

MILLER MCDONALD, INC.
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December 29, 2010

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, 2010, and have issued our report thereon dated December 29, 2010. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated June 2, 2010, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

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 opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our 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.

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 grants, 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. Also in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Independent School District No. 38's compliance with types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to

each of its major federal programs for the purpose of expressing an opinion on Independent School District No. 38's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Independent School District No. 38's compliance with those requirements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on July 26, 2010.

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 August 17, 2010. 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, 2010.

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:

Cash Receipts:

During the audit we reviewed the cash receipt procedures. We found two areas that could be improved. First, the Business Manager should not be involved in taking the cash to the bank. The Business Manager is already involved in recording the deposit and the bank reconciliation. Proper segregation of duties would remove the Business Manager from making any deposits. The District has the staff to segregate this duty to other staff members. Second, the deposits are not being made timely. Currently deposits are mainly done on Friday. We recommend that cash be deposited two to three times per week to limit the amount of cash held overnight.

Journal Entries:

During our review of journal entries we noted that not all journal entries were reviewed timely. For example, some April and May entries were approved in June. For controls to be effective they need to be performed in a timely manner. We recommend that journal entries be approved prior to being entered into the accounting software.

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, 2010

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
JUNE 30, 2010

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INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
JUNE 30, 2010

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INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
YEAR ENDED JUNE 30, 2010

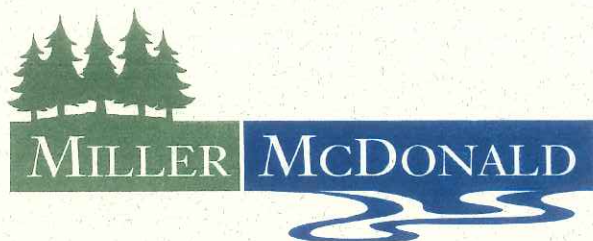
OFFICIAL DIRECTORY
(Unaudited)

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, 2010, 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, 2010, 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 29, 2010, 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.

The management's discussion and analysis, the budgetary comparison information and the schedule of funding progress for post-employment benefit plan on pages 4 through 17 and 43 through 45, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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 46 through 49 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 50 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 52 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, 2010
Bemidji, Minnesota

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010

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, 2010. 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, 2010 include the following:

- Net assets decreased by 25.56% from the prior year.
- Overall revenues were \$28,368,652 and overall expenses were \$31,853,724.
- The general fund balance increased by \$362,987.
- There was no change in the food service fund balance.
- The community service fund balance decreased by \$15,878.
- The capital projects fund balance decreased by \$5,794.
- The debt redemption fund balance increased by \$58.

OVERVIEW OF THE FINANCIAL STATEMENTS

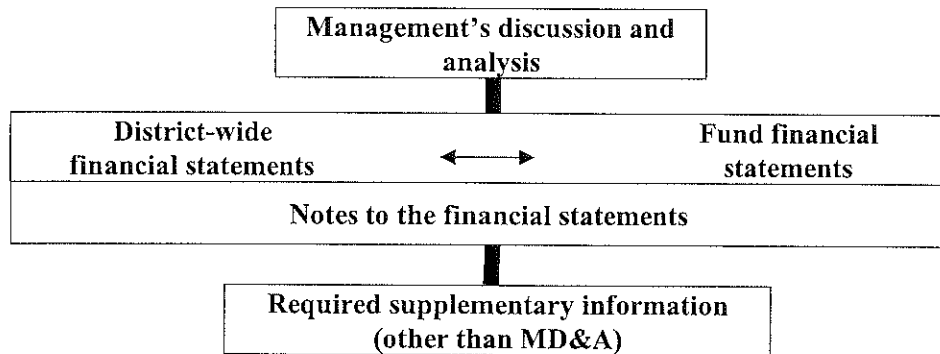
The financial section of the annual report consists of four parts – Independent Auditors' Report, required supplementary information, which includes the management's discussion and analysis (this section), the basic financial statements, and supplementary information. The basic financial statements include 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, 2010

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, 2010

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, 2010

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 \$(17,118,700) at June 30, 2010 (see the following table). At June 30, 2009 the net assets were \$(13,633,628), with a decrease of \$3,485,072 from operating activities for the year ended June 30, 2010.

	2010	2009	Net Changes	
			Amount	Percent
Current and other assets	\$ 13,408,551	\$ 12,622,431	\$ 786,120	6.23%
Capital assets, net of depreciation	52,897,221	54,404,943	(1,507,722)	-2.77%
Total assets	66,305,772	67,027,374	(721,602)	-1.08%
Current payables	3,216,252	2,771,505	444,747	16.05%
Long-term liabilities:				
Due within one year	-	162,021	(162,021)	-100.00%
Due after one year	80,208,220	77,727,476	2,480,744	3.19%
Total Liabilities	83,424,472	80,661,002	2,763,470	3.43%
Net assets:				
Restricted	288,280	43,368	244,912	564.73%
Unrestricted	(17,406,980)	(13,676,996)	(3,729,984)	-27.27%
Total net assets	\$ (17,118,700)	\$ (13,633,628)	\$ (3,485,072)	-25.56%

The change amounted to a 25.56% decrease in net assets.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010

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, 2010 and 2009. A summary of the District's revenues and expenses, along with the percentages for each category follows:

	2010		2009		Net Change	
	Amounts	Percent	Amounts	Percent	Amount	Percent
Revenues:						
Program Revenues:						
Charges for Services	\$ 87,230	0.31%	\$ 90,773	0.34%	\$ (3,543)	-3.90%
Operating Grants and Contributions	15,359,059	54.14%	15,951,411	59.99%	(592,352)	-3.71%
Capital Grants and Contributions	-	0.00%	359,086	1.35%	(359,086)	-100.00%
Total Program Revenues	15,446,289	54.45%	16,401,270	61.68%	(954,981)	-5.82%
General Revenues:						
Property Taxes	8,006	0.03%	7,848	0.03%	158	2.01%
Aids and Payments from State and Federal Sources	12,436,955	43.84%	9,778,915	36.77%	2,658,040	27.18%
Other Sources	477,402	1.68%	403,693	1.52%	73,709	18.26%
Total General Revenues	12,922,363	45.55%	10,190,456	38.32%	2,731,907	26.81%
Total Revenues	28,368,652	100.00%	26,591,726	100.00%	1,776,926	6.68%
Expenses:						
Instructional:						
Regular Instruction	12,568,705	39.46%	12,044,639	39.02%	524,066	4.35%
Vocational Instruction	170,881	0.54%	280,046	0.91%	(109,165)	-38.98%
Exceptional Instruction	3,323,789	10.43%	2,894,097	9.38%	429,692	14.85%
Total Instructional	16,063,375	50.43%	15,218,782	49.31%	844,593	5.55%
Support Services:						
District Support Services	1,047,000	3.29%	761,035	2.47%	285,965	37.58%
Instructional Support Services	1,332,314	4.18%	1,534,257	4.97%	(201,943)	-13.16%
Pupil Support Services	2,932,391	9.21%	2,886,399	9.35%	45,992	1.59%
Total Instructional	5,311,705	16.68%	5,181,691	16.79%	130,014	2.51%
Administration	1,793,134	5.63%	1,800,572	5.83%	(7,438)	-0.41%
Community Education and Services	420,893	1.32%	302,721	0.98%	118,172	39.04%
Site, Buildings and Equipment	3,449,627	10.82%	3,849,778	12.47%	(400,151)	-10.39%
Fiscal and Other Fixed Costs	168,487	0.53%	158,736	0.51%	9,751	6.14%
Interest on Long-Term Debt	3,347,110	10.51%	3,247,389	10.52%	99,721	3.07%
Unallocated Depreciation	1,299,393	4.08%	1,108,983	3.59%	190,410	17.17%
Total Expenses	31,853,724	100.00%	30,868,652	100.00%	10,465	0.03%
Changes in Net Assets	\$ (3,485,072)		\$ (4,276,926)		\$ 1,766,461	

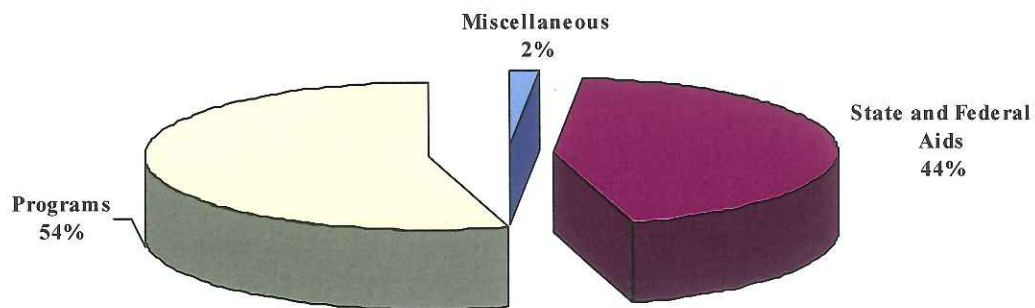
INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010

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

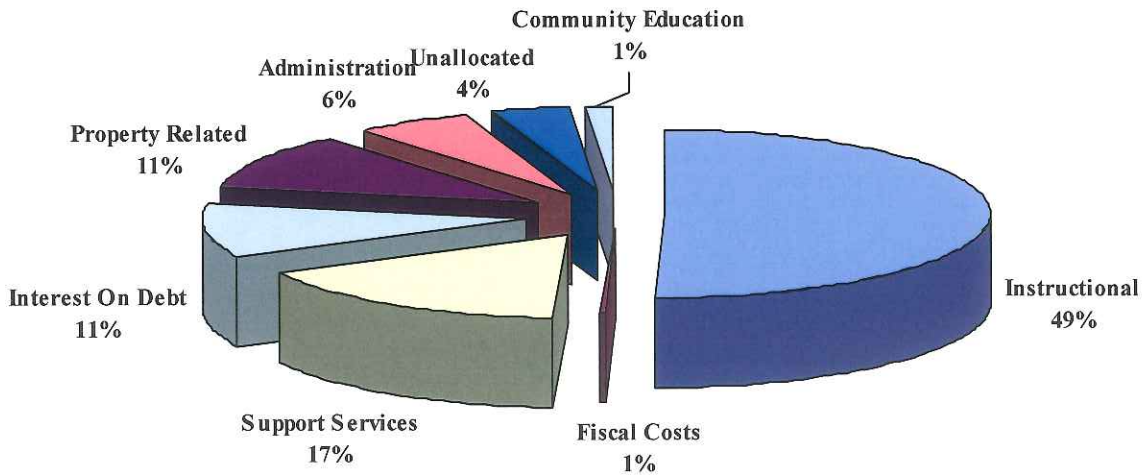
The District's total revenues consisted of program revenues of \$15,446,289, aids and payments from the state and federal sources of \$12,436,955 and \$485,408 from miscellaneous other sources. Expenses totaling \$31,853,724 consisted of regular, vocational and exceptional instruction costs of \$16,063,375; district, instructional and pupil support services of \$5,311,705; site, buildings and equipment related costs of \$3,449,627; interest, fiscal, and fixed-cost programs of \$3,515,597; community education and services costs of \$420,893; administrative costs of \$1,793,134; and unallocated depreciation costs of \$1,299,393.

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

REVENUES - \$28,368,652



EXPENSES - \$31,853,724



INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010

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, 2010 and 2009 are as follows:

	<u>Cost of Services - 2010</u>		<u>Cost of Services - 2009</u>	
	<u>Total</u>	<u>Net</u>	<u>Total</u>	<u>Net</u>
Expenses:				
Administration	\$ 1,793,134	\$ 1,793,134	\$ 1,800,572	\$ 1,800,572
District Support Services	1,047,000	1,047,000	761,035	761,035
Regular Instruction	12,568,705	221,532	12,044,639	(721,623)
Vocational Instruction	170,881	125,810	280,046	245,523
Exceptional Instruction	3,323,789	1,530,166	2,894,097	1,136,600
Community Education and Services	420,893	197,279	302,721	69,918
Instructional Support Services	1,332,314	1,101,609	1,534,257	1,046,818
Pupil Support Services	2,932,391	2,221,464	2,886,399	1,840,303
Site, Buildings and Equipment	3,449,627	3,356,314	3,849,778	3,775,083
Fiscal and Other Fixed Costs	168,487	166,624	158,736	156,781
Interest on Long-Term Debt	3,347,110	3,347,110	3,247,389	3,247,389
Unallocated Depreciation	1,299,393	1,299,393	1,108,983	1,108,983
	<u>\$ 31,853,724</u>	<u>\$ 16,407,435</u>	<u>\$ 30,868,652</u>	<u>\$ 14,467,382</u>
Total Expenses	<u>\$ 31,853,724</u>	<u>\$ 16,407,435</u>	<u>\$ 30,868,652</u>	<u>\$ 14,467,382</u>

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

Fund Balances

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported a combined fund balance of \$10,192,299. This was up from \$9,850,926, at the end of the prior year, an increase of \$341,373. Fund balance increases consisted of an increase in unreserved general fund balance of \$28,659 and general fund reserves of \$334,328. The community service fund balance and the capital projects fund balance decreased by \$15,878 and \$5,794, respectively. The debt redemption fund balance increased by \$58. 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 unreserved general fund balance of at least three months average general fund expenditures from the previous year. The calculation for the June 30, 2010 fund balance follows:

Three months average expenditures for 2009-10	= \$6,611,592
June 30, 2010 unreserved general fund balance net of OPEB and compensated absences	= \$6,285,130

The District's unreserved general fund balance is short of the goal by \$326,462.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010

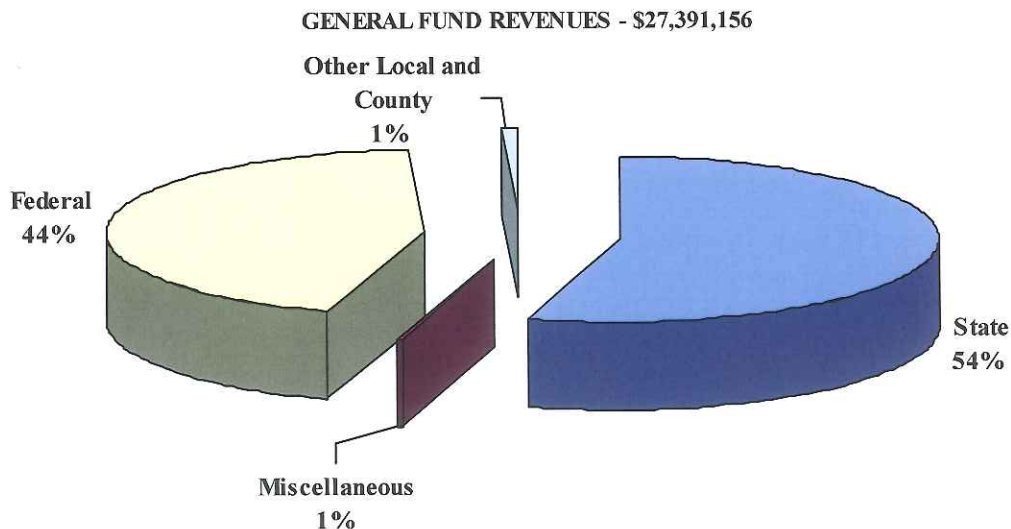
FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS
(FUND FINANCIAL STATEMENTS) (Continued)

Revenue and Expenditures

Revenues of the District's governmental funds totaled \$28,368,652 while total expenditures were \$27,910,863. A summary of the revenues, expenditures, and other financing sources (uses) reported on the governmental fund financial statements are as follows:

	<u>Revenues</u>	<u>Expenditures</u>	<u>Other Financing Sources (Uses)</u>	<u>Fund Balance Increase (Decrease)</u>
General Fund	\$ 27,391,156	\$ 26,446,369	\$ (581,800)	\$ 362,987
Food Service Fund	631,720	1,038,691	406,971	-
Community Service Fund	340,405	420,508	64,225	(15,878)
Building Construction	18	-	(5,812)	(5,794)
Debt Redemption Fund	5,353	5,295	-	58
Totals	<u>\$ 28,368,652</u>	<u>\$ 27,910,863</u>	<u>\$ (116,416)</u>	<u>\$ 341,373</u>

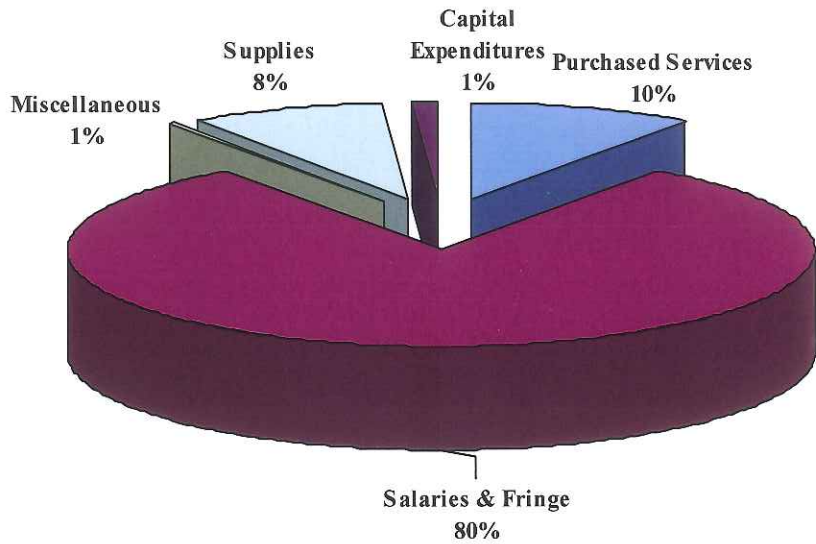
The following graphs are presented for the general fund revenues and expenditures:



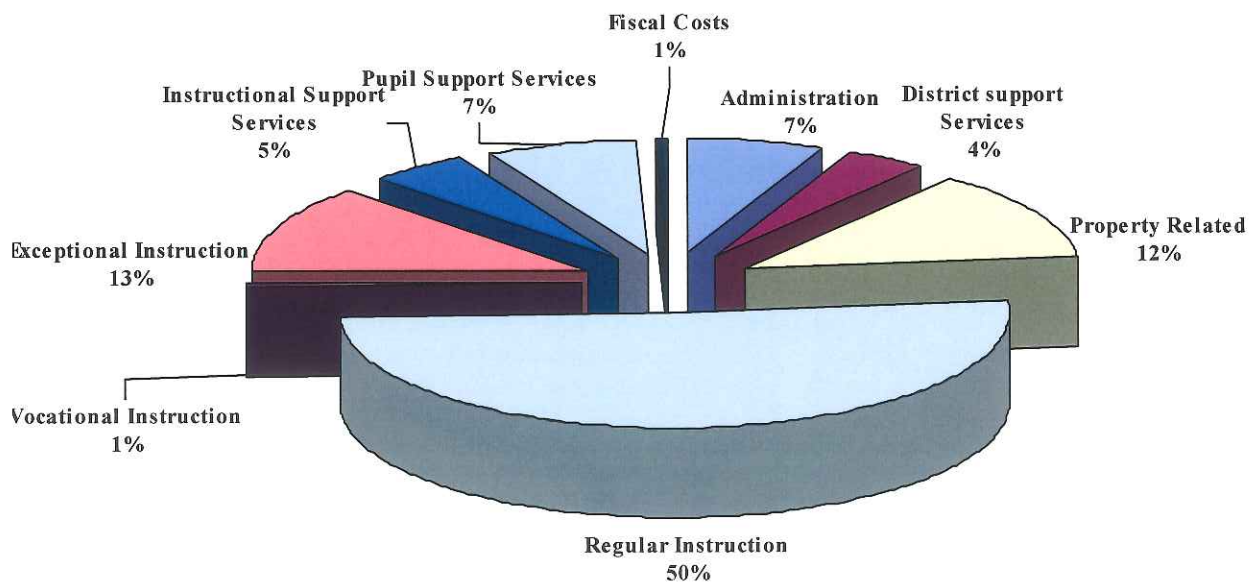
INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010

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

GENERAL FUND EXPENSES BY OBJECT - \$26,446,369



GENERAL FUND EXPENSES BY PROGRAM - \$26,446,369



INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010

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, 2009, 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 2009 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 \$357,043. The actual results for the year reported an excess of revenues over expenditures by \$944,787. Revenues exceeded budget by \$650,891, primarily driven by revenues from state sources and other local sources exceeding budget by \$769,683 and \$121,363, respectively. This was somewhat offset by revenues under budget from federal sources and investment earnings by \$143,804 and \$98,339, respectively.

Expenditures for the District's general fund final budget were \$650,939 under budget. This was primarily driven by expenditures under budget for regular instruction and instructional support services of \$989,274 and \$228,874, respectively. This was somewhat offset by actual expenditures exceeding budget by \$669,597 for exceptional instruction.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Additions during the year ended June 30, 2010 totaled \$122,184, which consisted of \$94,650 for a bus and \$27,534 in other equipment. There were no capital assets disposed of during the year ended June 30, 2010.

Long-Term Debt

At June 30, 2010 the District's long-term indebtedness totaled \$80,208,220. This consisted of capital loans payable of \$51,350,062, defaulted interest on capital loan of \$25,239,269, severance payable of \$2,916,477 and compensated absences payable of \$702,412.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010

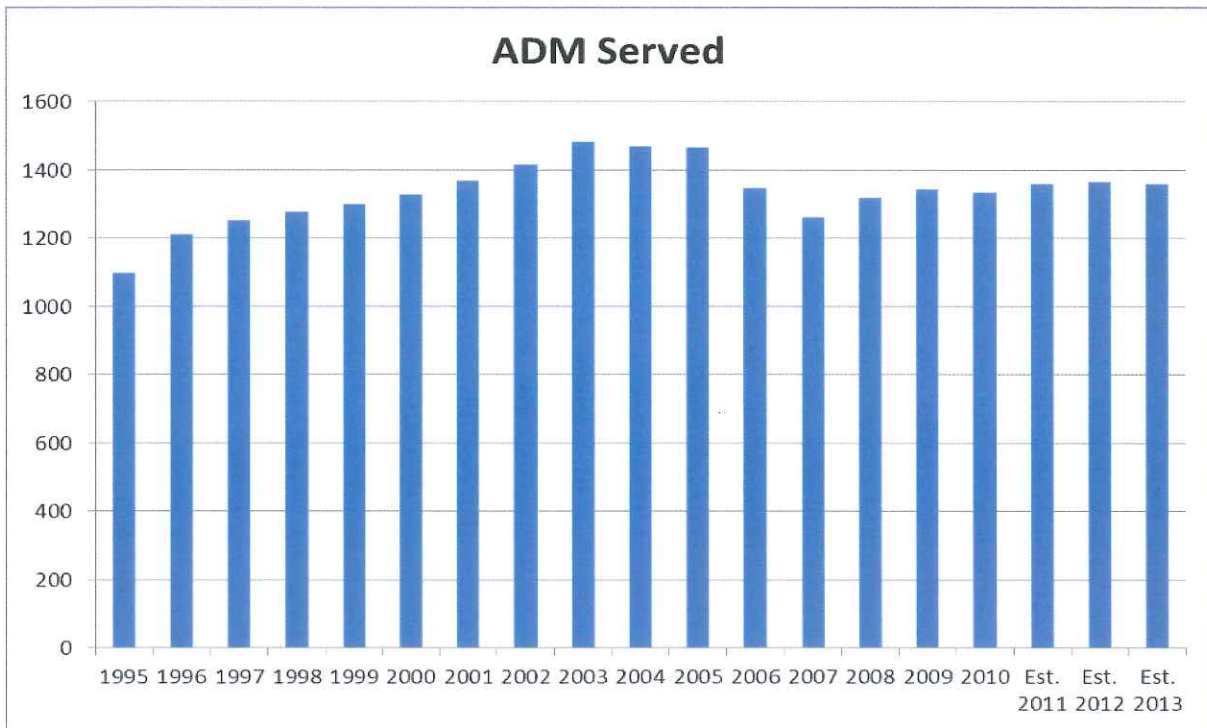
FACTORS BEARING ON THE DISTRICT'S FUTURE

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.



Staffing

Over the last several years, the Red Lake School District has experienced a large licensed staff turnover due in part to the school shooting of March 2005. To reduce the staff turnover, several measures were implemented to support, recruit and retain staff. In 2006-07, the District implemented a teacher mentoring program which

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010

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 9 in the 2009-10 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 not expecting retirements of veteran teachers and administrators 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 will continue to seek capital loans in future legislative sessions.

On November 8, 2005, 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 approve an increase in the general education referendum revenue by \$447 for a total excess levy referendum of \$1,293 per resident marginal cost pupil unit. The levy authorization expires in 2015. The additional revenue is being used to finance school operations.

School Improvement

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.
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.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010

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.

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.

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 have 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 ways to increase revenue and 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

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010

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. 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, 2010

ASSETS

Cash and Cash Equivalents	\$ 7,698,135
Property Taxes Receivable	93
Due from Other Governmental Units	5,437,465
Other Accounts Receivable	40,499
Interest Receivable	16,085
Inventories	216,274
Depreciable Capital Assets, Net of Depreciation	<u>52,897,221</u>
 Total Assets	 <u>66,305,772</u>

LIABILITIES

Salaries Payable	1,138,899
Accounts Payable	398,769
Due to Other Governmental Units	25,869
Payroll Deductions and Employer Contributions	1,259,680
Deferred Revenue	388,542
Property Taxes Levied for Subsequent Years' Expenditures	4,493
Long-Term Liabilities:	
Due After One Year	<u>80,208,220</u>
 Total Liabilities	 <u>83,424,472</u>

NET ASSETS

Restricted for:	
State Mandated Reserves	285,283
Capital Projects	1,014
Debt Redemption	1,983
Unrestricted	<u>(17,406,980)</u>
 Total Net Assets	 <u>\$ (17,118,700)</u>

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2010

<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	\$ 1,793,134	\$ -	\$ -	\$ (1,793,134)
District Support Services	1,047,000	-	-	(1,047,000)
Regular Instruction	12,568,705	71,277	12,275,896	(221,532)
Vocational Instruction	170,881	-	45,071	(125,810)
Exceptional Instruction	3,323,789	1,538	1,792,085	(1,530,166)
Community Education and Services	420,893	-	223,614	(197,279)
Instructional Support Services	1,332,314	5,182	225,523	(1,101,609)
Pupil Support Services	2,932,391	9,233	701,694	(2,221,464)
Site, Buildings and Equipment	3,449,627	-	93,313	(3,356,314)
Fiscal and Other Fixed Costs	168,487	-	1,863	(166,624)
Interest on Long-Term Debt	3,347,110	-	-	(3,347,110)
Unallocated Depreciation	1,299,393	-	-	(1,299,393)
Total Governmental Activities	\$ 31,853,724	\$ 87,230	\$ 15,359,059	(16,407,435)
 General Revenues:				
Property Taxes:				
Levied for General Purposes				4,433
Levied for Community Education and Services				108
Levied for Debt Service				3,465
Aids and Payments from the State				12,436,955
Investment Earnings				51,685
Miscellaneous Revenues				425,717
Total General Revenues				12,922,363
<u>Change in Net Assets</u>				(3,485,072)
<u>Net Assets - Beginning of Year</u>				(13,633,628)
<u>Net Assets - End of Year</u>				\$ (17,118,700)

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2010

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
<u>ASSETS</u>			
Cash and Investments	\$ 7,692,658	\$ 5,477	\$ 7,698,135
Property Taxes Receivable	88	5	93
Due from Other Funds	139,289	-	139,289
Due from Other Governmental Units	5,289,419	148,046	5,437,465
Other Accounts Receivable	38,748	1,751	40,499
Interest Receivable	16,085	-	16,085
Inventories	200,230	16,044	216,274
<u>Total Assets</u>	<u>\$ 13,376,517</u>	<u>\$ 171,323</u>	<u>\$ 13,547,840</u>
<u>LIABILITIES AND FUND EQUITY</u>			
<u>Liabilities</u>			
Salaries Payable	\$ 1,138,899	\$ -	\$ 1,138,899
Accounts Payable	372,836	25,933	398,769
Due to Other Funds	-	139,289	139,289
Due to Other Minnesota School Districts	25,869	-	25,869
Payroll Deductions and Employer Contributions	1,259,680	-	1,259,680
Deferred Revenue	388,542	-	388,542
Property Taxes Levied for Subsequent Years' Expenditures	1,389	3,104	4,493
<u>Total Liabilities</u>	<u>3,187,215</u>	<u>168,326</u>	<u>3,355,541</u>
<u>Fund Equity</u>			
Reserved Fund Balances:			
Health and Safety (Deficit)	(20,361)	-	(20,361)
Operating Capital	305,644	-	305,644
Unreserved-Undesignated Fund Balances	9,904,019	2,997	9,907,016
<u>Total Fund Equity</u>	<u>10,189,302</u>	<u>2,997</u>	<u>10,192,299</u>
<u>Total Liabilities and Fund Equity</u>	<u>\$ 13,376,517</u>	<u>\$ 171,323</u>	<u>\$ 13,547,840</u>

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
RECONCILIATION OF THE BALANCE SHEET -
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
JUNE 30, 2010

Total Fund Balances - Governmental Funds \$ 10,192,299

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	\$ 68,977,428	
Accumulated Depreciation	(16,080,207)	
Net Depreciated Value of Capital Assets		52,897,221

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

Post-employment Benefits	(2,916,477)
Capital Loans Payable and Defaulted Interest	(76,589,331)
Severance Payable	(702,412)
	(79,208,220)

Total Net Assets - Governmental Activities \$ (17,118,700)

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2010

	General Fund	Other Governmental Funds	Totals
<u>Revenues</u>			
Local Property Taxes	\$ 4,433	\$ 3,573	\$ 8,006
Other Local and County Revenues	199,363	15,892	215,255
Revenues from State Sources	15,006,311	274,043	15,280,354
Revenues from Federal Sources	12,129,388	672,961	12,802,349
Sales and Other Conversions of Assets	-	10,984	10,984
Investment Earnings	51,661	43	51,704
Total Revenues	<u>27,391,156</u>	<u>977,496</u>	<u>28,368,652</u>
<u>Expenditures</u>			
District and School Administration	1,759,594	-	1,759,594
District Support Services	998,912	-	998,912
Regular Instruction	13,504,251	-	13,504,251
Vocational Instruction	169,318	-	169,318
Exceptional Instruction	3,317,564	-	3,317,564
Community Education and Services	-	420,508	420,508
Instructional Support Services	1,251,743	-	1,251,743
Pupil Support Services	1,866,982	1,038,691	2,905,673
Site, Buildings, and Equipment	3,410,488	-	3,410,488
Fiscal and Other Fixed Costs	167,517	-	167,517
Debt Service	-	5,295	5,295
Total Expenditures	<u>26,446,369</u>	<u>1,464,494</u>	<u>27,910,863</u>
<u>Excess of Revenues Over (Under) Expenditures</u>	<u>944,787</u>	<u>(486,998)</u>	<u>457,789</u>
<u>Other Financing Sources (Uses)</u>			
Capital Loan Proceeds (Denied)	-	(115,446)	(115,446)
Operating Transfers In	-	580,830	580,830
Operating Transfers Out	(581,800)	-	(581,800)
<u>Total Other Financing Sources (Uses)</u>	<u>(581,800)</u>	<u>465,384</u>	<u>(116,416)</u>
<u>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</u>	<u>362,987</u>	<u>(21,614)</u>	<u>341,373</u>
<u>Fund Balances, Beginning of Year</u>	<u>9,826,315</u>	<u>24,611</u>	<u>9,850,926</u>
<u>Fund Balances, End of Year</u>	<u>\$ 10,189,302</u>	<u>\$ 2,997</u>	<u>\$ 10,192,299</u>

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, 2010

Net Change in Fund Balances - Total Governmental Funds \$ 341,373

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	\$ 122,184	
Depreciation	(1,629,906)	
Excess Depreciation Expense Over Capital Outlay		(1,507,722)

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	(3,226,892)	
Net Change in Severance Payable	(121,423)	
Net Change in Post-employment Benefits	1,029,592	
Total Long-Term Debt Payments		(2,318,723)

Change in Net Assets of Government Activities \$ (3,485,072)

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
STATEMENT OF FIDUCIARY NET ASSETS
SCHOLARSHIP TRUST FUND
JUNE 30, 2010

ASSETS

Cash and Investments	\$ 12,055
Accounts Receivable	<u>20</u>
<u>Total Assets</u>	<u>12,075</u>

LIABILITIES

Other Payables	<u>12,075</u>
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NET ASSETS

Net Assets Held in Trust	<u><u>\$ -</u></u>
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INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
SCHOLARSHIP TRUST FUND
YEAR ENDED JUNE 30, 2010

<u>Revenues</u>	
Donations	\$ 5,560
Investment Earnings	90
Total Revenues	<u>5,650</u>
 <u>Expenditures</u>	
Scholarship Payments	<u>9,200</u>
 <u>Excess of Revenues Over (Under) Expenditures</u>	 (3,550)
 <u>Other Financing Sources</u>	
Operating Transfers In	<u>970</u>
 <u>Excess of Revenues and Other Financing Sources Over (Under) Expenditures</u>	 (2,580)
 <u>Net Assets, Beginning of Year</u>	 <u>2,580</u>
 <u>Net Assets, End of Year</u>	 <u>\$ -</u>

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

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, 2010. 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, 2010

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 2009 payable 2010 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, 2010

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, 2010

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, 2010. 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 2002 through 2009 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 prorations 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, 2010

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 2002 through 2009 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, 2010, 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 – In the fund financial statements fund balances of the District are either reserved or unreserved. Reserved fund balances represent available resources dedicated for special purposes. Unreserved fund balances represent resources available for current and future year's expenditures.

E. Compensated Absences

Vacation and Sick Leave – Teachers and principals do not receive paid vacation but are paid only for the number of days they are required to work each year, 179 days for teachers and 199 days for principals. Employees, (other than teachers and principals) earn vacation pay. Employees lose vacation time if not taken before August 15 and are not compensated for any unused time upon termination or retirement. Therefore, a liability for vacation was not recorded in the financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 – Summary of Significant Accounting Policies (Continued)

All employees are entitled to accrue sick leave days at various rates for each year of employment, with limits. Sick days do not vest, and accordingly, employees can be paid personal leave only when sick or for emergencies. Since the employees accumulating rights to receive compensation for future absences are contingent upon the absences being accrued by future illness and such amounts cannot be reasonably estimated, a liability for accrued sick leave is not recorded in the financial statements.

Severance Pay – A maximum of five full-time teacher employees per year who have attained the age of 50 and accumulated 15 years of full-time service are eligible to receive severance benefits in the amount of accumulated unused sick leave up to a maximum of one year's pay. The teacher's daily rate of pay at the time of retirement is used to calculate this amount. Selection of teachers granted severance pay is based on seniority in the District. Severance is paid in one lump sum or equal annual installments over a period of time, at the discretion of the District, not to exceed two years from the effective date of severance.

Full-time principals who have completed a minimum of 15 years of service in the District and are a minimum of 50 years of age or have completed a minimum of 20 years of service in the District regardless of age are eligible for severance pay. Eligible administrators shall receive the greater of 100 days pay or accumulated sick leave, whichever is greater, not to exceed one year's pay. Severance shall be paid by the District in one lump sum or equal annual installments not to exceed two years from the effective date of severance. The Superintendent is not eligible to receive severance upon the termination of employment.

Non-licensed employees who have completed 10 years of service in the District will receive 30 percent of the accumulated sick leave days as pay figured on the employees' average daily pay when leaving the District. Non-licensed employees who have completed 15 years of service in the District will receive 60 percent of the accumulated sick leave days as pay figured on the employees' average daily pay when leaving the District.

Non-licensed employees hired after February 1, 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.

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.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 – Summary of Significant Accounting Policies (Continued)

F. Use of Estimates

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

NOTE 2 – Stewardship, Compliance, and Accountability

Fund Balance Deficits

Fund Balance deficits exist in the following fund at June 30, 2010:

General Fund:	
Reserved for Health and Safety	\$ 20,361

The above deficit 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	\$ 6,760	\$ -
Checking Account	511,159	6,653
Certificates of Deposit	1,000,000	5,402
Investments:		
MSDLAF+	6,180,216	-
Total Deposits and Investments	\$ 7,698,135	\$ 12,055

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

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 3 – Deposit and Investments (Continued)

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.

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.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

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 2009 (payable in 2010) was \$9,478 with a market value of \$562,600. The tax capacity rate was 46.867%.

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

NOTE 5 – Due From Other Governmental Units

Amounts due from other governmental units at June 30, 2010 are as follows:

	<u>General Fund</u>	<u>Food Service Fund</u>	<u>Community Service Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Redemption Fund</u>	<u>Totals</u>
Minnesota Department of Education:						
State Aids and Grants	\$ 3,924,913	\$ -	\$ 63,468	\$ -	\$ 503	\$ 3,988,884
Due From Other Districts	2,255	-	-	-	-	2,255
Federal Aids and Grants	1,361,908	3,834	74,696	-	-	1,440,438
Capital Loan Proceeds	343	-	-	5,545	-	5,888
Totals	<u>\$ 5,289,419</u>	<u>\$ 3,834</u>	<u>\$ 138,164</u>	<u>\$ 5,545</u>	<u>\$ 503</u>	<u>\$ 5,437,465</u>

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 7 – Pension Plans (Continued)

PERF 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 PERF members hired prior to July 1, 1989, whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 65 for Basic and Coordinated members hired before July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at age 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for PERF. 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.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 7 – Pension Plans (Continued)

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. PERF Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.00%, respectively, of their annual covered salary in 2009. The District is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members, 6.75% for Coordinated Plan members in 2009, and 7.0% for Coordinated Plan members in 2010.

The District's contributions to the Public Employees Retirement Fund for the years ending June 30, 2010, 2009, and 2008 were \$335,286, \$326,667, and \$309,492, 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.

A. Plan Description

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

B. Funding Policy

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

C. Annual OPEB Cost and Net OPEB Obligation

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

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

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

Annual Required Contribution	\$ 258,369
Interest on Net OPEB Obligation	-
Adjustment to Annual Required Contribution	-
Annual OPEB Cost (Expense)	<u>258,369</u>
Contributions Made	<u>562,807</u>
Increase in Net OPEB Obligation	(304,438)
Net OPEB Obligation - Beginning of Year	<u>(93,503)</u>
Net OPEB Obligation - End of Year	<u><u>\$ (397,941)</u></u>

The District's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB obligation for 2010:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Surplus)
06/30/10	\$ 258,369	217.8%	\$ (304,438)

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%.

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

E. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effect of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 8 – Post-Employment Health Care Benefits - Continued

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, 2010 was 29 years.

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	\$ 51,464,985	\$ -	\$ 114,923	\$ 51,350,062
Defaulted Interest on Capital Loan	21,897,454	3,341,815	-	25,239,269
Total	<u>73,362,439</u>	<u>3,341,815</u>	<u>114,923</u>	<u>76,589,331</u>
Post-employment Benefits	3,946,069	-	1,029,592	2,916,477
Severance Payable	<u>580,989</u>	<u>121,423</u>	<u>-</u>	<u>702,412</u>
Total Long-Term Debt	<u>\$ 77,889,497</u>	<u>\$ 3,463,238</u>	<u>\$ 1,144,515</u>	<u>\$ 80,208,220</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 from the State of Minnesota to remodel the Red Lake High School and Middle School. As of June 30, 2010, all of the funds were expended.

The District will repay the loans out of the excess of its maximum effort debt service levy over its required debt service levy, including interest at a rate equal to the weighted average annual rate payable on Minnesota state school loan bonds issued for the project and disbursed to Districts on a reimbursement basis, but in no event less than 3 ½ percent per year on the principal amount from time to time unpaid. If the capital loan is not repaid within fifty years after the date it is granted, the District's liability on the loan will be satisfied and discharged and interest thereon shall cease.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 9 - Long-Term Debt (Continued)

There were no authorized and un-issued bonds at June 30, 2010.

NOTE 10 - Reserved Fund Balances

The District reserves fund balances for the following reasons:

Reserved for Health and Safety represents available resources dedicated for study and removal of hazardous substances and health and safety hazards.

Reserved for Operating Capital represents available resources used to purchase equipment and facilities.

NOTE 11 - 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 12 - Commitments and Contingencies

General

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 collectibility of any related receivable at June 30, 2010 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 13 - Inter-fund Transfers

	Transfer From	Transfer To			Scholarship Trust Fund
		Food Service	Communtiy Service	Capital Projects	
General Fund	<u>\$ 581,800</u>	<u>\$ 406,971</u>	<u>\$ 64,225</u>	<u>\$ 109,634</u>	<u>\$ 970</u>

In the fiscal year ended June 30, 2010, transfers from the general fund were made to other funds to eliminate deficit fund balances.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2010

	Original And Final Budgets	Actual	Variance with Final Budget - Positive (Negative)
<u>Revenues</u>			
Local Property Taxes	\$ 2,445	\$ 4,433	\$ 1,988
Other Local and County Revenues	78,000	199,363	121,363
Revenues from State Sources	14,236,628	15,006,311	769,683
Revenues from Federal Sources	12,273,192	12,129,388	(143,804)
Investment Earnings	150,000	51,661	(98,339)
<u>Total Revenues</u>	<u>26,740,265</u>	<u>27,391,156</u>	<u>650,891</u>
<u>Expenditures</u>			
District and School Administration	1,794,667	1,759,594	35,073
District Support Services	1,064,550	998,912	65,638
Regular Instruction	14,493,525	13,504,251	989,274
Vocational Instruction	18,339	169,318	(150,979)
Exceptional Instruction	2,647,967	3,317,564	(669,597)
Instructional Support Services	1,480,617	1,251,743	228,874
Pupil Support Services	1,806,467	1,866,982	(60,515)
Site, Buildings and Equipment	3,623,655	3,410,488	213,167
Fiscal and Other Fixed Costs	167,521	167,517	4
<u>Total Expenditures</u>	<u>27,097,308</u>	<u>26,446,369</u>	<u>650,939</u>
<u>Excess of Revenues Over (Under) Expenditures</u>	<u>(357,043)</u>	<u>944,787</u>	<u>1,301,830</u>
<u>Other Financing Sources (Uses)</u>			
Operating Transfers Out	-	(581,800)	(581,800)
<u>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</u>	<u>(357,043)</u>	<u>362,987</u>	<u>720,030</u>
<u>Fund Balances, Beginning of Year</u>	<u>9,826,315</u>	<u>9,826,315</u>	<u>-</u>
<u>Fund Balances, End of Year</u>	<u>\$ 9,469,272</u>	<u>\$ 10,189,302</u>	<u>\$ 720,030</u>

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR POST-EMPLOYMENT BENEFIT PLAN
JUNE 30, 2010

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded Actuarial Accrued Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
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%

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2010

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 – 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, 2010

	<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	\$ -	\$ -	\$ 1,014	\$ 4,463	\$ 5,477
Property Taxes Receivable	-	5	-	-	5
Due from Other Governmental Units	3,834	138,164	5,545	503	148,046
Other Accounts Receivable	1,751	-	-	-	1,751
Inventories	16,044	-	-	-	16,044
Total Assets	\$ 21,629	\$ 138,169	\$ 6,559	\$ 4,966	\$ 171,323
<u>LIABILITIES AND FUND EQUITY</u>					
<u>Liabilities</u>					
Accounts Payable	\$ 5,258	\$ 15,130	\$ 5,545	\$ -	\$ 25,933
Due to Other Funds	16,371	122,918	-	-	139,289
Property Taxes Levied for Subsequent Years' Expenditures	-	121	-	2,983	3,104
Total Liabilities	21,629	138,169	5,545	2,983	168,326
<u>Fund Equity</u>					
Unreserved-Undesignated Fund Balance	-	-	1,014	1,983	2,997
Total Liabilities and Fund Equity	\$ 21,629	\$ 138,169	\$ 6,559	\$ 4,966	\$ 171,323

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, 2010

	<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	\$ -	\$ 108	\$ -	\$ 3,465	\$ 3,573
Other Local and County Revenues	4,500	11,392	-	-	15,892
Revenues from State Sources	32,046	240,134	-	1,863	274,043
Revenues from Federal Sources	584,190	88,771	-	-	672,961
Sales and Other Conversions of Assets	10,984	-	-	-	10,984
Investment Earnings	-	-	18	25	43
Total Revenues	631,720	340,405	18	5,353	977,496
<u>Expenditures</u>					
Community Education and Services	-	420,508	-	-	420,508
Pupil Support Services	1,038,691	-	-	-	1,038,691
Debt Service	-	-	-	5,295	5,295
Total Expenditures	1,038,691	420,508	-	5,295	1,464,494
<u>Excess of Revenues Over (Under) Expenditures</u>	(406,971)	(80,103)	18	58	(486,998)
<u>Other Financing Sources (Uses)</u>					
Capital Loan Proceeds (Denied)	-	-	(115,446)	-	(115,446)
Operating Transfer In	406,971	64,225	109,634	-	580,830
Total Other Financing Sources (Uses)	406,971	64,225	(5,812)	-	465,384
<u>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</u>	-	(15,878)	(5,794)	58	(21,614)
<u>Fund Balances, Beginning of Year</u>	-	15,878	6,808	1,925	24,611
<u>Fund Balances, End of Year</u>	\$ -	\$ -	\$ 1,014	\$ 1,983	\$ 2,997

FISCAL COMPLIANCE REPORT - 6/30/2010
District: RED LAKE (0038 - 01)

	<u>Audit</u>	<u>UFARS</u>	<u>Audit-UFARS</u>		<u>Audit</u>	<u>UFARS</u>	<u>Audit-UFARS</u>
01 GENERAL FUND				06 BUILDING CONSTRUCTION			
Total Revenue	\$27,391,156	\$27,391,156	\$0	Total Revenue	\$18	\$18	\$0
Total Expenditures	\$26,446,369	\$26,446,370	(\$1)	Total Expenditures	\$0	\$0	\$0
Reserved:				Reserved:			
4.03 Staff Development	\$0	\$0	\$0	4.07 Capital Projects Levy	\$0	\$0	\$0
4.05 Deferred Maintenance	\$0	\$0	\$0	4.09 Alternative Facility Program	\$0	\$0	\$0
4.06 Health and Safety	(\$20,361)	(\$20,361)	\$0	4.13 Project Funded by COP	\$0	\$0	\$0
4.07 Capital Projects Levy	\$0	\$0	\$0	4.19 Encumbrances	\$0	\$0	\$0
4.08 Cooperative Revenue	\$0	\$0	\$0	Unreserved:			
4.13 Project Funded by COP	\$0	\$0	\$0	4.22 Unreserved/Undesignated	\$1,014	\$1,014	\$0
4.14 Operating Debt	\$0	\$0	\$0				
4.16 Levy Reduction	\$0	\$0	\$0	07 DEBT SERVICE			
4.17 Taconite Building Maint	\$0	\$0	\$0	Total Revenue	\$5,353	\$5,353	\$0
4.19 Encumbrances	\$0	\$0	\$0	Total Expenditures	\$5,295	\$5,296	(\$1)
4.23 Certain Teacher Programs	\$0	\$0	\$0	Reserved:			
4.24 Operating Capital	\$305,644	\$305,644	\$0	4.25 Bond Refundings	\$0	\$0	\$0
4.26 \$25 Taconite	\$0	\$0	\$0	4.51 QZAB Payments	\$0	\$0	\$0
4.27 Disabled Accessibility	\$0	\$0	\$0	Unreserved:			
4.28 Learning & Development	\$0	\$0	\$0	4.22 Unreserved/Undesignated	\$1,983	\$1,983	\$0
4.34 Area Learning Center	\$0	\$0	\$0				
4.35 Contracted Alt. Programs	\$0	\$0	\$0	08 TRUST			
4.36 State Approved Alt. Program	\$0	\$0	\$0	Total Revenue	\$5,650	\$5,650	\$0
4.38 Gifted & Talented	\$0	\$0	\$0	Total Expenditures	\$9,200	\$9,200	\$0
4.41 Basic Skills Program	\$0	\$0	\$0	Reserved:			
4.45 Career Tech Programs	\$0	\$0	\$0	4.19 Encumbrances	\$0	\$0	\$0
4.46 First Grade Preparedness	\$0	\$0	\$0	Unreserved:			
4.49 Safe School Levy	\$0	\$0	\$0	4.22 Unreserved/Undesignated	\$0	\$0	\$0
4.50 Pre-Kindergarten	\$0	\$0	\$0				
4.51 QZAB Payments	\$0	\$0	\$0	09 AGENCY			
4.52 OPEB Liab Not In Trust	\$0	\$0	\$0	Unreserved:			
4.53 Unfunded Sev & Retiremt Levy	\$0	\$0	\$0	4.22 Unreserved/Undesignated	\$0	\$0	\$0
Unreserved:							
4.18 Severance-Ins. Premium	\$0	\$0	\$0	20 INTERNAL SERVICE			
4.22 Unreserved/Undesignated	\$9,904,019	\$9,904,019	\$0	Total Revenue	\$0	\$0	\$0
				Total Expenditures	\$0	\$0	\$0
02 FOOD SERVICE				Reserved:			
Total Revenue	\$631,720	\$631,719	\$1	4.19 Encumbrances	\$0	\$0	\$0
Total Expenditures	\$1,038,691	\$1,038,691	\$0	Unreserved:			
Reserved:				4.22 Unreserved/Undesignated	\$0	\$0	\$0
4.19 Encumbrances	\$0	\$0	\$0				
4.52 OPEB Liability Not in Trust	\$0	\$0	\$0	25 OPEB REVOCABLE TRUST			
Unreserved:				Total Revenue	\$0	\$0	\$0
4.18 Severance - Ins. Premium	\$0	\$0	\$0	Total Expenditures	\$0	\$0	\$0
4.22 Unreserved/Undesignated	\$0	\$0	\$0	Reserved:			
				4.19 Encumbrances	\$0	\$0	\$0
04 COMMUNITY SERVICE				Unreserved:			
Total Revenue	\$340,405	\$340,405	\$0	4.22 Unreserved/Undesignated	\$0	\$0	\$0
Total Expenditures	\$420,508	\$420,508	\$0				
Reserved:				45 OPEB IRREVOCABLE TRUST			
4.19 Encumbrances	\$0	\$0	\$0	Total Revenue	\$0	\$0	\$0
4.26 \$25 Taconite	\$0	\$0	\$0	Total Expenditures	\$0	\$0	\$0
4.31 Community Education	\$0	\$0	\$0	Reserved:			
4.32 E.C.F.E.	\$0	\$0	\$0	4.19 Encumbrances	\$0	\$0	\$0
4.44 School Readiness	\$0	\$0	\$0	Unreserved:			
4.47 Adult Basic Education	\$0	\$0	\$0	4.22 Unreserved/Undesignated	\$0	\$0	\$0
4.52 OPEB Liab Not In Trust	\$0	\$0	\$0				
Unreserved:				47 OPEB DEBT SERVICE			
4.18 Severance-Ins. Premium	\$0	\$0	\$0	Total Revenue	\$0	\$0	\$0
4.22 Unreserved/Undesignated	\$0	\$0	\$0	Total Expenditures	\$0	\$0	\$0
				Reserved:			
				4.25 Bond Refundings	\$0	\$0	\$0
				Unreserved:			
				4.22 Unreserved/Undesignated	\$0	\$0	\$0
				UNAUDITED DATA REPORTING ELEMENTS			
				EY10 OPERATING CAPITAL TRANSFER			
				Per Pupil Amount	\$0.00		
				AMCPU	0.00		
				Total Transfer	\$0.00		

INDEPENDENT SCHOOL DISTRICT NO. 38

RED LAKE, MINNESOTA
STUDENT ACTIVITY DETAIL
YEAR ENDED JUNE 30, 2010

<u>Account</u>	<u>Balance 7/01/09</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Balance 6/30/10</u>
Community Gardening Project	\$ -	\$ 10,000	\$ 3,425	\$ 6,575
Ponemah 7th Grade	104	-	104	-
National Honor Society	(130)	3,811	2,062	1,619
Prom	3,008	-	2,313	695
Class of 2010	-	6,059	6,059	-
RLHS Student Council	5,892	-	3,061	2,831
RLMS Student Council	6,052	-	673	5,379
Concessions	-	14,185	14,185	-
Ski Club	5,295	3,629	2,409	6,515
PES ELC	247	-	-	247
Pep Club	3,598	6,052	6,454	3,196
Boys Basketball	2,245	267	697	1,815
RLHS Art Club	901	-	-	901
RLMS Art Club	-	1,200	-	1,200
RLHS Auto Club	824	-	824	-
RLMS Mass Production	1,259	-	1,259	-
Skateboard Club	-	5,966	3,510	2,456
Middle School Library Club	-	93	90	3
Special Ed	393	1,380	139	1,634
Taste of Red Lake	10,699	-	2,337	8,362
Totals	\$ 40,387	\$ 52,642	\$ 49,601	\$ 43,428

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2010

<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	\$ 123,942
National School Lunch Program	10.555	370,777
Summer Food Program	10.559	5,898
Commodity Distribution (Commodities Released)	10.555	44,445
Total Clustered Programs		<u>545,062</u>
Fresh Fruit and Vegetable Grant	10.582	34,938
Commodity Rebate	10.558	2,328
<u>Total Department of Agriculture</u>		<u>582,328</u>
<u>U. S. Department of Education</u>		
Direct Programs:		
Impact Aid	84.041	8,132,580
Indian Education	84.060	329,927
Pass-Through Other Minnesota School Districts:		
Special Education	84.181	8,193
Pass-Through Other Governmental Units:		
Indian Education Assistance to Schools - Johnson O'Malley	15.130	27,280
Pass-Through Minnesota Department of Education:		
Title I Part A	84.010	1,296,441
ARRA-Title I, Part A	84.389	698,527
Adult Basic Education	84.002	6,980
Special Education - General	84.027	348,992
Special Education - Preschool	84.173	19,244
Special Education - Infants and Toddlers	84.181	8,193
ARRA-Special Education - General	84.391	352,752
ARRA-Special Education - Preschool	84.392	2,602
ARRA-Special Education - Infants and Toddlers	84.393	10,207
Twenty-first Century Community Learning	84.287	88,381
Drug Free Schools	84.186	19,463
Rural Low Income Program	84.358	28,962
Title II Part A - Improving Teacher Quality	84.367	168,325
Title III Part A - English Language Acquisition	84.365	18,005
ARRA - State Stabilization	84.394	1,018,164
ARRA - Education for Homeless Children and Youth	84.387	27,627
<u>Total Department of Education</u>		<u>12,610,845</u>
<u>Total Federal Assistance Expended</u>		<u>\$ 13,193,173</u>

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2010

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

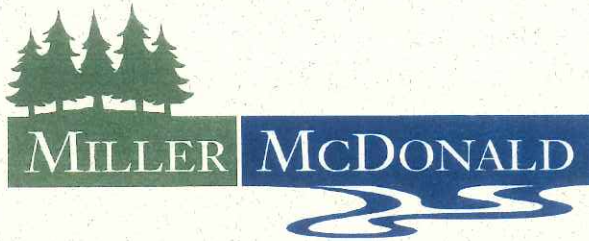
Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This non-monetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

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, 2010

	2010	2009	2008	2007	2006	2005	2004	2003	2002
Property Tax Levies									
General Referendum	\$ 2,336	\$ 2,507	\$ 2,631	\$ 2,768	\$ 2,390	\$ 1,422	\$ 1,914	\$ 1,606	\$ 1,667
General Maintenance	1,191	846	406	418	512	24	331	3,203	733
Community Service	121	127	108	118	146	162	171	124	129
Debt Redemption	3,130	3,298	3,466	3,568	3,543	4,404	5,323	3,217	3,171
Total Property Tax Levies	<u>\$ 6,778</u>	<u>\$ 6,778</u>	<u>\$ 6,611</u>	<u>\$ 6,872</u>	<u>\$ 6,591</u>	<u>\$ 6,012</u>	<u>\$ 7,739</u>	<u>\$ 8,150</u>	<u>\$ 5,700</u>
Referendum Market Value									
Referendum Market Value	\$ 562,000	\$ 562,600	\$ 591,500	\$ 610,200	\$ 619,100	\$ 617,400	\$ 617,800	\$ 624,400	\$ 587,500
Net Tax Capacity									
Net Tax Capacity	9,478	9,489	9,998	10,265	10,347	10,308	10,324	10,437	9,732
Rates									
Market Value	0.41566	0.44561	0.44480	0.45362	0.42804	0.23032	0.30981	0.27314	0.28366
Net Tax Capacity	46.867	45.021	39.798	39.981	38.098	44.494	56.421	63.706	41.449
Students Served (Weighted ADM's)									
Residents	1,817.11	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	(307.43)	(274.43)	(246.53)	(300.37)	(235.32)	(244.06)	(258.62)	(243.68)	(252.50)
Adjusted Weighted ADM's	<u>1,509.68</u>	<u>1,528.15</u>	<u>1,493.73</u>	<u>1,418.95</u>	<u>1,515.74</u>	<u>1,626.40</u>	<u>1,662.05</u>	<u>1,704.34</u>	<u>1,622.21</u>
Resident ADM's	<u>1,598.09</u>	<u>1,582.24</u>	<u>1,525.77</u>	<u>1,512.37</u>	<u>1,537.90</u>	<u>1,630.83</u>	<u>1,674.22</u>	<u>1,690.25</u>	<u>1,633.07</u>



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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 LOCAL GOVERNMENT**

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, 2010, which collectively comprise Independent School District No. 38's basic financial statements and have issued our report thereon dated December 29, 2010.

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 Local Government*, 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.

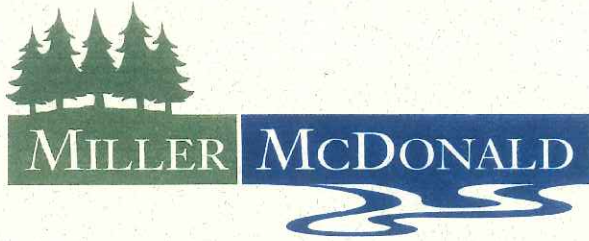
The *Minnesota Legal Compliance Audit Guide for Local Government* covers seven main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, uniform financial accounting and reporting standards for 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, 2010
 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, 2010, which collectively comprise Independent School District No. 38's basic financial statements and have issued our report thereon dated December 29, 2010. 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*.

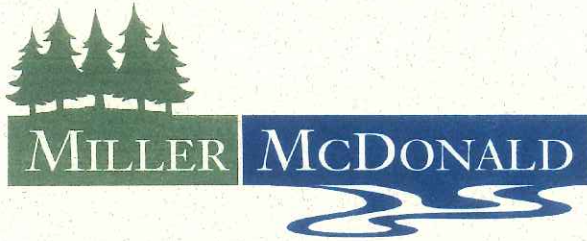
We noted certain matters that we reported to the management of Independent School District, No. 38, Red Lake, Minnesota in a separate letter dated December 29, 2010.

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.

Miller McDonald, Inc.

December 29, 2010
Bemidji, Minnesota



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
 APPLICABLE TO EACH MAJOR PROGRAM AND 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 the compliance of Independent School District No. 38 with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2010. 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, 2010.

Internal Control Over Compliance

The 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 in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance, 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, 2010
Bemidji, Minnesota

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

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 Applicable to Each Major Program and 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:
- | | |
|---|-----------------|
| Clustered Programs: | |
| Title I, Part A | CFDA No. 84.010 |
| ARRA – Title I, Part A | CFDA No. 84.389 |
| ARRA – State Stabilization | CFDA No. 84.394 |
| Clustered Programs: | |
| Special Education Grants to States | CFDA No. 84.027 |
| ARRA – Special Education Grants to States | CFDA No. 84.391 |
| Special Education – Preschool Grants | CFDA No. 84.173 |
| ARRA – Special Education – Preschool Grants | CFDA No. 84.392 |
- H.) A \$395,795 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.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

Questioned Costs

None reported.

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, 2010

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, 2011.

5. Plan to Monitor Completion of CAP

Policy will be reviewed annually by District.