

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**FINANCIAL STATEMENTS**  
**AND**  
**INDEPENDENT AUDITORS' REPORT**  
**JUNE 30, 2007**

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**JUNE 30, 2007**

**TABLE OF CONTENTS**

	<u>Page</u>
<b>OFFICIAL DIRECTORY</b>	1
<b>INDEPENDENT AUDITORS' REPORT</b>	2-3
<b>REQUIRED SUPPLEMENTARY INFORMATION:</b>	
Management's Discussion and Analysis	4-15
<b>FINANCIAL STATEMENTS:</b>	
<b>District-wide Financial Statements:</b>	
Statement of Net Assets	16
Statement of Activities	17
<b>Fund Financial Statements:</b>	
Balance Sheet – Governmental Funds	18
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Assets	19
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	20
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds to the Statement of Activities	21
Statement of Fiduciary Net Assets –Scholarship Trust Fund	22
Statement of Changes in Fiduciary Net Assets – Scholarship Trust Fund	23
Notes to Financial Statements	24-40
<b>REQUIRED SUPPLEMENTARY INFORMATION:</b>	
<b>Budgetary Comparison Schedule:</b>	
General Fund	41
Notes to the Required Supplementary Information	42
<b>SUPPLEMENTARY INFORMATION:</b>	
<b>Non-Major Governmental Funds:</b>	
Combining Balance Sheet	43
Combining Statement of Revenues, Expenditures and Changes in Fund Balance	44
<b>Other Schedules:</b>	
Uniform Financial Accounting and Reporting Standards Compliance Table	45
Student Activity Detail	46
Schedule of Expenditures of Federal Awards	47
<b>STATISTICAL SECTION:</b>	
Tax Levies, Tax Rates and Student Census	48

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**JUNE 30, 2007**

**TABLE OF CONTENTS (Continued)**

	<b><u>Page</u></b>
<b>OTHER REPORTS:</b>	
<b>Report on Compliance Based on an Audit of the Financial Statements Performed in Accordance With the <i>Minnesota Legal Compliance Audit Guide for Local Government</i></b>	<b>49</b>
<b>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 <i>Government Auditing Standards</i></b>	<b>50-51</b>
<b>Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133</b>	<b>52-53</b>
<b>Schedule of Findings and Questioned Costs</b>	<b>54-55</b>
<b>Prior Year Audit Findings on Compliance with Minnesota Statutes and <i>Government Auditing Standards</i></b>	<b>56</b>

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**YEAR ENDED JUNE 30, 2007**

**OFFICIAL DIRECTORY**

	<b>July 1, 2006 to <u>December 31, 2006</u></b>	<b>January 1, 2007 to <u>June 30, 2007</u></b>
<b><u>School Board Members and Officers</u></b>		
<b>Chairperson</b>	<b>Arnold Pemberton</b>	<b>Arnold Pemberton</b>
<b>Vice-Chairperson</b>	<b>Keith Defoe</b>	<b>Keith Defoe</b>
<b>Treasurer</b>	<b>Roy Nelson</b>	<b>Roy Nelson</b>
<b>Clerk</b>	<b>Kathryn Beaulieu</b>	<b>Barbara Thomas</b>
<b>Director</b>	<b>Dorothy Cobenais</b>	<b>Dorothy Cobenais</b>
<b>Director</b>	<b>Tom Barrett</b>	<b>Tom Barrett</b>
<b><u>Administration</u></b>		
<b>Interim Superintendent</b>		<b>Brent Gish (Effective 1/22/07)</b>
<b>Superintendent</b>	<b>Stuart Desjarlait</b>	<b>Stuart Desjarlait (Resigned 1/31/07)</b>
<b>Business Manager</b>	<b>Willie Larson</b>	<b>Willie Larson</b>



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

## INDEPENDENT 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 of Independent School District No. 38, as of and for the year ended June 30, 2007, 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, 2007, 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 **August 17, 2006**, 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 and the budgetary comparison information on pages 4 through 15 and 41, 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 43 through 46 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 47 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 48 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.

**August 17, 2006**

**Bemidji, Minnesota**

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED JUNE 30, 2007**

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, 2007. 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, 2007 include the following:

- Net assets decreased by 668.68% from the prior year.
- Overall revenues were \$26,508,512 and overall expenses were \$30,613,551.
- The unreserved general fund balance increased by \$4,267,246. The reserved general fund balance decreased by \$2,954,526. Included in this decrease is \$2,948,876 that was removed from reserved for severance pay.
- There was no change in the food service fund balance.
- The community service fund balance decreased by \$19,532.
- The capital projects fund balance increased by \$8,566.
- The debt redemption fund balance decreased by \$604.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

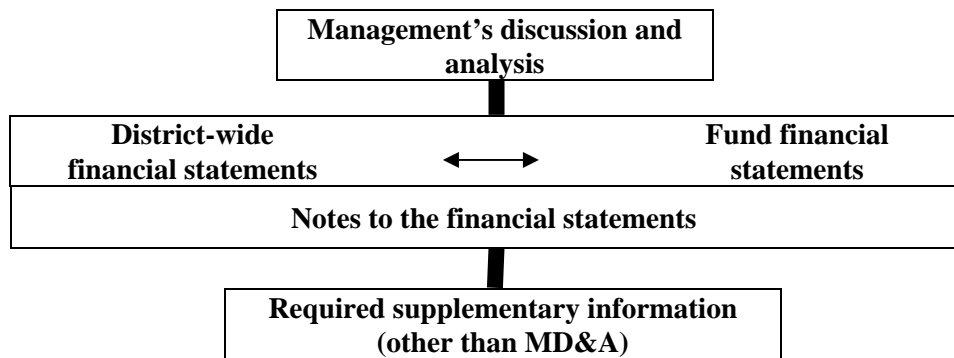
The financial section of the annual report consists of four parts – Independent Auditors' Report, required supplementary information, which includes the management's discussion and analysis (this section), the basic financial statements, and supplementary information. The basic financial statements include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

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED JUNE 30, 2007**

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

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's general and special revenue funds budgets for the year. The following diagram explains how the various parts of this annual report are arranged and related to one another.



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

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



**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED JUNE 30, 2007**

**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 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, 2007**

**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 \$(4,718,940) at June 30, 2007 (see the following table). At June 30, 2006 the net assets were \$(613,901), with a decrease of \$4,105,039 from operating activities for the year ended June 30, 2007.

	<u>2007</u>	<u>2006</u>	<u>Net Change</u>	
			<u>Amount</u>	<u>Percent</u>
Current and Other Assets	<u>\$ 14,712,985</u>	<u>\$ 13,109,624</u>	<u>\$ 1,603,361</u>	<u>12.23%</u>
Capital Assets, Net of Depreciation	<u>50,583,249</u>	<u>39,816,840</u>	<u>10,766,409</u>	<u>27.04%</u>
<b>Total Assets</b>	<b><u>65,296,234</u></b>	<b><u>52,926,464</u></b>	<b><u>12,369,770</u></b>	<b><u>23.37%</u></b>
Current Payables	3,510,638	2,936,427	574,211	19.55%
Long-term Liabilities:				
Due Within One Year	53,437	580,542	(527,105)	-90.80%
Due After One Year	<u>66,451,099</u>	<u>50,023,396</u>	<u>16,427,703</u>	<u>32.84%</u>
<b>Total Liabilities</b>	<b><u>70,015,174</u></b>	<b><u>53,540,365</u></b>	<b><u>16,474,809</u></b>	<b><u>30.77%</u></b>
Net Assets:				
Restricted	245,848	3,314,162	(3,068,314)	-92.58%
Unrestricted	<u>(4,964,788)</u>	<u>(3,928,063)</u>	<u>(1,036,725)</u>	<u>26.39%</u>
<b>Total Net Assets</b>	<b><u>\$ (4,718,940)</u></b>	<b><u>\$ (613,901)</u></b>	<b><u>\$ (4,105,039)</u></b>	<b><u>668.68%</u></b>

The decrease amounted to a 668.68% decrease in net assets.

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED JUNE 30, 2007**

**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, 2007 and 2006. A summary of the District's revenues and expenses, along with the percentages for each category follows:

	<u>2007</u>		<u>2006</u>		<u>Net Change</u>	
	<u>Amounts</u>	<u>Percent</u>	<u>Amounts</u>	<u>Percent</u>	<u>Amounts</u>	<u>Percent</u>
<b>Revenues:</b>						
<b>Program Revenues:</b>						
Charges for Services	\$ 169,886	0.64%	\$ 432,354	1.51%	\$ (262,468)	-60.71%
Operating Grants and Contributions	14,837,499	55.97%	16,127,462	56.15%	(1,289,963)	-8.00%
Capital Grants and Contributions	275,211	1.04%	315,394	1.10%	(40,183)	-12.74%
Total Program Revenues	<u>15,282,596</u>	<u>57.65%</u>	<u>16,875,210</u>	<u>58.76%</u>	<u>(1,592,614)</u>	<u>-9.44%</u>
<b>General Revenues:</b>						
Property Taxes	6,353	0.02%	11,814	0.04%	(5,461)	-46.22%
Aids and Payments from						
State and Federal Sources	10,064,938	37.97%	10,833,692	36.76%	(768,754)	-7.10%
Other Sources	1,154,625	4.36%	999,855	3.48%	154,770	15.48%
Total General Revenues	<u>11,225,916</u>	<u>42.35%</u>	<u>11,845,361</u>	<u>41.24%</u>	<u>(619,445)</u>	<u>-5.23%</u>
<b>Total Revenues</b>	<u>26,508,512</u>	<u>100.00%</u>	<u>28,720,571</u>	<u>100.00%</u>	<u>(2,212,059)</u>	<u>-7.70%</u>
<b>Expenses:</b>						
<b>Instructional:</b>						
Regular Instruction	13,454,705	43.95%	12,344,663	47.80%	1,110,042	8.99%
Vocational Instruction	247,413	0.81%	244,322	0.77%	3,091	1.27%
Exceptional Instruction	2,576,603	8.42%	2,963,796	9.39%	(387,193)	-13.06%
Total Instructional	<u>16,278,721</u>	<u>53.18%</u>	<u>15,552,781</u>	<u>57.96%</u>	<u>725,940</u>	<u>-2.81%</u>
<b>Support Services:</b>						
District Support Services	810,044	2.65%	814,483	2.58%	(4,439)	-0.55%
Instructional Support Services	2,290,332	7.48%	2,036,342	6.45%	253,990	12.47%
Pupil Support Services	2,612,070	8.53%	2,819,876	8.93%	(207,806)	-7.37%
Total Support Services	<u>5,712,446</u>	<u>18.66%</u>	<u>5,670,701</u>	<u>17.96%</u>	<u>41,745</u>	<u>4.56%</u>
Administration	1,535,118	5.01%	1,200,039	3.80%	335,079	27.92%
Community Education and Services	328,984	1.07%	164,507	0.52%	164,477	99.98%
Site, Buildings and Equipment	3,388,888	11.07%	4,409,897	13.97%	(1,021,009)	-23.15%
Fiscal and Other Fixed Costs	160,955	0.53%	147,606	0.47%	13,349	9.04%
Interest on Long-Term Debt	2,294,820	7.50%	3,524,210	11.16%	(1,229,390)	-34.88%
Depreciation - Unallocated	913,619	2.98%	903,776	2.86%	9,843	1.09%
<b>Total Expenses</b>	<u>30,613,551</u>	<u>100.00%</u>	<u>31,573,517</u>	<u>100.00%</u>	<u>(959,966)</u>	<u>-3.04%</u>
<b>Changes in Net Assets</b>	<u>\$ (4,105,039)</u>		<u>\$ (2,852,946)</u>		<u>\$ (1,252,093)</u>	<u>43.89%</u>

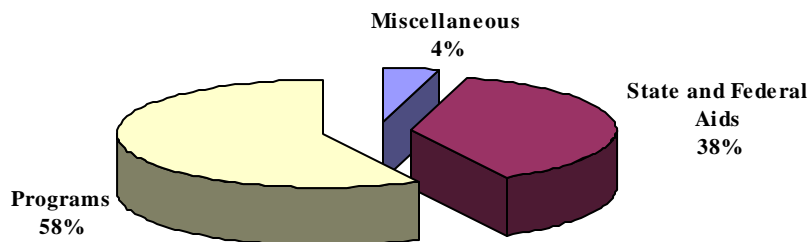
**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED JUNE 30, 2007**

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

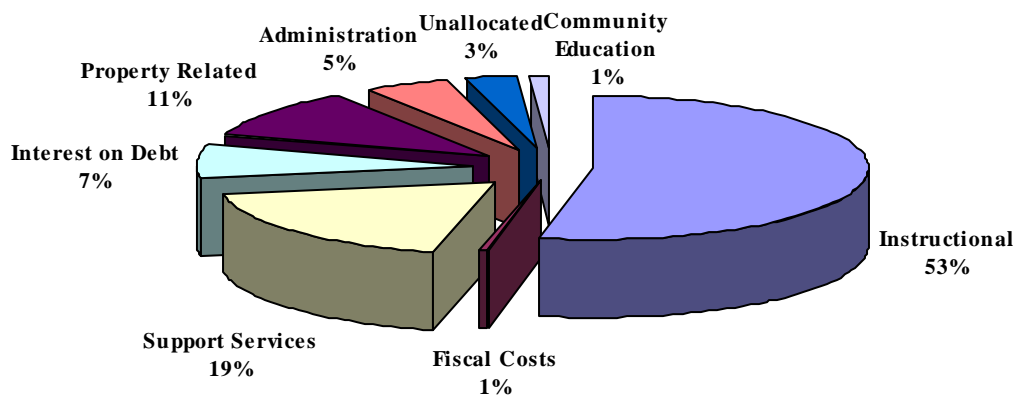
The District's total revenues consisted of program revenues of \$15,282,596, aids and payments from the state and federal sources of \$10,064,938 and \$1,160,978 from miscellaneous other sources. Expenses totaling \$30,613,551 consisted mainly of regular, vocational and exceptional instruction costs of \$16,278,721; district, instructional and pupil support services of \$5,712,446; site, buildings and equipment related costs of \$3,388,888; interest, fiscal, and fixed-cost programs of \$2,455,775; community education and services costs of \$328,984; administrative costs of \$1,535,118; and unallocated depreciation costs of \$913,619.

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

**REVENUES - \$26,508,512**



**EXPENSES - \$30,613,551**



**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED JUNE 30, 2007**

**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, 2007 and 2006 are as follows:

	<u>Cost of Services - 2007</u>		<u>Cost of Services - 2006</u>	
	<u>Total</u>	<u>Net</u>	<u>Total</u>	<u>Net</u>
Expenses:				
Administration	\$ 1,535,118	\$ 1,535,118	\$ 1,200,039	\$ 1,200,039
District Support Services	810,044	697,224	814,483	460,268
Regular Instruction	13,454,705	878,633	12,344,663	(942,119)
Vocational Instruction	247,413	262,113	244,322	215,278
Exceptional Instruction	2,576,603	1,660,708	2,963,796	1,159,853
Community Education and Services	328,984	(9,225)	164,507	1,574
Instructional Support Services	2,290,332	1,896,572	2,036,342	1,686,914
Pupil Support Services	2,612,070	1,705,775	2,819,876	2,166,886
Site, Buildings and Equipment	3,388,888	3,336,653	4,409,897	4,176,944
Fiscal and Other Fixed Costs	160,955	158,945	147,606	144,684
Interest on Long-Term Debt	2,294,820	2,294,820	3,524,210	3,524,210
Depreciation - Unallocated	913,619	913,619	903,776	903,776
	<u>\$ 30,613,551</u>	<u>\$ 15,330,955</u>	<u>\$ 31,573,517</u>	<u>\$ 14,698,307</u>
Total Expenses				

**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 \$11,202,347. This was up from \$10,173,197, at the end of the prior year, an increase of \$1,029,150. The increase was primarily the result of excess revenues over expenditures and other financing sources from the General Fund of \$1,040,720. This consisted of an increase in unreserved general fund balance of \$4,267,246 and a \$2,954,526 decrease in reserved for general fund. The Community Service Fund and Debt Redemption Fund experienced decreases in fund balance of \$19,532 and \$604, respectively. The Capital Projects fund balance increased \$8,566. 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 expenditures from the previous year. The calculation for the June 30, 2006 fund balance follows:

Three months average expenditures for 2006-07 = \$6,042,087  
June 30, 2007 unreserved general fund balance = \$10,956,499

The District surpassed its unreserved general fund balance goal by \$4,914,412.

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED JUNE 30, 2007**

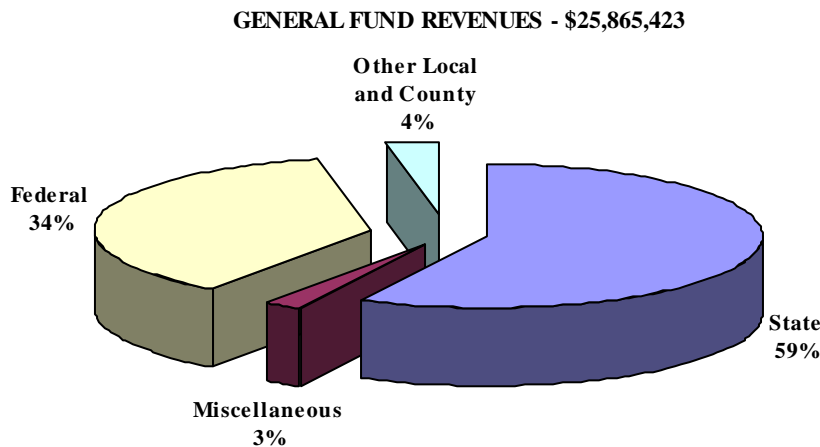
**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**  
**(FUND FINANCIAL STATEMENTS) (Continued)**

**Revenue and Expenditures**

Revenues and other financing sources of the District's governmental funds totaled \$39,010,307 while total expenditures and other financing uses were \$37,981,157. 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 and (Uses)</u>	<u>Fund Balance Increase (Decrease)</u>
General Fund	\$ 25,865,423	\$ 24,168,349	\$ (656,354)	\$ 1,040,720
Food Service Fund	464,156	1,105,442	641,286	-
Community Service Fund	168,084	199,284	11,668	(19,532)
Capital Projects Fund	2,909	11,845,440	11,851,097	8,566
Debt Redemption Fund	5,684	6,288	-	(604)
Totals	<u>\$ 26,506,256</u>	<u>\$ 37,324,803</u>	<u>\$ 11,847,697</u>	<u>\$ 1,029,150</u>

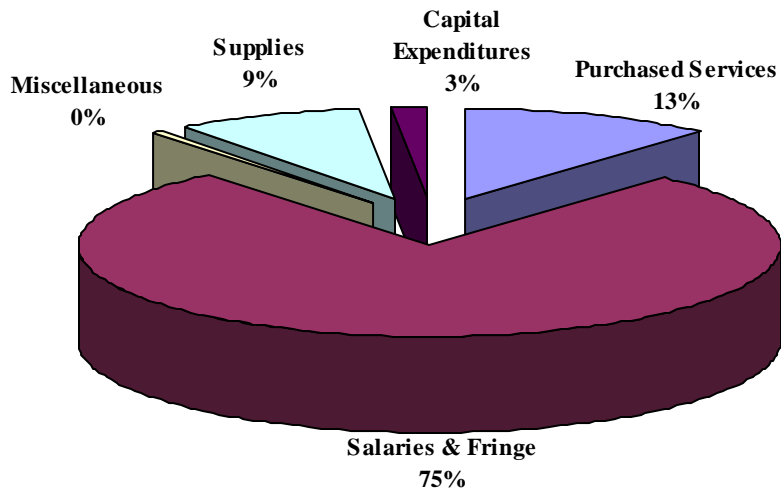
The following graphs are presented for the general fund revenues and expenditures:



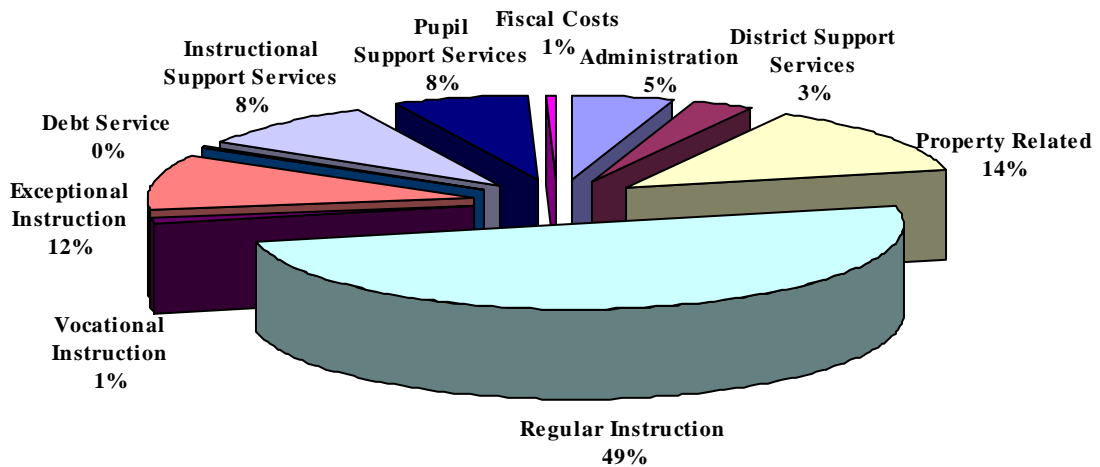
**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED JUNE 30, 2007**

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

**GENERAL FUND EXPENSES BY OBJECT - \$24,168,349**



**GENERAL FUND EXPENSES BY PROJECT - \$24,168,349**



**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED JUNE 30, 2007**

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

**General Fund Budgetary Highlights**

During the year ended June 30, 2007, the District made several revisions to its operating budget. The first revision is planned, and necessary because an initial budget, adopted prior to June 30, 2006, 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. The first revision occurred in the fall of 2006 after student enrollment numbers, staffing levels and other significant informational items were made available. Other revisions occurred as financial information became available that was of a significant nature and therefore necessitated a revision.

The District's general fund final budget anticipated that expenditures and other financing uses would exceed revenues by \$1,811,738. The actual results for the year reported a surplus of revenues over expenditures and other financing uses of \$2,353,428. The difference was due primarily to the increase in transfers out.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

Additions during the year ended June 30, 2007 totaled \$12,067,629 and consisted of \$34,319 of building improvements and additions, \$187,870 of equipment and \$11,845,440 of construction in progress. Disposals during the year ended June 30, 2007 totaled \$94,684 of equipment.

**Long-Term Debt**

At June 30, 2007 the District's long-term indebtedness totaled \$66,504,536. This consisted of capital leases payable of \$82,762, capital loans payable of \$45,682,424, defaulted interest on capital loan of \$15,778,380, severance payable of \$3,946,069 and compensated absences payable of \$1,014,901.



**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED JUNE 30, 2007**

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

**Student Enrollment**

The 2005 Minnesota State Legislature adopted a provision holding the District harmless for the 2005-06 and 2006-07 school years. This provision allows the District to use the actual ADM for the school year or the ADM on March 21, 2005, whichever is greater. As this management discussion and analysis is written, the District's current enrollment is approximately 150 students less than it was in the 2004-05 school year. This provision applies only to state aids. Federal funds (impact aid and ESEA entitlements) will continue to be calculated using actual ADM. The future financial effects of this provision on the District follow.

1. State aids will increase due to the ADM hold harmless provision and statutory increases in the funding formula for fiscal 2007.
2. Impact Aid received in the 2006-07 school year will likely show a decrease. The aid calculated for the 2006-07 school year will use the student enrollment from the fall of 2005. An enrollment decrease of 150 students will mean a reduction in Impact Aid of approximately \$500,000 for the 2006-07 school year.
3. ESEA program (Title I, II, III, IV, and V) funds are calculated on student enrollment and economic status'. An enrollment decrease will mean a reduction in ESEA funds for the 2006-07 school year.

The District experienced a staff turnover as we moved into the 2006-07 school year. The greatest percentage of turnover was at the high school. The District will need to utilize financial resources and large amounts of time to provide training to new staff members. In addition, the District will need to commit additional resources to substitute staff as existing staff members will utilize sick leave to deal with the effects of March 21<sup>st</sup>.

**Political Environment**

The political environment at the Federal level has a significant effect on future finances. The District receives Federal Impact Aid, which is 23% of the District's budget. Federal Impact Aid is not forward funded. The District is a member of the National Association of Federally Impact Schools (NAFIS) which provides Congress and the President with statistical information on the Indian and military students and land base. NAFIS members support a bipartisan coalition on both the U.S. Senate and U.S. House of Representatives to support Federal Impact Aid funding.

The voters of the District approved a Yes or No Ballot Question at a Special Election called by the School Board on November 3, 2003. The Question was should the District incur indebtedness in the amount of \$33,173,792 with a maximum effort capital loan from the State of Minnesota. The proposal calls for the remodeling of the present high school wing into the middle school complex. The District received authorization during the 2005 Minnesota legislative session for an \$18,000,000 state capital loan under the Maximum Effort Loan Program in Minnesota Statutes 126C.69. This project began in the Spring 2006 with an estimated completion date of December 2007.

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 a Maximum Effort Loan of \$55,381,570 for the school district buildings. The 2006 Legislature did not include this request with the bonding bill. The District will be pursuing the bonding request during the 2007 legislative session.

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED JUNE 30, 2007**

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 \$447.10 per resident marginal cost pupil unit. The additional revenue will be used to finance school operations.

The District engaged Hildi Inc. to provide actuarial services in order that the District will be in compliance with GASB 43 and 45. The District chose to begin this process early due to the estimated size of the Other Post Employment Benefits liability. The liability is the result of contractual obligations to teachers who were employed prior to March 1, 1989. In retirement, these teachers receive single or family health insurance at the cost of the District until they are medicare eligible. The District plans to meet the requirements of the GASB 43 and 45 and fully fund the liability by June 30, 2009.

**Labor Force**

Labor contracts have been negotiated for the two-year period beginning July 1, 2005 thru June 30, 2007. Exclusive of capital projects and debt service, salaries, wages and benefits account for 75% of the District's expenses.

**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, 2007**

**ASSETS**

Cash and Cash Equivalents	\$ 1,127,150
Investments	10,869,997
Property Taxes Receivable	1,249
Due from Other Governmental Units	2,522,438
Other Accounts Receivable	158,788
Inventories	25,195
Prepaid Expenses	8,168
Capital Assets, Net of Accumulated Depreciation	<u>50,583,249</u>
 Total Assets	 <u>65,296,234</u>

**LIABILITIES**

Salaries and Wages Payable	900,960
Accounts Payable	1,466,972
Payroll Deductions and Employer Contributions	1,059,588
Property Taxes Levied for Subsequent Years' Expenditures	6,164
Deferred Revenue	76,954
Long-Term Liabilities:	
Portion Due Within One Year	53,437
Portion Due After One Year	<u>66,451,099</u>
 Total Liabilities	 <u>70,015,174</u>

**NET ASSETS**

Restricted for:	
State Mandated General Fund Reserves	232,527
Capital Projects	11,741
Debt Redemption	1,580
Unrestricted	<u>(4,964,788)</u>
 Total Net Assets	 <u><u>\$(4,718,940)</u></u>

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2007**

<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>	<u>Capital Grants and Contributions</u>	
<b>Governmental Activities</b>					
District and School Administration	\$ 1,535,118	\$ -	\$ -	\$ -	\$ (1,535,118)
District Support Services	810,044	-	112,820	-	(697,224)
Regular Instruction	13,454,705	46,183	12,414,300	115,589	(878,633)
Vocational Instruction	247,413	-	(14,700)	-	(262,113)
Exceptional Instruction	2,576,603	30,673	885,222	-	(1,660,708)
Community Education and Services	328,984	772	337,437	-	9,225
Instructional Support Services	2,290,332	7,264	386,496	-	(1,896,572)
Pupil Support Services	2,612,070	84,994	689,200	132,101	(1,705,775)
Site, Buildings and Equipment	3,388,888	-	24,714	27,521	(3,336,653)
Fiscal and Other Fixed Costs	160,955	-	2,010	-	(158,945)
Interest on Long-Term Debt	2,294,820	-	-	-	(2,294,820)
Unallocated Depreciation	913,619	-	-	-	(913,619)
<b>Total Governmental Activities</b>	<b>\$30,613,551</b>	<b>\$ 169,886</b>	<b>\$ 14,837,499</b>	<b>\$ 275,211</b>	<b>(15,330,955)</b>
<b>General Revenues</b>					
<b>Taxes</b>					
					2,663
					147
					3,543
					10,064,938
					547,945
					606,680
					<b>11,225,916</b>
					<b>(4,105,039)</b>
					<b>(613,901)</b>
					<b>\$ (4,718,940)</b>

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**JUNE 30, 2007**

<u>ASSETS</u>	<u>General</u>	<u>Capital Projects</u>	<u>Non-Major Governmental Funds</u>	<u>Totals</u>
Cash and Cash Equivalents	\$ 440,693	\$ 714,717	\$ 4,421	\$ 1,159,831
Investments	10,869,997	-	-	10,869,997
Property Taxes Receivable	754	-	495	1,249
Due from Other Governmental Units	1,867,784	623,367	31,287	2,522,438
Other Accounts Receivable	158,788	-	-	158,788
Prepaid Expenditures	-	8,168	-	8,168
Inventories	12,663	-	12,532	25,195
<b><u>Total Assets</u></b>	<b><u>\$13,350,679</u></b>	<b><u>\$1,346,252</u></b>	<b><u>\$ 48,735</u></b>	<b><u>\$14,745,666</u></b>
<b><u>LIABILITIES AND FUND EQUITY</u></b>				
<b><u>Liabilities</u></b>				
Cash Deficit	\$ -	\$ -	\$ 32,681	\$ 32,681
Salaries and Wages Payable	900,960	-	-	900,960
Accounts Payable	198,496	1,257,557	10,919	1,466,972
Payroll Deductions and Employer Contributions	1,059,588	-	-	1,059,588
Property Taxes Levied for Subsequent Years' Expenditures	2,469	-	3,695	6,164
Deferred Revenue	-	76,954	-	76,954
<b>Total Liabilities</b>	<b><u>2,161,513</u></b>	<b><u>1,334,511</u></b>	<b><u>47,295</u></b>	<b><u>3,543,319</u></b>
<b><u>Fund Equity</u></b>				
Reserved for Health and Safety	(80,061)	-	-	(80,061)
Reserved for Operating Capital	312,728	-	-	312,728
Reserved for Community Education	-	-	(140)	(140)
Unreserved-Undesignated Fund Balance	10,956,499	11,741	1,580	10,969,820
<b>Total Fund Equity</b>	<b><u>11,189,166</u></b>	<b><u>11,741</u></b>	<b><u>1,440</u></b>	<b><u>11,202,347</u></b>
 <b><u>Total Liabilities and Fund Equity</u></b>	 <b><u>\$13,350,679</u></b>	 <b><u>\$1,346,252</u></b>	 <b><u>\$ 48,735</u></b>	 <b><u>\$14,745,666</u></b>

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**RECONCILIATION OF THE BALANCE SHEET -**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS**  
**JUNE 30, 2007**

Total Fund Balances - Governmental Funds \$11,202,347

Amounts reported for governmental activities in the statement of net assets are different

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.

Cost	\$62,284,216	
Accumulated Depreciation	(11,700,967)	
Net Depreciated Value of Capital Assets		50,583,249

Severance payable is not due and payable in the current period and therefore is not reported as a liability in the funds.

(3,946,069)

Compensated absences payable are not due and payable in the current period and therefore are not reported as liabilities in the funds.

(1,014,901)

Capital loan payable is not due and payable in the current period and therefore is not reported as a liability in the funds.

(45,682,424)

Defaulted interest on capital loan payable is not due and payable in the current period and therefore is not reported as a liability in the funds.

(15,778,380)

Capital leases payable is not due and payable in the current period and therefore is not reported as a liability in the funds.

(82,762)

Total Net Assets - Governmental Activities

\$ (4,718,940)

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2007**

	<u>General</u>	<u>Capital Projects</u>	<u>Non-Major Governmental Funds</u>	<u>Totals</u>
<b><u>Revenues</u></b>				
Local Property Taxes	\$ 2,663	\$ -	\$ 3,690	\$ 6,353
Other Local and County Revenues	812,380	-	814	813,194
Revenues from State Sources	14,886,526	-	192,747	15,079,273
Revenues from Federal Sources	9,619,565	-	432,940	10,052,505
Investment Earnings	544,289	2,909	7,733	554,931
<b><u>Total Revenues</u></b>	<b><u>25,865,423</u></b>	<b><u>2,909</u></b>	<b><u>637,924</u></b>	<b><u>26,506,256</u></b>
<b><u>Expenditures</u></b>				
District and School Administration	1,216,602	-	-	1,216,602
District Support Services	721,897	-	-	721,897
Regular Instruction	12,098,279	-	-	12,098,279
Vocational Instruction	247,413	-	-	247,413
Exceptional Instruction	2,574,859	-	-	2,574,859
Community Education and Services	-	-	199,284	199,284
Instructional Support Services	2,171,194	-	-	2,171,194
Pupil Support Services	1,614,267	-	1,105,442	2,719,709
Site, Buildings, and Equipment	3,314,152	11,845,440	-	15,159,592
Fiscal and Other Fixed Costs	160,955	-	-	160,955
Debt Service	48,731	-	6,288	55,019
<b><u>Total Expenditures</u></b>	<b><u>24,168,349</u></b>	<b><u>11,845,440</u></b>	<b><u>1,311,014</u></b>	<b><u>37,324,803</u></b>
<b><u>Excess of Revenues Over (Under) Expenditures</u></b>	<b><u>1,697,074</u></b>	<b><u>(11,842,531)</u></b>	<b><u>(673,090)</u></b>	<b><u>(10,818,547)</u></b>
<b><u>Other Financing Sources (Uses)</u></b>				
Operating Transfer In (Out)	(656,354)	3,400	652,954	-
Capital Loan Proceeds	-	11,847,697	-	11,847,697
<b><u>Total Other Financing Sources (Uses)</u></b>	<b><u>(656,354)</u></b>	<b><u>11,851,097</u></b>	<b><u>652,954</u></b>	<b><u>11,847,697</u></b>
<b><u>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</u></b>	<b><u>1,040,720</u></b>	<b><u>8,566</u></b>	<b><u>(20,136)</u></b>	<b><u>1,029,150</u></b>
<b><u>Fund Balances, Beginning of Year</u></b>	<b><u>10,148,446</u></b>	<b><u>3,175</u></b>	<b><u>21,576</u></b>	<b><u>10,173,197</u></b>
<b><u>Fund Balances, End of Year</u></b>	<b><u>\$11,189,166</u></b>	<b><u>\$ 11,741</u></b>	<b><u>\$ 1,440</u></b>	<b><u>\$11,202,347</u></b>

**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, 2007**

Net Change in Fund Balances - Total Governmental Funds \$ 1,029,150

Amounts reported for governmental activities in the statement of activities are different

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	\$12,067,629	
Depreciation	(1,301,220)	
Excess Capital Outlay Over Depreciation Expense		10,766,409

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. Issuance of long-term debt is reported as a revenue in governmental funds, but the issuan

Capital Leases Payable at June 30, 2006	122,787	
Capital Leases Payable at June 30, 2007	(82,762)	
Capital Loans Payable at June 30, 2006	33,836,983	
Capital Loans Payable at June 30, 2007	(45,682,424)	
Defaulted Interest Payable at June 30, 2006	13,495,293	
Defaulted Interest Payable at June 30, 2007	(15,778,380)	
Separation and Severance Payable at June 30, 2006	1,143,610	
Separation and Severance Payable at June 30, 2007	(3,946,069)	
Compensated Absences Payable at June 30, 2006	2,005,265	
Compensated Absences Payable at June 30, 2007	(1,014,901)	
Total Long-Term Debt Payments		(15,900,598)

Change in Net Assets of Government Activities \$ (4,105,039)



**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**STATEMENT OF FIDUCIARY NET ASSETS -**  
**SCHOLARSHIP TRUST FUND**  
**YEAR ENDED JUNE 30, 2007**

**ASSETS**

Cash and Cash Equivalents	\$ 926
Investments	<u>7,724</u>
<b>Total Assets</b>	<b><u>8,650</u></b>

**LIABILITIES**

Other Payables	<u>7,300</u>
----------------	--------------

**NET ASSETS**

Net Assets Held in Trust	<b><u><u>\$ 1,350</u></u></b>
--------------------------	-------------------------------

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS -**  
**SCHOLARSHIP TRUST FUND**  
**YEAR ENDED JUNE 30, 2007**

**ADDITIONS**

Donations \$ 2,600

**SUBTRACTIONS**

Scholarship Payments (1,250)

Net Assets Beginning of Year -

Net Assets, End of Year \$ 1,350

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**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, 2006. 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 a 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, 2007**

**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.

As a general rule the District does not engage in inter-fund activities, therefore there is no need to eliminate inter-fund activity from the District-wide financial statements.

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 2006 payable 2007 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, 2007**

**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 funds and fiduciary funds in this report are as follows:

**Governmental Funds**

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

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

**Fiduciary Fund**

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

All of the District's fiduciary activities are reported in 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, 2007**

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

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

**D. Assets, 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, 2007. 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 represent taxes collectible for the 1999 through 2005 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, 2007**

**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 2000 through 2006 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, 2007, 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, 2007**

**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 and 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.

**Compensated Absences Payable** – 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, 2007**

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

**E. 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 Defecits**

Fund Balance deficits exist in the following funds at June 30, 2007:

General Fund:	
Reserved for Health and Safety	\$ 80,061
Community Service Fund:	
Reserved for Community Education	140

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

**NOTE 3 – Deposit and Investments**

**A. Deposits**

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

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

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**NOTE 3 – Deposit and Investments (Continued)**

**B. Investments**

**Authority**

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

1. securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of congress, except mortgage-backed securities defined as “high risk” by Minnesota Statutes;
2. mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
3. general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
4. bankers’ acceptances of United States banks;
5. commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and maturities in 270 days or less; and
6. with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

The District has not adopted a formal investment policy. The District’s only investment is through the Minnesota School District Liquid Asset Fund Plus (MSDLAF+), which is an external investment pool that meets the definition of a 2a7-like pool. Because the District’s only investment is through the MSDLAF+ there are no disclosure requirements for custodial credit risk, concentration of credit risk, interest rate risk and foreign currency risk.

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

**NOTE 4 – Property Taxes**

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

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

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

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.

**NOTE 4 – Property Taxes - Continued**

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

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

The total net tax capacity for levy year 2006 (payable in 2007) was \$10,265 with a market value of \$610,200. The tax capacity rate was 39.981%.

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, 2007 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>
Other Minnesota School Districts	\$ 492	\$ -	\$ -	\$ -	\$ -	\$ 492
Minnesota Department of Education:						
State Aids and Grants	1,161,191	-	17,468	-	202	1,178,861
Federal Aids and Grants	704,955	13,617	-	-	-	718,572
Capital Loan Proceeds	-	-	-	623,367	-	623,367
Federal Aids Directly	1,146	-	-	-	-	1,146
<b>Totals</b>	<b><u>\$ 1,867,784</u></b>	<b><u>\$ 13,617</u></b>	<b><u>\$ 17,468</u></b>	<b><u>\$ 623,367</u></b>	<b><u>\$ 202</u></b>	<b><u>\$ 2,522,438</u></b>

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**NOTE 6 – Capital Assets**

Capital asset activity for the year ended June 30, 2007 is as follows:

	Capital Assets			
	Beginning Balance	Additions	Sales and Retirements	Ending Balance
Construction in Progress	\$ 1,101,048	\$ 11,845,440	\$ -	\$ 12,946,488
<b><u>Depreciable Capital Assets</u></b>				
Land and Land Improvements	490,739	-	-	490,739
Buildings	44,700,898	34,319	-	44,735,217
Equipment	4,018,586	187,870	94,684	4,111,772
Total Depreciable Assets	49,210,223	222,189	94,684	49,337,728
<b><u>Accumulated Depreciation</u></b>				
Land and Land Improvements	288,639	22,999	-	311,638
Buildings	8,167,935	899,098	-	9,067,033
Equipment	2,037,857	379,123	94,684	2,322,296
Total Accumulated Depreciation	10,494,431	1,301,220	94,684	11,700,967
Total Capital Assets	\$ 39,816,840	\$ 10,766,409	\$ -	\$ 50,583,249

Depreciation expense was charged to the following program services:

District and School Administration	\$ 47,187
District Support Services	2,008
Regular Instruction	28,036
Vocational Instruction	1,563
Instructional Support Services	129,700
Pupil Support Services	130,594
Site, Buildings and Equipment	48,513
Unallocated Depreciation	913,619
Total Depreciation Expense	\$ 1,301,220

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**NOTE 7 – Pension Plans**

**A. Teachers Retirement Association**

**Plan Description**

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

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

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

**Tier I:**

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

With these provisions:

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

or

**Tier II:** For years of service prior to July 1, 2006, a level formula of 1.7 percent per year for coordinated members and 2.7 percent per year for basic members. For years of service July 1, 2006 and after, a level formula of 1.9 percent per year for Coordinated members and 2.7 for Basic members applies. Actuarially equivalent early retirement reduction factors with augmentation are used for early retirement before the normal age of 65. These reduction factors average approximately 4 to 5.5 percent per year.

Members first employed after June 30, 1989 receive only the Tier II calculation with a normal retirement age that is their retirement age for full Social Security retirement benefits, but not to exceed age 66.

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**NOTE 7 – Pension Plans (Continued)**

Six different types of annuities are available to members upon retirement. The No Refund Life Plan (A-1) is a lifetime annuity that ceases upon death of the retiree - no survivor annuity is payable. A retiring member may also choose to provide survivor benefits to a designated beneficiary(ies) by selecting one of the five plans which have survivorship features. Vested members may also leave their contributions in the TRA Fund upon termination of service in order to qualify for a deferred annuity at retirement age. Members terminating service are also eligible for a refund of their employee contributions plus interest.

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

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

Teachers Retirement Association  
60 Empire Drive Suite 400  
St. Paul MN 55103-1855  
(651) 296-6449  
(800) 657-3853

**Funding Policy**

Minnesota Statutes Chapter 354 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. As of July 1, 2006, Coordinated and Basic Plan members are required to contribute 5.5 percent and 9.0 percent, respectively, of their annual covered salary. Employer contribution rates matched the rates paid by the member of 5.0 percent for Coordinated members and 9.0 percent for Basic members. Total covered salaries for all TRA members statewide during fiscal year 2006, was approximately \$3.431 billion.

The District's contributions for the years ending June 30, 2007, 2006, and 2005 were \$421,181, \$420,762, and \$426,652, respectively, equal to the required contributions for each year as set by state statute.

**B. Public Employees Retirement Association**

**Plan Description**

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

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**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](http://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, 2007**

**NOTE 7 – Pension Plans (Continued)**

**Funding Policy**

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These contributions 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 are required to contribute 9.10% and 5.50%, respectively, of their annual covered salary in 2006. Coordinated plan rates increased to 5.75% starting January 1, 2007. The District is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members and 6.0% for Coordinated Plan members in 2006, and 6.25% for Coordinated Plan members in 2007. The District's contributions to the Public Employees Retirement Fund for the years ending June 30, 2007, 2006, and 2005 were \$272,635, \$251,531, and \$250,114, respectively, equal to the contractually required contributions for each year as set by State Statute.

**NOTE 8 – Capital Lease Obligation**

The District has entered into two lease agreements as lessee for financing the acquisition of various pieces of energy conservation equipment and custodial equipment. These lease agreements qualified as capital leases for accounting purposes (titles transfer at the end of the lease terms) and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of the inception. The following is an analysis of equipment leased under capital leases as of June 30, 2007:

<b>Various Equipment to Achieve Energy Conservation Measures</b>	<b><u>\$373,806</u></b>
 <b><u>Year Ending June 30,</u></b>	
2008	\$ 48,731
2009	<u>24,361</u>
 Total minimum lease payments	 73,092
Less: Amount representing interest	<u>3,735</u>
Present value of future minimum lease payments	<u>\$69,357</u>
<b>Custodial Equipment</b>	<b><u>\$ 22,022</u></b>
 <b><u>Year Ending June 30,</u></b>	
2008	\$ 7,674
2009	<u>7,674</u>
 Total minimum lease payments	 15,348
Less: Amount representing interest	<u>1,943</u>
Present value of future minimum lease payments	<u>\$ 13,405</u>



**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**NOTE 9 - Long-Term Debt**

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

	Beginning Balance	Additions	Payments and Retirements	Ending Balance	Current Amounts	
					Principal	Interest
Capital Leases Payable	\$ 122,787	\$ 11,000	\$ 51,025	\$ 82,762	\$ 53,437	\$ 3,103
Capital Loans Payable	33,836,983	11,845,441	-	45,682,424	-	-
Defaulted Interest on Capital Loan	13,495,293	2,283,087	-	15,778,380	-	-
Total	47,455,063	14,139,528	51,025	61,543,566	53,437	3,103
Separation and Severance Payable	1,143,610	2,802,459	-	3,946,069		-
Compensated Absences Payable	2,005,265	-	990,364	1,014,901		-
Total Long-Term Debt	<u>\$ 50,603,938</u>	<u>\$ 16,941,987</u>	<u>\$ 1,041,389</u>	<u>\$ 66,504,536</u>	<u>\$ 53,437</u>	<u>\$ 3,103</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. As of June 30, 2007, \$11,636,676 had been expended.

During the 2005 fiscal year, the District received approval for an additional capital loan from the State of Minnesota to remodel the Red Lake High School and Middle School. As of June 30, 2007, \$12,879,748 had been 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.

There were no authorized and un-issued bonds at June 30, 2007.

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**NOTE 10 - Reserved Fund Balances**

The District reserves fund balances for the following reasons:

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

**Reserved for Community Education** represents the resources available to provide programming such as: non-vocational, recreational and leisure time activities, programs for adults with disabilities, non-credit summer programs, adult basic education programs, youth development and youth service programming, early childhood and family education, and extended day programs.

**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 entered into a joint powers agreement with Minnesota School Districts to participate in the Minnesota School Boards Association (MSBA) Insurance Trust to cover workers' compensation liabilities, school leaders' errors and omissions, and property and casualty liabilities. For all other risks, the District has purchased commercial insurance. 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.

The Self-Insured Workers' Compensation Program of MSBA Insurance Trust is a self-sustaining program and based on the premiums charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims, liabilities and other expenses. MSBAIT participates in the Workers' Compensation Reinsurance Association as required by law. Should the MSBAIT Self-Insured Compensation Program liabilities exceed assets, the MSBAIT may assess the District in a method and amount to be determined by MSBAIT.

The Property and Casualty Division of MSBAIT is self-sustaining and the District pays an annual premium to cover current and future losses. The MSBAIT carries reinsurance for its property lines to protect against catastrophic losses. Should the MSBAIT Property and Casualty Division liabilities exceed assets, MSBAIT may assess the District in a method and amount to be determined by MSBAIT.

**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, 2006 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.

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**NOTE 12 - Commitments and Contingencies (Continued)**

**Litigation**

The office of Johnson Condon represents the interests of the District with regard to the District's liability exposure resulting from a March 21, 2005 shooting incident at Red Lake Senior High School in Red Lake, Minnesota. Several families and individuals killed or injured in the incident ("Claimants") have retained counsel, but no lawsuits were formally commenced against the District. On or about July 20, 2006, the District reached an out-of-court settlement with the Claimants. The settlement agreement contemplates approval by the United States District Court for the District of Minnesota ("Federal Court") and the Beltrami County District Court. As of August 22, 2006 the Federal Court and the Beltrami County District Court, respectively, have entered orders approving the settlement agreement.

**NOTE 13 – Construction Project**

In 2001 District voters authorized up to \$37,940,000 for new construction and remodeling of the Early Childhood Center; Red Lake Elementary, Ponemah Elementary; Red Lake Middle School and Red Lake High School. The 2002 legislative session appropriated \$12,400,000 for new construction and remodeling the Red Lake High School, new construction and remodeling the Ponemah Elementary School and new construction for the Early Childhood Center.

In 2003 District voters authorized up to \$33,173,792 for new construction of a separate Red Lake Middle School and new construction and renovation to the Red Lake High School. The District received authorization during the 2005 legislative session for an \$18,000,000 state capital loan under the Maximum Effort Loan program in Minnesota Statutes 126C.69. The state requires the Red Lake School District to make a financial contribution of \$66,739.65 toward the project.

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**GENERAL FUND**  
**BUDGETARY COMPARISON SCHEDULE**  
**YEAR ENDED JUNE 30, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b><u>Revenues</u></b>				
Local Property Taxes		\$ 2,902	\$ 2,663	\$ (239)
Other Local and County Revenues		203,260	812,380	609,120
Revenues from State Sources		16,435,912	14,886,526	(1,549,386)
Revenues from Federal Sources		6,990,663	9,619,565	2,628,902
Investment Earnings		500,000	544,289	44,289
<b><u>Total Revenues</u></b>	<b><u>-</u></b>	<b><u>24,132,737</u></b>	<b><u>25,865,423</u></b>	<b><u>1,732,686</u></b>
<b><u>Expenditures</u></b>				
District and School Administration		1,348,716	1,216,602	132,114
District Support Services		837,155	721,897	115,258
Regular Instruction		12,990,049	12,098,279	891,770
Vocational Instruction		252,221	247,413	4,808
Exceptional Instruction		3,048,446	2,574,859	473,587
Instructional Support Services		2,210,157	2,171,194	38,963
Pupil Support Services		2,127,627	1,614,267	513,360
Site, Buildings and Equipment		3,599,589	3,314,152	285,437
Fiscal and Other Fixed Costs		153,873	160,955	(7,082)
Debt Service		70,070	48,731	21,339
<b><u>Total Expenditures</u></b>	<b><u>-</u></b>	<b><u>26,637,903</u></b>	<b><u>24,168,349</u></b>	<b><u>2,469,554</u></b>
<b><u>Excess of Revenues Over (Under) Expenditures</u></b>	<b><u>-</u></b>	<b><u>(2,505,166)</u></b>	<b><u>1,697,074</u></b>	<b><u>4,202,240</u></b>
<b><u>Other Financing Sources (Uses)</u></b>				
Operating Transfers Out		(693,428)	(656,354)	(37,074)
<b><u>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</u></b>	<b><u>-</u></b>	<b><u>(1,811,738)</u></b>	<b><u>2,353,428</u></b>	<b><u>4,165,166</u></b>
<b><u>Fund Balances, Beginning of Year</u></b>	<b><u>10,148,446</u></b>	<b><u>10,148,446</u></b>	<b><u>10,148,446</u></b>	<b><u>-</u></b>
<b><u>Fund Balances, End of Year</u></b>	<b><u>\$10,148,446</u></b>	<b><u>\$8,336,708</u></b>	<b><u>\$12,501,874</u></b>	<b><u>\$ 4,165,166</u></b>

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2007**

**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.

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**COMBINING BALANCE SHEET**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**JUNE 30, 2007**

	<u>Special Revenue Funds</u>		<u>Debt Redemption Fund</u>	<u>Totals</u>
	<u>Food Service Fund</u>	<u>Community Service Fund</u>		
<b><u>ASSETS</u></b>				
Cash and Cash Equivalents	\$ -	\$ -	\$ 4,421	\$ 4,421
Property Taxes Receivable	-	20	475	495
Due from Other Governmental Units	13,617	17,468	202	31,287
Inventories	12,532	-	-	12,532
<b><u>Total Assets</u></b>	<b><u>\$26,149</u></b>	<b><u>\$ 17,488</u></b>	<b><u>\$ 5,098</u></b>	<b><u>\$48,735</u></b>
<b><u>LIABILITIES AND FUND EQUITY</u></b>				
<b><u>Liabilities</u></b>				
Cash Deficit	\$15,674	\$ 17,007	\$ -	\$32,681
Accounts Payable	10,475	444	-	10,919
Property Taxes Levied for Subsequent Years' Expenditures	-	177	3,518	3,695
<b><u>Total Liabilities</u></b>	<b><u>26,149</u></b>	<b><u>17,628</u></b>	<b><u>3,518</u></b>	<b><u>47,295</u></b>
<b><u>Fund Equity</u></b>				
Reserved for Community Education	-	(140)	-	(140)
Unreserved-Undesignated Fund Balance	-	-	1,580	1,580
<b><u>Total Fund Equity</u></b>	<b><u>-</u></b>	<b><u>(140)</u></b>	<b><u>1,580</u></b>	<b><u>1,440</u></b>
<b><u>Total Liabilities and Fund Equity</u></b>	<b><u>\$26,149</u></b>	<b><u>\$ 17,488</u></b>	<b><u>\$ 5,098</u></b>	<b><u>\$48,735</u></b>

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2007**

	<u>Special Revenue Funds</u>			<u>Totals</u>
	<u>Food Service Fund</u>	<u>Community Service Fund</u>	<u>Debt Redemption Fund</u>	
<b><u>Revenues</u></b>				
Local Property Taxes	\$ -	\$ 147	\$ 3,543	\$ 3,690
Other Local and County Revenues	42	772	-	814
Revenues from State Sources	24,189	166,548	2,010	192,747
Revenues from Federal Sources	432,940	-	-	432,940
Investment Earnings	6,985	617	131	7,733
<b><u>Total Revenues</u></b>	<b><u>464,156</u></b>	<b><u>168,084</u></b>	<b><u>5,684</u></b>	<b><u>637,924</u></b>
<b><u>Expenditures</u></b>				
Community Education and Services	-	199,284	-	199,284
Pupil Support Services	1,105,442	-	-	1,105,442
Debt Service	-	-	6,288	6,288
<b><u>Total Expenditures</u></b>	<b><u>1,105,442</u></b>	<b><u>199,284</u></b>	<b><u>6,288</u></b>	<b><u>1,311,014</u></b>
<b><u>Excess of Revenues Over (Under) Expenditures</u></b>	<b><u>(641,286)</u></b>	<b><u>(31,200)</u></b>	<b><u>(604)</u></b>	<b><u>(673,090)</u></b>
<b><u>Other Financing Sources</u></b>				
Operating Transfer In	641,286	11,668	-	652,954
<b><u>Excess of Revenues and Other Financing Sources Over (Under) Expenditures</u></b>	<b><u>-</u></b>	<b><u>(19,532)</u></b>	<b><u>(604)</u></b>	<b><u>(20,136)</u></b>
<b><u>Fund Balances, Beginning of Year</u></b>	<b><u>-</u></b>	<b><u>19,392</u></b>	<b><u>2,184</u></b>	<b><u>21,576</u></b>
<b><u>Fund Balances, End of Year</u></b>	<b><u>\$ -</u></b>	<b><u>\$ (140)</u></b>	<b><u>\$ 1,580</u></b>	<b><u>\$ 1,440</u></b>

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS**  
**COMPLIANCE TABLE**  
**JUNE 30, 2007**

**01 GENERAL FUND**

Total Revenue	<u>\$25,865,423</u>
Total Expenditures	<u>24,168,349</u>
Reserved Fund Balances:	
4.03 Staff Development	<u>-</u>
4.06 Health and Safety	<u>(80,061)</u>
4.07 Down Payment Levy	<u>-</u>
4.08 Cooperative Revenue	<u>-</u>
4.09 Deferred Maintenance	<u>-</u>
4.10 Reemployment Insurance	<u>-</u>
4.11 Severance Pay	<u>-</u>
4.12 Bus Purchase	<u>-</u>
4.14 Operating Debt	<u>-</u>
4.16 Levy Reduction	<u>-</u>
4.19 Encumbrances	<u>-</u>
4.23 Certain Teacher Programs	<u>-</u>
4.24 Operating Capital	<u>312,728</u>
4.26 \$25 Taconite	<u>-</u>
4.27 Disabled Accessibility	<u>-</u>
4.28 Learning & Development	<u>-</u>
4.33 Student Transportation Safety	<u>-</u>
4.34 Area Learning Center	<u>-</u>
4.35 Contracted Alt. Programs	<u>-</u>
4.36 State Approved Alt. Program	<u>-</u>
4.38 Grad Standards Gifted & Talented	<u>-</u>
4.39 Grad Standards	<u>-</u>
4.41 Basic Skills Program	<u>-</u>
4.42 Class Size Reduction; All Day Kgn.	<u>-</u>
4.43 Telecommunications Access	<u>-</u>
4.45 Career and Technical Programs	<u>-</u>
4.46 First Grade Preparedness	<u>-</u>
4.49 Safe Schools Levy	<u>-</u>
4.50 Pre-Kindergarten	<u>-</u>
Unreserved Fund Balances:	
4.18 Designated Severance - Ins Prem	<u>-</u>
4.22 Unreserved/Undesignated	<u>10,956,499</u>

**02 FOOD SERVICE**

Total Revenue	<u>464,156</u>
Total Expenditures	<u>1,105,442</u>
Reserved Fund Balances:	
4.11 Severance Pay	<u>-</u>
4.19 Encumbrances	<u>-</u>
Unreserved Fund Balances:	
4.18 Designated Severance - Ins Prem	<u>-</u>
4.22 Unreserved/Undesignated	<u>-</u>

**04 COMMUNITY SERVICE**

Total Revenue	<u>168,084</u>
Total Expenditures	<u>199,284</u>

**04 COMMUNITY SERVICE (CONT.)**

Reserved Fund Balances:		
4.11 Severance	<u>\$ -</u>	
4.19 Encumbrances	<u>-</u>	
4.26 \$25 Taconite	<u>-</u>	
4.31 Community Education	<u>(140)</u>	
4.32 E.C.F.E.	<u>-</u>	
4.44 School Readiness	<u>-</u>	
4.47 Adult Basic Education	<u>-</u>	
Unreserved Fund Balances:		
4.18 Desig. Severance - Ins. Prem.	<u>-</u>	
4.22 Unreserved/Undesignated	<u>-</u>	

**06 BUILDING CONSTRUCTION**

Total Revenue	<u>2,909</u>
Total Expenditures	<u>11,845,440</u>
Reserved Fund Balances:	
4.07 Alt. Down Payment Levy	<u>-</u>
4.09 Alternative Facility Program	<u>-</u>
4.19 Encumbrances	<u>-</u>
Unreserved Fund Balances:	
4.22 Unreserved/Undesignated	<u>11,741</u>

**07 DEBT SERVICE**

Total Revenue	<u>5,684</u>
Total Expenditures	<u>6,288</u>
Reserved Fund Balances:	
4.25 Bond Refundings	<u>-</u>
Unreserved Fund Balances:	
4.22 Unreserved/Undesignated	<u>1,580</u>

**08 TRUST**

Total Revenue	<u>-</u>
Total Expenditures	<u>-</u>
Reserved Fund Balances:	
4.19 Encumbrances	<u>-</u>
Unreserved Fund Balances:	
4.22 Unreserved/Undesignated	<u>-</u>

**09 AGENCY**

Unreserved Fund Balances:	
4.22 Unreserved/Undesignated	<u>-</u>

**20 INTERNAL SERVICE**

Total Revenue	<u>-</u>
Total Expenditures	<u>-</u>
Reserved Fund Balances:	
4.19 Encumbrances	<u>-</u>
Unreserved Fund Balances:	
4.22 Unreserved/Undesignated	<u>-</u>



**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**STUDENT ACTIVITY DETAIL**  
**YEAR ENDED JUNE 30, 2007**

<u>Account</u>	<u>Balance 7/1/06</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Balance 6/30/07</u>
Class of 2006	\$ 7,345	\$ -	7,345	\$ -
Class of 2007	(1,328)	1,795	-	467
Class of 2008	393	15,716	10,349	5,760
Class of 2009	773	-	-	773
RLHS Student Council	7,626	605	1,217	7,014
RLMS Student Council	6,337	342	-	6,679
Ski Club	5,615	677	3,300	2,992
PES ELC	247	-	-	247
Cheerleaders	218	-	-	218
RLHS Art Club	901	-	-	901
RLMS Art Club	-	1,800	-	1,800
RLHS Auto Club	824	-	-	824
RLMS Mass Production	1,259	-	-	1,259
<b>Totals</b>	<b><u>\$ 30,210</u></b>	<b><u>\$ 20,935</u></b>	<b><u>22,211</u></b>	<b><u>\$ 28,934</u></b>

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2007**

<b><u>Federal Grantor/Pass-Through Grantor/Program Title</u></b>	<b><u>Federal CFDA Number</u></b>	<b><u>Federal Expenditures</u></b>
<b><u>U. S. Department of Agriculture</u></b>		
Pass-Through Minnesota Department of Education:		
Clustered Programs:		
National School Breakfast Program	10.553	\$ 109,661
National School Lunch Program	10.555	276,740
After School Snack Program	10.555	4,057
Summer Food Program	10.559	19,704
Total Clustered Programs		<u>410,162</u>
Commodity Rebate	10.558	478
Commodity Distribution (Commodities Released)	10.550	22,300
<b><u>Total Department of Agriculture</u></b>		<u>432,940</u>
<b><u>U. S. Department of Education</u></b>		
Direct Programs:		
Impact Aid	84.041	7,215,572
School Emergency Response	84.184	175,446
Indian Education	84.060	314,635
Pass-Through Minnesota Department of Education:		
Title I Part A	84.010	1,145,351
Special Education - General	84.027	342,796
Special Education - Preschool	84.173	21,682
Special Education - Infants and Toddlers	84.181	14,224
Drug Free Schools	84.186	25,170
Rural Low Income Program	84.358	36,247
Comprehensive School Reform	84.332	44,638
Title II Part A - Improving Teacher Quality	84.367	169,974
Title III Part A - English Language Acquisition	84.365	23,281
Title II Part D - Education Technology	84.318	16,917
Title I Part H - School Dropout Prevention	84.360	16,552
Title V Part A - Innovate Education Program Strategies	84.298	5,894
<b><u>Total Department of Education</u></b>		<u>9,568,379</u>
<b><u>Total Federal Assistance Expended</u></b>		<u>\$10,001,319</u>

**Note to the Schedule of Expenditures of Federal Awards**

**Note 1. Basis of Presentation**

The above 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.

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**TAX LEVIES, TAX RATES AND STUDENT CENSUS**  
**JUNE 30, 2007**

	2007	2006	2005	2004	2003	2002
<b>Property Tax Levies</b>						
General Referendum	\$ 2,768	\$ 2,390	\$ 1,422	\$ 1,914	\$ 1,606	\$ 1,667
General Maintenance	418	512	24	331	3,203	733
Community Service	118	146	162	171	124	129
Debt Redemption	3,568	3,543	4,404	5,323	3,217	3,171
<b>Total Property Tax Levies</b>	<b>\$ 6,872</b>	<b>\$ 6,591</b>	<b>\$ 6,012</b>	<b>\$ 7,739</b>	<b>\$ 8,150</b>	<b>\$ 5,700</b>
<b>Referendum Market Value</b>						
	\$610,200	\$619,100	\$617,400	\$617,800	\$624,400	\$587,500
<b>Net Tax Capacity</b>						
	10,265	10,347	10,308	10,324	10,437	9,732
<b>Rates</b>						
Market Value	0.45362	0.42804	0.23032	0.30981	0.27314	0.28366
Net Tax Capacity	39.981	38.098	44.494	56.421	63.706	41.449
<b>Students Served (Weighted ADM's)</b>						
Residents	1,716.27	1,749.75	1,865.99	1,912.52	1,942.08	1,874.71
<b>Nonresidents in District</b>						
Tuition	-	0.48	-	1.12	4.82	-
Enrollment Options	3.05	1.31	4.47	8.15	1.12	-
<b>Residents Outside District</b>						
Enrollment Options	(300.37)	(235.32)	(244.06)	(258.62)	(243.68)	(252.50)
<b>Adjusted Weighted ADM's</b>	<b>1,418.95</b>	<b>1,515.74</b>	<b>1,626.40</b>	<b>1,662.05</b>	<b>1,704.34</b>	<b>1,622.21</b>
<b>Resident ADM's</b>	<b>1,512.37</b>	<b>1,537.90</b>	<b>1,630.83</b>	<b>1,674.22</b>	<b>1,690.25</b>	<b>1,633.07</b>



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

**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, 2007, which collectively comprise Independent School District No. 38's basic financial statements and have issued our report thereon dated **August 17, 2006**.

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 six main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and uniform financial accounting and reporting standards for school districts. 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.

**August 17, 2006**  
 Bemidji, Minnesota



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

**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, 2007, which collectively comprise Independent School District No. 38's basic financial statements and have issued our report thereon dated **August 17, 2006**. 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Independent School District No. 38's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Independent School District No. 38's financial statements will not be prevented or detected by Independent School District No. 38's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as item 07-1 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than remote likelihood that material misstatement of the financial statements will not be prevented or detected by Independent School District No. 38's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that are also considered to be material weaknesses. However, we believe none of the significant deficiencies described above is a material weakness.

#### 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*.

Also included in the Schedule of Findings and Questioned Costs is an additional item for consideration. We believe the recommendation and the information to be of benefit to Independent School District No. 38 and is reported for that purpose.

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.

**August 17, 2006**

**Bemidji, Minnesota**



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

**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, 2007. 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, 2007.

**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 control deficiency in internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is a more than remote likelihood that noncompliance with a type of compliance requirement of a federal program is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in a more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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.

**August 17, 2006**

**Bemidji, Minnesota**



**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDING JUNE 30, 2007**

**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 "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:
- |                           |                 |
|---------------------------|-----------------|
| Impact Aid                | CFDA No. 84.041 |
| School Emergency Response | CFDA No. 84.184 |
- H.) A \$300,000 threshold was used to distinguish between Type A and Type B programs.
- I.) Independent School District No. 38 did not qualify as a low-risk auditee.

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

**INTERNAL CONTROL**

**ITEMS ARISING THIS YEAR**

**Finding: 07-1 Preparation of Financial Statements**

**Condition**

The District's Auditor prepares the financial statements. This is not unusual in Districts the size of Independent School District No. 38; however, Independent School District No. 38's management and governance personnel should be aware that even though they assume responsibility for the financial statements the fact that the Auditor has prepared the financial statements indicates a significant deficiency by management.

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDING JUNE 30, 2007**

**Criteria**

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

**Effect**

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

**Cause**

The District has not adopted an internal control policy over the annual financial reporting under generally accepted accounting principles (GAAP), however, management has reviewed and approved the annual financial statements as prepared by the audit firm.

**Recommendation**

We recommend that management become knowledgeable in financial statement preparation so that management can prepare the financial statements for audit purposes. If management does not feel that it desires to obtain this knowledge and expertise then it should consider contracting with a third party accountant that would prepare year end adjusting entries to the financial records and also prepare the financial statements for audit purposes.

**Management's Response**

*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.*

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

**Internal Control**

None

**Questioned Costs**

None

**INDEPENDENT SCHOOL DISTRICT NO. 38**  
**RED LAKE, MINNESOTA**  
**PRIOR YEAR AUDIT FINDINGS ON COMPLIANCE WITH**  
**MINNESOTA STATUTES AND GOVERNMENT AUDITING STANDARDS**  
**YEAR ENDED JUNE 30, 2007**

**PREVIOUSLY REPORTED ITEM NOT RESOLVED**

None