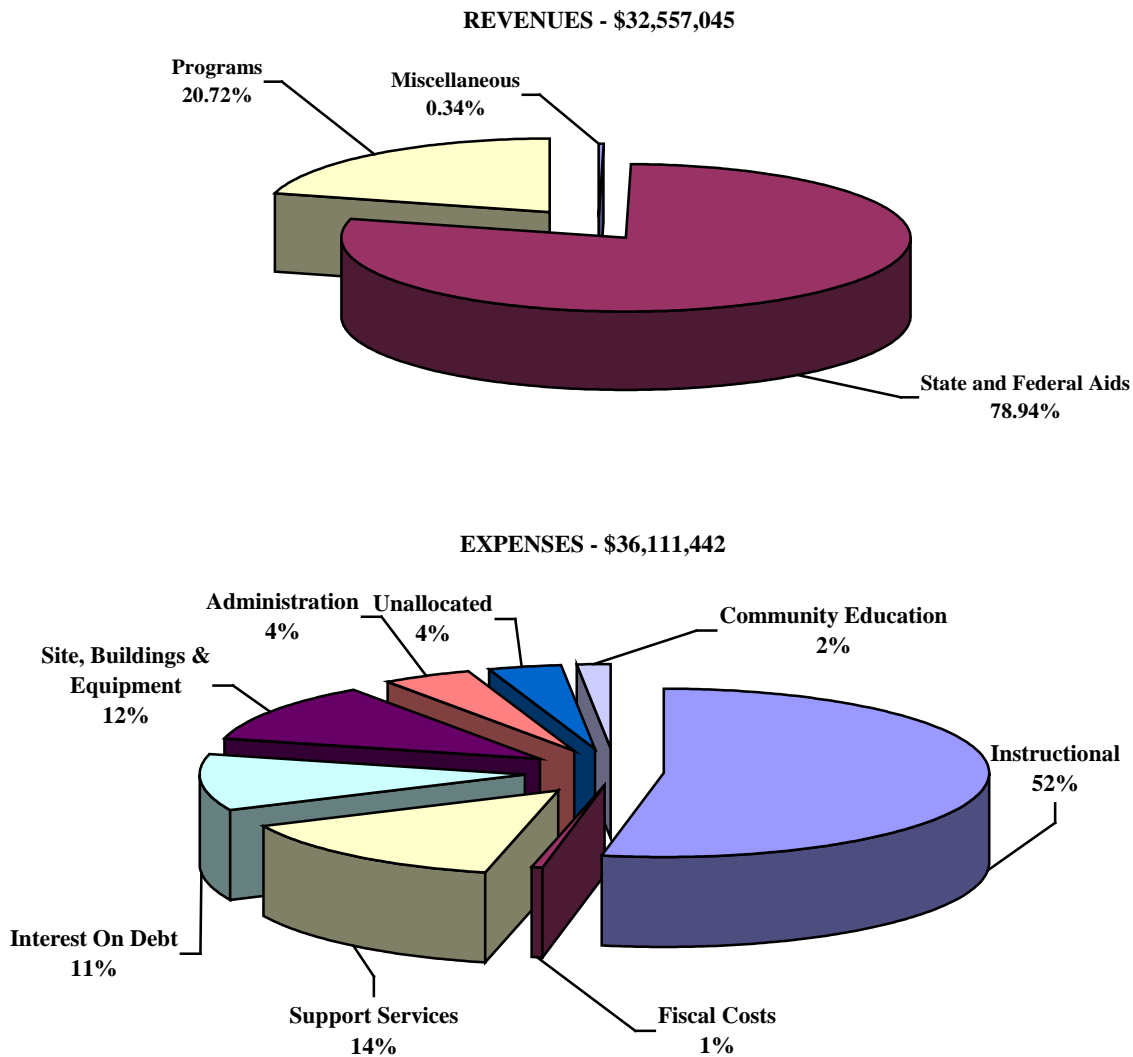
	2015		2014		Net Change	
	Amounts	Percent	Amounts	Percent	Amount	Percent
Revenues:						
Program Revenues:						
Charges for Services	\$ 103,420	0.32%	\$ 54,743	0.19%	\$ 48,677	88.92%
Operating Grants and Contributions	6,642,850	20.40%	10,382,009	36.07%	(3,739,159)	-36.02%
Total Program Revenues	6,746,270	20.72%	10,436,752	36.26%	(3,690,482)	-35.36%
General Revenues:						
Property Taxes	6,783	0.02%	8,139	0.03%	(1,356)	-16.66%
Aids and Payments from State and Federal Sources	25,700,215	78.94%	18,890,929	65.63%	6,809,286	36.05%
Other Sources	103,777	0.32%	(552,297)	-1.92%	656,074	-118.79%
Total General Revenues	25,810,775	79.28%	18,346,771	63.74%	7,464,004	40.68%
Total Revenues	32,557,045	100.00%	28,783,523	100.00%	3,773,522	13.11%
Expenses:						
Instructional:						
Regular Instruction	14,594,443	40.42%	14,555,006	40.85%	39,437	0.27%
Vocational Instruction	239,986	0.66%	197,808	0.56%	42,178	21.32%
Special Education Instruction	4,285,453	11.87%	3,771,494	10.59%	513,959	13.63%
Total Instructional	19,119,882	52.95%	18,524,308	51.99%	595,574	3.22%
Support Services:						
District Support Services	1,132,394	3.14%	1,041,549	2.92%	90,845	8.72%
Instructional Support Services	1,215,063	3.36%	694,815	1.95%	520,248	74.88%
Pupil Support Services	2,876,250	7.96%	2,862,268	8.03%	13,982	0.49%
Total Support Services	5,223,707	14.47%	4,598,632	12.91%	625,075	13.59%
Administration	1,612,303	4.46%	1,744,927	4.90%	(132,624)	-7.60%
Community Education and Services	559,740	1.55%	690,584	1.94%	(130,844)	-18.95%
Site, Buildings and Equipment	4,153,413	11.50%	4,710,992	13.22%	(557,579)	-11.84%
Fiscal and Other Fixed Costs	189,797	0.53%	189,037	0.53%	760	0.40%
Interest on Long-Term Debt	3,946,742	10.93%	3,863,256	10.84%	83,486	2.16%
Unallocated Depreciation	1,305,858	3.62%	1,306,731	3.67%	(873)	-0.07%
Total Expenses	36,111,442	100.00%	35,628,467	100.00%	482,975	1.36%
Changes in Net Position	\$ (3,554,397)		\$ (6,844,944)		\$ 3,290,547	

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015

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

The District's total revenues consisted of program revenues of \$6,746,270, aids and payments from the state and federal sources of \$25,700,215 and \$110,560 from miscellaneous other sources. Expenses totaling \$36,111,442 consisted of regular, vocational and special education instruction costs of \$19,119,882; district, instructional and pupil support services of \$5,223,707; site, buildings and equipment related costs of \$4,153,413; interest, fiscal, and fixed-cost programs of \$4,136,539; community education and services costs of \$559,740; administrative costs of \$1,612,303; and unallocated depreciation costs of \$1,305,858.

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, 2015

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, 2015 and 2014 are as follows:

	<u>Cost of Services - 2015</u>		<u>Cost of Services - 2014</u>	
	<u>Total</u>	<u>Net</u>	<u>Total</u>	<u>Net</u>
Expenses:				
Administration	\$ 1,612,303	\$ 1,612,303	\$ 1,744,927	\$ 1,744,927
District Support Services	1,132,394	1,132,394	1,041,549	1,041,549
Regular Instruction	14,594,443	12,090,579	14,555,006	8,610,762
Vocational Instruction	239,986	239,986	197,808	197,808
Special Education Instruction	4,285,453	2,320,922	3,771,494	1,543,699
Community Education and Services	559,740	50,459	690,584	119,259
Instructional Support Services	1,215,063	1,175,963	694,815	634,465
Pupil Support Services	2,876,250	1,741,305	2,862,268	1,981,322
Site, Buildings and Equipment	4,153,413	3,560,819	4,710,992	3,960,870
Fiscal and Other Fixed Costs	189,797	187,842	189,037	187,067
Interest on Long-Term Debt	3,946,742	3,946,742	3,863,256	3,863,256
Unallocated Depreciation	1,305,858	1,305,858	1,306,731	1,306,731
	<u>\$ 36,111,442</u>	<u>\$ 29,365,172</u>	<u>\$ 35,628,467</u>	<u>\$ 25,191,715</u>
Total Expenses	<u>\$ 36,111,442</u>	<u>\$ 29,365,172</u>	<u>\$ 35,628,467</u>	<u>\$ 25,191,715</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 \$9,036,797. This was up from \$6,992,568 at the end of the prior year, an increase of \$2,044,229. The General fund balance increased by \$2,026,319. The Community Service fund balance increased by \$18,386, and the Debt Redemption fund balance decreased by \$476. There was no change in the Building Construction or Food Service fund balances.

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, 2015 fund balance follows:

Three months average expenditures for 2014-15	\$ 7,167,992
June 30, 2015 unassigned General fund balance	\$ 5,565,792

The District's unassigned General fund balance did not meet this goal.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015

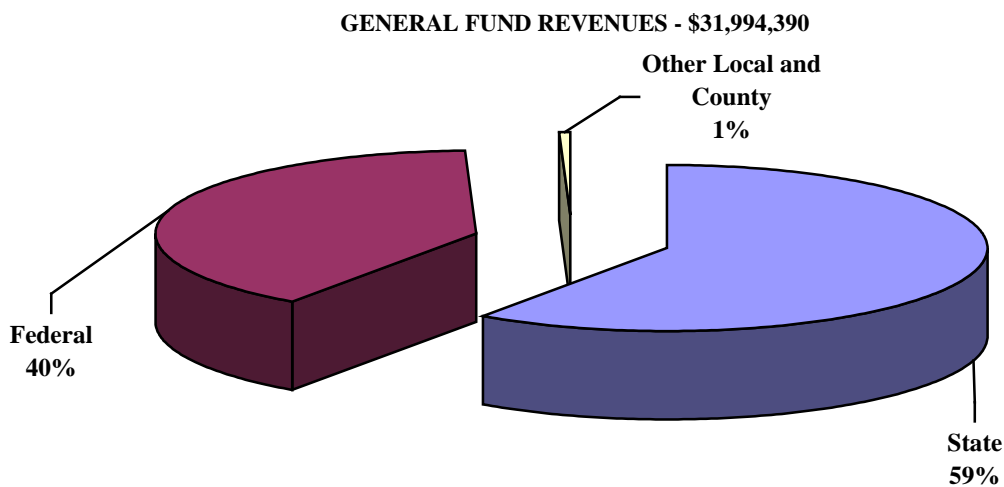
FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS
(FUND FINANCIAL STATEMENTS) (Continued)

Revenue and Expenditures

Revenues of the District's governmental funds totaled \$32,775,294 while total expenditures were \$30,925,476. 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	\$ 30,994,390	\$ 28,671,969	\$ (296,102)	\$ 2,026,319
Food Service Fund	1,014,954	1,177,304	162,350	-
Community Service Fund	509,422	554,915	63,879	18,386
Building Construction	-	515,284	515,284	-
Debt Redemption Fund	5,528	6,004	-	(476)
Totals	\$ 32,524,294	\$ 30,925,476	\$ 445,411	\$ 2,044,229

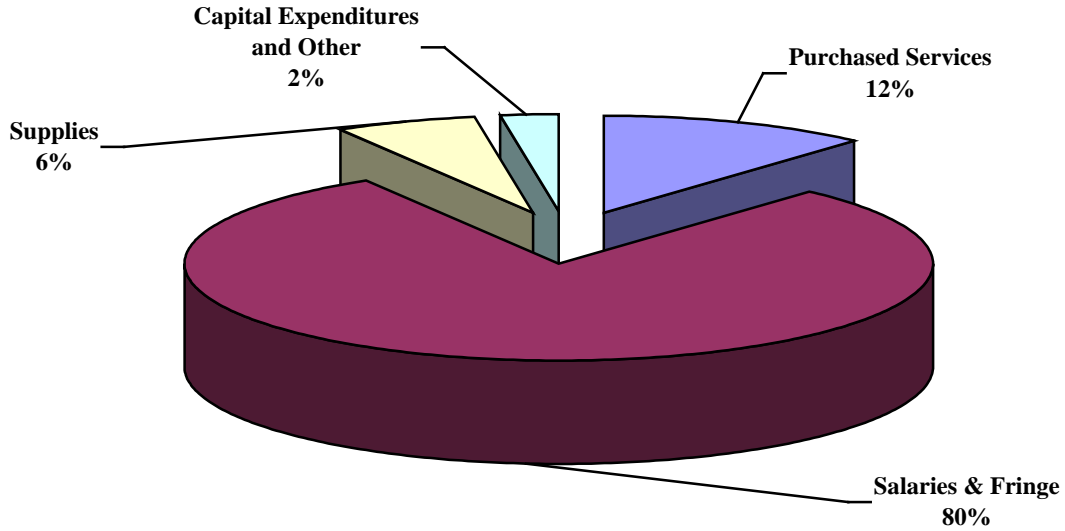
The following graphs are presented for the General Fund revenues and expenditures:



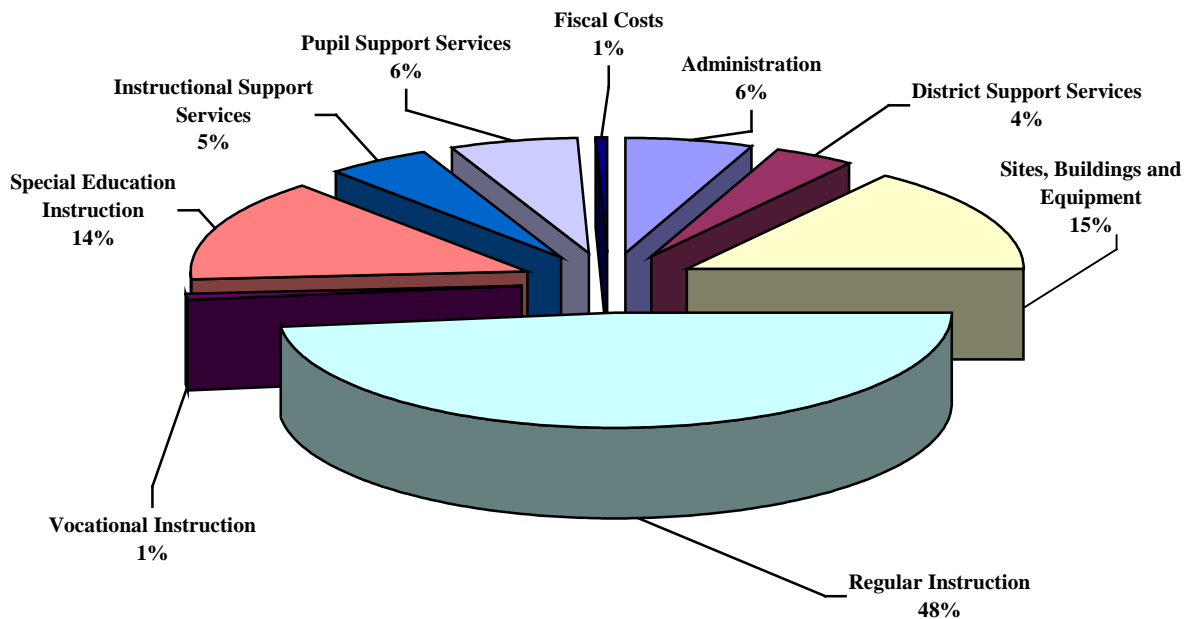
INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015

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

GENERAL FUND EXPENSES BY OBJECT - \$28,671,969



GENERAL FUND EXPENSES BY PROGRAM - \$28,671,969



INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015

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, 2014, 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 2014 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 \$256,116 before other financing sources and uses. The actual results for the year reported revenues exceeding expenditures by \$2,322,421. Revenues were more than budget by \$1,708,761. This was primarily driven by revenues from federal sources being \$1,708,431 greater than budgeted.

Expenditures for the District's General Fund final budget were \$357,544 under budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Additions during the year ended June 30, 2015 totaled \$970,020. This included \$271,282 of buildings and improvements, \$183,454 for equipment and vehicles, and \$515,284 of construction in progress. The District also disposed of equipment with an original cost of \$53,999 for the year ended June 30, 2015.

Long-Term Liabilities

At June 30, 2015 the District's long-term liabilities totaled \$114,375,780. This consisted of capital loans payable of \$51,739,204, defaulted interest on capital loan of \$44,095,426, a capital lease of \$228,030, severance payable of \$2,604,734, net pension liability of \$15,566,755 and compensated absences payable of \$141,631. As of June 30, 2015, 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, 2015

FACTORS BEARING ON THE DISTRICT'S FUTURE

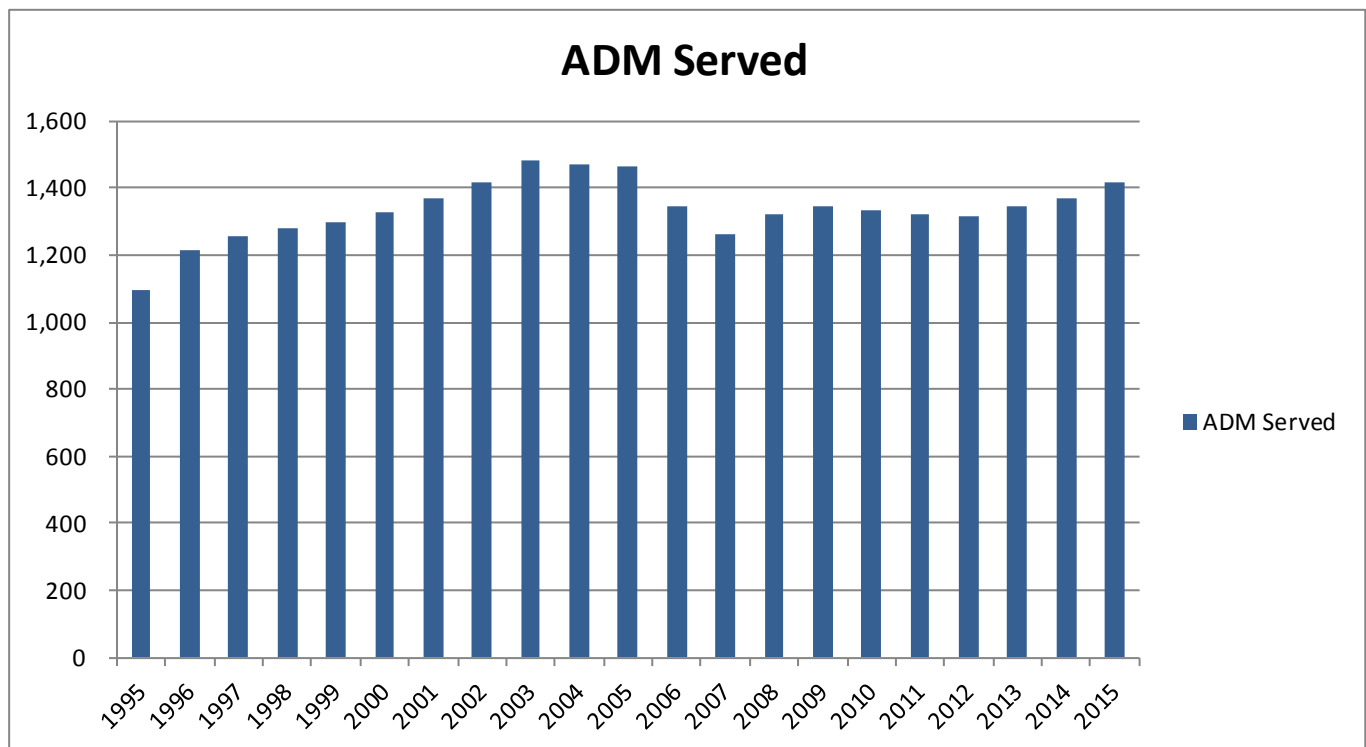
Student Enrollment

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 2016 and 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 2016 and FY 2017. The District is expecting retirements of three (3) veteran staff in FY 16 and four (4) in FY 17.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015

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 expired on June 30, 2015. The District settled one of the contracts on October 21, 2015, and anticipates settling the remaining contracts in January 2016. These 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 2.4% in reading and 4.1% in math. This increase is significant as it is more than double the growth in the percent proficient statewide, which is flat or rising only slightly.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015

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, implemented a new Curriculum, Instruction and Assessment department to work toward 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 \$352,186.00 in FY 14 to \$162,349.99 in FY 15.

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, 2015

ASSETS

Cash and Investments		\$ 9,314,567
Property Taxes Receivable		93
Due from Other Governmental Units		2,937,730
Other Accounts Receivable		64,977
Inventories		35,231
Net OPEB Benefit		1,572,728
Capital Assets:		
Construction in Progress	\$ 542,434	
Depreciable Capital Assets, Net of Depreciation	49,225,205	49,767,639
		<hr/>
Total Assets		63,692,965

DEFERRED OUTFLOWS OF RESOURCES

Deferred Outflows of Resources Related to Pensions		2,679,273
		<hr/>

LIABILITIES

Salaries Payable		1,244,177
Accounts Payable		462,163
Interest Payable		7,275
Due to Other Governmental Units		24,809
Payroll Deductions and Employer Contributions		1,579,142
Long-Term Liabilities:		
Portion Due Within One Year		228,030
Due After One Year		114,147,750
		<hr/>
Total Liabilities		117,693,346

DEFERRED INFLOWS OF RESOURCES

Deferred Inflows of Resources Related to Pensions		4,824,847
Property Taxes Levied for Subsequent Years' Expenditures		5,510
		<hr/>
Total Deferred Inflows of Resources		4,830,357

NET POSITION

Restricted for:		
State Mandated Programs		421,724
Capital Projects		106,403
Debt Redemption		1,813
Unrestricted (Deficit)		(56,681,405)
		<hr/>
Total Net Position (Deficit)		\$ (56,151,465)

See Accompanying Notes to Financial Statements.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2015

<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>	
Governmental Activities				
District and School Administration	\$ 1,612,303	\$ -	\$ -	\$ (1,612,303)
District Support Services	1,132,394	-	-	(1,132,394)
Regular Instruction	14,594,443	35,579	2,468,285	(12,090,579)
Vocational Instruction	239,986	-	-	(239,986)
Special Education Instruction	4,285,453	357	1,964,174	(2,320,922)
Community Education and Services	559,740	345	508,936	(50,459)
Instructional Support Services	1,215,063	5,657	33,443	(1,175,963)
Pupil Support Services	2,876,250	61,482	1,073,463	(1,741,305)
Site, Buildings, and Equipment	4,153,413	-	592,594	(3,560,819)
Fiscal and Other Fixed Costs	189,797	-	1,955	(187,842)
Interest on Long-Term Debt	3,946,742	-	-	(3,946,742)
Unallocated Depreciation*	1,305,858	-	-	(1,305,858)
Total Governmental Activities	\$ 36,111,442	\$ 103,420	\$ 6,642,850	(29,365,172)
General Revenues:				
Property Taxes:				
Levied for General Purposes				3,069
Levied for Community Education and Services				141
Levied for Debt Service				3,573
Aids and Payments from State and Federal Sources				25,700,215
Investment Earnings				3,343
Miscellaneous Revenues				100,434
Total General Revenues				25,810,775
Change in Net Position				(3,554,397)
Net Position (Deficit) - Beginning of Year, as Restated				(52,597,068)
Net Position (Deficit) - End of Year				\$ (56,151,465)

* - 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, 2015

	General Fund	Building Construction	Other Governmental Funds	Totals
<u>ASSETS</u>				
Cash and Investments	\$ 9,309,000	\$ 1,018	\$ 4,549	\$ 9,314,567
Property Taxes Receivable	88	-	5	93
Due from Other Funds	338,043	-	-	338,043
Due from Other Governmental Units	2,423,899	445,411	68,420	2,937,730
Other Accounts Receivable	31,003	-	33,974	64,977
Inventories	24,588	-	10,643	35,231
Total Assets	\$ 12,126,621	\$ 446,429	\$ 117,591	\$ 12,690,641
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</u>				
<u>Liabilities</u>				
Salaries Payable	\$ 1,174,515	\$ -	\$ 69,662	\$ 1,244,177
Accounts Payable	330,060	123,604	8,499	462,163
Due to Other Funds	-	321,807	16,236	338,043
Due to Other Governmental Units	24,809	-	-	24,809
Payroll Deductions and Employer Contributions	1,579,142	-	-	1,579,142
Total Liabilities	3,108,526	445,411	94,397	3,648,334
<u>Deferred Inflows of Resources</u>				
Property Taxes Levied for Subsequent Years' Expenditures	2,515	-	2,995	5,510
<u>Fund Balance</u>				
Nonspendable	24,588	-	10,643	35,231
Restricted	508,723	1,018	20,199	529,940
Assigned	2,916,477	-	-	2,916,477
Unassigned	5,565,792	-	(10,643)	5,555,149
Total Fund Balance	9,015,580	1,018	20,199	9,036,797
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ 12,126,621	\$ 446,429	\$ 117,591	\$ 12,690,641

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, 2015

Total Fund Balances - Governmental Funds \$ 9,036,797

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	\$ 73,743,231	
Accumulated Depreciation	(23,975,592)	
Net Depreciated Value of Capital Assets		49,767,639

Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. (7,275)

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	(95,834,630)	
Capital Leases Payable	(228,030)	
Net Pension Liability	(15,566,755)	
Other Post-Employment Benefits Surplus	1,572,728	
Severance Payable	(2,604,734)	
Compensated Absences Payable	(141,631)	(112,803,052)

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	2,679,273	
Deferred Inflows of Resources	(4,824,847)	(2,145,574)

Total Net Position - Governmental Activities \$ (56,151,465)

See Accompanying Notes to Financial Statements.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2015

	General Fund	Building Construction	Other Governmental Funds	Totals
Revenues				
Local Property Taxes	\$ 3,069	\$ -	\$ 3,714	\$ 6,783
Other Local and County Revenues	143,969	-	172,625	316,594
Revenues from State Sources	18,515,706	-	301,739	18,817,445
Revenues from Federal Sources	12,279,566	-	1,029,392	13,308,958
Sales and Other Conversions of Assets	48,737	-	12,745	61,482
Investment Earnings	3,343	-	-	3,343
Miscellaneous Revenue	-	-	9,689	9,689
Total Revenues	30,994,390	-	1,529,904	32,524,294
Expenditures				
District and School Administration	1,714,275	-	-	1,714,275
District Support Services	1,158,549	-	-	1,158,549
Regular Instruction	13,812,067	-	-	13,812,067
Vocational Instruction	209,631	-	-	209,631
Special Education Instruction	4,146,481	-	-	4,146,481
Community Education and Services	-	-	554,915	554,915
Instructional Support Services	1,407,030	-	-	1,407,030
Pupil Support Services	1,756,316	-	1,177,304	2,933,620
Site, Buildings, and Equipment	4,277,823	515,284	-	4,793,107
Fiscal and Other Fixed Costs	189,797	-	-	189,797
Debt Service	-	-	6,004	6,004
Total Expenditures	28,671,969	515,284	1,738,223	30,925,476
Excess of Revenues Over (Under) Expenditures	2,322,421	(515,284)	(208,319)	1,598,818
Other Financing Sources (Uses)				
Capital Loan Proceeds	-	445,411	-	445,411
Operating Transfers In	-	69,873	226,229	296,102
Operating Transfers Out	(296,102)	-	-	(296,102)
Total Other Financing Sources (Uses)	(296,102)	515,284	226,229	445,411
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	2,026,319	-	17,910	2,044,229
Fund Balances, Beginning of Year	6,989,261	1,018	2,289	6,992,568
Fund Balances, End of Year	\$ 9,015,580	\$ 1,018	\$ 20,199	\$ 9,036,797

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, 2015

Net Change in Fund Balances - Total Governmental Funds \$ 2,044,229

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	\$ 970,020	
Depreciation	(1,856,259)	
Excess Capital Outlay Over Depreciation Expense		(886,239)

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	(3,938,889)	
Capital Lease Principal Payments	223,696	
Net Change in Other Post-Employment Benefits (OPEB)	43,188	
Net Change in Severance Payable	(845,042)	
Net Change in Compensated Absences Payable	(41,738)	
Total Long-Term Debt Change		(4,558,785)

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, 2014	11,429	
Accrued Interest at June 30, 2015	(7,275)	
Net Accrued Interest		4,154

Capital Lease proceeds provide current financial resources to governmental funds but issuing debt increases long-term liabilities in the Statement of Net Position.

(445,411)

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	1,189,089	
Cost of benefits earned net of employee contributions	(901,434)	
		287,655

Change in Net Position of Government Activities

\$ (3,554,397)

See Accompanying Notes to Financial Statements.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
STATEMENT OF FIDUCIARY NET POSITION -
SCHOLARSHIP TRUST FUND
JUNE 30, 2015

ASSETS

Cash and Investments	\$ 16,207
Accounts Receivable	4
	4

Total Assets

	16,211
--	--------

LIABILITIES

Other Payables	16,075
	16,075

NET POSITION

Net Position Held in Trust	\$ 136
	136

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, 2015

<u>Additions</u>	
Donations	<u>\$ 2,800</u>
<u>Deductions</u>	
Scholarship Payments	<u>2,800</u>
<u>Change in Net Position</u>	-
<u>Net Position, Beginning of Year</u>	<u>136</u>
<u>Net Position, End of Year</u>	<u><u>\$ 136</u></u>

See Accompanying Notes to Financial Statements.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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, 2015. 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, 2015

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 2014 payable 2015 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, 2015

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 or 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, 2015

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.

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, 2015. 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 2008 through 2014 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, 2015

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, 2015

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. Additional information can be found in Note 6.

Net Position – Net position represent the difference between assets and liabilities in the district-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, 2015.

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 did not meet this goal.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 – Summary of Significant Accounting Policies (Continued)

As of June 30, 2015, fund balances are composed of the following:

	<u>General Fund</u>	<u>Building Construction</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
Fund Balances:				
Nonspendable:				
Inventory	\$ 24,588	\$ -	\$ 10,643	\$ 35,231
Restricted:				
Deferred Maintenance	628	-	-	628
Operating Capital	111,513	-	-	111,513
Learning and Development	3,344	-	-	3,344
State Approved Alt. Program	62,877	-	-	62,877
Basic Skills	224,976	-	-	224,976
Early Childhood and Family Education	-	-	18,386	18,386
Building Construction	105,385	1,018	-	106,403
Debt Reduction	-	-	1,813	1,813
Assigned:				
Other Post-Employment Benefits (OPEB)	2,916,477	-	-	2,916,477
Unassigned	5,565,792	-	(10,643)	5,555,149
Totals	<u>\$ 9,015,580</u>	<u>\$ 1,018</u>	<u>\$ 20,199</u>	<u>\$ 9,036,797</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, 2015

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, 2012, the most recent actuarial valuation date, 22 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 disclosures. Accordingly, actual results could differ from those estimates.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 – Summary of Significant Accounting Policies (Continued)

G. Change in Accounting Principle

During the year ended June 30, 2015, the District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. GASB Statement No. 68 recognizes the District's portion of net pension liability and related deferrals associated with their defined benefit pension plans. GASB Statement No. 71 recognizes a beginning deferred outflow of resources in the year GASB No. 68 is implemented.

NOTE 2 – Deposit and Investments

The Districts deposits and investments are as follows:

	<u>Governmental</u>	
	<u>Funds</u>	<u>Trust Fund</u>
Deposits:		
Money Market Account	\$ 6,847	\$ -
Checking Account	761,028	10,652
Certificates of Deposit	1,000,000	5,555
Investments:		
MSDLAF+	7,546,692	-
Total Deposits and Investments	<u>\$ 9,314,567</u>	<u>\$ 16,207</u>

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.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 2 – Deposit and Investments (Continued)

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;
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’s only investment is through the Minnesota School District Liquid Asset Fund Plus (MSDLAF+), which is an external investment pool that meets the definition of a 2a7-like pool. Because the District’s only investment is through the MSDLAF+ there are no disclosure requirements for custodial credit risk, concentration of credit risk, interest rate risk and foreign currency risk.

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

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.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 3 – Property Taxes (Continued)

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, 2015 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>
Minnesota Department of Education:						
State Aids and Grants	\$ 1,908,578	\$ -	\$ 25,513	\$ -	\$ 195	\$ 1,934,286
Federal Aids and Grants	469,385	28,266	14,446	-	-	512,097
Due From Other Districts	13,466	-	-	-	-	13,466
Federal Aids and Grants	28,122	-	-	-	-	28,122
Other Governmental Units	4,348	-	-	-	-	4,348
Capital Loan Proceeds	-	-	-	445,411	-	445,411
Totals	<u>\$ 2,423,899</u>	<u>\$ 28,266</u>	<u>\$ 39,959</u>	<u>\$ 445,411</u>	<u>\$ 195</u>	<u>\$ 2,937,730</u>

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 5 – Capital Assets

Capital asset activity for the year ended June 30, 2015 is as follows:

	Capital Assets			
	Beginning Balance	Additions	Sales and Retirements	Ending Balance
<u>Capital Assets Not Being Depreciated</u>				
Construction in Progress	\$ 27,150	\$ 515,284	\$ -	\$ 542,434
<u>Depreciable Capital Assets</u>				
Land Improvements	607,989	48,458	-	656,447
Buildings	66,009,148	222,824	-	66,231,972
Equipment	6,182,923	183,454	53,999	6,312,378
Total Depreciable Assets	<u>72,800,060</u>	<u>454,736</u>	<u>53,999</u>	<u>73,200,797</u>
<u>Accumulated Depreciation</u>				
Land Improvements	488,237	12,763	-	501,000
Buildings	17,469,186	1,382,380	-	18,851,566
Equipment	4,215,909	461,116	53,999	4,623,026
Total Accumulated Depreciation	<u>22,173,332</u>	<u>1,856,259</u>	<u>53,999</u>	<u>23,975,592</u>
Total Capital Assets	<u>\$ 50,653,878</u>	<u>\$ (886,239)</u>	<u>\$ -</u>	<u>\$ 49,767,639</u>

Depreciation expense was charged to the following program services:

District and School Administration	\$ 11,666
Regular Instruction	212,621
Vocational Instruction	1,563
Special Education Instruction	5,443
Community Education and Services	385
Instructional Support Services	13,117
Pupil Support Services	140,023
Operations	165,583
Unallocated	1,305,858
Total Depreciation Expense	<u>\$ 1,856,259</u>

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.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 6 – Pension Plans (Continued)

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 cities of Duluth and St. Paul, and by the University of Minnesota system) are required to be TRA members. State university, community college, and technical college teachers first employed by the Minnesota State College and Universities (MnSCU) may elect TRA coverage within one year of eligible employment. Alternatively, these teachers may elect coverage through the Defined Contribution Retirement Plan (DCR) administered by MnSCU.

Benefits Provided

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

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

<u>Tier 1</u>	<u>Step Rate Formula</u>	<u>Percentage</u>
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).

or

Tier II Benefits

For years of service prior to July 1, 2006, a level formula of 1.7 percent per year for coordinated members and 2.7 percent per year for basic members is applied. For years of service July 1, 2006 and after, a level formula of 1.9 percent per year for Coordinated members and 2.7 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.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 6 – Pension Plans (Continued)

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, 2014</u>		<u>Ending June 30, 2015</u>	
	<u>Employee</u>	<u>Employer</u>	<u>Employee</u>	<u>Employer</u>
Basic	10.5%	11.0%	11.0%	11.5%
Coordinated	7.0%	7.0%	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.

Employer contributions reported in TRA’s CAFR Statement of Changes in Fiduciary Net Position	\$299,299,837
Deduct employer contributions not related to future contribution efforts	(398,798)
Deduct TRA’s contributions not included in allocation	<u>(370,701)</u>
Employer contributions reported in schedule of employer and non-employer pension allocations	<u>\$298,530,338</u>

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

Actuarial Assumptions

The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 6 – Pension Plans (Continued)

Key Methods and Assumptions Used in Valuation of Total Pension Liability

Actuarial Information

Measurement Date	June 30, 2014
Valuation Date	July 1, 2014
Experience Study	October 30, 2009
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Investment Rate of Return	8.25%
Wage Inflation	3.0%
Projected Salary increase	3.5-12%, based on years of service
Cost of living adjustment	2.0% until year 2034; 2.5% thereafter

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, 2014 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>	

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 6 – Pension Plans (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 8.25 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal 2015 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, 2015, the District reported a liability of \$10,671,961 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, 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 0.2316% at the end of the measurement period and 0.2347% 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	\$ 10,671,961
State's proportionate share of the net pension liability associated with the District	750,780

A change in benefit provisions that affected the measurement of the total pension liability since the prior measurement date was an increase of the contribution rates for both the member and employer. The Contribution Rates section contains the rate information.

There was a change in actuarial assumptions that affected the measurement of the total pension liability since the prior measurement date. Post-retirement benefit adjustments are now assumed to increase from 2.0 percent annually to 2.5 percent annually once the legally specified criteria are met. This is estimated to occur July 1, 2034.

For the year ended June 30, 2015, the District recognized pension expense of \$539,811. It also recognized \$32,751 as an increase to pension expense for the support provided by direct aid.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 6 – Pension Plans (Continued)

On June 30, 2015 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	\$ 910,607	\$ -
Net difference between projected and actual earnings on plan investments	-	3,355,157
Changes in proportion	-	147,121
Contributions paid to TRA subsequent to the measurement date	<u>771,018</u>	<u>-</u>
Total	<u>\$ 1,681,625</u>	<u>\$ 3,502,278</u>

\$771,018 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, 2016. 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:

2016	\$ (679,398)
2017	(679,397)
2018	(679,397)
2019	(679,397)
2020	125,918

Pension Liability Sensitivity

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 8.25 percent as well as the liability measured using one percent lower and one percent higher.

District proportionate share of NPL		
1 percent decrease <u>(7.25%)</u>	Current <u>(8.25%)</u>	1 percent increase <u>(9.25%)</u>
\$17,637,097	\$10,671,961	\$4,865,446

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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, 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.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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 6.25%, respectively, of their annual covered salary in calendar year 2014. Coordinated Plan members contributed 6.5% of pay in 2015. In calendar year 2014, the District was required to contribute 11.78% of pay for Basic Plan members and 7.25% for Coordinated Plan members. In 2015, employer rates increased to 7.5% in the Coordinated Plan. The District's contributions to the GERF for the plan's fiscal year ended June 30, 2014 were \$57,190.

Pension Costs

GERF Pension Costs

At June 30, 2015, the District reported a liability of \$4,894,794 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2014, 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, 2013, through June 30, 2014, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2014, the District's proportion was 0.1042 %.

For the year ended June 30, 2015, the District recognized pension expense of \$363,366 for its proportionate share of GERF's pension expense.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 6 – Pension Plans (Continued)

At June 30, 2015, 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	\$ 75,120	\$ -
Changes in actuarial assumptions	504,457	-
Net difference between projected and actual earnings on plan investments	-	1,322,569
Contributions paid to PERA subsequent to the measurement date	<u>418,071</u>	<u>-</u>
Total	<u>\$ 997,648</u>	<u>\$ 1,322,569</u>

\$418,071 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, 2016. 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:

2016	\$ (137,450)
2017	(137,450)
2018	(137,450)
2019	(330,642)

Actuarial Assumptions

The total pension liability in the June 30, 2014 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%

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 6 – Pension Plans (Continued)

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, 2014 valuation were based on the results of actuarial experience studies. The experience study in the GERF 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 following changes in actuarial assumptions occurred in 2014:

- GERF: As of July 1, 2013, the post-retirement benefit increase rate was assumed to increase from 1.0% to 2.5% on January 1, 2046. As of July 1, 2014, the post-retirement benefit increase rate was assumed to increase from 1.0% to 2.5% on January 1, 2031.

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
Unallocated 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.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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 1 percentage point lower or 1 percentage point higher than the current discount rate:

	<u>1% Decrease in Discount Rate (6.9%)</u>	<u>Discount Rate (7.9%)</u>	<u>1% Increase in Discount Rate (8.9%)</u>
District’s proportionate share of the GERS net pension liability:	\$7,890,605	\$4,894,794	\$2,429,946

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; 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, 2012.

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.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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

Annual Required Contribution	\$ 187,868
Interest on Net OPEB Obligation	(68,829)
Adjustment to Annual Required Contribution	<u>91,857</u>
Annual OPEB Cost (Expense)	210,896
Contributions Made	<u>(254,084)</u>
Decrease in Net OPEB Obligation	(43,188)
Net OPEB Obligation (Surplus) - Beginning of Year	<u>(1,529,540)</u>
Net OPEB Obligation (Surplus) - End of Year	<u><u>\$ (1,572,728)</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, 2015 is as follows:

Fiscal Year Ended	Annual OPEB Cost	Annual Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Surplus)
06/30/13	\$ 204,349	\$ 529,358	259.0%	\$ (1,337,525)
06/30/14	210,314	402,329	191.3%	(1,529,540)
06/30/15	210,896	254,084	120.5%	(1,572,728)

D. Funded Status and Funding Progress

As of July 1, 2012, the most recent actuarial valuation date, the District's unfunded actuarial accrued liability (UAAL) was \$1,946,023. The annual payroll for active employees covered by the plan in the actuarial valuation was \$8,892,104 for a ratio of UAAL to covered payroll of 21.9%.

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.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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, 2012 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 2012 healthcare trend rate was 8.0%, reduced by decrements to an ultimate rate of 5% after six years. The UAAL is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at June 30, 2015 was 27 years.

NOTE 8 – Capital Leases

The District has 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%	\$ 451,726	\$ -	\$ 223,696	\$ 228,030

The District's capital lease assets are \$687,348 with accumulated depreciation of \$206,204.

The payments on the capital leases are accounted for in the General Fund. The annual requirements to amortize the capital lease at June 30, 2015 are as follows:

<u>Fiscal Year Ended</u>	<u>Lease Principal</u>	<u>Lease Interest</u>	<u>Total</u>
2016	\$ 228,030	\$ 7,591	\$ 235,621

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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
Capital Loans:						
Capital Loans Payable	\$ 51,293,793	\$ 445,411	\$ -	\$ 51,739,204	\$ -	\$ -
Defaulted Interest on Capital Loan	40,156,537	3,944,892	6,003	44,095,426	-	-
Total	91,450,330	4,390,303	6,003	95,834,630	-	-
Capital Leases (See Note 8):						
Capital Leases Payable	451,726	-	223,696	228,030	228,030	7,591
Separation and Retirement Benefits:						
Net Pension Liability	19,136,582	-	3,569,827	15,566,755	-	-
Other Post-Employment Benefits	(1,529,540)	210,896	254,084	(1,572,728)	-	-
Severance Payable	1,759,692	967,032	121,990	2,604,734	-	-
Compensated Absences Payable	99,893	41,738	-	141,631	-	-
Total	19,466,627	1,219,666	3,945,901	16,740,392	-	-
Total	\$ 111,368,683	\$ 5,609,969	\$ 4,175,600	112,803,052	\$ 228,030	\$ 7,591
Add-back Net Post-Employment Benefits Reported as an Asset				1,572,728		
Total Long-Term Liabilities				\$ 114,375,780		

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 \$12,400,000.

During the 2005 fiscal year, the District received an additional capital loan for \$18,000,000 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 \$5,491,000.

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, 2015

NOTE 9 - Long-Term Liabilities (Continued)

There were no authorized and un-issued bonds at June 30, 2015.

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, 2015 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 fiscal year, which includes a new kitchen and cafeteria project. As of June 30, 2015, the District had outstanding construction contracts totaling \$4,806,302. The contracts will be paid with State Capital Loan funding.

NOTE 12 – Inter-fund Balances and Transfers

At June 30, 2015 the District has inter-fund balances of \$321,807, \$12,214 and \$4,022 due from the Building Construction Fund, Food Service Fund and Community Service Fund, respectively to the General Fund, totaling \$338,043. The balances owed are the result of loans to cover operating cash deficits.

In the fiscal year ended June 30, 2015, a transfer was made from the General Fund to the Building Construction Fund, Food Service Fund and Community Service Fund for \$ 69,873, \$162,350, and \$63,879, respectively, to eliminate deficit fund balances in the Food Service Fund and Community Service Fund and to move capital loan match costs to the Building Construction Fund.

NOTE 13 – Restatement of Net Position

Effective July 1, 2014, the District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. As a result of this implementation, the District has restated previously reported net position in the governmental activities decreasing it \$17,999,984 from \$(34,597,084) to \$(52,597,068).

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
REQUIRED SUPPLEMENTARY INFORMATION
GENERAL FUND -
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2015

	Original and Final Budget	Actual	Variance with Final Budget - Positive (Negative)
<u>Revenues</u>			
Local Property Taxes	\$ 2,409	\$ 3,069	\$ 660
Other Local and County Revenues	177,000	143,969	(33,031)
Revenues from State Sources	18,522,085	18,515,706	(6,379)
Revenues from Federal Sources	10,571,135	12,279,566	1,708,431
Sales and Other Conversions of Assets	-	48,737	48,737
Investment Earnings	13,000	3,343	(9,657)
<u>Total Revenues</u>	<u>29,285,629</u>	<u>30,994,390</u>	<u>1,708,761</u>
<u>Expenditures</u>			
Alternative Learning Programs	77,752	156,247	(78,495)
Alternative Delivery (ADSIS)	560,985	633,360	(72,375)
Athletics	297,136	351,398	(54,262)
Board of Education	217,198	198,665	18,533
Building & Grounds/Security	3,768,121	3,599,906	168,215
Capital Programs	11,500	340,229	(328,729)
District Administration	1,064,570	1,221,357	(156,787)
Early Childhood Center	964,756	1,009,044	(44,288)
English as a Second Language	95,899	42,798	53,101
Federal Programs	1,699,777	1,672,347	27,430
Gifted and Talented	18,511	15,920	2,591
Health and Safety	557,829	566,459	(8,630)
Homebound Instruction	35,395	23,775	11,620
Indian Teacher Grant	40,000	33,443	6,557
Juvenile Detention Facility	130,580	146,531	(15,951)
Property Insurance	215,000	212,715	2,285
Targeted Services	284,280	462,800	(178,520)
Tuition Payments	150,000	183,448	(33,448)
Retiree Health Insurance	186,431	254,084	(67,653)
Special Education Services	3,622,996	3,467,538	155,458
Staff Development	150,002	223,679	(73,677)
Technology Department	708,510	399,506	309,004
Transportation	1,579,048	1,629,674	(50,626)
Unemployment Insurance	30,000	38,477	(8,477)
Worker's Compensation Insurance	247,700	211,993	35,707
Ponemah Elementary	2,509,852	2,319,521	190,331
Red Lake Elementary	4,688,367	4,330,531	357,836
Red Lake High School	2,519,543	2,427,411	92,132
Red Lake Middle School	2,597,775	2,499,113	98,662
<u>Total Expenditures</u>	<u>29,029,513</u>	<u>28,671,969</u>	<u>357,544</u>

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, 2015

	<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>256,116</u>	<u>2,322,421</u>	<u>2,066,305</u>
<u>Other Financing Sources (Uses)</u>			
Operating Transfers Out	<u>(247,818)</u>	<u>(296,102)</u>	<u>(48,284)</u>
<u>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</u>	<u>8,298</u>	<u>2,026,319</u>	<u>2,018,021</u>
<u>Fund Balances, Beginning of Year</u>	<u>6,989,261</u>	<u>6,989,261</u>	<u>-</u>
<u>Fund Balances, End of Year</u>	<u>\$ 6,997,559</u>	<u>\$ 9,015,580</u>	<u>\$ 2,018,021</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, 2015

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2006	\$ -	\$ 3,946,069	\$ 3,946,069	0.00%	\$ 8,630,735	45.7%
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%

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, 2015

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
PERA							
2014	0.1042%	\$ 4,894,794	\$ -	\$ 4,894,794	\$ 5,235,479	93.49%	78.7%
TRA							
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, 2015

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
PERA					
2015	\$ 418,071	418,071	\$ -	\$ 5,719,441	7.31%
TRA					
2015	771,018	771,018	-	8,799,442	8.76%

* - 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, 2015

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. However, the budgeted expenditures are presented by organization rather than by program in the budgetary comparison schedule. Budgets presented in this report for comparison to actual amounts in accordance with accounting principles generally accepted in the United States of America.

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.

NOTE 3 – Pensions

There are no factors that affect trends in the amounts reported, such as change of benefit terms or assumptions. With only one year reported in the RSI, there is no additional information to include in the notes. Details, if necessary, can be obtained from the PERA CAFR and TRA CAFR for their respective pension plans.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2015

	<u>Special Revenue Funds</u>		<u>Debt Redemption</u>	<u>Totals</u>
	<u>Food Service</u>	<u>Community Service</u>		
<u>ASSETS</u>				
Cash and Investments	\$ -	\$ -	\$ 4,549	\$ 4,549
Property Taxes Receivable	-	5	-	5
Due from Other Governmental Units	28,266	39,959	195	68,420
Other Accounts Receivable	402	33,572	-	33,974
Inventories	10,643	-	-	10,643
Total Assets	\$ 39,311	\$ 73,536	\$ 4,744	\$ 117,591
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</u>				
<u>Liabilities</u>				
Salaries Payable	\$ 26,685	\$ 42,977	\$ -	\$ 69,662
Accounts Payable	412	8,087	-	8,499
Due to Other Funds	12,214	4,022	-	16,236
Total Liabilities	39,311	55,086	-	94,397
<u>Deferred Inflows of Resources</u>				
Property Taxes Levied for Subsequent Years' Expenditures	-	64	2,931	2,995
<u>Fund Balance</u>				
Nonspendable	10,643	-	-	10,643
Restricted	-	18,386	1,813	20,199
Unassigned	(10,643)	-	-	(10,643)
Total Fund Balance	-	18,386	1,813	20,199
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ 39,311	\$ 73,536	\$ 4,744	\$ 117,591

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, 2015

	<u>Special Revenue Funds</u>		<u>Debt Redemption</u>	<u>Totals</u>
	<u>Food Service</u>	<u>Community Service</u>		
<u>Revenues</u>				
Local Property Taxes	\$ -	\$ 141	\$ 3,573	\$ 3,714
Other Local and County Revenues	26,670	145,955	-	172,625
Revenues from State Sources	27,702	272,082	1,955	301,739
Revenues from Federal Sources	947,837	81,555	-	1,029,392
Sales and Other Conversions of Assets	12,745	-	-	12,745
Miscellaneous Revenue	-	9,689	-	9,689
Total Revenues	<u>1,014,954</u>	<u>509,422</u>	<u>5,528</u>	<u>1,529,904</u>
<u>Expenditures</u>				
Community Education and Services	-	554,915	-	554,915
Pupil Support Services	1,177,304	-	-	1,177,304
Debt Service	-	-	6,004	6,004
Total Expenditures	<u>1,177,304</u>	<u>554,915</u>	<u>6,004</u>	<u>1,738,223</u>
<u>Excess of Revenues Over (Under) Expenditures</u>	(162,350)	(45,493)	(476)	(208,319)
<u>Other Financing Sources</u>				
Operating Transfer In	<u>162,350</u>	<u>63,879</u>	<u>-</u>	<u>226,229</u>
<u>Excess of Revenues and Other Financing Sources Over (Under) Expenditures</u>	-	18,386	(476)	17,910
<u>Fund Balances, Beginning of Year</u>	<u>-</u>	<u>-</u>	<u>2,289</u>	<u>2,289</u>
<u>Fund Balances, End of Year</u>	<u>\$ -</u>	<u>\$ 18,386</u>	<u>\$ 1,813</u>	<u>\$ 20,199</u>

FISCAL COMPLIANCE REPORT - 6/30/2015
District: RED LAKE (0038-01)

			Audit (-)				Audit (-)	
		Audit	UFARS	UFARS		Audit	UFARS	UFARS
01 GENERAL FUND					06 BUILDING CONSTRUCTION			
Total Revenue		\$30,994,390	\$31,245,388	-\$250,998	Total Revenue	\$0	\$0	\$0
Total Expenditures		\$28,671,969	\$28,671,970	-\$1	Total Expenditures	\$515,284	\$515,284	\$0
Non Spendable:					Non Spendable:			
4.60 Non Spendable Fund Balance		\$24,588	\$24,588	\$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		\$628	\$628	\$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	Restricted:			
4.08 Cooperative Revenue		\$0	\$0	\$0	4.64 Restricted Fund Balance	\$1,018	\$1,018	\$0
4.09 Alternative Facility Program		\$0	\$0	\$0	Unassigned:			
4.13 Project Funded by COP		\$0	\$0	\$0	4.63 Unassigned Fund Balance	\$0	\$0	\$0
4.14 Operating Debt		\$0	\$0	\$0				
4.16 Levy Reduction		\$0	\$0	\$0	07 DEBT SERVICE			
4.17 Taconite Building Maint		\$0	\$0	\$0	Total Revenue	\$5,528	\$5,527	\$1
4.23 Certain Teacher Programs		\$0	\$0	\$0	Total Expenditures	\$6,004	\$6,003	\$1
4.24 Operating Capital		\$111,513	\$111,513	\$0	Non Spendable:			
4.26 \$25 Taconite		\$0	\$0	\$0	4.60 Non Spendable Fund Balance	\$0	\$0	\$0
4.27 Disabled Accessibility		\$0	\$0	\$0	Restricted/Reserved:			
4.28 Learning & Development		\$3,344	\$3,344	\$0	4.25 Bond Refundings	\$0	\$0	\$0
4.34 Area Learning Center		\$0	\$0	\$0	4.51 QZAB Payments	\$0	\$0	\$0
4.35 Contracted Alt. Programs		\$0	\$0	\$0	Restricted:			
4.36 State Approved Alt. Program		\$62,877	\$62,877	\$0	4.64 Restricted Fund Balance	\$1,813	\$1,813	\$0
4.38 Gifted & Talented		\$0	\$0	\$0	Unassigned:			
4.40 Teacher Development and Eval		\$0	\$0	\$0	4.63 Unassigned Fund Balance	\$0	\$0	\$0
4.41 Basic Skills Program		\$224,976	\$224,976	\$0				
4.45 Career Tech Programs		\$0	\$0	\$0	08 TRUST			
4.48 Achievement and Integration		\$0	\$0	\$0	Total Revenue	\$2,800	\$2,800	\$0
4.49 Safe School Crime - Crime Levy		\$0	\$0	\$0	Total Expenditures	\$2,800	\$2,800	\$0
4.50 Pre-Kindergarten		\$0	\$0	\$0	4.22 Unassigned Fund Balance	\$136	\$136	\$0
4.51 QZAB Payments		\$0	\$0	\$0				
4.52 OPEB Liab Not in Trust		\$0	\$0	\$0	20 INTERNAL SERVICE			
4.53 Unfunded Sev & Retirement Levy		\$0	\$0	\$0	Total Revenue	\$0	\$0	\$0
Restricted:					Total Expenditures	\$0	\$0	\$0
4.64 Restricted Fund Balance		\$105,385	\$105,385	\$0	4.22 Unassigned Fund Balance	\$0	\$0	\$0
Committed:								
4.18 Committed for Separation		\$0	\$0	\$0	25 OPEB REVOCABLE TRUST			
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		\$5,565,792	\$5,816,792	-\$251,000	45 OPEB IRREVOCABLE TRUST			
					Total Revenue	\$0	\$0	\$0
02 FOOD SERVICES					Total Expenditures	\$0	\$0	\$0
Total Revenue		\$1,014,954	\$1,014,954	\$0	4.22 Unassigned Fund Balance	\$0	\$0	\$0
Total Expenditures		\$1,177,304	\$1,177,304	\$0				
Non Spendable:					47 OPEB DEBT SERVICE			
4.60 Non Spendable Fund Balance		\$10,643	\$10,643	\$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		-\$10,643	-\$10,643	\$0	4.64 Restricted Fund Balance	\$0	\$0	\$0
					Unassigned			
04 COMMUNITY SERVICE					4.63 Unassigned Fund Balance	\$0	\$0	\$0
Total Revenue		\$509,422	\$509,423	-\$1				
Total Expenditures		\$554,915	\$554,913	\$2				
Non Spendable:								
4.60 Non Spendable Fund Balance		\$0	\$0	\$0				
Restricted/Reserved:								
4.26 \$25 Taconite		\$0	\$0	\$0				
4.31 Community Education		\$0	\$0	\$0				
4.32 E.C.F.E.		\$18,386	\$18,386	\$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		\$0	\$0	\$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, 2015

<u>Account</u>	<u>Balance 7/1/14</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Balance 6/30/15</u>
Community Gardening Project	\$ 6,195	\$ -	\$ 274	\$ 5,921
Ponemah 7th Grade	1,309	-	-	1,309
National Honor Society	1,949	-	-	1,949
Prom	(630)	3,151	1,555	966
RLHS Student Council	148	464	350	262
RLMS Student Council	3,970	778	288	4,460
Concessions	1,032	14,814	12,833	3,013
Ski Club	(143)	2,650	-	2,507
PES ELC	741	-	-	741
Pep Club	1,951	-	-	1,951
Boys Basketball	364	-	-	364
RLHS Art Club	351	1,500	924	927
RLMS Art Club	1,200	-	-	1,200
Skateboard Club	152	847	728	271
Middle School Library Club	(831)	-	-	(831)
Special Ed	2,112	820	2,161	771
Ponemah 6th Grade	54	-	-	54
Ponemah Pop Fund	585	-	-	585
RLE Archery Club	5,679	-	3,214	2,465
Taste of Red Lake Cookbook	4,053	-	-	4,053
Band Activity Club	1,280	1,354	1,275	1,359
Special Olympics	205	-	-	205
Design Club	621	2,091	2,338	374
Freshman Class	(203)	5,175	4,841	131
8th Grade Class	-	442	-	442
RLE Elementary Activity	2,035	1,326	4,915	(1,554)
Totals	\$ 34,179	\$ 35,412	\$ 35,696	\$ 33,895

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2015

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>		<u>Federal Expenditures</u>
<u>U. S. Department of Agriculture</u>			
Pass-Through Minnesota Department of Education:			
Clustered Programs:			
National School Lunch Program	10.555	\$ 543,719	
National School Snacks	10.555	11,507	
National School Lunch Program - Commodity Distribution Cash Rebate	10.555	861	
National School Lunch Program - Commodity Distribution	10.555	<u>53,052</u>	\$ 609,139
National School Breakfast Program	10.553		253,073
Summer Food Service Program for Children	10.559		<u>38,040</u>
Total Clustered Programs			<u>900,252</u>
Fresh Fruit and Vegetables Grant Program	10.582		<u>47,585</u>
<u>Total Department of Agriculture</u>			<u><u>947,837</u></u>
<u>National Endowment for the Arts</u>			
Pass-Through Minnesota State Arts Board:			
Promotion of the Arts Partnership Agreements	45.025		<u>37,908</u>
<u>U. S. Department of Education</u>			
Direct Programs:			
Impact Aid	84.041		9,486,363
Indian Education Grants to Local Education Agencies	84.060		330,943
Pass-Through Minnesota Department of Education:			
Clustered Programs:			
Special Education Grants to States	84.027	338,902	
Special Education Preschool Grants	84.173	<u>15,762</u>	
Total Special Education Cluster			354,664
School Improvement Grant	84.377	585,727	
ARRA -School Improvement Grant	84.388	<u>40,289</u>	
Total School Improvement Grant Cluster			626,016
Title I Grants to Local Education Agencies	84.010		1,265,197
Special Education Grants for Infants and Families	84.181		9,895
Improving Teacher Quality State Grants	84.367		129,220
Race to the Top - Early Learning Challenge	84.412		57,361
21st Century Community Learning Centers	84.287		19,210
Adult Education - Basic Grants to States	84.002		4,984
Rural Education	84.358		22,739
Received from Other Pass-Through Entities:			
North Country Vocational Co-op:			
Career and Technical Education - Basic Grants to States	84.048A	5,326	
Bemidji Regional Interdistrict Council:			
Special Education Grants for Infants and Families	84.181	<u>10,761</u>	<u>16,087</u>
<u>Total Department of Education</u>			<u><u>12,322,679</u></u>
<u>Total Federal Assistance Expended</u>			<u><u>\$ 13,308,424</u></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, 2015

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 OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. 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.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
STUDENT CENSUS
JUNE 30, 2015
(unaudited)

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
<u>Students Served (WADM/PUN's)*</u>										
Residents	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	1,749.75
Nonresidents in District										
Tuition	-	-	-	-	-	-	1.37	0.74	-	0.48
Enrollment Options	0.10	-	-	-	-	-	-	1.19	3.05	1.31
Residents Outside District										
Enrollment Options	<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>	<u>(235.32)</u>
<u>Adjusted WADM/PUN's*</u>	<u>1,501.02</u>	<u>1,520.85</u>	<u>1,498.34</u>	<u>1,465.72</u>	<u>1,480.62</u>	<u>1,509.68</u>	<u>1,528.15</u>	<u>1,493.73</u>	<u>1,418.95</u>	<u>1,515.74</u>
<u>Resident ADM's</u>	<u>1,767.47</u>	<u>1,706.91</u>	<u>1,656.09</u>	<u>1,595.50</u>	<u>1,616.14</u>	<u>1,598.09</u>	<u>1,582.24</u>	<u>1,525.77</u>	<u>1,512.37</u>	<u>1,537.90</u>

* 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 POLITICAL SUBDIVISIONS**

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, 2015, and the related notes to the financial statements, and have issued our report thereon dated December 31, 2015.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, 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 Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above referenced provisions.

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 31, 2015
 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, 2015, and 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 31, 2015.

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 findings 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 31, 2015
Bemidji, Minnesota



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
 EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
 OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

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 Circular A-133 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, 2015. 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 laws, regulations, contracts, and grants 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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, 2015.

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 OMB Circular A-133, 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Miller McDonald, Inc.

December 31, 2015
Bemidji, Minnesota

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2015

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.) No matters involving internal control over compliance relating to the audit of the major federal award programs were reported in the *Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133*.
- E.) An unmodified opinion on compliance for major federal award programs was issued.
- F.) No findings were disclosed that is required to be reported in accordance with Section .510(a) of OMB Circular A-133.
- G.) Major programs:
- | | |
|-----------------------------------|-----------------|
| Impact Aid | CFDA No. 84.041 |
| School Improvement Grant Cluster: | |
| ARRA - School Improvement Grant | CFDA No. 84.388 |
| School Improvement Grant | CFDA No. 84.377 |
| Child Nutrition Cluster: | |
| School Breakfast | CFDA No. 10.553 |
| School Lunch | CFDA No. 10.555 |
| Summer Food Program | CFDA No. 10.559 |
- H.) A \$399,253 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, 2015

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, 2016.

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, 2015

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

Internal Control Findings

Items Arising This Year

None reported.

Previously Reported Findings Resolved During the Year

Finding 2014-001 – ARRA – School Improvement Grants - CFDA 84.388

Condition

When reconciling the amount of expenditures claimed for reimbursement by finance code and org/site for the two sites that receive this award, the amounts claimed initially exceeded the amounts recorded on the books.

Resolution

Management reconciled all federal award expenditures and claims for reimbursement for federal awards to the general ledger using the appropriate finance and site codes as established and required by UFARS that ensured awards were expended in accordance with the provisions of the award agreements.

Questioned Costs

None reported.

IV. MINNESOTA LEGAL COMPLIANCE FINDINGS

Items Arising during the Year

None reported.

Previously Reported Findings Resolved During the Year

Finding: 2014-002 Bids and Quotes

Condition

The District's process for obtaining proper bids and quotes for a construction project was not adequate. The District did not go out for bid on the HVAC system portion of the administration remodel project and no payment for performance bonds was obtained.

Resolution

The District obtained all proper bids and quotes documentation required for construction projects.