

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2013

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
JUNE 30, 2013

TABLE OF CONTENTS

	Page
OFFICIAL DIRECTORY (Unaudited)	1
INDEPENDENT AUDITOR'S REPORT	2-4
REQUIRED SUPPLEMENTARY INFORMATION:	
Management's Discussion and Analysis	5-17
FINANCIAL STATEMENTS:	
District-wide Financial Statements:	
Statement of Net Position	18
Statement of Activities	19
Fund Financial Statements:	
Balance Sheet – Governmental Funds	20
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position	21
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	22
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds to the Statement of Activities	23
Statement of Fiduciary Net Position – Scholarship Trust Fund	24
Statement of Changes in Fiduciary Net Position – Scholarship Trust Fund	25
Notes to Financial Statements	26-44
REQUIRED SUPPLEMENTARY INFORMATION:	
General Fund - Budgetary Comparison Schedule	45
Schedule of Funding Progress for Post-Employment Benefit Plan	46
Notes to the Required Supplementary Information	47
SUPPLEMENTARY INFORMATION:	
Non-Major Governmental Funds:	
Combining Balance Sheet	48
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	49
Other Schedules:	
Fiscal Compliance Report – 06/30/13	50
Student Activity Detail	51
Schedule of Expenditures of Federal Awards	52
Notes to the Schedule of Expenditures of Federal Awards	53
STATISTICAL SECTION:	
Tax Levies, Tax Rates and Student Census	54

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
JUNE 30, 2013

TABLE OF CONTENTS (Continued)

	<u>Page</u>
OTHER REPORTS:	
Independent Auditor's Report on Compliance Based on an Audit of the Financial Statements Performed in Accordance With the <i>Minnesota Legal Compliance Audit Guide for Political Subdivisions</i>	55
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 <i>Government Auditing Standards</i>	56-57
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133	58-59
Schedule of Findings and Questioned Costs	60-62

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
YEAR ENDED JUNE 30, 2013

OFFICIAL DIRECTORY
(Unaudited)

<u>School Board Members and Officers</u>	July 1, 2012 to December 31, 2012	January 1, 2013 to June 30, 2013
Chairperson	Arnold Pemberton through 8/14/12	Mike Barrett
	Tom Barrett appointed 8/15/12	
Vice-Chairperson	Tom Barrett through 8/14/12	Robert McClain
	Mike Barrett appointed 8/15/12	
Treasurer	Roy Nelson	Roy Nelson
Clerk	Barbara Thomas	Barbara Thomas
Director	Nicole Desjarlait	Darwin Summer
Director	Mike Barrett through 8/14/12	Rob McClain, Sr.
Director		Chris Jourdain appointed 2/6/13
<u>Administration</u>		
Superintendent	Steven Wymore	Steven Wymore through 4/24/13
		Everett Arnold appointed 4/25/13
Business Manager	Willie Larson	Willie Larson



MILLER MCDONALD, INC.
Certified Public Accountants
513 Beltrami Avenue
P.O. Box 486
Beimidji, MN 56619
(218) 751 - 6300
Fax (218) 751 - 0782
www.millermcdonald.com

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, 2013, 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. 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 financial statement presentation.

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, 2013, 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.

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 and the schedule of funding progress for post-employment benefit plans on pages 5 through 17 and 45 through 47, 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 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 and 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 12, 2013, 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 12, 2013
Bemidji, Minnesota

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013

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, 2013. 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, 2013 include the following:

- Net position decreased by 34.01% from the prior year.
- Overall revenues were \$30,317,219 and overall expenses were \$37,360,927. Expenses exceeded revenues in the district-wide statement mainly due to depreciation expense, accrued interest on capital loans, and the increase in severance liability.
- The general fund balance decreased by \$1,563,839.
- There was no change in the food service fund balance.
- The community service fund balance decreased by \$12.
- There was no change in the capital projects fund balance.
- The debt redemption fund balance decreased by \$173.

OVERVIEW OF THE FINANCIAL STATEMENTS

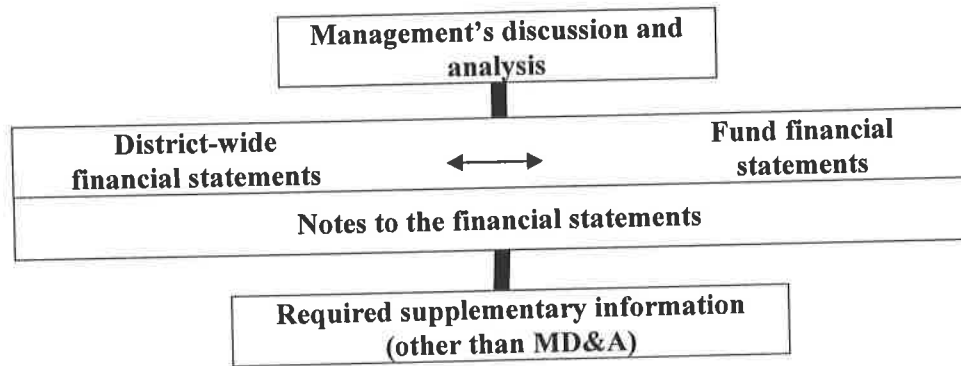
The financial section of the annual report consists of four parts – Independent Auditor's Report, required supplementary information, which includes the management's discussion and analysis (this section), the basic financial statements, and supplementary information. The basic financial statements include 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, 2013

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, 2013

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 and liabilities. 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 and liabilities – 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, 2013

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 (consisting only of agency funds held for others) are reported in a separate statement of fiduciary net position. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

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

Net Position

The District's combined net position was \$(27,752,140) at June 30, 2013 (see the following table). At June 30, 2012 the net position was \$(20,708,432), with a decrease of \$7,043,708 from operating activities for the year ended June 30, 2013. The District's unrestricted net position is negative due to the capital loans and defaulted interest which totaled \$51,334,202 and \$36,263,867 for the years ended June 30, 2013 and 2012 respectively.

	2013	2012	Net Changes	
			Amount	Percent
Current and other assets	\$ 14,481,398	\$ 15,026,343	\$ (544,945)	-3.63%
Capital assets, net of depreciation	50,639,872	51,505,509	(865,637)	-1.68%
Total assets	65,121,270	66,531,852	(1,410,582)	-2.12%
Current payables	3,572,356	2,878,286	694,070	24.11%
Long-term liabilities:				
Due within one year	34,935	33,752	1,183	0.00%
Due after one year	89,266,119	84,328,246	4,937,873	5.86%
Total Liabilities	92,873,410	87,240,284	5,633,126	6.46%
Net position:				
Restricted	134,230	100,484	33,746	33.58%
Unrestricted	(27,886,370)	(20,808,916)	(7,077,454)	-34.01%
Total net position	\$ (27,752,140)	\$ (20,708,432)	\$ (7,043,708)	-34.01%

The change amounted to a 34.01% decrease in net position.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013

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, 2013 and 2012. A summary of the District's revenues and expenses, along with the percentages for each category follows:

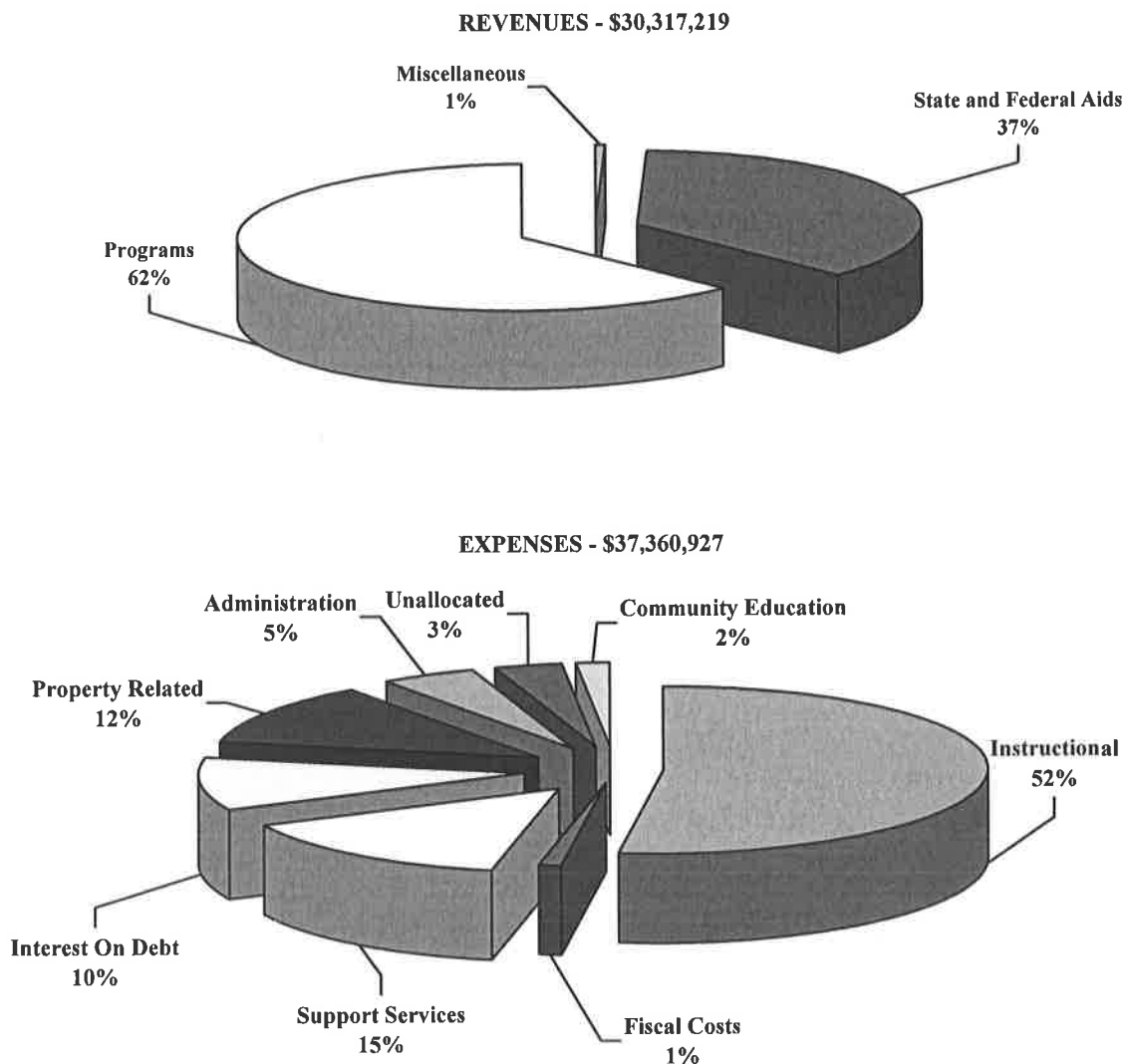
	2013		2012		Net Change	
	Amounts	Percent	Amounts	Percent	Amount	Percent
Revenues:						
Program Revenues:						
Charges for Services	\$ 93,872	0.31%	\$ 79,064	0.27%	\$ 14,808	18.73%
Operating Grants and Contributions	18,913,586	62.39%	19,237,652	64.59%	(324,066)	-1.68%
Total Program Revenues	<u>19,007,458</u>	<u>62.70%</u>	<u>19,316,716</u>	<u>64.85%</u>	<u>(309,258)</u>	<u>-1.60%</u>
General Revenues:						
Property Taxes	8,425	0.03%	7,267	0.02%	1,158	15.94%
Aids and Payments from State and Federal Sources	11,214,644	36.99%	10,321,885	34.65%	892,759	8.65%
Other Sources	86,692	0.29%	140,092	0.47%	(53,400)	-38.12%
Total General Revenues	<u>11,309,761</u>	<u>37.30%</u>	<u>10,469,244</u>	<u>35.15%</u>	<u>840,517</u>	<u>8.03%</u>
Total Revenues	<u>30,317,219</u>	<u>100.00%</u>	<u>29,785,960</u>	<u>100.00%</u>	<u>531,259</u>	<u>1.78%</u>
Expenses:						
Instructional:						
Regular Instruction	15,702,251	42.03%	14,016,602	42.04%	1,685,649	12.03%
Vocational Instruction	185,066	0.50%	196,783	0.59%	(11,717)	-5.95%
Exceptional Instruction	3,773,606	10.10%	3,023,211	9.07%	750,395	24.82%
Total Instructional	<u>19,660,923</u>	<u>52.62%</u>	<u>17,236,596</u>	<u>51.70%</u>	<u>2,424,327</u>	<u>14.06%</u>
Support Services:						
District Support Services	1,094,795	2.93%	1,081,435	3.24%	13,360	1.24%
Instructional Support Services	1,481,589	3.97%	1,294,802	3.88%	186,787	14.43%
Pupil Support Services	2,990,302	8.00%	2,891,823	8.67%	98,479	3.41%
Total Instructional	<u>5,566,686</u>	<u>14.90%</u>	<u>5,268,060</u>	<u>15.80%</u>	<u>298,626</u>	<u>5.67%</u>
Administration	1,756,023	4.70%	1,538,669	4.62%	217,354	14.13%
Community Education and Services	591,410	1.58%	465,838	1.40%	125,572	26.96%
Site, Buildings and Equipment	4,462,819	11.95%	3,669,838	11.01%	792,981	21.61%
Fiscal and Other Fixed Costs	168,465	0.45%	173,444	0.52%	(4,979)	-2.87%
Interest on Long-Term Debt	3,846,248	10.29%	3,683,641	11.05%	162,607	4.41%
Unallocated Depreciation	1,308,353	3.50%	1,304,123	3.91%	4,230	0.32%
Total Expenses	<u>37,360,927</u>	<u>100.00%</u>	<u>33,340,209</u>	<u>100.00%</u>	<u>4,020,718</u>	<u>12.06%</u>
Changes in Net Position	<u>\$ (7,043,708)</u>		<u>\$ (3,554,249)</u>		<u>\$ (3,489,459)</u>	

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013

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

The District's total revenues consisted of program revenues of \$19,007,458, aids and payments from the state and federal sources of \$11,214,644 and \$95,117 from miscellaneous other sources. Expenses totaling \$37,360,927 consisted of regular, vocational and exceptional instruction costs of \$19,660,923; district, instructional and pupil support services of \$5,566,686; site, buildings and equipment related costs of \$4,462,819; interest, fiscal, and fixed-cost programs of \$4,014,713; community education and services costs of \$591,410; administrative costs of \$1,756,023; and unallocated depreciation costs of \$1,308,353.

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, 2013

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, 2013 and 2012 are as follows:

	<u>Cost of Services - 2013</u>		<u>Cost of Services - 2012</u>	
	<u>Total</u>	<u>Net</u>	<u>Total</u>	<u>Net</u>
Expenses:				
Administration	\$ 1,756,023	\$ 1,756,023	\$ 1,538,669	\$ 1,538,669
District Support Services	1,094,795	1,094,795	1,081,435	642,468
Regular Instruction	15,702,251	861,482	14,016,602	(1,081,356)
Vocational Instruction	185,066	130,380	196,783	143,511
Exceptional Instruction	3,773,606	1,535,463	3,023,211	1,087,803
Community Education and Services	591,410	179,240	465,838	45,771
Instructional Support Services	1,481,589	1,281,020	1,294,802	1,066,138
Pupil Support Services	2,990,302	1,936,933	2,891,823	1,989,045
Site, Buildings and Equipment	4,462,819	4,257,037	3,669,838	3,431,934
Fiscal and Other Fixed Costs	168,465	166,495	173,444	171,746
Interest on Long-Term Debt	3,846,248	3,846,248	3,683,641	3,683,641
Unallocated Depreciation	1,308,353	1,308,353	1,304,123	1,304,123
Total Expenses	\$ 37,360,927	\$ 18,353,469	\$ 33,340,209	\$ 14,023,493

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 \$9,571,517. This was down from \$11,135,541, at the end of the prior year, a decrease of \$1,564,024. Fund balance changes consisted of decreases in the nonspendable and unassigned general fund balance of \$26,929, and \$1,570,841 respectively. This was partially offset by the basic skills restricted fund balance increasing \$70,077. The general fund balance decreased by \$1,563,839. The community service fund balance decreased by \$12 and the debt redemption fund balance decreased by \$173. There was no change in the food service or capital projects 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 from the previous year. The calculation for the June 30, 2013 fund balance follows:

Three months average expenditures for 2012-13	\$ 7,526,252
June 30, 2013 unassigned general fund balance net of OPEB and compensated absences	\$ 6,502,467

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, 2013

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

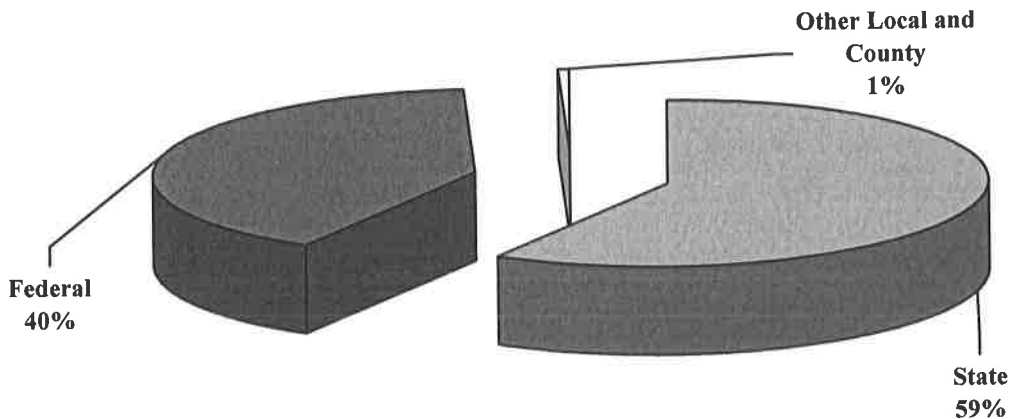
Revenue and Expenditures

Revenues of the District's governmental funds totaled \$30,317,219 while total expenditures were \$31,881,243. 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	\$ 29,131,540	\$ 30,105,009	\$ (590,370)	\$ (1,563,839)
Food Service Fund	767,625	1,208,733	441,108	-
Community Service Fund	412,368	561,642	149,262	(12)
Debt Redemption Fund	5,686	5,859	-	(173)
Totals	\$ 30,317,219	\$ 31,881,243	\$ -	\$ (1,564,024)

The following graphs are presented for the general fund revenues and expenditures:

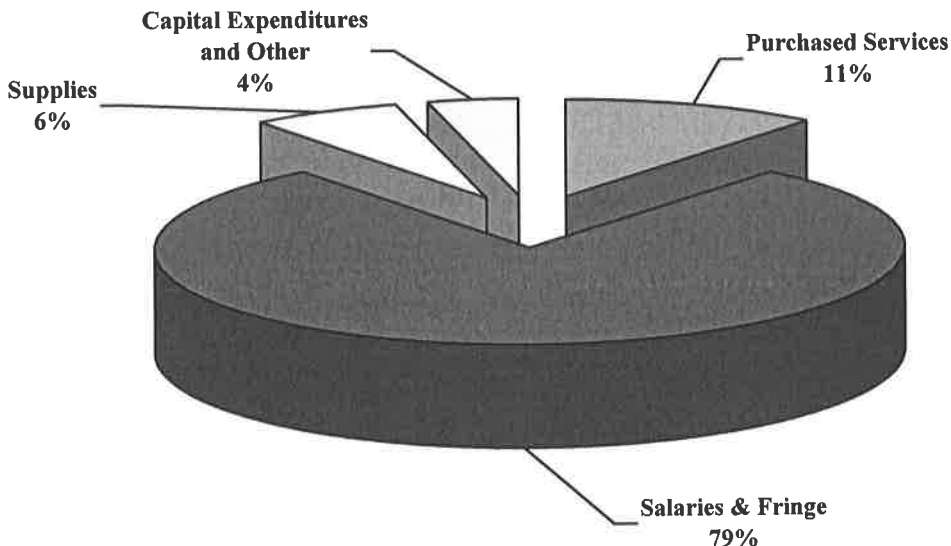
GENERAL FUND REVENUES - \$29,131,540



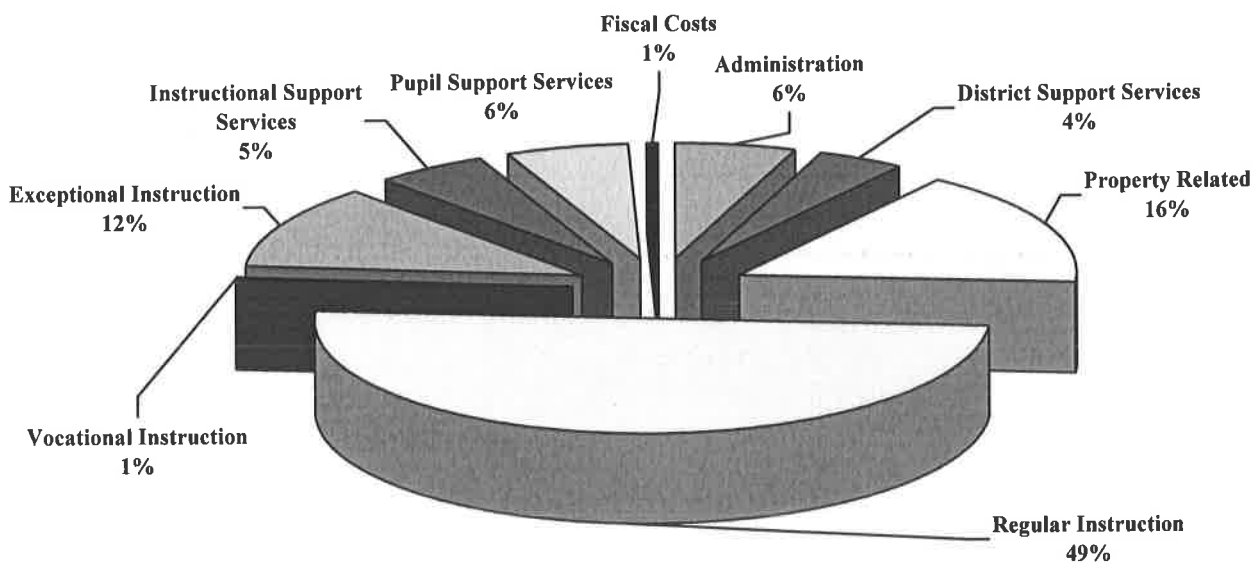
INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013

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

GENERAL FUND EXPENSES BY OBJECT - \$30,105,009



GENERAL FUND EXPENSES BY PROGRAM - \$30,105,009



INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013

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, 2012, 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 2012 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 expenditures would exceed revenues by \$3,179,320. The actual results for the year reported an expenditures exceeding of revenues by \$973,469. Revenues were more than budget by \$781,457, primarily driven by revenues from federal and state sources being more than budgeted by \$378,156 and \$335,440 respectively.

Expenditures for the District's general fund final budget were \$1,424,394 under budget. This was mainly driven by expenditures under budget for Building and Grounds/Security and Special Education Services of \$989,709.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Additions during the year ended June 30, 2013 totaled \$827,998. This included \$517,474 of building improvements and \$251,323 for equipment and vehicles. Disposals of equipment totaled \$58,430 for the year ended June 30, 2013.

Long-Term Debt

At June 30, 2013 the District's long-term indebtedness totaled \$89,301,054. This consisted of capital loans payable of \$51,334,202, defaulted interest on capital loan of \$36,263,867, capital leases of \$34,935, and severance payable of \$1,668,050. As of June 30, 2013, 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, 2013

FACTORS BEARING ON THE DISTRICT'S FUTURE

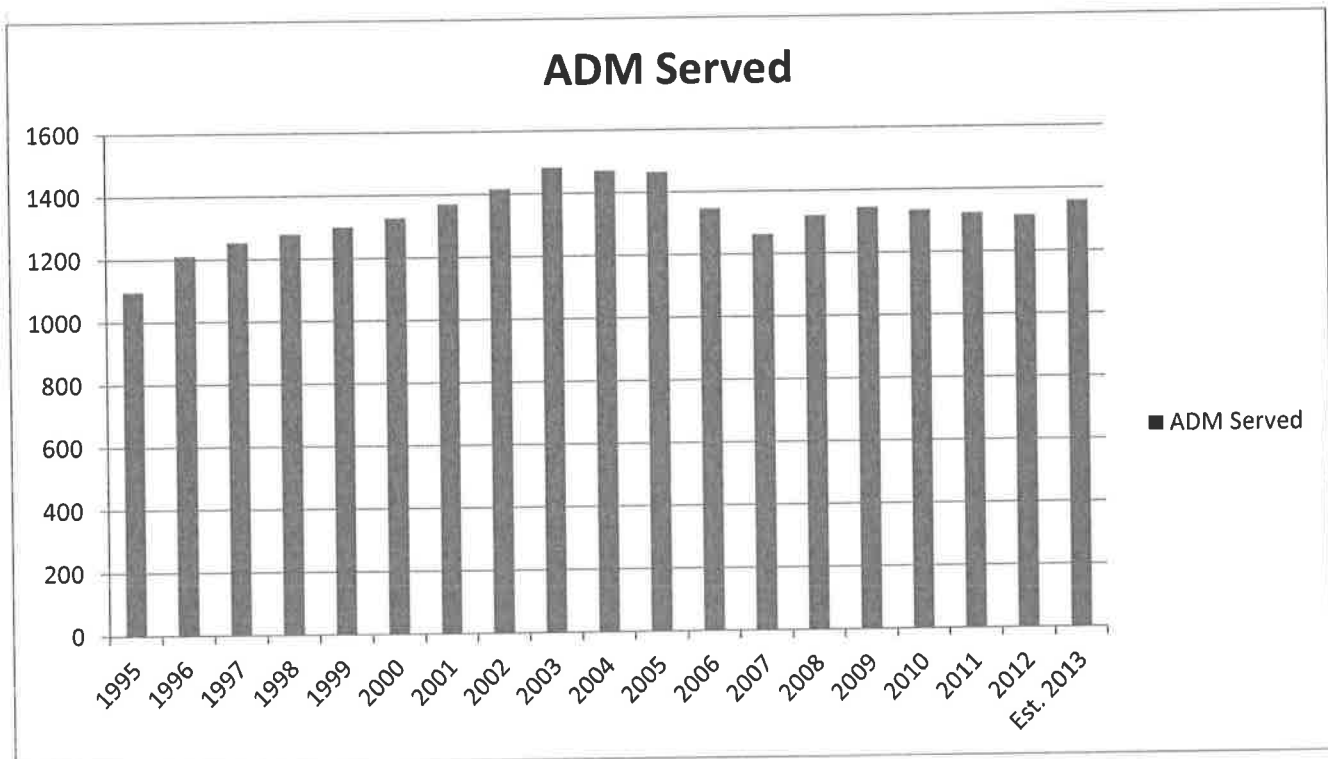
Student Enrollment

The District closely monitors and evaluates student enrollment. During the last ten years, the District experienced a decrease (8.26%) in enrollment. This trend occurred after the school shooting on March 21, 2005. This incident resulted in an enrollment decrease of 174 students over a two-year period. These students open enrolled to neighboring districts.

In the 2006-07 school year 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.

The District enrollment projections for the 2012-13 through 2014-15 school years look positive. Due to a documented increase in resident birth rate over the past several years, the District is projecting incoming kindergarten class enrollments of approximately 150 students.



INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013

FACTORS BEARING ON THE DISTRICT'S FUTURE (Continued)

Staffing

In 2006-07, the District implemented a teacher mentoring program which provides teachers new to the profession a mentor for their first three years in the profession. Teachers who are not new to the profession, but new to the District participate in the mentoring program for their first year as a teacher in the District. The District will need to continue to utilize financial resources and large amounts of time to provide support and training to new staff members. With the extensive staff development afforded staff under the School Improvement Grant, the District believes it will experience an annual staff turnover of less than 4%.

The District is expecting retirements of three (3) veteran teachers over the next two years.

Political Environment

The political environment at the Federal level has a significant effect on the Red Lake School District's future finances. The District receives Federal Impact Aid, which accounts for approximately 31% of the District's General Fund budget. Federal Impact Aid 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.

The District has submitted a Capital Loan funding request every year since 2002, yet has only received appropriations twice that were approved by the Governor. Both of these appropriations were only small percentages of the request. The original request in 2002 was for \$40.1 million, which escalated to today's dollars equals approximately \$68 million. These requests are for additions and improvements to the District facilities. Since the District does not have adequate bonding capacity, due to the large amount of federal property in the District, requests must be made to the State of Minnesota for capital loans. The District has submitted a Capital Loan request in the amount of \$32.97 million to the 2012 Legislature, which was not funded. The District will submit another capital loan request to the 2013 Legislature.

On December 15, 2011, the voters of the Red Lake School District approved a Yes or No Ballot Question at a Special Election called by the School Board. The question was to revoke the District's existing referendum and replace it with a new authorization of \$1,358.24 per resident marginal cost pupil unit. The levy authorization expires in 2022. The additional revenue will be used to finance school operations.

Educational Initiatives – School Improvements

In March 2010, the District was notified by the Minnesota Department of Education (MDE) that the Red Lake High School and Ponemah School were identified as persistently low achieving schools.

The District applied for and received a three-year School Improvement Grant to fund the startup of interventions at each of the identified sites. The funds are used to cover the staff training and additional staff that were hired. The District has a plan to sustain the intervention model after the grant expires on September 30, 2013.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013

FACTORS BEARING ON THE DISTRICT'S FUTURE (Continued)

Educational Initiatives – Priority School

Red Lake Middle School was identified as a Priority School in May 2012. This designation required the school to submit an application and plan that addressed elements for the creation or reconfiguration of their building leadership site council, reconfiguration of their school, intensive teacher and principal professional development, refocusing of curriculum and instruction, development of a teacher evaluation and observation system, and a focusing of a student support network enhancing the ability of all students to be academically successful.

The Board of Education chose the Turnaround Model for the school design. The grant application and plan are available on the District website.

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.

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.

During the 2009-10 school year, the District applied for and received a Fresh Fruit and Vegetable Grant. This grant allowed a fresh fruit or vegetable snack to be served to students in the elementary grades. The grant was expanded in the 2010-11 school year to include all elementary sites and adding the Farm to School Program as a partner. The District received the grant for the 2011-12 school year. During the fall of 2010, students were provided snacks that were Minnesota Grown and in some cases were certified organic.

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, East of the Red Lake Middle School, Red Lake Minnesota 56671.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
STATEMENT OF NET POSITION
JUNE 30, 2013

ASSETS

Cash and Cash Equivalents		\$ 8,971,995
Property Taxes Receivable		93
Due from Other Governmental Units		4,099,644
Other Accounts Receivable		33,767
Interest Receivable		6,483
Inventories		31,891
Net OPEB Benefit		1,337,525
Construction in Progress	\$ 59,201	
Depreciable Capital Assets, Net of Depreciation	<u>50,580,671</u>	<u>50,639,872</u>
Total Assets		<u>65,121,270</u>

LIABILITIES

Salaries Payable		1,537,335
Accounts Payable		206,172
Due to Other Governmental Units		159,453
Payroll Deductions and Employer Contributions		1,663,886
Property Taxes Levied for Subsequent Years' Expenditures		5,510
Long-Term Liabilities:		
Portion Due Within One Year		34,935
Due After One Year		<u>89,266,119</u>
Total Liabilities		<u>92,873,410</u>

NET POSITION

Restricted for:		
State Mandated Programs		131,067
Capital Projects		1,016
Debt Redemption		2,147
Unrestricted (Deficit)		<u>(27,886,370)</u>
Total Net Position		<u>\$ (27,752,140)</u>

See Accompanying Notes to Financial Statements.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013

<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	\$ 1,756,023	\$ -	\$ -	\$ (1,756,023)
District Support Services	1,094,795	-	-	(1,094,795)
Regular Instruction	15,702,251	72,457	14,768,312	(861,482)
Vocational Instruction	185,066	-	54,686	(130,380)
Exceptional Instruction	3,773,606	-	2,238,143	(1,535,463)
Community Education and Services	591,410	-	412,170	(179,240)
Instructional Support Services	1,481,589	7,339	193,230	(1,281,020)
Pupil Support Services	2,990,302	14,076	1,039,293	(1,936,933)
Site, Buildings, and Equipment	4,462,819	-	205,782	(4,257,037)
Fiscal and Other Fixed Costs	168,465	-	1,970	(166,495)
Interest on Long-Term Debt	3,846,248	-	-	(3,846,248)
Unallocated Depreciation	1,308,353	-	-	(1,308,353)
Total Governmental Activities	\$ 37,360,927	\$ 93,872	\$ 18,913,586	(18,353,469)
General Revenues:				
Property Taxes:				
				4,529
				198
				3,698
				11,214,644
				19,355
				67,337
				<u>11,309,761</u>
				<u>(7,043,708)</u>
				<u>(20,708,432)</u>
				<u>\$ (27,752,140)</u>

See Accompanying Notes to Financial Statements.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2013

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
<u>ASSETS</u>			
Cash and Investments	\$ 8,966,169	\$ 5,826	\$ 8,971,995
Property Taxes Receivable	88	5	93
Due from Other Funds	101,992	-	101,992
Due from Other Governmental Units	3,993,205	106,439	4,099,644
Other Accounts Receivable	28,285	5,482	33,767
Interest Receivable	6,483	-	6,483
Inventories	18,343	13,548	31,891
<u>Total Assets</u>	<u>\$ 13,114,565</u>	<u>\$ 131,300</u>	<u>\$ 13,245,865</u>
<u>LIABILITIES AND FUND EQUITY</u>			
<u>Liabilities</u>			
Salaries Payable	\$ 1,537,335	\$ -	\$ 1,537,335
Accounts Payable	183,022	23,150	206,172
Due to Other Funds	-	101,992	101,992
Due to Other Minnesota School Districts	159,453	-	159,453
Payroll Deductions and Employer Contributions	1,663,886	-	1,663,886
Property Taxes Levied for Subsequent Years' Expenditures	2,515	2,995	5,510
Total Liabilities	<u>3,546,211</u>	<u>128,137</u>	<u>3,674,348</u>
<u>Fund Equity</u>			
Nonspendable	18,343	13,548	31,891
Restricted	131,067	3,163	134,230
Assigned	2,916,477	-	2,916,477
Unassigned	6,502,467	(13,548)	6,488,919
Total Fund Equity	<u>9,568,354</u>	<u>3,163</u>	<u>9,571,517</u>
<u>Total Liabilities and Fund Equity</u>	<u>\$ 13,114,565</u>	<u>\$ 131,300</u>	<u>\$ 13,245,865</u>

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, 2013

Total Fund Balances - Governmental Funds **\$ 9,571,517**

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	\$ 71,545,321	
Accumulated Depreciation	(20,905,449)	
Net Depreciated Value of Capital Assets		50,639,872

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

Other Post-Employment Benefits Surplus	1,337,525	
Capital Leases Payable	(34,935)	
Capital Loans Payable and Defaulted Interest	(87,598,069)	
Severance Payable	(1,668,050)	

Total Net Position - Governmental Activities **\$ (27,752,140)**

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2013

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
<u>Revenues</u>			
Local Property Taxes	\$ 4,529	\$ 3,896	\$ 8,425
Other Local and County Revenues	154,560	16,599	171,159
Revenues from State Sources	17,158,151	285,199	17,443,350
Revenues from Federal Sources	11,794,963	845,015	12,639,978
Sales and Other Conversions of Assets	-	14,076	14,076
Investment Earnings	19,337	20,894	40,231
Total Revenues	<u>29,131,540</u>	<u>1,185,679</u>	<u>30,317,219</u>
<u>Expenditures</u>			
District and School Administration	1,775,725	-	1,775,725
District Support Services	1,257,300	-	1,257,300
Regular Instruction	15,010,729	-	15,010,729
Vocational Instruction	154,120	-	154,120
Exceptional Instruction	3,500,237	-	3,500,237
Community Education and Services	-	561,642	561,642
Instructional Support Services	1,583,173	-	1,583,173
Pupil Support Services	1,735,195	1,208,733	2,943,928
Site, Buildings, and Equipment	4,920,065	-	4,920,065
Fiscal and Other Fixed Costs	168,465	-	168,465
Debt Service	-	5,859	5,859
Total Expenditures	<u>30,105,009</u>	<u>1,776,234</u>	<u>31,881,243</u>
<u>Excess of Revenues Over (Under) Expenditures</u>	<u>(973,469)</u>	<u>(590,555)</u>	<u>(1,564,024)</u>
<u>Other Financing Sources (Uses)</u>			
Operating Transfers In	-	590,370	590,370
Operating Transfers Out	(590,370)	-	(590,370)
Total Other Financing Sources (Uses)	<u>(590,370)</u>	<u>590,370</u>	<u>-</u>
<u>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</u>	<u>(1,563,839)</u>	<u>(185)</u>	<u>(1,564,024)</u>
<u>Fund Balances, Beginning of Year</u>	<u>11,132,193</u>	<u>3,348</u>	<u>11,135,541</u>
<u>Fund Balances, End of Year</u>	<u>\$ 9,568,354</u>	<u>\$ 3,163</u>	<u>\$ 9,571,517</u>

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, 2013

Net Change in Fund Balances - Total Governmental Funds \$ (1,564,024)

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	\$ 786,317	
Depreciation	<u>(1,651,954)</u>	
Excess Depreciation Expense Over Capital Outlay		(865,637)

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:

Capital Lease Principal	33,752	
Net Change in Capital Loans	(3,834,530)	
Net Change in Severance Payable	(1,138,278)	
Net Change in Post-Employment Benefits	<u>325,009</u>	
Total Long-Term Debt Change		<u>(4,614,047)</u>

Change in Net Position of Government Activities \$ (7,043,708)

See Accompanying Notes to Financial Statements.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
STATEMENT OF FIDUCIARY NET POSITION -
SCHOLARSHIP TRUST FUND
JUNE 30, 2013

ASSETS

Cash and Investments	\$ 15,146
Accounts Receivable	<u>4</u>

Total Assets15,150**LIABILITIES**

Other Payables	<u>15,025</u>
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NET POSITION

Net Position Held in Trust	<u><u>\$ 125</u></u>
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See Accompanying Notes to Financial Statements.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION -
SCHOLARSHIP TRUST FUND
YEAR ENDED JUNE 30, 2013

<u>Revenues</u>	
Investment Earnings	\$ 27
<u>Net Position, Beginning of Year</u>	<u>98</u>
<u>Net Position, End of Year</u>	<u>\$ 125</u>

See Accompanying Notes to Financial Statements.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

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, 2013. 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, 2013

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.

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

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 2012 payable 2013 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, 2013

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, liabilities, fund equity, 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 fund 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.

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 a separate statement of fiduciary net position and a 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, 2013

NOTE 1 – Summary of Significant Accounting Policies (Continued)

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

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, Liabilities, Net Position, and Fund Balances

Cash and Cash Equivalents – 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, 2013. 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 2005 through 2012 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, 2013

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.

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

Deferred Revenue – Delinquent Property Taxes – Deferred revenue – delinquent property taxes represents property taxes for the years 2006 through 2012 that remain uncollected.

Property Taxes Levied for Subsequent Years' Expenditures – Current levies of local taxes, including portions assumed by the State that will be recognized as revenue in the next fiscal year beginning July 1, 2013, are included in this account to indicate that, while they are current assets, they will not be recognized as revenue until the following year.

Net Position – Net position represent the difference between assets and liabilities in the District-wide financial statements. Net position invested in capital assets, net of related debt 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 Equity – The District classifies fund balances in the governmental funds as follows:

- Nonspendable – amounts are in a nonspendable form (such as inventory or prepaid items) or are required to be maintained intact.
- Restricted – 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 – 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 – 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.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 – Summary of Significant Accounting Policies (Continued)

- Unassigned – 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, 2013.

As of June 30, 2013, fund balances are composed of the following:

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Totals</u>
Fund Balances:			
Nonspendable:			
Inventory	\$ 18,343	\$ 13,548	\$ 31,891
Restricted:			
Deferred Maintenance	65	-	65
Basic Skills	131,002	-	131,002
Building Construction	-	1,016	1,016
Debt Reduction	-	2,147	2,147
Assigned:			
Other Post-Employment Benefits (OPEB)	2,916,477	-	2,916,477
Unassigned	6,502,467	(13,548)	6,488,919
Totals	<u>\$ 9,568,354</u>	<u>\$ 3,163</u>	<u>\$ 9,571,517</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, 179 days for teachers and 199 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.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 – Summary of Significant Accounting Policies (Continued)

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.

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.

Full-time principals who have completed a minimum of 15 years of service in the District and are a minimum of 50 years of age or have completed a minimum of 20 years of service in the District regardless of age are eligible for severance pay. Eligible administrators shall receive the greater of 100 days pay or accumulated sick leave, whichever is greater, 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 two years from the effective date of severance. The Superintendent is not eligible to receive severance upon the termination of employment.

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 – Compensated absences are provided under collective bargaining agreements for retired teachers and administrators. Currently, 17 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 written resignation accepted by the Board. 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 compensated absences are recognized as premiums become due. The District's contributions are financed on a pay-as-you-go-basis.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 – Summary of Significant Accounting Policies (Continued)

F. Use of Estimates

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

NOTE 2 – Deposit and Investments

The Districts deposits and investments are as follows:

	Governmental Funds	Trust Fund
Deposits:		
Money Market Account	\$ 6,826	\$ -
Checking Account	1,306,559	9,602
Certificates of Deposit	1,000,000	5,544
Investments:		
MSDLAF+	6,658,610	-
Total Deposits and Investments	\$ 8,971,995	\$ 15,146

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, 2013

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.

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.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 3 – Property Taxes (Continued)

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 revenue account.

NOTE 4 – Due From Other Governmental Units

Amounts due from other governmental units at June 30, 2013 are as follows:

	<u>General Fund</u>	<u>Food Service Fund</u>	<u>Community Service Fund</u>	<u>Debt Redemption Fund</u>	<u>Totals</u>
Minnesota Department of Education:					
State Aids and Grants	\$ 2,985,521	\$ -	\$ 38,861	\$ 268	\$ 3,024,650
Federal Aids and Grants	986,722	32,878	34,432	-	1,054,032
Capital Loan Proceeds	20,962	-	-	-	20,962
	<u>\$ 3,993,205</u>	<u>\$ 32,878</u>	<u>\$ 73,293</u>	<u>\$ 268</u>	<u>\$ 4,099,644</u>
Totals					

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 5 – Capital Assets

Capital asset activity for the year ended June 30, 2013 is as follows:

	Capital Assets			
	Beginning Balance	Additions	Sales and Retirements	Ending Balance
<u>Capital Assets Not Being Depreciated</u>				
Construction in Progress	\$ 41,681	\$ 59,201	\$ 41,681	\$ 59,201
<u>Depreciable Capital Assets</u>				
Land Improvements	607,989	-	-	607,989
Buildings	64,823,483	517,474	-	65,340,957
Equipment	5,344,281	251,323	58,430	5,537,174
Total Depreciable Assets	<u>70,775,753</u>	<u>768,797</u>	<u>58,430</u>	<u>71,486,120</u>
<u>Accumulated Depreciation</u>				
Land Improvements	442,453	26,922	-	469,375
Buildings	14,941,672	1,327,626	-	16,269,298
Equipment	3,927,800	297,406	58,430	4,166,776
Total Accumulated Depreciation	<u>19,311,925</u>	<u>1,651,954</u>	<u>58,430</u>	<u>20,905,449</u>
Total Capital Assets	<u>\$ 51,505,509</u>	<u>\$ (823,956)</u>	<u>\$ 41,681</u>	<u>\$ 50,639,872</u>

Depreciation expense was charged to the following program services:

District and School Administration	\$ 11,666
Regular Instruction	39,519
Vocational Instruction	1,563
Exceptional Instruction	5,443
Community Education and Services	385
Instructional Support Services	26,234
Pupil Support Services	135,397
Operations	123,394
Unallocated	1,308,353
Total Depreciation Expense	<u>\$ 1,651,954</u>

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 6 – Pension Plans

A. Teachers Retirement Association

Plan Description

All teachers employed by the District are covered by defined benefit plans administered by the Teachers Retirement Association (TRA). TRA members belong to either the Coordinated or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All Basic members were first hired prior to July 1, 1989. All new members must participate in the Coordinated Plan. The Plans are established and administered in accordance with Minnesota Statutes, Chapters 354 and 356.

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 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:

Tier I:

<u>Step Rate Formula</u>	<u>Coordinated</u>	<u>Basic</u>
1 st ten years prior to July 1, 2006	1.2 percent per year	2.2 percent per year
1 st ten years on or after July 1, 2006	1.4 percent per year	2.2 percent per year
All other years prior to July 1, 2006	1.7 percent per year	2.7 percent per year
All other years on or after July 1, 2006	1.9 percent per year	2.7 percent per year

With these provisions:

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

or

Tier II: 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. 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. Actuarially equivalent early retirement reduction factors with augmentation are used for early retirement before the normal age of 65. These reduction factors average approximately 4 to 5.4 percent per year.

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.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 6 – Pension Plans (Continued)

Six different types of annuities are available to members upon retirement. The No Refund Life Plan (A-1) 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 which 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. Members terminating service are also 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 provisions in effect at the time they last terminated their public service.

TRA publicly issues a Comprehensive Annual Financial Report (CAFR) presenting financial statements, supplemental information on funding levels, and further information on benefit provisions. The report may be accessed at the TRA web site www.minnesotatra.org. Alternatively, a copy of the report may be obtained by writing or calling TRA:

Teachers Retirement Association
60 Empire Drive Suite 400
St. Paul MN 55103-4000
(651) 296-2409
(800) 657-3669

Funding Policy

Minnesota Statutes Chapter 354 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. Coordinated and Basic Plan members are required to contribute 6.5 percent and 10.0 percent, respectively, of their annual covered salary during Fiscal Year 2013 as employee contributions. The TRA employer contribution rates are 6.5 percent for Coordinated members and 10.5 percent for Basic members. Total covered payroll salaries for all TRA members statewide during the fiscal year ended June 30, 2012 was approximately \$3.87 billion. TRA covered payroll for all members statewide for the fiscal years ended June 30, 2011 and June 30, 2010 were \$3.84 billion and \$3.79 billion, respectively.

The District's contributions for the years ending June 30, 2013, 2012, and 2011 were \$555,684, \$595,798, and \$490,585, respectively, equal to the required contributions for each year as set by state statute.

The 2010 Legislature approved employee and employer contribution rate increases to be phased-in over a four-year period beginning July 1, 2011. Employee and employer contribution rates will rise 0.5 percent each year of the four-year period. Beginning July 1, 2014, TRA Coordinated employee and employer contribution rates will each be 7.5 percent.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 6 – Pension Plans (Continued)

B. Public Employees Retirement Association

Plan Description

All full-time and certain part-time non-certified teacher employees of the District are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF) that is a cost-sharing, multiple-employer retirement plan. The plan is established and administered in accordance with Minnesota Statutes, Chapters 353 and 356.

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. All new members must participate in the Coordinated Plan.

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute, and vest after three years of credited service. The defined retirement 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 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For GERF members hired prior to July 1, 1989, whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 65 for Basic and Coordinated members hired before July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at age 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree - no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives. Members may also leave their contributions in the fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

The benefit provisions stated in the previous 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, 2013

NOTE 6 – Pension Plans (Continued)

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF. That report may be obtained on the web at mnpera.org, by writing to PERA, 60 Empire Drive #200, St. Paul, Minnesota 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The District makes annual contributions to the pension plans equal to the amount required by state statutes. GERF Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.25%, respectively, of their annual covered salary. The District was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members, 7.25% for Coordinated Plan members. The District's contributions to the Public Employees Retirement Fund for the years ending June 30, 2013, 2012, and 2011 were \$399,461, \$363,924, and \$343,349, respectively. The District's contributions were equal to the contractually required contributions for each year as set by State Statute.

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, 2013

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

Annual Required Contribution	\$ 187,868
Interest on Net OPEB Obligation	(45,563)
Adjustment to Annual Required Contribution	62,044
Annual OPEB Cost (Expense)	<u>204,349</u>
Contributions Made	<u>(529,358)</u>
Decrease in Net OPEB Obligation	(325,009)
Net OPEB Obligation (Surplus) - Beginning of Year	<u>(1,012,516)</u>
Net OPEB Obligation (Surplus) - End of Year	<u><u>\$ (1,337,525)</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, 2013 is as follows:

Fiscal Year Ended	Annual OPEB Cost	Annual Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Surplus)
06/30/11	\$ 263,045	\$ 594,033	225.8%	\$ (728,929)
06/30/12	272,755	556,342	204.0%	(1,012,516)
06/30/13	204,349	529,358	259.0%	(1,337,525)

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.

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.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

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

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, 2013 was 29 years.

NOTE 8 – Capital Lease

The District has entered into lease agreements with 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>Beginning Balance</u>	<u>Additions</u>	<u>Payments and Subtractions</u>	<u>Ending Balance</u>
GE Capital	\$ 43,915	\$ -	\$ 21,366	\$ 22,549
Advanced Acceptance	9,824	-	4,912	4,912
Advanced Acceptance	14,948	-	7,474	7,474
Total	<u>\$ 68,687</u>	<u>\$ -</u>	<u>\$ 33,752</u>	<u>\$ 34,935</u>

The District's capital lease assets are \$105,093 with accumulated depreciation of \$24,096.

The payments on the capital leases are accounted for in the General Fund. The annual requirements to amortize the capital lease at June 30, 2013 are as follows:

<u>Fiscal Year Ended</u>	<u>Lease Principal</u>	<u>Lease Interest</u>	<u>Total</u>
2014	\$ 34,935	\$ 1,362	\$ 36,297

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 9 - Long-Term Debt

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

	Beginning Balance	Additions	Payments and Retirements	Ending Balance	Current Amounts	
					Principal	Interest
Capital Loans Payable	\$ 51,340,061	\$ -	\$ 5,859	\$ 51,334,202	\$ -	\$ -
Defaulted Interest on Capital Loan	32,423,478	3,840,389	-	36,263,867	-	-
Total	83,763,539	3,840,389	5,859	87,598,069	-	-
Capital Leases (See Note 8)	68,687	-	33,752	34,935	34,935	1,362
Other Post-Employment Benefits	(1,012,516)	204,349	529,358	(1,337,525)	-	-
Severance Payable	529,772	1,138,278	-	1,668,050	-	-
Total Long-Term Debt	\$ 83,349,482	\$ 5,183,016	\$ 568,969	87,963,529	\$ 34,935	\$ 1,362
Add-back Net Post-Employment Benefits Reported as an Asset				1,337,525		
Total Long-Term Liabilities				\$ 89,301,054		

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.

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.

There were no authorized and un-issued bonds at June 30, 2013.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

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, 2013 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.

NOTE 12 – Inter-fund Balances and Transfers

At June 30, 2013 the District has inter-fund balances of \$32,959 and \$69,033 due from the Food Service Special Revenue Fund and Community Service Special Revenue Fund, respectively to the General Fund, totaling \$101,922.

In the fiscal year ended June 30, 2013, a transfer was made from the general fund to the food service fund and community service fund for \$441,108, and \$149,262, respectively, to eliminate a deficit fund balances.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
REQUIRED SUPPLEMENTARY INFORMATION
GENERAL FUND -
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2013

	Original and Final Budget	Actual	Variance with Final Budget - Positive (Negative)
<u>Revenues</u>			
Local Property Taxes	\$ 3,065	\$ 4,529	\$ 1,464
Other Local and County Revenues	82,500	154,560	72,060
Revenues from State Sources	16,822,711	17,158,151	335,440
Revenues from Federal Sources	11,416,807	11,794,963	378,156
Investment Earnings	25,000	19,337	(5,663)
<u>Total Revenues</u>	<u>28,350,083</u>	<u>29,131,540</u>	<u>781,457</u>
<u>Expenditures</u>			
Alternative Learning Programs	330,203	310,678	19,525
Athletics	320,450	297,157	23,293
Board of Education	215,200	180,998	34,202
Building & Grounds/Security	4,530,697	4,019,171	511,526
Capital Programs	1,572,546	1,271,316	301,230
District Administration	1,471,728	1,359,935	111,793
Early Childhood Center	812,523	756,247	56,276
English as a Second Language	10,428	91,758	(81,330)
Federal Programs	832,830	680,500	152,330
Indian Teacher Grant	40,000	34,699	5,301
Success for the Future	69,445	66,778	2,667
Tuition Payments	45,655	177,951	(132,296)
Retiree Health Insurance	350,000	201,202	148,798
Special Education Services	3,978,420	3,500,237	478,183
Staff Development	173,366	448,690	(275,324)
Technology Department	854,449	686,537	167,912
Transportation	1,462,368	1,500,532	(38,164)
Non-Public	44,662	108,265	(63,603)
Ponemah Elementary	2,657,276	2,699,590	(42,314)
Red Lake Elementary	5,684,678	5,763,092	(78,414)
Red Lake High School	3,432,342	3,522,315	(89,973)
Red Lake Middle School	2,640,137	2,427,361	212,776
<u>Total Expenditures</u>	<u>31,529,403</u>	<u>30,105,009</u>	<u>1,424,394</u>
<u>Excess of Revenues Over (Under) Expenditures</u>	<u>(3,179,320)</u>	<u>(973,469)</u>	<u>2,205,851</u>
<u>Other Financing Sources (Uses)</u>			
Operating Transfers Out	(456,424)	(590,370)	(133,946)
<u>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</u>			
	(3,635,744)	(1,563,839)	2,071,905
<u>Fund Balances, Beginning of Year</u>	<u>11,132,193</u>	<u>11,132,193</u>	<u>-</u>
<u>Fund Balances, End of Year</u>	<u>\$ 7,496,449</u>	<u>\$ 9,568,354</u>	<u>\$ 2,071,905</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, 2013

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
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2013

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.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2013

	<u>Special Revenue Funds</u>		<u>Capital Projects</u>	<u>Debt Redemption Fund</u>	<u>Totals</u>
	<u>Food Service</u>	<u>Community Service</u>			
<u>ASSETS</u>					
Cash and Investments	\$ -	\$ -	\$ 1,016	\$ 4,810	\$ 5,826
Property Taxes Receivable	-	5	-	-	5
Due from Other Governmental Units	32,878	73,293	-	268	106,439
Other Accounts Receivable	-	5,482	-	-	5,482
Inventories	13,548	-	-	-	13,548
<u>Total Assets</u>	<u>\$ 46,426</u>	<u>\$ 78,780</u>	<u>\$ 1,016</u>	<u>\$ 5,078</u>	<u>\$ 131,300</u>
<u>LIABILITIES AND FUND EQUITY</u>					
<u>Liabilities</u>					
Accounts Payable	\$ 13,467	\$ 9,683	\$ -	\$ -	\$ 23,150
Due to Other Funds	32,959	69,033	-	-	101,992
Property Taxes Levied for Subsequent Years' Expenditures	-	64	-	2,931	2,995
<u>Total Liabilities</u>	<u>46,426</u>	<u>78,780</u>	<u>-</u>	<u>2,931</u>	<u>128,137</u>
<u>Fund Equity</u>					
Nonspendable	13,548	-	-	-	13,548
Restricted	-	-	1,016	2,147	3,163
Unassigned	(13,548)	-	-	-	(13,548)
<u>Total Fund Equity</u>	<u>-</u>	<u>-</u>	<u>1,016</u>	<u>2,147</u>	<u>3,163</u>
<u>Total Liabilities and Fund Equity</u>	<u>\$ 46,426</u>	<u>\$ 78,780</u>	<u>\$ 1,016</u>	<u>\$ 5,078</u>	<u>\$ 131,300</u>

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, 2013

	<u>Special Revenue Funds</u>		<u>Capital Projects</u>	<u>Debt Redemption</u>	<u>Totals</u>
	<u>Food Service</u>	<u>Community Service</u>			
<u>Revenues</u>					
Local Property Taxes	\$ -	\$ 198	\$ -	\$ 3,698	\$ 3,896
Other Local and County Revenues	8,224	8,375	-	-	16,599
Revenues from State Sources	42,843	240,386	-	1,970	285,199
Revenues from Federal Sources	702,482	142,533	-	-	845,015
Sales and Other Conversions of Assets	14,076	-	-	-	14,076
Investment Earnings	-	20,876	-	18	20,894
Total Revenues	<u>767,625</u>	<u>412,368</u>	<u>-</u>	<u>5,686</u>	<u>1,185,679</u>
<u>Expenditures</u>					
Community Education and Services	-	561,642	-	-	561,642
Pupil Support Services	1,208,733	-	-	-	1,208,733
Debt Service	-	-	-	5,859	5,859
Total Expenditures	<u>1,208,733</u>	<u>561,642</u>	<u>-</u>	<u>5,859</u>	<u>1,776,234</u>
<u>Excess of Revenues Over (Under) Expenditures</u>	(441,108)	(149,274)	-	(173)	(590,555)
<u>Other Financing Sources</u>					
Operating Transfer In	441,108	149,262	-	-	590,370
<u>Excess of Revenues and Other Financing Sources Over (Under) Expenditures</u>	-	(12)	-	(173)	(185)
<u>Fund Balances, Beginning of Year</u>	-	12	1,016	2,320	3,348
<u>Fund Balances, End of Year</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,016</u>	<u>\$ 2,147</u>	<u>\$ 3,163</u>

FISCAL COMPLIANCE REPORT - 6/30/2013
District: RED LAKE (0038-01)

	Audit	UFARS	Audit (-) UFARS		Audit	UFARS	Audit (-) UFARS
01 GENERAL FUND				06 BUILDING CONSTRUCTION			
Total Revenue	\$29,131,540	\$29,131,537	\$3	Total Revenue	\$0	\$0	\$0
Total Expenditures	\$30,105,009	\$30,105,009	\$0	Total Expenditures	\$0	\$0	\$0
Non Spendable:				Non Spendable:			
4.60 Non Spendable Fund Balance	\$18,343	\$18,343	\$0	4.60 Non Spendable Fund Balance	\$0	\$0	\$0
Restricted/Reserved:				Restricted/Reserved:			
4.03 Staff Development	\$0	\$0	\$0	4.07 Alt. Down Payment Levy	\$0	\$0	\$0
4.05 Deferred Maintenance	\$65	\$65	\$0	4.09 Alternative Facility Program	\$0	\$0	\$0
4.06 Health and Safety	\$0	-\$200,393	\$200,393	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	\$1,016	\$1,017	-\$1
4.14 Operating Debt	\$0	\$0	\$0	Unassigned:			
4.16 Levy Reduction	\$0	\$0	\$0	4.63 Unassigned Fund Balance	\$0	\$0	\$0
4.17 Taconite Building Maint	\$0	\$0	\$0				
4.23 Certain Teacher Programs	\$0	\$0	\$0	07 DEBT SERVICE			
4.24 Operating Capital	\$0	\$1	-\$1	Total Revenue	\$5,686	\$5,686	\$0
4.26 \$25 Taconite	\$0	\$0	\$0	Total Expenditures	\$5,859	\$5,859	\$0
4.27 Disabled Accessibility	\$0	\$0	\$0	Non Spendable:			
4.28 Learning & Development	\$0	\$0	\$0	4.60 Non Spendable Fund Balance	\$0	\$0	\$0
4.34 Area Learning Center	\$0	\$0	\$0	Restricted/Reserved:			
4.35 Contracted Alt. Programs	\$0	\$0	\$0	4.25 Bond Refundings	\$0	\$0	\$0
4.36 State Approved Alt. Program	\$0	\$0	\$0	4.51 QZAB Payments	\$0	\$0	\$0
4.38 Gifted & Talented	\$0	\$0	\$0	Restricted:			
4.41 Basic Skills Program	\$131,002	\$131,002	\$0	4.64 Restricted Fund Balance	\$2,147	\$2,147	\$0
4.45 Career Tech Programs	\$0	\$0	\$0	Unassigned:			
4.49 Safe School Levy	\$0	\$0	\$0	4.63 Unassigned Fund Balance	\$0	\$0	\$0
4.50 Pre-Kindergarten	\$0	\$0	\$0				
4.51 QZAB Payments	\$0	\$0	\$0	08 TRUST			
4.52 OPEB Liab Not in Trust	\$0	\$0	\$0	Total Revenue	\$27	\$27	\$0
4.53 Unfunded Sev & Retirement Levy	\$0	\$0	\$0	Total Expenditures	\$0	\$0	\$0
Restricted:				4.22 Unassigned Fund Balance	\$125	\$126	-\$1
4.64 Restricted Fund Balance	\$0	\$0	\$0				
Committed:				20 INTERNAL SERVICE			
4.18 Committed for Separation	\$0	\$0	\$0	Total Revenue	\$0	\$0	\$0
4.61 Committed Fund Balance	\$0	\$0	\$0	Total Expenditures	\$0	\$0	\$0
Assigned:				4.22 Unassigned Fund Balance	\$0	\$0	\$0
4.62 Assigned Fund Balance	\$2,916,477	\$2,916,477	\$0				
Unassigned:				25 OPEB REVOCABLE TRUST			
4.22 Unassigned Fund Balance	\$6,502,467	\$6,702,855	-\$200,388	Total Revenue	\$0	\$0	\$0
				Total Expenditures	\$0	\$0	\$0
				4.22 Unassigned Fund Balance	\$0	\$0	\$0
02 FOOD SERVICES							
Total Revenue	\$767,625	\$767,624	\$1	45 OPEB IRREVOCABLE TRUST			
Total Expenditures	\$1,208,733	\$1,208,732	\$1	Total Revenue	\$0	\$0	\$0
Non Spendable:				Total Expenditures	\$0	\$0	\$0
4.60 Non Spendable Fund Balance	\$13,548	\$13,548	\$0	4.22 Unassigned Fund Balance	\$0	\$0	\$0
Restricted/Reserved:							
4.52 OPEB Liab Not in Trust	\$0	\$0	\$0	47 OPEB DEBT SERVICE			
Restricted:				Total Revenue	\$0	\$0	\$0
4.64 Restricted Fund Balance	\$0	\$0	\$0	Total Expenditures	\$0	\$0	\$0
Unassigned:				Non Spendable:			
4.63 Unassigned Fund Balance	-\$13,548	-\$13,547	-\$1	4.60 Non Spendable Fund Balance	\$0	\$0	\$0
				Restricted:			
				4.25 Bond Refunding	\$0	\$0	\$0
				4.64 Restricted Fund Balance	\$0	\$0	\$0
				Unassigned:			
				4.63 Unassigned Fund Balance	\$0	\$0	\$0
04 COMMUNITY SERVICE							
Total Revenue	\$412,368	\$412,366	\$2				
Total Expenditures	\$561,642	\$561,640	\$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.	\$0	-\$1	\$1				
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, 2013

<u>Account</u>	<u>Balance 7/1/12</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Balance 6/30/13</u>
Community Gardening Project	\$ 6,195	\$ -	\$ -	\$ 6,195
Ponemah 7th Grade	1,309	-	-	1,309
National Honor Society	2,319	600	970	1,949
Prom	(729)	3,372	3,549	(906)
Class of 2010	452	-	452	-
RLHS Student Council	1,452	560	1,756	256
RLMS Student Council	3,970	-	-	3,970
Concessions	4,800	13,522	18,197	125
Ski Club	3,737	2,185	5,875	47
PES ELC	247	1,494	-	1,741
Pep Club	1,891	60	-	1,951
Boys Basketball	565	400	601	364
RLHS Art Club	901	-	-	901
RLMS Art Club	1,200	-	-	1,200
Skateboard Club	584	1,369	1,131	822
Middle School Library Club	(831)	-	-	(831)
Special Ed	729	1,088	24	1,793
Ponemah 6th Grade	54	-	-	54
Ponemah Pop Fund	585	-	-	585
RLE Archery Club	5,841	-	162	5,679
Taste of Red Lake Cookbook	4,205	-	152	4,053
Band Activity Club	1,387	-	1,387	-
Special Olympics	205	-	-	205
Design Club	1,400	180	-	1,580
RLE Elementary Activity	-	3,905	763	3,142
Totals	\$ 42,468	\$ 28,735	\$ 35,019	\$ 36,184

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2013

<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	\$ 404,836	
National School Snacks	10.555	12,171	
National School Lunch Program - Commodity Distribution Cash Rebate	10.555	2,290	
National School Lunch Program - Commodity Distribution	10.555	<u>17,996</u>	\$ 437,293
National School Breakfast Program	10.553		188,957
Summer Food Program	10.559		<u>28,589</u>
Total Clustered Programs			654,839
Fresh Fruit and Vegetables Grant Program	10.582		<u>47,643</u>
<u>Total Department of Agriculture</u>			<u>702,482</u>
<u>Department of the Interior</u>			
Pass-Through Red Lake Band of Chippewa Indians			
Johnson O Malley	15.130		<u>51,150</u>
<u>U. S. Department of Education</u>			
Direct Programs:			
Clustered Programs:			
Impact Aid	84.041		8,164,271
Title VII	84.060		342,667
Pass-Through Minnesota Department of Education:			
Clustered Programs:			
Special Education - General	84.027	361,144	
IDEA Part B Section 619 Preschool Grant for Children with Disabilities	84.173	<u>18,474</u>	
Total Special Education Cluster			379,618
Targeted Funds - School Improvement Grant	84.377	355,067	
ARRA - Targeted Funds - School Improvement Grant	84.388	<u>964,184</u>	
Total School Improvement Grant Cluster			1,319,251
Title I Part A	84.010		1,401,148
Infants and Toddlers Program	84.181		24,266
Title II Part A	84.367		136,303
21st Century Grant	84.287		136,618
Adult Basic Education	84.002		5,915
Title VI, Part B	84.358		22,139
Received from Other Pass Through Entities:			
Carl Perkins Career and Technical Education - North Country Vocational Co-op	84.048A		<u>5,300</u>
<u>Total Department of Education</u>			<u>11,937,496</u>
<u>Total Federal Assistance Expended</u>			<u>\$ 12,691,128</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, 2013

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
TAX LEVIES, TAX RATES AND STUDENT CENSUS
JUNE 30, 2013

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Property Tax Levies										
General Referendum	\$ 2,889	\$ 2,862	\$ 2,302	\$ 2,336	\$ 2,507	\$ 2,631	\$ 2,768	\$ 2,390	\$ 1,422	\$ 1,914
General Maintenance	1,389	569	2,640	1,191	846	406	418	512	24	331
Community Service	148	148	120	121	127	108	118	146	162	171
Debt Redemption	3,715	3,723	3,079	3,130	3,298	3,466	3,568	3,543	4,404	5,323
Total Property Tax Levies	<u>\$ 8,141</u>	<u>\$ 7,302</u>	<u>\$ 8,141</u>	<u>\$ 6,778</u>	<u>\$ 6,778</u>	<u>\$ 6,611</u>	<u>\$ 6,872</u>	<u>\$ 6,591</u>	<u>\$ 6,012</u>	<u>\$ 7,739</u>
Referendum Market Value										
Referendum Market Value	\$ 646,300	\$ 653,500	\$ 653,800	\$ 562,000	\$ 562,600	\$ 591,500	\$ 610,200	\$ 619,100	\$ 617,400	\$ 617,800
Net Tax Capacity										
Net Tax Capacity	10,850	10,993	11,321	9,478	9,489	9,998	10,265	10,347	10,308	10,324
Rates										
Market Value	0.44701	0.43795	0.35209	0.41566	0.44561	0.44480	0.45362	0.42804	0.23032	0.30981
Net Tax Capacity	48.397	40.389	51.567	46.867	45.021	39.798	39.981	38.098	44.494	56.421
Students Served (Weighted ADM's)										
Residents	1,865.49	1,799.48	1,821.93	1,817.11	1,802.58	1,739.07	1,716.27	1,749.75	1,865.99	1,912.52
Nonresidents in District										
Tuition	-	-	-	-	1.37	0.74	-	0.48	-	1
Enrollment Options	-	-	-	-	-	1.19	3.05	1.31	4.47	8
Residents Outside District										
Enrollment Options	(367.15)	(333.76)	(341.31)	(307.43)	(274.43)	(246.53)	(300.37)	(235.32)	(244.06)	(258.62)
Adjusted Weighted ADM's	<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>1,626.40</u>	<u>1,662.05</u>
Resident ADM's	<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>	<u>1,630.83</u>	<u>1,674.22</u>



MILLER MCDONALD, INC.
Certified Public Accountants
 513 Beltrami Avenue
 P.O. Box 486
 Bemidji, MN 56619
 (218) 751 - 6300
 Fax (218) 751 - 0782
 www.millermcdonald.com

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, 2013, and the related notes to the financial statements, and have issued our report thereon dated December 12, 2013.

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 that 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 School'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 12, 2013
 Bemidji, Minnesota



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 Bemidji, MN 56619
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 Fax (218) 751 - 0782
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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, 2013, 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 12, 2013.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We identified a deficiency in internal control over financial reporting described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency in internal control over financial reporting: 07-1.

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 12, 2013
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, 2013. 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, 2013.

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 a 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 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 12, 2013
Bemidji, Minnesota

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2013

I. SUMMARY OF AUDITOR'S RESULTS

- A.) An unmodified report was issued.
- B.) One significant deficiency in internal control was reported on the audit of the financial statements and 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 report on compliance for major federal award programs was issued.
- F.) No findings were disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133.
- G.) Major programs:
- | | |
|--|-----------------|
| Title I Part A | CFDA No. 84.010 |
| Special Education – General | CFDA No. 84.027 |
| ARRA – Targeted Funds – School Improvement Grant | CFDA No. 84.388 |
| 21 st Century Grant | CFDA No. 84.287 |
- H.) A \$380,734 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: 07-1 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, 2013

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, 2014.

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, 2013

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

Internal Control Findings

None reported.

Questioned Costs

None reported.

IV. MINNESOTA LEGAL COMPLIANCE FINDINGS

ITEM ARISING THIS YEAR

None reported.

PREVIOUSLY REPORTED ITEMS RESOLVED DURING THE YEAR

Finding: 12-1 Cash Disbursements

Condition

The District's process for handling cash disbursements is not adequate. The District is not utilizing their purchase order system as intended. There is no proper reconciliation between product ordered, product received, and product paid for. There is not proper approval for disbursements. Purchase orders are initiated after product invoice is received, Clients' system is not catching multiple billings.

Resolution

The District strictly enforced their policy regarding the use of a purchase order system.