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December 29, 2011

To the Board of Education
Independent School District # 38
Red Lake, Minnesota

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 38 for the year ended June 30, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 25, 2011. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant account policies used by Independent School District No. 38 are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by Independent School District No. 38 during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the financial statements was (were):

Management's estimate of the amounts due (receivables) from Other Governments, particularly those that are based on the enrollment data available at September 19, 2011. We evaluated the key factors and assumptions used to develop these receivables in determining that they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure(s) affecting the financial statements was (were):

There were no sensitive disclosures for the current year

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Please see attached adjusting journal entries.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 29, 2011.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to Independent School District No. 38’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters including the application of accounting principles and auditing standards, with management each year prior to retention as Independent School District No. 38’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

As part of our audit, we are required to report internal control related matters as well as findings on compliance with Minnesota Statutes.

Preparation of Financial Statements

Independent School District No. 38’s Auditor prepares the financial statements. This is not unusual in Districts of your size; however, the Districts management and governance personnel should be aware that even though they assume responsibility for the financial statements they do not have effective controls to prevent, detect and correct misstatements in the financial statements, indicating a significant control deficiency.

Also during the audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The comments below summarize our suggestions.

COMMENTS:

Journal Entries:

During our review of journal entries we noted that not all journal entries were reviewed timely. For controls to be effective they need to be performed in a timely manner. Also, not all journal entries approved had proper supporting documentation. We recommend that all journal entries have documentation supporting the adjustment being recorded and that journal entries without documentation attached should not be approved or allowed to be posted. The journal entries should be approved prior to being posted to the accounting software.

Expense Reimbursement

During our review of travel and supply expense reimbursements, we found documentation was insufficient for three of the 18 reimbursements we viewed. The updated travel policy approved after year end includes the necessary procedures to increase the effectiveness of the internal controls. We recommend that you receive better documentation to backup reimbursement for the supply purchases.

This information is intended solely for the use The Board of Education and management of Independent School District No. 38 and is not intended to be and should not be used by anyone other than these specified parties.

Very Truly Yours,
Miller McDonald, Inc.

Miller McDonald, Inc.

Sandy K Nelson

**Sandy K Nelson
Certified Public Accountant**

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
JUNE 30, 2011

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
JUNE 30, 2011

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INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
JUNE 30, 2011

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INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
YEAR ENDED JUNE 30, 2011

OFFICIAL DIRECTORY
(Unaudited)

School Board Members and Officers

Chairperson	Arnold Pemberton
Vice-Chairperson	Tom Barrett
Treasurer	Roy Nelson
Clerk	Barbara Thomas
Director	Nicole Desjarlait
Director	Mike Barrett

Administration

Superintendent	Brent Gish
Business Manager	Willie Larson



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INDEPENDENT AUDITORS' REPORT

**The Board of Education
 Independent School District No. 38
 Red Lake, Minnesota**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information Independent School District No. 38, as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Independent School District No. 38's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 38, as of June 30, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the financial statements, Independent School District No. 38 – adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in 2011.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 29, 2011, on our consideration of Independent School District No. 38'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 the 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 17 and 45 through 47 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Independent School District No. 38's basic financial statements. The supplementary information on pages 48 through 51 are presented for purposes of additional analysis and are not a required part of the basic financial statements of Independent School District No. 38. The accompanying schedule of expenditures of federal awards on page 52 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 of Independent School District No. 38. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

The official directory on page 1 and statistical information on page 54 are presented for purposes of additional analysis and are not a required part of the financial statements of Independent School District No. 38. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Miller McDonald, Inc.

December 29, 2011
Bemidji, Minnesota

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011

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, 2011. 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, 2011 include the following:

- Net assets decreased by 0.21% from the prior year.
- Overall revenues were \$27,729,262 and overall expenses were \$27,764,745.
- The general fund balance increased by \$275,900.
- There was no change in the food service fund balance.
- The community service fund balance increased by \$45,240.
- The capital projects fund balance increased by \$1.
- The debt redemption fund balance decreased by \$767.

OVERVIEW OF THE FINANCIAL STATEMENTS

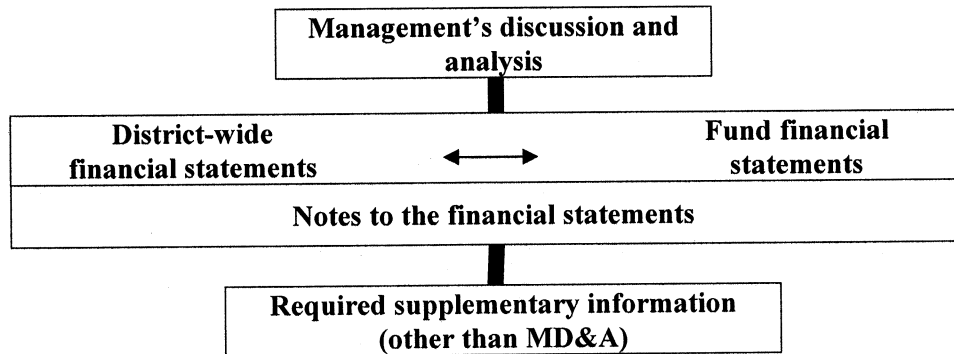
The financial section of the annual report consists of four parts – Independent Auditors' Report, required supplementary information, which includes the management's discussion and analysis (this section), the basic financial statements, and supplementary information. The basic financial statements include 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, 2011

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 assets • 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 assets • Statement of changes in fiduciary net assets
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, 2011

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 assets 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 assets and how they changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets 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 impact 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, 2011

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 assets. 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 Assets

The District's combined net assets were \$(17,154,183) at June 30, 2011 (see the following table). At June 30, 2010 the net assets were \$(17,118,700), with a decrease of \$35,483 from operating activities for the year ended June 30, 2011.

	2011	2010	Net Changes	
			Amount	Percent
Current and other assets	\$ 14,469,807	\$ 13,408,551	\$ 1,061,256	7.91%
Capital assets, net of depreciation	52,341,257	52,897,221	(555,964)	-1.05%
Total assets	66,811,064	66,305,772	505,292	0.76%
Current payables	3,228,205	3,216,252	11,953	0.37%
Long-term liabilities:				
Due after one year	80,737,042	80,208,220	528,822	0.66%
Total Liabilities	83,965,247	83,424,472	540,775	0.65%
Net assets:				
Restricted	245,758	288,280	(42,522)	-14.75%
Unrestricted	(17,399,941)	(17,406,980)	7,039	0.04%
Total net assets	\$ (17,154,183)	\$ (17,118,700)	\$ (35,483)	-0.21%

The change amounted to a 0.21% decrease in net assets.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011

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

Change in Net Assets

The decrease in net assets occurs as a result of the District's expenditures being more than its revenues for the years ended June 30, 2011 and 2010. A summary of the District's revenues and expenses, along with the percentages for each category follows:

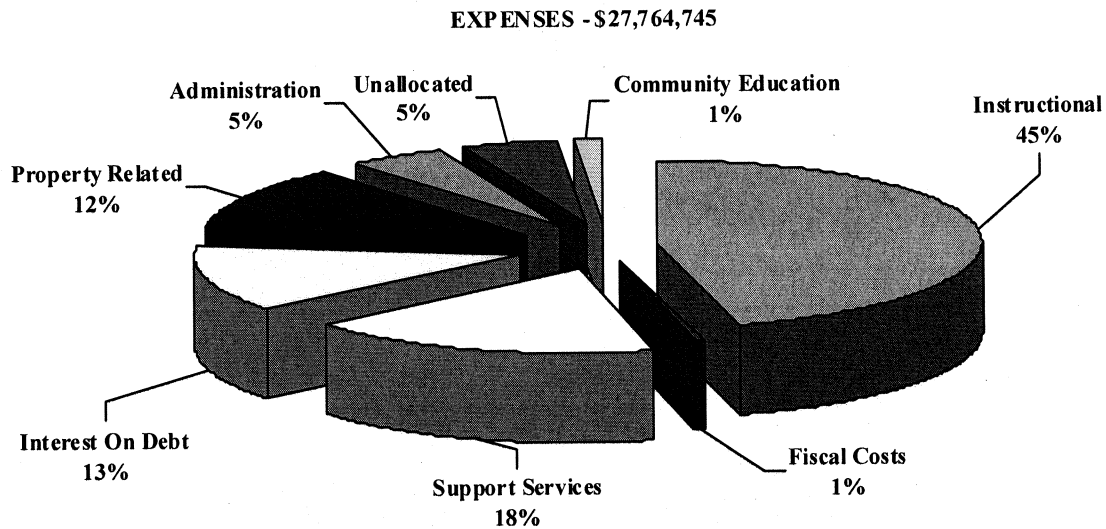
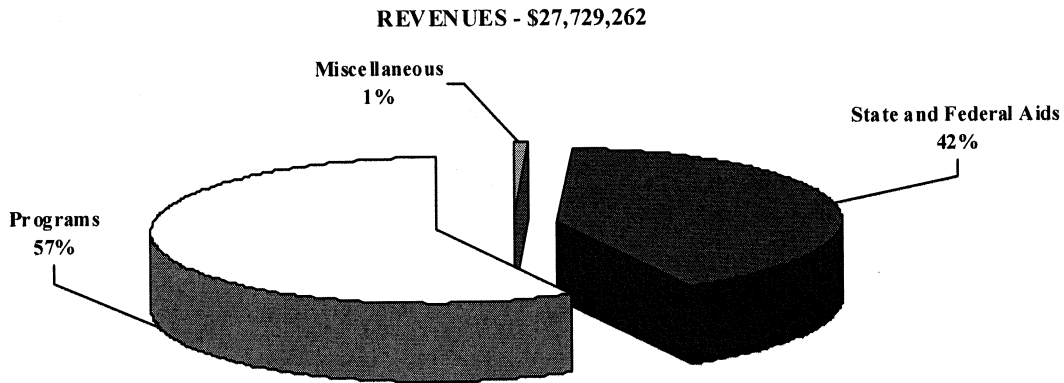
	2011		2010		Net Change	
	Amounts	Percent	Amounts	Percent	Amount	Percent
Revenues:						
Program Revenues:						
Charges for Services	\$ 219,375	0.79%	\$ 87,230	0.31%	\$ 132,145	151.49%
Operating Grants and Contributions	15,780,782	56.91%	15,359,059	54.14%	421,723	2.75%
Total Program Revenues	<u>16,000,157</u>	<u>57.70%</u>	<u>15,446,289</u>	<u>54.45%</u>	<u>553,868</u>	<u>3.59%</u>
General Revenues:						
Property Taxes	9,569	0.03%	8,006	0.03%	1,563	19.52%
Aids and Payments from State and Federal Sources	11,608,856	41.87%	12,436,955	43.84%	(828,099)	-6.66%
Other Sources	110,680	0.40%	477,402	1.68%	(366,722)	-76.82%
Total General Revenues	<u>11,729,105</u>	<u>42.30%</u>	<u>12,922,363</u>	<u>45.55%</u>	<u>(1,193,258)</u>	<u>-9.23%</u>
Total Revenues	<u>27,729,262</u>	<u>100.00%</u>	<u>28,368,652</u>	<u>100.00%</u>	<u>(639,390)</u>	<u>-2.25%</u>
Expenses:						
Instructional:						
Regular Instruction	9,467,447	34.10%	12,568,705	39.46%	(3,101,258)	-24.67%
Vocational Instruction	164,104	0.59%	170,881	0.54%	(6,777)	-3.97%
Exceptional Instruction	3,079,571	11.09%	3,323,789	10.43%	(244,218)	-7.35%
Total Instructional	<u>12,711,122</u>	<u>45.78%</u>	<u>16,063,375</u>	<u>50.43%</u>	<u>(3,352,253)</u>	<u>-20.87%</u>
Support Services:						
District Support Services	1,301,555	4.69%	1,047,000	3.29%	254,555	24.31%
Instructional Support Services	998,429	3.60%	1,332,314	4.18%	(333,885)	-25.06%
Pupil Support Services	2,654,977	9.56%	2,932,391	9.21%	(277,414)	-9.46%
Total Instructional	<u>4,954,961</u>	<u>17.85%</u>	<u>5,311,705</u>	<u>16.68%</u>	<u>(356,744)</u>	<u>-6.72%</u>
Administration	1,321,208	4.76%	1,793,134	5.63%	(471,926)	-26.32%
Community Education and Services	401,512	1.45%	420,893	1.32%	(19,381)	-4.60%
Site, Buildings and Equipment	3,412,729	12.29%	3,449,627	10.82%	(36,898)	-1.07%
Fiscal and Other Fixed Costs	153,499	0.55%	168,487	0.53%	(14,988)	-8.90%
Interest on Long-Term Debt	3,510,571	12.64%	3,347,110	10.51%	163,461	4.88%
Unallocated Depreciation	1,299,143	4.68%	1,299,393	4.08%	(250)	-0.02%
Total Expenses	<u>27,764,745</u>	<u>100.00%</u>	<u>31,853,724</u>	<u>100.00%</u>	<u>(4,088,979)</u>	<u>-12.84%</u>
Changes in Net Assets	<u>\$ (35,483)</u>		<u>\$ (3,485,072)</u>		<u>\$ 3,449,589</u>	

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011

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

The District's total revenues consisted of program revenues of \$16,000,157, aids and payments from the state and federal sources of \$11,608,856 and \$120,249 from miscellaneous other sources. Expenses totaling \$27,764,745 consisted of regular, vocational and exceptional instruction costs of \$12,711,122; district, instructional and pupil support services of \$4,954,961; site, buildings and equipment related costs of \$3,412,729; interest, fiscal, and fixed-cost programs of \$3,664,070; community education and services costs of \$401,512; administrative costs of \$1,321,208; and unallocated depreciation costs of \$1,299,143.

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, 2011

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, 2011 and 2010 are as follows:

	Cost of Services - 2011		Cost of Services - 2010	
	Total	Net	Total	Net
Expenses:				
Administration	\$ 1,321,208	\$ 1,321,208	\$ 1,793,134	\$ 1,793,134
District Support Services	1,301,555	1,301,555	1,047,000	1,047,000
Regular Instruction	9,467,447	(3,518,568)	12,568,705	221,532
Vocational Instruction	164,104	117,593	170,881	125,810
Exceptional Instruction	3,079,571	1,616,977	3,323,789	1,530,166
Community Education and Services	401,512	164,722	420,893	197,279
Instructional Support Services	998,429	788,900	1,332,314	1,101,609
Pupil Support Services	2,654,977	1,801,736	2,932,391	2,221,464
Site, Buildings and Equipment	3,412,729	3,209,021	3,449,627	3,356,314
Fiscal and Other Fixed Costs	153,499	151,730	168,487	166,624
Interest on Long-Term Debt	3,510,571	3,510,571	3,347,110	3,347,110
Unallocated Depreciation	1,299,143	1,299,143	1,299,393	1,299,393
Total Expenses	\$ 27,764,745	\$ 11,764,588	\$ 31,853,724	\$ 16,407,435

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 \$10,512,673. This was up from \$10,192,299, at the end of the prior year, an increase of \$320,374. Fund balance increases consisted of an increase in unassigned general fund balance of \$380,970 and a decrease in general fund reserves of \$105,070. The community service fund balance and the capital projects fund balance increased by \$45,240 and \$1, respectively. The debt redemption fund balance decreased by \$767. There was no change in the food service fund balance.

The District believes that prudent fiscal management requires the maintenance of a reasonable fund balance, to help in the event of unexpected conditions. The Board has adopted a Fund Balance Policy that provides for an unassigned general fund balance of at least three months average general fund expenditures from the previous year. The calculation for the June 30, 2011 fund balance follows:

Three months average expenditures for 2010-11	= \$ 6,481,498
June 30, 2011 unassigned general fund balance net of OPEB and compensated absences	= \$ 7,368,512

The District's unreserved general fund balance meets this goal.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011

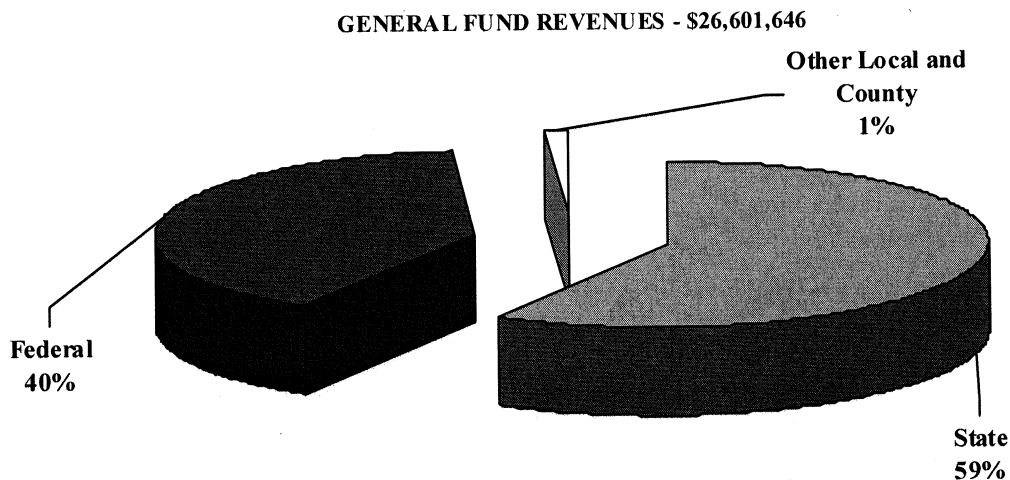
FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS
(FUND FINANCIAL STATEMENTS) (Continued)

Revenue and Expenditures

Revenues of the District's governmental funds totaled \$27,729,262 while total expenditures were \$27,408,888. 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	\$ 26,601,646	\$ 25,925,990	\$ (399,756)	\$ 275,900
Food Service Fund	676,617	1,076,373	399,756	-
Community Service Fund	446,367	401,127	-	45,240
Building Construction	1	-	-	1
Debt Redemption Fund	4,631	5,398	-	(767)
Totals	\$ 27,729,262	\$ 27,408,888	\$ -	\$ 320,374

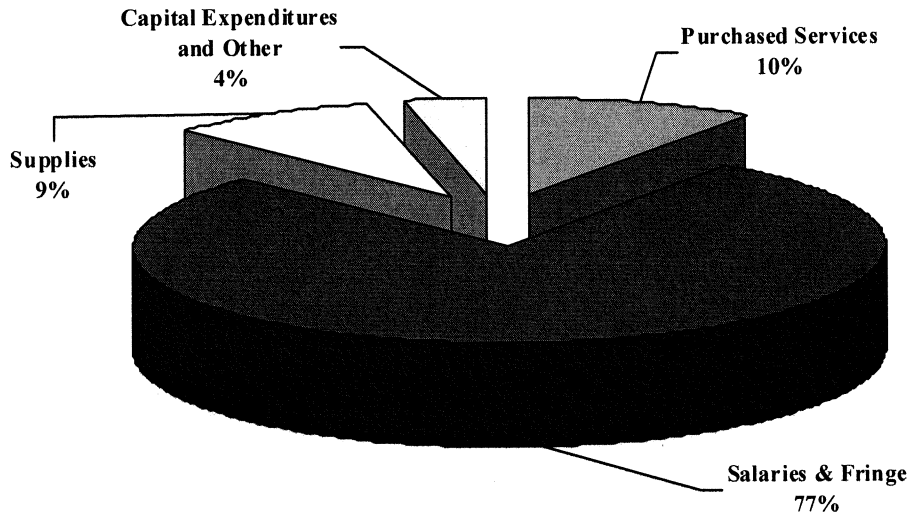
The following graphs are presented for the general fund revenues and expenditures:



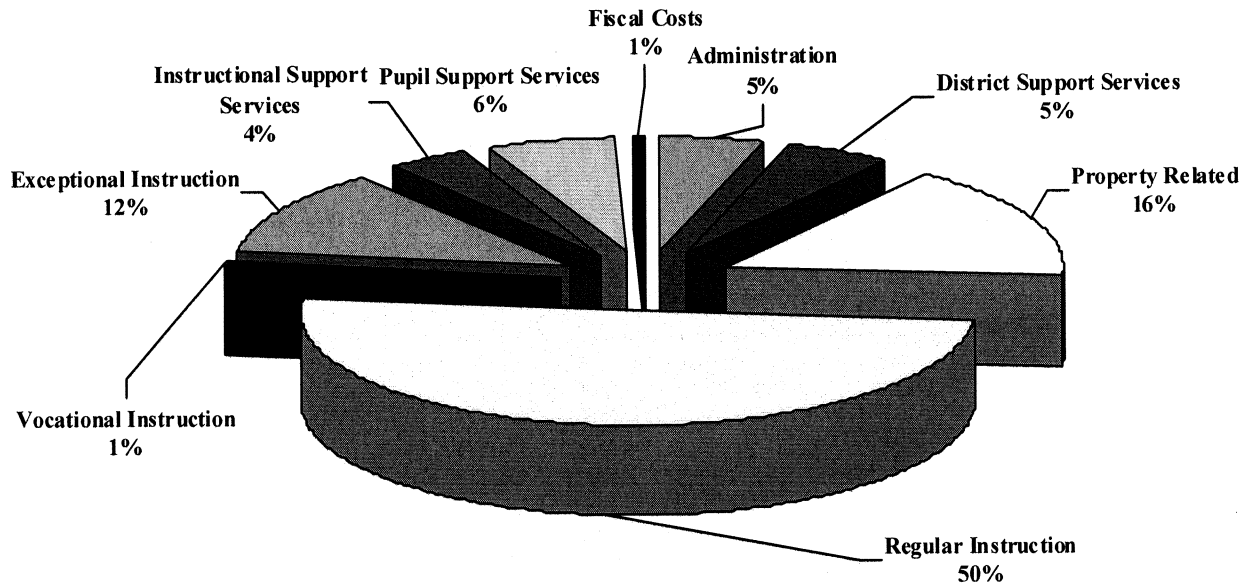
INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011

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

GENERAL FUND EXPENSES BY OBJECT - \$25,925,990



GENERAL FUND EXPENSES BY PROGRAM - \$25,925,990



INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011

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, 2010, 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 2010 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 \$8,306,110. The actual results for the year reported an excess of revenues over expenditures by \$675,656. Revenues were less than budget by \$326,300, primarily driven by revenues from federal sources being less than budgeted by \$508,009. This was somewhat offset by revenues from other local sources being \$171,928 more than budgeted.

Expenditures for the District's general fund final budget were \$9,308,066 under budget. This was primarily driven by expenditures under budget for regular instruction, exceptional instruction, and pupil support services by \$5,871,753, \$975,585 and \$913,823, respectively.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Additions during the year ended June 30, 2011 totaled \$1,043,007. This included \$44,725 of construction in progress, \$472,915 to replace a boiler, and \$525,437 for equipment which included wireless networks, audio equipment, and vehicles. There were no capital assets disposed of during the year ended June 30, 2011.

Long-Term Debt

At June 30, 2011 the District's long-term indebtedness totaled \$80,737,042. This consisted of capital loans payable of \$51,344,665, defaulted interest on capital loan of \$28,744,442, and severance payable of \$647,935. As of June 30, 2011, Other Post-Employment Benefits (OPEB) has a surplus and is included as an asset on the Statement of Assets.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011

FACTORS BEARING ON THE DISTRICT'S FUTURE

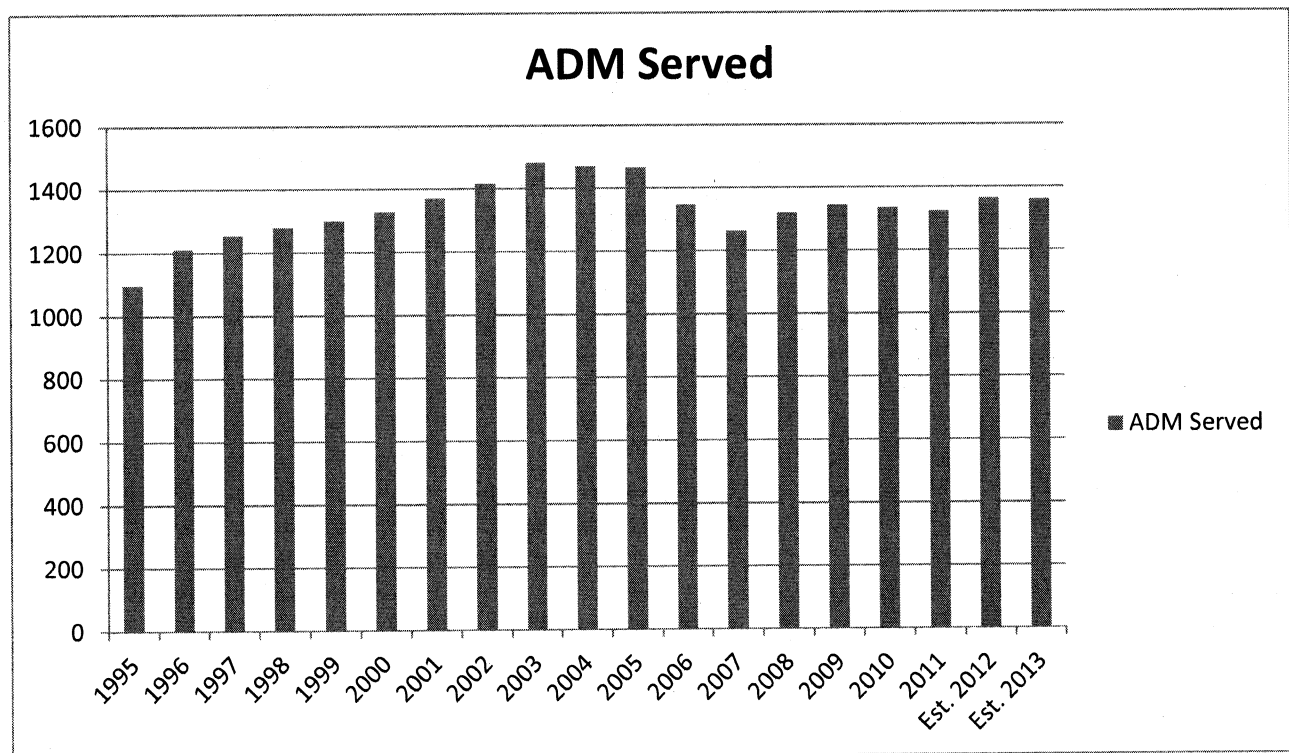
Student Enrollment

The District closely monitors and evaluates student enrollment. During the last ten years, the District experienced a slight growth (1.88%) in enrollment. The exception to 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. The enrollment loss leveled off by the end of the 2006-07 school year. Between the 2007-08 and 2008-09 school years approximately 90 students re-enrolled in the Red Lake School District.

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 2011-12 through 2012-13 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, 2011

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. This program has shown to be extremely successful as the number of new hires has decreased from 26 in the 2006-07 school year to just 7 in the 2010-11 school year. 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 two 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.

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. As a result, the identified sites were subject to a Quality Schools Review (QSR) by consultants from Cambridge Education, LLC. According to MDE, the site review serves three main purposes:

1. To complete high quality and comprehensive school diagnostic reviews that provide clear evidence to support the District in determining which of the four intervention models the low performing school has the capacity to successfully implement.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011

FACTORS BEARING ON THE DISTRICT'S FUTURE (Continued)

2. To provide a benchmark for the school from which the leadership teams can plan its future development.
3. To create an improvement plan which, if implemented rigorously, will take the school from its current status to the point where the quality of education within the designated schools is improved to the point that standards of achievement rise and all students make at least average progress.

The QSR's are available for public review on the MDE website.

Following the review by Cambridge Education LLC, the District was directed by the MDE to implement one of four intervention models (Turnaround, Restart, School Closure or Transformational). After much discussion, the Board of Education chose to implement the Transformation Model. This model was chosen because it was the least disruptive to the District's teaching staff. The model required the District to replace the Principal at each of the identified sites; hire a District Turnaround Officer; hire a Site Administrative Manager at each site; provide for high-quality, job embedded professional development; use rigorous evaluation systems for teachers and principals, and provide strategies that are designed to recruit, place, and retain staff. The School Improvement Plans include interventions that address the following nine key components.

1. Leadership Skills
2. Training and Professional Development
3. Optimal Assignment of Staff
4. Recruit and Retain Staff
5. Strategic Planning
6. Alignment of Funding Sources
7. Parent Involvement
8. Community Involvement
9. Climate

The District applied for and received a three-year School Improvement Grant to fund the startup of the aforementioned 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.

Educational Initiatives - New School Status

Red Lake Middle School and Red Lake Elementary School have submitted a proposal requesting MDE to consider them for new school status. Included in this application are elements which address 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 proposals were created by the leadership teams from each school which include teachers, principal and support staff. Each buildings plan had input and buy-in from all members of the authoring school. If approved by MDE, the implementation of the proposal would begin during school year 2011-12.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011

FACTORS BEARING ON THE DISTRICT'S FUTURE (Continued)

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. Over the last two years, District staff has worked to reduce the deficit from a high of \$862,607 to \$368,523. 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. 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 ASSETS
JUNE 30, 2011

ASSETS

Cash and Cash Equivalents		\$ 8,077,914
Property Taxes Receivable		93
Due from Other Governmental Units		5,607,586
Other Accounts Receivable		17,464
Interest Receivable		12,082
Inventories		25,739
Capital Assets:		
Construction in Progress	\$ 44,725	
Depreciable Capital Assets, Net of Depreciation	52,296,532	52,341,257
Net OPEB Benefit		728,929
		<hr/>
Total Assets		<u>66,811,064</u>

LIABILITIES

Salaries Payable		949,928
Accounts Payable		436,237
Due to Other Governmental Units		50,074
Payroll Deductions and Employer Contributions		1,397,914
Deferred Revenue		388,542
Property Taxes Levied for Subsequent Years' Expenditures		5,510
Long-Term Liabilities:		
Due After One Year		80,737,042
		<hr/>
Total Liabilities		<u>83,965,247</u>

NET ASSETS

Restricted for:		
State Mandated Reserves		243,527
Capital Projects		1,015
Debt Redemption		1,216
Unrestricted (Deficit)		(17,399,941)
		<hr/>
Total Net Assets		<u>\$ (17,154,183)</u>

See Accompanying Notes to Financial Statements.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Governmental Activities				
District and School Administration	\$ 1,321,208	\$ -	\$ -	\$ (1,321,208)
District Support Services	1,301,555	-	-	(1,301,555)
Regular Instruction	9,467,447	63,464	12,922,551	3,518,568
Vocational Instruction	164,104	-	46,511	(117,593)
Exceptional Instruction	3,079,571	321	1,462,273	(1,616,977)
Community Education and Services	401,512	-	236,790	(164,722)
Instructional Support Services	998,429	3,227	206,302	(788,900)
Pupil Support Services	2,654,977	1,589	851,652	(1,801,736)
Site, Buildings and Equipment	3,412,729	150,774	52,934	(3,209,021)
Fiscal and Other Fixed Costs	153,499	-	1,769	(151,730)
Interest on Long-Term Debt	3,510,571	-	-	(3,510,571)
Unallocated Depreciation	1,299,143	-	-	(1,299,143)
Total Governmental Activities	\$ 27,764,745	\$ 219,375	\$ 15,780,782	(11,764,588)
General Revenues:				
Property Taxes:				
				6,492
				333
				2,744
				11,608,856
				35,549
				75,131
				<u>11,729,105</u>
				<u>(35,483)</u>
				<u>(17,118,700)</u>
				<u>\$ (17,154,183)</u>

See Accompanying Notes to Financial Statements.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2011

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
<u>ASSETS</u>			
Cash and Investments	\$ 8,073,282	\$ 4,632	\$ 8,077,914
Property Taxes Receivable	88	5	93
Due from Other Funds	68,845	-	68,845
Due from Other Governmental Units	5,510,256	97,330	5,607,586
Other Accounts Receivable	9,244	8,220	17,464
Interest Receivable	12,082	-	12,082
Inventories	16,485	9,254	25,739
<u>Total Assets</u>	<u>\$ 13,690,282</u>	<u>\$ 119,441</u>	<u>\$ 13,809,723</u>
<u>LIABILITIES AND FUND EQUITY</u>			
<u>Liabilities</u>			
Salaries Payable	\$ 949,928	\$ -	\$ 949,928
Accounts Payable	436,107	130	436,237
Due to Other Funds	-	68,845	68,845
Due to Other Minnesota School Districts	50,074	-	50,074
Payroll Deductions and Employer Contributions	1,397,914	-	1,397,914
Deferred Revenue	388,542	-	388,542
Property Taxes Levied for Subsequent Years' Expenditures	2,515	2,995	5,510
Total Liabilities	<u>3,225,080</u>	<u>71,970</u>	<u>3,297,050</u>
<u>Fund Equity</u>			
Nonspendable	16,485	9,254	25,739
Restricted	163,728	60,519	224,247
Assigned	2,916,477	-	2,916,477
Unassigned	7,368,512	(22,302)	7,346,210
Total Fund Equity	<u>10,465,202</u>	<u>47,471</u>	<u>10,512,673</u>
<u>Total Liabilities and Fund Equity</u>	<u>\$ 13,690,282</u>	<u>\$ 119,441</u>	<u>\$ 13,809,723</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 ASSETS
JUNE 30, 2011

Total Fund Balances - Governmental Funds		\$ 10,512,673
 Amounts reported for governmental activities in the statement of net assets 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	\$ 70,020,506	
Accumulated Depreciation	<u>(17,679,249)</u>	
Net Depreciated Value of Capital Assets		52,341,257
 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		728,929
Capital Loans Payable and Defaulted Interest		<u>(80,089,107)</u>
Severance Payable		<u>(647,935)</u>
 Total Net Assets - Governmental Activities		 <u><u>\$ (17,154,183)</u></u>

See Accompanying Notes to Financial Statements.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2011

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
<u>Revenues</u>			
Local Property Taxes	\$ 6,492	\$ 3,077	\$ 9,569
Other Local and County Revenues	283,428	6,415	289,843
Revenues from State Sources	15,642,913	285,094	15,928,007
Revenues from Federal Sources	10,631,426	830,205	11,461,631
Sales and Other Conversions of Assets	1,957	2,706	4,663
Investment Earnings	35,430	119	35,549
Total Revenues	26,601,646	1,127,616	27,729,262
<u>Expenditures</u>			
District and School Administration	1,294,022	-	1,294,022
District Support Services	1,296,030	-	1,296,030
Regular Instruction	13,131,471	-	13,131,471
Vocational Instruction	162,541	-	162,541
Exceptional Instruction	3,073,111	-	3,073,111
Community Education and Services	-	401,127	401,127
Instructional Support Services	1,010,058	-	1,010,058
Pupil Support Services	1,588,375	1,076,373	2,664,748
Site, Buildings, and Equipment	4,216,883	-	4,216,883
Fiscal and Other Fixed Costs	153,499	-	153,499
Debt Service	-	5,398	5,398
Total Expenditures	25,925,990	1,482,898	27,408,888
<u>Excess of Revenues Over (Under) Expenditures</u>	675,656	(355,282)	320,374
<u>Other Financing Sources (Uses)</u>			
Operating Transfers In	-	399,756	399,756
Operating Transfers Out	(399,756)	-	(399,756)
Total Other Financing Sources (Uses)	(399,756)	399,756	-
<u>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</u>			
	275,900	44,474	320,374
<u>Fund Balances, Beginning of Year</u>	10,189,302	2,997	10,192,299
<u>Fund Balances, End of Year</u>	\$ 10,465,202	\$ 47,471	\$ 10,512,673

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, 2011

Net Change in Fund Balances - Total Governmental Funds \$ 320,374

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	\$ 1,043,077	
Depreciation	<u>(1,599,041)</u>	
Excess Depreciation Expense Over Capital Outlay		(555,964)

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 assets. In the current period these amounts consist of:

Net Change in Capital Loans	(3,499,776)	
Net Change in Severance Payable	54,477	
Net Change in Post-Employment Benefits	<u>3,645,406</u>	
Total Long-Term Debt Change		<u>200,107</u>

Change in Net Assets of Government Activities \$ (35,483)

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
STATEMENT OF FIDUCIARY NET ASSETS
SCHOLARSHIP TRUST FUND
JUNE 30, 2011

ASSETS

Cash and Investments	\$ 11,075
Accounts Receivable	<u>11</u>

Total Assets

11,086

LIABILITIES

Other Payables	<u>11,025</u>
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NET ASSETS

Net Assets Held in Trust	<u><u>\$ 61</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 ASSETS
SCHOLARSHIP TRUST FUND
YEAR ENDED JUNE 30, 2011

<u>Revenues</u>	
Donations	\$ 2,000
Investment Earnings	61
Total Revenues	<u>2,061</u>
<u>Expenditures</u>	
Scholarship Payments	<u>2,000</u>
<u>Excess of Revenues Over Expenditures</u>	61
<u>Net Assets, Beginning of Year</u>	<u>-</u>
<u>Net Assets, End of Year</u>	<u>\$ 61</u>

See Accompanying Notes to Financial Statements.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 – Summary of Significant Accounting Policies

The financial statements of Independent School District No. 38 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, 2011. 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 Assets 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, 2011

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 assets are available. Depreciation expense that can be specifically identified by function is included in the direct expenses of each function.

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

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 2010 payable 2011 levy has been recognized as revenue during the current year, as discussed in Note 4.

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, 2011

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 assets and a statement of changes in fiduciary net assets. 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, 2011

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 Assets 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, 2011. 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 2003 through 2010 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, supplies 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, 2011

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 2003 through 2010 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, 2011, 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 Assets – Net assets represent the difference between assets and liabilities in the District-wide financial statements. Net assets 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 assets are 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 – Beginning with fiscal year 2011, the District implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- **Nonspendable fund balance** – amounts are in a nonspendable form (such as inventory or prepaid items) or are required to be maintained intact.
- **Restricted fund balance** – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 – Summary of Significant Accounting Policies (Continued)

- **Committed fund balance** – amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (i.e., School Board). To be reported as committed, amounts cannot be used for any purpose unless the District takes the same highest level action to remove or change the constraint.
- **Assigned fund balance** – amounts the District intends to use for a specific purpose. Intent can be expressed by the School Board or by an official or body to which the School Board delegates the authority.
- **Unassigned fund balance** – amounts that are available for any purpose. Positive amounts are reported only in the general fund.

Beginning fund balances for the School's government funds have been restated to reflect the above classifications.

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).

As of June 30, 2011, fund balances are composed of the following:

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Totals</u>
Fund Balances:			
Nonspendable:			
Inventory	\$ 16,485	\$ 9,254	\$ 25,739
Restricted:			
Deferred Maintenance	(5)	-	(5)
Health and Safety	(21,506)	-	(21,506)
Operating Capital	185,239	-	185,239
Community Education	-	25,480	25,480
Early Childhood and Family Education	-	32,808	32,808
Building Construction	-	1,015	1,015
Debt Reduction	-	1,216	1,216
Assigned:			
Other Post-Employment Benefits (OPEB)	2,916,477	-	2,916,477
Unassigned:	7,368,512	(22,302)	7,346,210
Totals	<u>\$ 10,465,202</u>	<u>\$ 47,471</u>	<u>\$ 10,512,673</u>

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 – Summary of Significant Accounting Policies (Continued)

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.

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, 2005 are not eligible to participate, but may participate in the District's Matching Deferred Compensation Plan. Non-licensed employees hired prior to February 1, 2005 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.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 – Summary of Significant Accounting Policies (Continued)

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. 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.

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 – Stewardship, Compliance, and Accountability

Fund Balance Deficits

Fund Balance deficits exist in the following fund at June 30, 2011:

General Fund:		
Reserved for Health and Safety	\$ 21,506	
Deferred Maintenance		5

The above deficits will be eliminated by receipt of subsequent revenues.

NOTE 3 – Deposit and Investments

The Districts deposits and investments are as follows:

	Governmental Funds	Trust Fund
Deposits:		
Money Market Account	\$ 6,790	\$ -
Checking Account	463,607	5,602
Certificates of Deposit	1,000,000	5,473
Investments:		
MSDLAF+	6,607,517	-
Total Deposits and Investments	\$ 8,077,914	\$ 11,075

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 3 – Deposit and Investments (Continued)

A. Deposits

Authority - In accordance with Minnesota Statutes, the District maintains deposits at those depository banks authorized by the Board. All such depositories are members of the Federal Reserve System. Minnesota Statutes require that all District deposits be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or bonds. Authorized collateral includes treasury bills, notes and bonds; issues of U.S. Government agencies; general obligations rated "A" or better, revenue obligations rated "AA" or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota Statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution not owned or controlled by the financial institution furnishing the collateral.

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

B. Investments

Authority

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

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

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 3 – Deposit and Investments (Continued)

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 4 – Property Taxes

The School Board certifies property tax levies in December of each year to Beltrami County for collection in the following year. In Minnesota, counties act as collection agents for all property taxes.

The County spreads all levies over assessable property. Such taxes become a lien on January 2, and are recorded as receivables by the District at that date.

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

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

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

The total net tax capacity for levy year 2010 (payable in 2011) was \$11,321 with a market value of \$653,800. The tax capacity rate was 51.567%.

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.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 5 – Due From Other Governmental Units

Amounts due from other governmental units at June 30, 2011 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	\$ 4,553,748	\$ -	\$ 72,702	\$ 530	\$ 4,626,980
Due From Other Districts	6,939	-	-	-	6,939
Federal Aids and Grants	492,249	11,711	12,387	-	516,347
Capital Loan Proceeds	457,320	-	-	-	457,320
Totals	<u>\$ 5,510,256</u>	<u>\$ 11,711</u>	<u>\$ 85,089</u>	<u>\$ 530</u>	<u>\$ 5,607,586</u>

NOTE 6 – Capital Assets

Capital asset activity for the year ended June 30, 2011 is as follows:

	<u>Capital Assets</u>			
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Sales and Retirements</u>	<u>Ending Balance</u>
<u>Capital Assets Not Being Depreciated</u>				
Construction in Progress	\$ -	\$ 44,725	\$ -	\$ 44,725
<u>Depreciable Capital Assets</u>				
Land Improvements	607,989	-	-	607,989
Buildings	63,787,443	472,915	-	64,260,358
Equipment	4,581,997	525,437	-	5,107,434
Total Depreciable Assets	<u>68,977,429</u>	<u>998,352</u>	<u>-</u>	<u>69,975,781</u>
<u>Accumulated Depreciation</u>				
Land Improvements	387,109	27,672	-	414,781
Buildings	12,342,902	1,290,343	-	13,633,245
Equipment	3,350,197	281,026	-	3,631,223
Total Accumulated Depreciation	<u>16,080,208</u>	<u>1,599,041</u>	<u>-</u>	<u>17,679,249</u>
Total Capital Assets	<u>\$ 52,897,221</u>	<u>\$ (555,964)</u>	<u>\$ -</u>	<u>\$ 52,341,257</u>

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 6 – Capital Assets (Continued)

Depreciation expense was charged to the following program services:

District and School Administration	\$	27,186
Regular Instruction		33,144
Vocational Instruction		1,563
Exceptional Instruction		5,443
Community Education and Services		385
Instructional Support Services		31,379
Pupil Support Services		120,615
Operations		80,183
Unallocated		<u>1,299,143</u>
Total Depreciation Expense	\$	<u><u>1,599,041</u></u>

NOTE 7 – 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 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

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 7 – Pension Plans (Continued)

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 5.5 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.

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.tra.state.mn.us. 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 55103-1855
(651) 296-6449
(800) 657-3853

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 7 – Pension Plans (Continued)

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 5.5 percent and 9.0 percent, respectively, of their annual covered salary as employee contributions. The TRA employer contribution rates are 5.5 percent for Coordinated members and 9.5 percent for Basic members. Total covered payroll salaries for all TRA members statewide during the fiscal year ended June 30, 2010 was approximately \$3.79 billion. TRA covered payroll for all members statewide for the fiscal years ended June 30, 2009 and June 30, 2008 were \$3.76 billion and \$3.65 billion, respectively.

The District's contributions for the years ending June 30, 2011, 2010, and 2009 were \$488,549, \$501,535, and \$498,334, 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.

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

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 7 – Pension Plans (Continued)

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.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERP. 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. GERP Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.0%, respectively, of their annual covered salary in 2010. The District is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members, 7.0% for Coordinated Plan members in 2010, and 7.25% for Coordinated Plan members in 2011.

The District's contributions to the Public Employees Retirement Fund for the years ending June 30, 2011, 2010, and 2009 were \$343,349, \$335,286, and \$326,667, respectively, equal to the contractually required contributions for each year as set by State Statute.

NOTE 8 – Post-Employment Health Care Benefits

At July 1, 2006, the District adopted Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other than Pensions*. The District engaged an actuary to determine the District's liability for post-employment healthcare benefits other than pensions as of July 1, 2006 and July 1, 2009.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 8 – Post-Employment Health Care Benefits (Continued)

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.

Annual Required Contribution	\$ 256,962
Interest on Net OPEB Obligation	(17,907)
Adjustment to Annual Required Contribution	<u>23,990</u>
Annual OPEB Cost (Expense)	263,045
Contributions Made	<u>594,033</u>
Decrease in Net OPEB Obligation	(330,988)
Net OPEB Obligation (Surplus) - Beginning of Year	<u>(397,941)</u>
Net OPEB Obligation (Surplus) - End of Year	<u><u>\$ (728,929)</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, 2011 is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Surplus)
06/30/09	\$ 258,369	201.4%	\$ (355,573)
06/30/10	258,369	217.8%	(397,941)
06/30/11	263,045	225.8%	(728,929)

D. Funded Status and Funding Progress

As of July 1, 2009, the most recent actuarial valuation date, the District's unfunded actuarial accrued liability (UAAL) was \$2,916,477. The annual payroll for active employees covered by the plan in the actuarial valuation was \$8,632,459 for a ratio of UAAL to covered payroll of 33.8%.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 8 – Post-Employment Health Care Benefits (Continued)

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.

In the July 1, 2009 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 initial healthcare trend rate was 9.0%, reduced by decrements to an ultimate rate of 5% after eight years. The UAAL is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at June 30, 2011 was 28 years.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 9 - Long-Term Debt

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments and Retirements</u>	<u>Ending Balance</u>
Capital Loans Payable	\$ 51,350,062	\$ -	\$ 5,397	\$ 51,344,665
Defaulted Interest on Capital Loan	25,239,269	3,505,173	-	28,744,442
Total	<u>76,589,331</u>	<u>3,505,173</u>	<u>5,397</u>	<u>80,089,107</u>
Other Post-Employment Benefits	(397,941)	263,045	594,033	(728,929)
Severance Payable	<u>702,412</u>	<u>81,475</u>	<u>135,952</u>	<u>647,935</u>
Total Long-Term Debt	<u>\$ 76,893,802</u>	<u>\$ 3,849,693</u>	<u>\$ 735,382</u>	80,008,113
 				<u>728,929</u>
Total Long-Term Debt				<u><u>\$ 80,737,042</u></u>

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, 2011.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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, 2011 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 Transfers

In the fiscal year ended June 30, 2011, a transfer was made from the general fund to the food service fund for \$399,756 to eliminate a deficit fund balance in the food service fund.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2011

	Original And Final Budgets	Actual	Variance with Final Budget - Positive (Negative)
<u>Revenues</u>			
Local Property Taxes	\$ 2,499	\$ 6,492	\$ 3,993
Other Local and County Revenues	111,500	283,428	171,928
Revenues from State Sources	15,629,512	15,642,913	13,401
Revenues from Federal Sources	11,139,435	10,631,426	(508,009)
Investment Earnings	45,000	35,430	(9,570)
<u>Total Revenues</u>	<u>26,927,946</u>	<u>26,601,646</u>	<u>(326,300)</u>
<u>Expenditures</u>			
District and School Administration	1,399,248	1,294,022	105,226
District Support Services	1,537,471	1,296,030	241,441
Regular Instruction	19,003,224	13,131,471	5,871,753
Vocational Instruction	163,098	162,541	557
Exceptional Instruction	4,048,696	3,073,111	975,585
Instructional Support Services	1,619,403	1,010,058	609,345
Pupil Support Services	2,502,198	1,588,375	913,823
Site, Buildings and Equipment	4,807,013	4,216,883	590,130
Fiscal and Other Fixed Costs	153,705	153,499	206
<u>Total Expenditures</u>	<u>35,234,056</u>	<u>25,925,990</u>	<u>9,308,066</u>
<u>Excess of Revenues Over (Under) Expenditures</u>	<u>(8,306,110)</u>	<u>675,656</u>	<u>8,981,766</u>
<u>Other Financing Sources (Uses)</u>			
Operating Transfers Out	-	(399,756)	(399,756)
<u>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</u>	<u>(8,306,110)</u>	<u>275,900</u>	<u>8,582,010</u>
<u>Fund Balances, Beginning of Year</u>	<u>10,189,302</u>	<u>10,189,302</u>	<u>-</u>
<u>Fund Balances, End of Year</u>	<u>\$ 1,883,192</u>	<u>\$ 10,465,202</u>	<u>\$ 8,582,010</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, 2011

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%

See Accompanying Notes to Required Supplementary Information.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2011

NOTE 1 – Budgetary Data

Budgets are prepared for District funds on the same basis and using the same accounting practices as are used to account and prepare financial reports for the funds. Budgets presented in this report for comparison to actual amounts in accordance with accounting principles generally accepted in the United States of America.

Legal Compliance – Budgets

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

NOTE 2 – Stewardship, Compliance, and Accountability

Fund Balance Deficits

Fund Balance deficits exist in the following fund at June 30, 2011:

General Fund:	
Reserved for Health and Safety	\$ 21,506
Deferred Maintenance	5

The above deficits will be eliminated by receipt of subsequent revenues.

NOTE 3 – Other Post-employment Benefit Plan Funding Progress

Multi-year trend information is available as Governmental Accounting Standards Board Statement 45 was implemented during the 2007 fiscal year.

See Note 8, Other Post-employment Benefit Plan, for more information.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2011

	<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	\$ -	\$ -	\$ 1,015	\$ 3,617	\$ 4,632
Property Taxes Receivable	-	5	-	-	5
Due from Other Governmental Units	11,711	85,089	-	530	97,330
Other Accounts Receivable	8,220	-	-	-	8,220
Inventories	9,254	-	-	-	9,254
<u>Total Assets</u>	<u>\$ 29,185</u>	<u>\$ 85,094</u>	<u>\$ 1,015</u>	<u>\$ 4,147</u>	<u>\$ 119,441</u>
<u>LIABILITIES AND FUND EQUITY</u>					
<u>Liabilities</u>					
Accounts Payable	\$ 21	\$ 109	\$ -	\$ -	\$ 130
Due to Other Funds	29,164	39,681	-	-	68,845
Property Taxes Levied for Subsequent Years' Expenditures	-	64	-	2,931	2,995
<u>Total Liabilities</u>	<u>29,185</u>	<u>39,854</u>	<u>-</u>	<u>2,931</u>	<u>71,970</u>
<u>Fund Equity</u>					
Nonspendable	9,254	-	-	-	9,254
Restricted	-	58,288	1,015	1,216	60,519
Unassigned	(9,254)	(13,048)	-	-	(22,302)
<u>Total Fund Equity</u>	<u>-</u>	<u>45,240</u>	<u>1,015</u>	<u>1,216</u>	<u>47,471</u>
<u>Total Liabilities and Fund Equity</u>	<u>\$ 29,185</u>	<u>\$ 85,094</u>	<u>\$ 1,015</u>	<u>\$ 4,147</u>	<u>\$ 119,441</u>

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2011

	<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	\$ -	\$ 333	\$ -	\$ 2,744	\$ 3,077
Other Local and County Revenues	5,746	669	-	-	6,415
Revenues from State Sources	32,596	250,729	-	1,769	285,094
Revenues from Federal Sources	636,686	193,519	-	-	830,205
Sales and Other Conversions of Assets	1,589	1,117	-	-	2,706
Investment Earnings	-	-	1	118	119
Total Revenues	676,617	446,367	1	4,631	1,127,616
<u>Expenditures</u>					
Community Education and Services	-	401,127	-	-	401,127
Pupil Support Services	1,076,373	-	-	-	1,076,373
Debt Service	-	-	-	5,398	5,398
Total Expenditures	1,076,373	401,127	-	5,398	1,482,898
<u>Excess of Revenues Over (Under) Expenditures</u>	(399,756)	45,240	1	(767)	(355,282)
<u>Other Financing Sources</u>					
Operating Transfer In	399,756	-	-	-	399,756
<u>Excess of Revenues and Other Financing Sources Over (Under) Expenditures</u>	-	45,240	1	(767)	44,474
<u>Fund Balances, Beginning of Year</u>	-	-	1,014	1,983	2,997
<u>Fund Balances, End of Year</u>	\$ -	\$ 45,240	\$ 1,015	\$ 1,216	\$ 47,471

FISCAL COMPLIANCE REPORT - 6/30/2011
District: RED LAKE (0038-01)

	Audit	UFARS	Audit (-) UFARS		Audit	UFARS	Audit (-) UFARS
01 GENERAL FUND				06 BUILDING CONSTRUCTION			
Total Revenue	\$26,601,646	\$26,601,648	-\$2	Total Revenue	\$1	\$2	-\$1
Total Expenditures	\$25,925,990	\$25,925,992	-\$2	Total Expenditures	\$0	\$0	\$0
Non Spendable:				Non Spendable:			
4.60 Non Spendable Fund Balance	\$16,485	\$16,485	\$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	-\$5	-\$5	\$0	4.09 Alternative Facility Program	\$0	\$0	\$0
4.06 Health and Safety	-\$21,506	-\$21,506	\$0	4.13 Project Funded by COP	\$0	\$0	\$0
4.07 Capital Projects Levy	\$0	\$0	\$0	Restricted:			
4.08 Cooperative Revenue	\$0	\$0	\$0	4.64 Restricted Fund Balance	\$1,015	\$1,015	\$0
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	\$185,239	\$185,239	\$0	Total Revenue	\$4,631	\$4,631	\$0
4.26 \$25 Taconite	\$0	\$0	\$0	Total Expenditures	\$5,398	\$5,397	\$1
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	\$0	\$0	\$0	4.64 Restricted Fund Balance	\$1,216	\$1,216	\$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	\$2,061	\$2,061	\$0
4.53 Unfunded Sev & Retirement Levy	\$0	\$0	\$0	Total Expenditures	\$2,000	\$2,000	\$0
Restricted:				4.22 Net Assets	\$61	\$61	\$0
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 Net Assets	\$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	\$7,368,512	\$7,368,512	\$0	Total Revenue	\$0	\$0	\$0
				Total Expenditures	\$0	\$0	\$0
02 FOOD SERVICES				4.22 Net Assets	\$0	\$0	\$0
Total Revenue	\$676,617	\$676,617	\$0				
Total Expenditures	\$1,076,373	\$1,076,373	\$0	45 OPEB IRREVOCABLE TRUST			
Non Spendable:				Total Revenue	\$0	\$0	\$0
4.60 Non Spendable Fund Balance	\$9,254	\$9,254	\$0	Total Expenditures	\$0	\$0	\$0
Restricted/Reserved:				4.22 Net Assets	\$0	\$0	\$0
4.52 OPEB Liab Not in Trust	\$0	\$0	\$0				
Reserve:				47 OPEB DEBT SERVICE			
4.64 Restrictd Fund Balance	\$0	\$0	\$0	Total Revenue	\$0	\$0	\$0
Unassigned:				Total Expenditures	\$0	\$0	\$0
4.63 Unassigned Fund Balance	-\$9,254	-\$9,254	\$0	Non Spendable:			
				4.60 Non Spendable Fund Balance	\$0	\$0	\$0
04 COMMUNITY SERVICE				Restricted:			
Total Revenue	\$446,367	\$446,367	\$0	4.25 Bond Refunding	\$0	\$0	\$0
Total Expenditures	\$401,127	\$401,127	\$0	4.64 Restricted Fund Balance	\$0	\$0	\$0
Non Spendable:				Unassigned			
4.60 Non Spendable Fund Balance	\$0	\$0	\$0	4.63 Unassigned Fund Balance	\$0	\$0	\$0
Restricted/Reserved:							
4.26 \$25 Taconite	\$0	\$0	\$0				
4.31 Community Education	\$25,480	\$25,480	\$0				
4.32 E.C.F.E.	\$32,808	\$32,808	\$0				
4.44 School Readiness	\$0	\$0	\$0				
4.47 Adult Basic Education	\$0	\$0	\$0				
4.52 OPEB Liab Not in Trust	\$0	\$0	\$0				
Restricted:							
4.64 Restrictd Fund Balance	\$0	\$0	\$0				
Unassigned:							
4.63 Unassigned Fund Balance	-\$13,048	-\$13,048	\$0				

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
STUDENT ACTIVITY DETAIL
YEAR ENDED JUNE 30, 2011

<u>Account</u>	<u>Balance 7/1/10</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Balance 6/30/11</u>
Community Gardening Project	\$ 6,575	\$ -	\$ 127	\$ 6,448
Ponemah 7th Grade	-	1,309	-	1,309
National Honor Society	1,619	-	-	1,619
Prom	695	3,597	3,397	895
Class of 2010	-	452	-	452
RLHS Student Council	2,831	615	869	2,577
RLMS Student Council	5,379	211	209	5,381
Concessions	-	12,769	8,204	4,565
Ski Club	6,515	100	2,081	4,534
PES ELC	247	-	-	247
Pep Club	3,196	2,828	3,633	2,391
Boys Basketball	1,815	-	690	1,125
RLHS Art Club	901	-	-	901
RLMS Art Club	1,200	-	-	1,200
Skateboard Club	2,456	1,618	2,983	1,091
Middle School Library Club	3	656	1,550	(891)
Special Ed	1,634	1,680	1,217	2,097
Ponemah 6th Grade	-	1,784	1,491	293
Ponemah Pop Fund	-	546	-	546
RLE Archery Club	-	3,000	2,818	182
Taste of Red Lake Cookbook	8,362	20	609	7,773
Totals	\$ 43,428	\$ 31,185	\$ 29,878	\$ 44,735

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011

<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 Breakfast Program	10.553	\$ 169,542
National School Lunch Program	10.555	368,967
National School Snacks	10.555	6,804
National School Lunch Program - Commodity Distribution	10.555	19,444
Summer Food Program	10.559	33,339
Total Clustered Programs		<u>598,096</u>
Fresh Fruit and Vegetables Grant Program	10.582	<u>38,525</u>
<u>Total Department of Agriculture</u>		<u>636,621</u>
<u>Department / Pass-Through Agency</u>		
Johnson O Malley	15.130	<u>32,280</u>
<u>U. S. Department of Education</u>		
Direct Programs:		
Impact Aid	84.041	8,002,886
Title VII	84.060	324,487
Pass-Through Minnesota Department of Education:		
Title I Part A	84.010	1,035,329
Title I ARRA	84.389	86,207
IDEA Part B Section 611 Coordinated Early Intervening Services	84.027	25,000
ARRA - IDEA Part B 611 CEIS	84.391	5,881
Special Education - General	84.027	333,197
IDEA Part B Section 619 Interagency Activities	84.173	741
IDEA Part B Section 619 Discretionary Professional Development	84.173	885
IDEA Part B Section 619 Preschool Grant for Children with Disabilities	84.173	17,176
ARRA - IDEA Part B Section 619 Preschool Grant for Children with Disabilities	84.392	11,388
ARRA - IDEA Part B 611	84.391	4,703
Infants and Toddlers Program	84.181	24,138
ARRA - IDEA Part C, Infants and Toddlers Program	84.393	6,120
ARRA - Targeted Funds - School Improvement Grant	84.388	538,038
Title IV Part A, Safe and Drug Free	84.186	3,043
Title II Part A	84.367	167,858
21st Century Grant	84.287	190,605
Adult Basic Education	84.002	2,914
Title VI, Part B	84.358	33,075
Received from Other Pass Through Entities:		
Carl Perkins Career and Technical Education - North Country Vocational Co-op	84.048A	5,221
<u>Total Department of Education</u>		<u>10,818,892</u>
<u>U.S. Department of Energy</u>		
Pass-Through Office of Energy Security MN Department of Commerce:		
Energy Efficiency and Conservation Block Grant Program	81.128	<u>148,817</u>
<u>Total Federal Assistance Expended</u>		<u>\$ 11,636,610</u>

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2011

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.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
TAX LEVIES, TAX RATES AND STUDENT CENSUS
JUNE 30, 2011

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Property Tax Levies										
General Referendum	\$ 2,302	\$ 2,336	\$ 2,507	\$ 2,631	\$ 2,768	\$ 2,390	\$ 1,422	\$ 1,914	\$ 1,606	\$ 1,667
General Maintenance	2,640	1,191	846	406	418	512	24	331	3,203	733
Community Service	120	121	127	108	118	146	162	171	124	129
Debt Redemption	3,079	3,130	3,298	3,466	3,568	3,543	4,404	5,323	3,217	3,171
Total Property Tax Levies	\$ 8,141	\$ 6,778	\$ 6,778	\$ 6,611	\$ 6,872	\$ 6,591	\$ 6,012	\$ 7,739	\$ 8,150	\$ 5,700
Referendum Market Value										
	\$ 653,800	\$ 562,000	\$ 562,600	\$ 591,500	\$ 610,200	\$ 619,100	\$ 617,400	\$ 617,800	\$ 624,400	\$ 587,500
Net Tax Capacity	11,321	9,478	9,489	9,998	10,265	10,347	10,308	10,324	10,437	9,732
Rates										
Market Value	0.35209	0.41566	0.44561	0.44480	0.45362	0.42804	0.23032	0.30981	0.27314	0.28366
Net Tax Capacity	51.567	46.867	45.021	39.798	39.981	38.098	44.494	56.421	63.706	41.449
Students Served (Weighted ADM's)										
Residents	1,821.93	1,817.11	1,802.58	1,739.07	1,716.27	1,749.75	1,865.99	1,912.52	1,942.08	1,874.71
Nonresidents in District										
Tuition	-	-	1.37	0.74	-	0.48	-	1.12	4.82	-
Enrollment Options	-	-	-	1.19	3.05	1.31	4.47	8.15	1.12	-
Residents Outside District										
Enrollment Options	(341.31)	(307.43)	(274.43)	(246.53)	(300.37)	(235.32)	(244.06)	(258.62)	(243.68)	(252.50)
Adjusted Weighted ADM's	1,480.62	1,509.68	1,528.15	1,493.73	1,418.95	1,515.74	1,626.40	1,662.05	1,704.34	1,622.21
Resident ADM's	1,616.14	1,598.09	1,582.24	1,525.77	1,512.37	1,537.90	1,630.83	1,674.22	1,690.25	1,633.07



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**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 the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 38 as of and for the year ended June 30, 2011, which collectively comprise Independent School District No. 38's basic financial statements and have issued our report thereon dated December 29, 2011.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minnesota Statute 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* covers seven main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, uniform financial accounting and reporting standards for school districts, and miscellaneous provisions. Our study included all of the listed categories.

The results of our test indicate that for the items tested, Independent School District No. 38 complied with the material terms and conditions of applicable legal provisions.

This report is intended solely for the information and use of the School Board, management of the District, Minnesota Department of Education, and the Office of the Minnesota State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

Miller McDonald, Inc.

**December 29, 2011
 Bemidji, Minnesota**



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
 AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
 OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
 WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 38 as of and for the year ended June 30, 2011, which collectively comprise Independent School District No. 38's basic financial statements and have issued our report thereon dated December 29, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Independent School District No. 38's internal control over financial reporting in order to determine our auditing procedures 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's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Independent School District No. 38's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as item 07-1 that we consider to be a significant deficiency in internal control over financial reporting. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Independent School District No. 38'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 that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the management of Independent School District, No. 38, Red Lake, Minnesota in a separate letter dated December 29, 2011.

Independent School District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Independent School Districts No. 38' response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the School Board, management of the District, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Mullen McDonald, Inc.

December 29, 2011
Bemidji, Minnesota



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
 REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL
 EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
 OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited Independent School District No. 38'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's major federal programs for the year ended June 30, 2011. Independent School District No. 38's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Independent School District No. 38's management. Our responsibility is to express an opinion on Independent School District No. 38's compliance based on our audit.

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'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. Our audit does not provide a legal determination on Independent School District No. 38's compliance with those requirements.

In our opinion, Independent School District No. 38 complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

Management of Independent School District No. 38 is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Independent School District No. 38's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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'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 the type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in Independent School District No. 38's internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the School Board, management of the District, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Miller McDonald, Inc.

December 29, 2011
Bemidji, Minnesota

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011

I. SUMMARY OF AUDITORS' RESULTS

- A.) An unqualified 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 with Requirements That Could have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133*.
- E.) An unqualified 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:
- | | |
|--|-----------------|
| Impact Aid | CFDA No. 84.041 |
| ARRA – Targeted Funds – School Improvement Grant | CFDA No. 84.388 |
| Energy Efficiency and Conservation Block Grant Program | CFDA No. 81.128 |
- H.) A \$349,100 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.

07-1 The District has the auditor prepare the financial statements.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

Internal Control Findings

None reported.

Questioned Costs

None reported.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011

ITEMS ARISING THIS YEAR

None.

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.

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.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011

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, 2012.

5. Plan to Monitor Completion of CAP

Policy will be reviewed annually by District.