

**INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2025

**INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
TABLE OF CONTENTS**

ROSTER OF SCHOOL OFFICIALS – UNAUDITED	1
INDEPENDENT AUDITOR'S REPORT	2
<i>REQUIRED SUPPLEMENTARY INFORMATION</i>	
Management's Discussion and Analysis	5
BASIC FINANCIAL STATEMENTS	
Statement of Net Position	14
Statement of Activities	16
Balance Sheet – Governmental Funds	17
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	18
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	19
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds to the Statement of Activities	20
Notes to the Basic Financial Statements	21
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule for the General Fund	45
Schedule of Changes in the District's Total OPEB Liability and Related Ratios	46
Schedule of District Contributions	47
Schedule of District's Share of Net Pension Liability	48
Notes to the Required Supplementary Information	49
SUPPLEMENTARY INFORMATION	
Combining Balance Sheet – Nonmajor Governmental Funds	51
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds	52
Schedule of Changes in Fund Balances	53
INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE	54
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	55

**INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
TABLE OF CONTENTS**

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE 57**

Schedule of Expenditures of Federal Awards 60

Notes to the Schedule of Expenditures of Federal Awards 61

Schedule of Findings and Questioned Costs 62

Summary Schedule of Prior Audit Findings 64

Corrective Action Plan 65

SUPPLEMENTARY INFORMATION

Uniform Financial Accounting and Reporting Standards Compliance Table 66

**INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
ROSTER OF SCHOOL OFFICIALS
June 30, 2025**

School Board Members and Officers

Mike Barrett	Chairperson
Chris Jourdain	Vice-Chairperson
Robert McClain	Treasurer
Nicole Desjarlait	Clerk
Thomas Barrett	Director
Douglas Desjarlait	Director
Tina Stately	Director

Administration

Tim Lutz	Superintendent
Willie Larson	Business Manager

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinions

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, 2025, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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, 2025, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Independent School District No. 38, and to meet our ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

Change in Accounting Principles

As described in Note 2 to the financial statements, the District has adopted new accounting guidance, GASB Statement No. 101 *Compensated Absences*. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Independent School District No. 38's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Independent School District No. 38's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Independent School District No. 38's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of changes in the District's total OPEB liability and related ratios, schedule of District contributions, schedule of District's share of net pension liability, and notes to required supplementary information as listed in the table of contents as required supplementary information be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of

preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying combining statements, schedule of changes in fund balances, and compliance table as listed in the table of contents as supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is also not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statements, schedule of changes in fund balances, compliance table, and schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

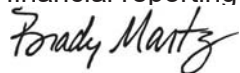
Other Information

Management is responsible for the other information in the annual report. The other information comprises the roster of school officials but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2025, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



BRADY MARTZ
GRAND FORKS, NORTH DAKOTA

December 16, 2025

**INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2025**

This section of Independent School District No. 38's annual financial report presents its discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2025. Please read it in conjunction with the District's financial statements, which immediately follow this section.

Financial Highlights

Key financial highlights for the 2024-2025 fiscal year include the following:

- General fund balance increased by \$3,739,007.

Overview of the Financial Statements

This annual report consists of four parts: management's discussion and analysis (this section), the basic financial statements, required supplementary information, 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 the District's operations in *more detail* than the district-wide statements.
 - The *governmental funds statements* tell how basic services such as regular and special education were financed in the *short-term* as well as what remains for future spending.

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 fund budget for the year, and supplementary information that is presented for additional analysis.

District-wide Statements

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the District's assets, liabilities, and deferred inflows/outflows of resources with the difference reported as net position. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District's *net position* and how they have changed. Net position – the difference between the District's assets, liabilities, and deferred inflows/outflows of resources – is one way to measure the District's financial health or *position*.

- Over time, increases or decreases in the District's net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the District's overall health, you need to consider additional nonfinancial factors such as the condition of school buildings and other facilities.

**INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
For the Year Ended June 30, 2025**

In the district-wide financial statements, the District's activities are shown in one category:

- *Governmental activities:* All of the District's basic services are included here, such as regular and special education, transportation, and administration. Federal and state formula aid finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds. 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 (such as accounting for capital projects) or to show that it is properly using certain revenues.

The District has one kind of fund:

- **Governmental funds:** 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 you 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, reconciliations have been provided following the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances to help explain the relationship (or differences) between the governmental funds and governmental activities.

The District maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund. Data from the other four governmental funds are combined into a single, aggregated presentation. Individual fund data is provided in the form of combining statements elsewhere in this report.

**INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
For the Year Ended June 30, 2025**

Financial Analysis of the District as a Whole

Net Position

The District's combined net position was \$72,495,706 on June 30, 2025 (see details in Table A-1). This was an increase of 0.5 percent from the prior year.

**Table A-1
Statement of Net Position**

	<u>2025</u>	<u>2024</u>	<u>Total Percentage Change</u>
Current and Other Assets	\$ 39,185,094	\$ 34,773,714	12.7 %
Capital Assets	65,316,260	66,772,657	(2.2)
Total Assets	<u>104,501,354</u>	<u>101,546,371</u>	2.9
Deferred Outflows of Resources	<u>6,565,322</u>	<u>7,200,310</u>	(8.8)
Long-term Liabilities	23,962,908	28,580,857	(16.2)
Other Liabilities	7,500,024	5,477,058	36.9
Total Liabilities	<u>31,462,932</u>	<u>34,057,915</u>	(7.6)
Deferred Inflows of Resources	<u>7,108,038</u>	<u>2,544,375</u>	179.4
Net Position			
Net Investment in Capital Assets	64,788,198	66,246,635	(2.2)
Restricted	7,454,161	4,805,242	55.1
Unrestricted	253,347	1,092,514	76.8
Total Net Position	<u>\$ 72,495,706</u>	<u>\$ 72,144,391</u>	0.5 %

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
For the Year Ended June 30, 2025

Change in Net Position

Table A-2 presents the change in net position of the District.

Table A-2
Change in Net Position

	<u>2025</u>	<u>2024</u>	<u>Total Percentage Change</u>
Revenues			
Program Revenues			
Charges for Services	\$ 335,517	\$ 320,779	4.6 %
Operating Grants and Contributions	23,463,823	20,811,761	12.7
Capital Grants and Contributions	866,418	1,734,508	(50.0)
General Revenues			
Property Taxes	6,322	6,566	(3.7)
Unrestricted State Aid	15,797,002	15,443,467	2.3
Unrestricted Federal Aid	14,249,001	16,938,694	(15.9)
Other Sources	1,831,239	1,509,932	21.3
Total Revenues	<u>56,549,322</u>	<u>56,765,707</u>	(0.4)
Expenses			
Administration	2,441,836	2,135,701	14.3
District Support Services	1,430,627	1,616,684	(11.5)
Elementary & Secondary Regular Instruction	21,729,953	18,345,576	18.4
Vocational Education Instruction	174,751	163,736	6.7
Special Education Instruction	8,885,094	8,578,809	3.6
Community Education and Services	679,513	626,712	8.4
Instructional Support Services	4,812,087	3,949,518	21.8
Pupil Support Services	6,047,895	6,803,046	(11.1)
Sites and Buildings	6,563,875	6,581,764	(0.3)
Fixed Costs	340,733	303,594	12.2
Interest on Long-Term Debt	22,023	14,975	47.1
Depreciation - Unallocated	1,290,128	1,290,758	(0.0)
Total Expenses	<u>54,418,515</u>	<u>50,410,873</u>	7.9
Change in Net Position	2,130,807	6,354,834	66.5
Net Position - Beginning	72,144,391	65,789,557	
GASB 101 Adjustments- See Note 2	<u>(1,779,492)</u>		
Net Position - Beginning as Restated	<u>70,364,899</u>	<u>65,789,557</u>	(7.0)
Net Position - Ending	<u>\$ 72,495,706</u>	<u>\$ 72,144,391</u>	0.5 %

The District's total revenues were \$56,549,322 for the year ended June 30, 2025. Federal and state aid payments accounted for 96 percent of total revenue for the year.

The total cost of all programs and services was \$54,418,515. The District's expenses are predominantly related to educating and caring for students.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
For the Year Ended June 30, 2025

Total revenues surpassed expenses, increasing net position \$2,130,807 over last year. For the year ended June 30, 2025, the net effect of the District's deferred inflows and outflows of resources and net pension liability related to TRA and PERA increased net position by \$425,445. For the year ended June 30, 2024, the net effect of the District's deferred inflows and outflows of resources and net pension liability related to TRA and PERA decreased net position by \$780,077.

The net cost of governmental activities is their total costs less program revenues applicable to each category.

Table A-3 presents these net costs.

Table A-3
Net Cost of Governmental Activities

	Total Cost of Services		Total Percentage Change	Net Cost of Services		Total Percentage Change
	2025	2024		2025	2024	
Expenses						
Administration	\$ 2,441,836	\$ 2,135,701	14.3 %	\$ 2,441,836	\$ 2,135,701	14.3 %
District Support Services	1,430,627	1,616,684	(11.5)	1,430,627	1,092,382	31.0
Elementary & Secondary						
Regular Instruction	21,729,953	18,345,576	18.4	13,231,764	8,813,477	50.1
Vocational Education Instruction	174,751	163,736	6.7	159,050	148,305	7.2
Special Education Instruction	8,885,094	8,578,809	3.6	2,139,429	2,267,998	(5.7)
Community Education and Services	679,513	626,712	8.4	(150,616)	(81,470)	84.9
Instructional Support Services	4,812,087	3,949,518	21.8	4,482,709	3,415,634	31.2
Pupil Support Services	6,047,895	6,803,046	(11.1)	(1,157,383)	2,505,485	(146.2)
Sites and Buildings	6,563,875	6,581,764	(0.3)	5,522,457	5,637,256	(2.0)
Fixed Costs	340,733	303,594	12.2	340,733	303,594	12.2
Interest on Long-Term Debt	22,023	14,975	47.1	22,023	14,975	47.1
Depreciation - Unallocated	1,290,128	1,290,758	(0.0)	1,290,128	1,290,758	(0.0)
	<u>\$ 54,418,515</u>	<u>\$ 50,410,873</u>	7.9 %	<u>\$ 29,752,757</u>	<u>\$ 27,544,095</u>	8.0 %

Financial Analysis of the District's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Table A-4
Major Funds

	Fund Balance		Increase (Decrease)	Percentage Increase (Decrease)
	2025	2024		
Governmental Funds				
General	\$ 32,986,318	\$ 29,247,311	\$ 3,739,007	12.8 %

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
For the Year Ended June 30, 2025

General Fund

The general fund includes the primary operations of the District in providing educational services to students from kindergarten through grade 12, including pupil transportation activities and capital outlay projects.

Table A-5 presents a summary of general fund revenue.

Table A-5
General Fund Revenue

	<u>2025</u>	<u>2024</u>	Amount of Increase (Decrease)	Percent Increase (Decrease)
Local Sources				
Property Taxes	\$ 6,322	\$ 6,566	\$ (244)	(3.7) %
Interest Earnings	1,344,732	1,331,182	13,550	1.0
Other	585,677	242,928	342,749	141.1
State Sources	30,459,160	29,044,737	1,414,423	4.9
Federal Sources	22,108,346	24,056,725	(1,948,379)	(8.1)
Total General Fund Revenue	<u>\$ 54,504,237</u>	<u>\$ 54,682,138</u>	<u>\$ (177,901)</u>	(0.3) %

Total general fund revenue decreased by \$177,901 or 0.3 percent from the previous year. Basic general education revenue is determined by a state per student funding formula.

Table A-6 presents a summary of general fund expenditures.

Table A-6
General Fund Expenditures

	<u>2025</u>	<u>2024</u>	Amount of Increase (Decrease)	Percent Increase (Decrease)
Salaries	\$ 27,510,765	\$ 25,492,925	\$ 2,017,840	7.9 %
Employee Benefits	12,347,786	11,291,054	1,056,732	9.4
Purchased Services	5,223,501	5,964,769	(741,268)	(12.4)
Supplies and Materials	2,940,067	2,577,226	362,841	14.1
Capital Expenditures	2,399,280	3,627,581	(1,228,301)	(33.9)
Debt Service	108,589	108,808	(219)	(0.2)
Other Expenditures	145,472	142,943	2,529	1.8
Total General Fund Expenditures	<u>\$ 50,675,460</u>	<u>\$ 49,205,306</u>	<u>\$ 1,470,154</u>	3.0 %

Total general fund expenditures increased \$1,470,154 or 3.0 percent from the previous year, primarily from increased salaries and related benefits.

**INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
For the Year Ended June 30, 2025**

General Fund Budgetary Highlights

The District adopted its original budget in June 2024. During the year ended June 30, 2025, the District revised its budget to account for increased state funding and related expenditures.

The District's final budget for the general fund anticipated that revenues would exceed expenditures and other financing uses by \$4,112,691 and the actual results for the year show a surplus of \$3,739,007.

Capital Assets and Debt Administration

Capital Assets

Note 4 to the financial statements presents an analysis of capital asset transactions occurring during the year ended June 30, 2025. Additions totaling \$2,251,885 mainly consisted of solar panels, furniture, air conditioner replacement, and water heating. The District also entered into a new right to use lease agreement for \$401,498 and had a disposal of a right to use copier during the year.

Long-Term Debt

At year-end, the District had \$5,758,455 of long-term debt. This consisted of capital loan payable of \$213,130, compensated absences of \$5,230,393, and lease payable of \$314,932. Note 7 to the financial statements presents the details and payment provisions of these items.

Factors Bearing on the District's Future

Student Enrollment

The district closely monitors and evaluates student enrollment (ADM) and attendance.

FY25 ADM was 1437.81 which is an increase of 41.23 ADM over FY24.

Future Student Enrollment Assumptions

Trends

- The birth rate will be flat
- Dropout rate will decrease slightly
- The number of students remaining enrolled for a full school year will increase

The district anticipates overall enrollment will remain flat or increase slightly during each of the next three fiscal years.

Staffing

During FY25, the district was fully staffed at the beginning of the school year. This was due in large part to the following actions.

- Offering competitive wage and benefit packages for all positions
- Partnering with an international teacher placement program.
- Working with qualified individuals who can teach with special permissions from the Minnesota Board of Teaching.

**INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
For the Year Ended June 30, 2025**

- Employing non-licensed 9-month staff (cooks, bus drivers, guards, home school liaisons, paraprofessionals & secretaries) for eight (8) hours a day.

The district is expecting seven (7) teacher retirements and five (5) non-licensed staff retirements in the next two fiscal years.

The district contracts with Education Minnesota – Red Lake (Teachers), Minnesota School Employees Association (non-licensed staff), Red Lake Principals Association and Districtwide Staff all expire on June 30, 2027. Wage increases for 2025-26 and 2026-27 ranged from 4-5.6%.

Political Environment - Federal

The political environment at the Federal level has a significant effect on Red Lake School District's future finances. Federal funding accounts for approximately 40% of the District's General Fund budget. Federal Impact Aid, which accounts for 28% of the district's general fund budget is not forward funded and therefore subject to the annual appropriation process. The District is a member of the National Association of Federally Impacted Schools (NAFIS) which provides Congress and the President with eligibility data regarding federally impacted students who reside on Indian lands, military bases, federal properties and low rent units. NAFIS members actively receive the support of a bipartisan coalition in both the U.S. Senate and U.S. House of Representatives regarding Federal Impact Aid Appropriations.

Due to the current political environment, there is some uncertainty about federal funding. The district is and will continue to closely monitor federal funding updates.

Inflation is and will be a major concern in the near term. During the last fiscal year, the district observed the costs of property insurance, food service supplies, custodial supplies and contract service work all increased between 5.1%-9.8%.

Political Environment - State

State General Education Aid accounts for 60% of the District's General Fund budget.

Due to 99% of the real property within the district boundaries being held in federal trust, the district does not have a large enough tax base to be able to issue capital building bonds to build or remodel capital facilities. Rather, the Red Lake School District must request Maximum Effort Capital Grants from the State of Minnesota. As per Minnesota Statute 126C.69, the district may apply to the State for a Maximum Effort Capital Grant. The grant must be approved by the legislature and approved by the governor.

Educational Initiatives – School Improvements

There are currently several interventions and improvement initiatives underway in all Red Lake Schools including Professional Learning Communities (PLC) that support job-embedded professional development on a weekly basis and engage teachers in data-driven discussion regarding curriculum, instruction, and assessment.

Principals in all schools facilitate school leadership teams, which engage teacher leaders in continuous school improvement planning, and oversight of the implementation of research-based instructional strategies to improve outcomes for all students.

The district superintendent and the director of special services meet weekly with the principals and curriculum and assessment leaders individually and in small groups to provide coaching in the development of

**INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
For the Year Ended June 30, 2025**

instructional leadership skills. All of the principals set professional goals for themselves and their buildings which is approved by the superintendent. The superintendent meets with each principal, individually, a minimum of three times a year to assess and evaluate progress on these professional goals.

To ensure teachers receive support to improve their practices, all licensed staff are evaluated between one and three times each year by the building principals and engage in a summative conference at the conclusion of the school year.

Instructional time has also been increased, by lengthening the school day, providing for after-school programming, and summer school.

The district is working hard to expand the Ojibwe Language and Culture program. This includes a future goal of all students having fluency in conversational Ojibwe by graduation.

During FY25 district staff will work on several curriculum changes and new classes to be offered beginning FY26.

Finally, the District has taken steps to increase parent and community involvement, launched the implementation of an initiative to install for a guaranteed and viable curriculum that is culturally responsive, and partnered with Tribal agencies to provide for Tribal Truancy Court to increase attendance, enrollment and ultimately, graduation.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, investors, 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 questions about this report or need additional financial information, contact Willie Larson, Business Manager, at the District Administration Office, PO Box 499, Red Lake, MN 56671.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
STATEMENT OF NET POSITION
June 30, 2025

GOVERNMENTAL ACTIVITIES

ASSETS

Cash and Investments	\$ 35,231,782
Property Taxes Receivable	266
Interest Receivable	34,902
Accounts Receivable	9,463
Due from Other MN School District	32,981
Due From Department of Education	3,276,045
Due From Federal Govt. - DOE	534,925
Due From Federal Govt.	7,722
Due from Other Governments	13,897
Prepaid Expenses	22,600
Inventory	20,511
Capital Assets	
Construction in Process	101,878
Other Capital Assets, Net of Depreciation and Amortization	<u>65,214,382</u>

TOTAL ASSETS 104,501,354

DEFERRED OUTFLOWS OF RESOURCES

Cost Sharing Defined Benefit Pension Plan	6,458,949
Other Postemployment Benefit	<u>106,373</u>

TOTAL DEFERRED OUTFLOWS OF RESOURCES 6,565,322

LIABILITIES

Accounts Payable	576,181
Salaries Payable	2,389,401
Payroll Deductions	2,700,560
Unearned Revenue	196,000
Long-Term Liabilities Due Within One Year	1,637,882
Long-Term Liabilities	
Compensated Absences	5,230,393
Lease Payable	314,932
Capital Loan	213,130
Total Other Postemployment Benefit Liability	617,555
Net Pension Liability	19,224,780
Less Amounts Due within One Year	<u>(1,637,882)</u>
Total Long-Term Liabilities	<u>23,962,908</u>

TOTAL LIABILITIES 31,462,932

DEFERRED INFLOWS OF RESOURCES

Property Taxes Levied - Subs. Years	4,126
Cost Sharing Defined Benefit Pension Plan	6,905,172
Other Postemployment Benefit	<u>198,740</u>

TOTAL DEFERRED INFLOWS OF RESOURCES 7,108,038

See Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
STATEMENT OF NET POSITION (CONTINUED)
June 30, 2025

NET POSITION	
Net Investment in Capital Assets	64,788,198
Restricted	
Student Activities	26,144
Scholarships	25,544
Staff Development	20,667
Literacy Incentive Aid	6,233
American Indian Ed Aid	278,939
Literacy Aid	22,912
St. Approved Alt Program	5,417
Gifted and Talented	118,275
Basic Skills Extended Time	206,909
Long-Term Facilities Maintenance	307,001
Medical Assistance	136,165
Impact Aid	5,967,447
Capital Project	1,182
Food Service	21,742
Community Education	4,240
ECFE	210,267
Max Effort Loan	95,077
Unrestricted	<u>253,347</u>
TOTAL NET POSITION	<u>\$ 72,495,706</u>

See Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2025

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
GOVERNMENTAL ACTIVITIES					
Administration	\$ 2,441,836	\$ -	\$ -	\$ -	\$ (2,441,836)
District Support Services	1,430,627	-	-	-	(1,430,627)
Elementary & Secondary					
Regular Instruction	21,729,953	71,283	8,426,906	-	(13,231,764)
Vocational Education Instruction	174,751	0	15,701	-	(159,050)
Special Education Instruction	8,885,094	36,815	6,708,850	-	(2,139,429)
Community Education and Services	679,513	190,371	639,758	-	150,616
Instructional Support Services	4,812,087	8,027	321,351	-	(4,482,709)
Pupil Support Services	6,047,895	29,021	7,176,257	-	1,157,383
Sites and Buildings	6,563,875	-	175,000	866,418	(5,522,457)
Fixed Costs	340,733	-	-	-	(340,733)
Interest of Long-Term Debt	22,023	-	-	-	(22,023)
Depreciation - Unallocated	1,290,128	-	-	-	(1,290,128)
TOTAL GOVERNMENTAL ACTIVITIES	\$ 54,418,515	\$ 335,517	\$ 23,463,823	\$ 866,418	(29,752,757)

GENERAL REVENUES

Taxes	
Property Taxes, Levied for General Purposes	6,322
Unrestricted State Aid	15,797,002
Unrestricted Federal Aid	14,249,001
Unrestricted Investment Earnings	1,345,005
Other General Revenue	486,234
TOTAL GENERAL REVENUES	31,883,564
Change in Net Position	2,130,807
Net Position - Beginning	72,144,391
GASB 101 Adjustment - See note 2	(1,779,492)
Net Position - Beginning, Restated	70,364,899
Net Position - Ending	\$ 72,495,706

See Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2025

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash and Investments	\$ 34,883,193	\$ 348,589	\$ 35,231,782
Current Property Taxes Receivable	266	-	266
Accounts Receivable	9,437	26	9,463
Interest Receivable	34,902	-	34,902
Due From Department of Education	3,248,727	27,318	3,276,045
Due From Federal Govt. - DOE	484,010	50,915	534,925
Due From Federal Govt.	7,722	-	7,722
Due From MN School Districts	32,981	-	32,981
Due From Other Governments	7,040	6,857	13,897
Prepaid Expenses	22,600	-	22,600
Inventory	14,246	6,265	20,511
TOTAL ASSETS	\$ 38,745,124	\$ 439,970	\$ 39,185,094
LIABILITIES			
Accounts Payable	\$ 575,264	\$ 917	\$ 576,181
Salaries Payable	2,282,856	106,545	2,389,401
Payroll Deductions	2,700,560	-	2,700,560
Unearned Revenue	196,000	-	196,000
TOTAL LIABILITIES	5,754,680	107,462	5,862,142
DEFERRED INFLOWS OF RESOURCES			
Property Taxes Levied - Subs. Years	4,126	-	4,126
TOTAL DEFERRED INFLOWS OF RESOURCES	4,126	-	4,126
FUND BALANCES			
Nonspendable: Inventory	14,246	6,265	20,511
Nonspendable: Prepaid	22,600	-	22,600
Restricted for Student Activities	26,144	-	26,144
Restricted for Scholarships	25,544	-	25,544
Restricted for Staff Development	20,667	-	20,667
Restricted for Literacy Incentive Aid	6,233	-	6,233
Restricted for American Indian Ed Aid	278,939	-	278,939
Restricted for Literacy Aid	22,912	-	22,912
Restricted for St. Approved Alt Program	5,417	-	5,417
Restricted for Gifted and Talented	118,275	-	118,275
Restricted for Basic Skills Programs	206,909	-	206,909
Restricted for Long-Term Facilities Maintenance	307,001	-	307,001
Restricted for Medical Assistance	136,165	-	136,165
Restricted for Impact Aid	5,967,447	-	5,967,447
Restricted for Capital Project	-	1,182	1,182
Restricted for Food Service	-	15,477	15,477
Restricted for Community Education	-	4,240	4,240
Restricted for ECFE	-	210,267	210,267
Restricted for Max Effort Loan	-	95,077	95,077
Unassigned	25,827,819	-	25,827,819
TOTAL FUND BALANCES	32,986,318	332,508	33,318,826
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 38,745,124	\$ 439,970	\$ 39,185,094

See Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT NO. 38

RED LAKE, MINNESOTA

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION

June 30, 2025

Total fund balances - governmental funds \$ 33,318,826

Amounts reported for governmental activities in the statement of net position are different because:

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

Cost of capital assets	110,836,910
Less accumulated depreciation and amortization	(45,520,650)

Deferred outflows of resources relating to the cost sharing defined benefit plans and other postemployment benefits in the governmental activities are not financial resources and, therefore, are not reported in the governmental funds. 6,565,322

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

Compensated Absences	(5,230,393)
Capital Loan	(213,130)
Lease Payable	(314,932)
Total Other Postemployment Benefit Liability	(617,555)
Net Pension Liability	(19,224,780)

Deferred inflows of resources relating to the cost sharing defined benefit plans and other postemployment benefits in the governmental activities are not financial resources and, therefore, are not reported in the governmental funds. (7,103,912)

Net position - governmental activities \$ 72,495,706

See Notes to the Financial Statements

**INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2025**

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES			
Local Property Tax Levies	\$ 6,322	\$ 63	\$ 6,385
Other Local & County Revenues	1,930,409	197,237	2,127,646
Revenue From State Sources	30,459,160	304,712	30,763,872
Revenue From Federal Sources	22,108,346	1,554,800	23,663,146
Sale/Other Conversion of Asset	-	29,021	29,021
TOTAL REVENUES	54,504,237	2,085,833	56,590,070
EXPENDITURES			
Current			
Administration	2,441,836	-	2,441,836
District Support Services	1,341,456	-	1,341,456
Elementary & Secondary Regular Instruction	21,429,771	-	21,429,771
Vocational Instruction	174,751	-	174,751
Special Education Instruction	8,889,592	-	8,889,592
Community Education and Services	-	678,793	678,793
Instructional Support Services	4,415,138	-	4,415,138
Pupil Support Services	3,759,859	1,906,254	5,666,113
Sites and Buildings	5,374,455	-	5,374,455
Fixed Costs	340,733	-	340,733
Debt Service			
Principal	86,566	6,651	93,217
Interest	22,023	-	22,023
Capital Outlay	2,399,280	25,000	2,424,280
TOTAL EXPENDITURES	50,675,460	2,616,698	53,292,158
Revenues Under Expenditures	3,828,777	(530,865)	3,297,912
OTHER FINANCING SOURCES (USES)			
Debt Issued	401,498	-	401,498
Insurance Recovery	10,022	-	10,022
Transfers In	-	501,290	501,290
Transfers Out	(501,290)	-	(501,290)
TOTAL OTHER FINANCING SOURCES (USES)	(89,770)	501,290	411,520
Net Change in Fund Balances	3,739,007	(29,575)	3,709,432
Fund Balances - Beginning	29,247,311	362,083	29,609,394
Fund Balances - Ending	\$ 32,986,318	\$ 332,508	\$ 33,318,826

See Notes to the Financial Statements

**INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2025**

Total net change in fund balances - governmental funds	\$ 3,709,432
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.	
Capital outlay	1,863,655
Depreciation and Amortization Expense	(3,019,997)
Change in net pension liability.	5,635,755
Changes in deferred outflows and inflows of resources related to net pension liability.	(5,210,339)
Changes in deferred outflows and inflows of resources related to other postemployment benefit liability.	11,687
The issuance of long-term debt provide current financial resources to the governmental funds, but issuance increases long-term liabilities in the statement of net position.	(401,498)
Payment of debt principal is an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of net position.	93,217
The net effect of a modification in a copier lease	6,187
In the statement of activities, certain expenses are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts paid.)	
Other postemployment benefits	(4,463)
Compensated absences payable	(552,829)
Change in net position - governmental activities	<u>\$ 2,130,807</u>

See Notes to the Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements of Independent School District No. 38 have been prepared in conformity with accounting principles generally accepted in the United States of America (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.

B. 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 separated 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 unit includes 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 dependent upon by the potential component unit.

Based on these criteria, there are no organizations considered to be component units of the District.

C. Basic Financial Statement Presentation

The district-wide financial statements (i.e. the statement of net position and the statement of activities) display information about the reporting government as a whole. These statements include all the financial activities of the District.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. 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 segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

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

D. 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. Property taxes are generally recognized as revenues in the fiscal year for which they are levied, except for advance amounts recognized in accordance with a statutory "tax shift." Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis of accounting transactions are recorded in the following manner:

Revenue Recognition – Revenue is recognized when it becomes 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. Property tax revenue is generally considered available if collected within 60 days after year-end. State revenue is recognized in the year to which it applies according to Minnesota Statutes and accounting principles generally accepted in the United States of America. Minnesota Statutes include state aid funding formulas for specific fiscal years. Federal revenue is recorded in the year in which the related expenditure is made. Other revenue is considered available if collected within one year.

Recording of Expenditures – Expenditures are generally recorded when a liability is incurred. However, expenditures are recorded as prepaid for approved disbursements or liabilities incurred in advance of the year in which the item is to be used. Principal and interest on long-term debt issues are recognized on their due dates.

As a general rule, the effect of interfund activity has been eliminated from the district-wide financial statements.

Description of Funds

The existence of the various District funds has been established by the State of Minnesota, Department of Education. Each fund is accounted for as an independent entity. Descriptions of the major funds included in this report are as follows:

Major Governmental Funds

General Fund – Accounts for all financial resources and transactions except those required to be accounted for in other funds including pupil transportation and capital outlay activities, which were previously (prior to July 1, 1996) accounted for in separate special revenue funds.

GASB No. 34 also requires that budget vs. actual information be presented for the general fund and all major special revenue funds.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2025

Nonmajor Governmental Funds

Special Revenue Funds:

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 all resources designated for programs other than those for elementary and secondary students.

Building Fund – Accounts for resources used for the acquisition and construction of major capital facilities.

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

E. Specific Account Information

Cash and Investments – Cash and temporary investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. Earnings from the pooled investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund.

Investments are carried at fair value. The District considers certificates of deposit under three months to maturity to be cash.

When fair value measurements are required, various data is used in determining those values. Assets and liabilities that are carried at fair value must be classified and disclosed in the following levels based on the nature of the data used.

Level 1: Quoted market prices in active markets for identical assets or liabilities

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data

Level 3: Unobservable market inputs that are not corroborated by market data

Taxes Receivable – Taxes receivable represents taxes levied in 2024 which are not payable until 2025, net of the amount received prior to June 30.

Property Taxes – Property tax levies are certified to the County Auditor in December of each year for collection from taxpayers in May and October of the following year. In Minnesota, counties act as collection agents for all property taxes. The county spreads all levies over taxable property. Such taxes become a lien on property on the following January 1. The county generally remits taxes to the District at periodic intervals as the taxes are collected.

A portion of property taxes levied is paid by the State of Minnesota through various tax credits, which are included in revenue from state sources in the financial statements.

Generally, tax revenue is recognized in the fiscal year ending June 30, following the calendar year in which the tax levy is collectible, while the current calendar year tax levy is recorded as unavailable revenue (property taxes levied for subsequent years).

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2025

The majority of the revenue in the general fund is determined annually by statutory funding formulas. The total revenue allowed by these formulas is then allocated between property taxes and state aids by the legislature based on education funding priorities. Changes in this allocation are periodically accompanied by a change in property tax revenue recognition referred to as the “tax shift.”

Taxes which remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is deferred in the fund based financial statements because it is not known to be available to finance the operations of the District in the current year.

Inventory – Inventory is recorded using the consumption method of accounting and consists of purchased food, supplies, and surplus commodities received from the federal government. Food and supply purchases are recorded at invoice cost, computed on a first-in, first-out method. Surplus commodities are stated at standardized costs, as determined by the Department of Agriculture.

Capital Assets – Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated capital assets are recorded at acquisition value at the date of donation. The District maintains a threshold level of \$5,000 or more for capitalizing capital assets. Expenditures for major additions and improvements that extend the useful lives of property and equipment are capitalized. Routine expenditures for repairs and maintenance are charged to expense as incurred.

Capital assets are recorded in the district-wide financial statements, but are not reported in the fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the District, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 20 to 50 years for land improvements and buildings, and 5 to 15 years for equipment.

Capital assets not being depreciated include land and construction in progress, if any. The District does not possess any material amounts of infrastructure capital assets, such as sidewalks and parking lots. Such items are considered to be part of the cost of buildings or other improvable property.

Unearned Revenue – Governmental funds report unearned revenue in connection with resources that have been received, but not yet earned.

Compensated Absences – Teachers and principals do not receive paid vacation but are paid only for the number of days they are required to work each year, 184 days for teachers and 209 days for principals. Employees other than teachers and principals earn vacation pay. Employees lose vacation time if not taken before August 15 and are not compensated for any unused time upon termination or retirement.

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.

Employees are afforded two days leave each year with pay for emergency matters. After being in the District for five years, employees may accumulate the unused days to a maximum of five days.

A 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 years’ 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.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2025

Severance is paid in one lump sum or equal annual installments over a period of time, at the discretion of the District, not to exceed two years from the effective date of severance.

Administrators shall receive as severance pay, accumulated sick leave, not to exceed one years' pay. Severance shall be paid by the District in one lump sum or equal annual installments not to exceed five years from the effective date of severance. The Superintendent shall receive severance pay, up to 130 days of accumulated sick leave upon separation.

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

Non-licensed employees hired after February 1, 2004 are not eligible to participate in the severance plan, but may participate in the District's matching deferred compensation plan. Non-licensed employees hired prior to February 1, 2004 may participate in both the matching deferred compensation plan and the severance plan. Upon retirement, an employee's severance pay will be calculated and all matching contributions under the provisions of the matching deferred compensation plan contributed by the District will be subtracted from the qualifying severance amount.

The District accounts for compensated absences using a days-used approach. This approach consists of gathering the historical usage of compensated absences used to determine both a liability related to leave to be used as time off and leave to be settled in cash upon termination of employment. Salary-related employer payments are included in the calculation of the compensated absence liability.

Long-Term Obligations – In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Existing bonded debt is reported at the face value of remaining indebtedness. For any new indebtedness that may be issued in the future, bond premiums and discounts will be deferred and amortized over the life of the bonds using the effective interest method. Bonds payable will be reported net of the applicable bond premium or discount. Bond issuance costs will be expensed in the period incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Leases – The determination of whether an arrangement contains a lease is made at inception by evaluating whether the arrangement conveys the right to use an identified asset and whether the District has control of the right to use asset. Control includes the right to obtain present service capacity and the right to determine the nature and manner of use of the underlying asset, as specified in the contract.

Leases with an initial lease term of more than 12 months, or that contain an option to purchase that the District is reasonably certain to exercise, are recognized based on the present value of lease payments over the lease term discounted using the interest rate implicit in the lease. In cases where the implicit rate is not readily determinable, the District uses its incremental borrowing rate based on the information available at the lease commencement date. The District has made an accounting policy election to use a risk free rate based on US

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2025

Treasury T-bill rate as of the lease commencement. The District accounts for lease agreements with lease and non-lease components together as a single lease component for all underlying classes of assets.

The District continues to record rent expense for short term leases on a straight-line basis over the lease term. Short term leases have a term of 12 months or less at lease commencement and do not include an option to purchase the underlying asset that the District is reasonably certain to exercise.

The depreciable life of assets and leasehold improvements are limited by the expected lease term unless there is a transfer of title or purchase option reasonably certain of exercise.

The District's lease agreements do not include any material residual value guarantees or restrictive covenants.

Pensions – For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and Teachers Retirement Association (TRA) and additions to/deductions from PERA and TRA's fiduciary net position have been determined on the same basis as they are reported by PERA and TRA. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

TRA has a special funding situation created by direct aid contributions made by the State of Minnesota, City of Minneapolis and Minneapolis School District. The direct aid is a result of the merger of the Minneapolis Teachers Retirement Fund Association merger into TRA in 2006. A second direct aid source is from the State of Minnesota for the merger of the Duluth Teacher's Retirement Fund Association (DTRFA) in 2015.

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resource (expense/expenditure) until then. The District has two items that qualify for reporting in this category named *Cost Sharing Defined Benefit Pension Plan* and *Other Postemployment Benefits* which represents actuarial differences within PERA and TRA pension plans as well as amounts paid to the plans after the measurement date.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has three types of items. The first item, *property taxes levied – subs. years*, is reported as a deferred inflow of resources for both the Balance Sheet – Governmental Funds and the Statement of Net Position as these amounts represent property tax revenue levied for a subsequent period. The second and third items, *Cost Sharing Defined Benefit Pension Plan* and *Other Postemployment Benefits* which represent actuarial differences within PERA and TRA pension plans and other postemployment benefits.

Net Position – Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources in the District's financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any long-term debt attributable to the acquisition, construction, or improvement of those assets. Restricted Net Position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Unrestricted Net Position is the net amount of assets, deferred outflows of resources, liabilities,

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2025

and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Net Position Flow Assumption – Sometimes the government will fund outlays for a particular purpose for both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Fund Balance – The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable – Consists of amounts that are not in spendable form (such as inventory) or are required to be maintained intact.

Restricted – Consists of amounts related to externally imposed constraints established by creditors, grantors, or contributors; or constraints imposed by state statutory provisions and administered by the Minnesota Department of Education.

Committed – Consists of amounts constrained to specific purposes by a government itself, using its highest level of decision making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint.

Assigned – Consists of amounts a government intends to use for a specific purpose. These constraints are established by the Board of Education and/or management. The Board of Education delegates the power to assign fund balances to the superintendent and business manager.

Unassigned – Consists of amounts that are available for any purpose; positive amounts are reported only in the general fund.

When both restricted and unrestricted resources are available for use, it is the District’s policy to first use restricted resources, and then use unrestricted resources as they are needed. When committed, assigned or unassigned resources are available for use, it is the District’s policy to use resources in the following order: 1) committed, 2) assigned and 3) unassigned.

The District will strive to maintain a minimum unassigned general fund balance of three months of operating expenditures.

F. Use of Estimates

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

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2025

NOTE 2 CHANGE IN ACCOUNTING PRINCIPALS

The District implemented GASB Statement No. 101, *Compensated Absences*, in the fiscal year ended June 30, 2025. GASB Statement No. 101 establishes uniform accounting and financial reporting requirements for compensated absences.

The adoption of GASB 101 resulted in the recognition of an additional compensated absence liability of \$1,779,492 as of July 1, 2024.

NOTE 3 DEPOSITS AND INVESTMENTS

The District maintains a cash account at its depository bank.

The District’s interest income for the year ended June 30, 2025, was \$1,344,732.

The pooled cash and investment account is comprised of the following:

Cash	\$	1,458,408
Investments		<u>33,773,374</u>
Total	\$	<u><u>35,231,782</u></u>

As of June 30, 2025, the District’s investments were in the Minnesota School District Liquid Asset Fund external investment pool.

<u>Investment</u>	<u>Fair Value (Level 1)</u>
Minnesota School District Liquid Asset Fund	\$33,773,374

The Minnesota School District Liquid Asset Fund is a common law trust organized and existing under the laws of the State of Minnesota, in accordance with the provisions of the Minnesota Joint Powers Act. The general objective of the Fund is to provide a high yield for the participants while maintaining liquidity and preserving capital by investing only in instruments authorized by Minnesota Statutes, which govern the temporary investment of School District monies. In addition, the fixed rate/fixed term portion of the program is also structured with safety of principal as the major objective.

The Minnesota School District Liquid Asset Fund is an external investment pool not registered with the Securities Exchange Commission (SEC) that follows the same regulatory rules of the SEC under 2a7. The fair value of the position in the pool is the same as the value of the pool shares.

Interest Rate Risk - The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk - The District may invest idle funds as authorized in Minnesota Statutes, as follows:

- (a) Direct obligations or obligations guaranteed or insured issued by the United States, its agencies, its instrumentalities, or organizations created by an act of Congress.
- (b) General obligations and revenue obligations of any state or local government with taxing powers rated “A” and “AA”, respectively, and general obligations of the Minnesota Housing Finance Agency which is a moral obligation of the State of Minnesota and rated “A” or better.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2025

- (c) Commercial paper issued by United States corporations or their Canadian subsidiaries, rated in the highest quality by at least two rating agencies, and maturing in 270 days or less.
- (d) Time deposits that are fully insured by the FDIC or bankers acceptances of U.S. banks.
- (e) Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above.
- (f) Repurchase or reverse repurchase agreements with banks that are qualified as a “depository” of public funds of the government entity, any other financial institution which is a member of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
- (g) Guaranteed investment contracts (GIC’s) issued or guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is in the top two rating categories, or in the top three rating categories for long-term GIC’s issued by Minnesota banks.
- (h) Securities lending agreements with financial institutions having its principal executive office in Minnesota and meeting the qualifications described in (f) above.

The Minnesota School District Liquid Asset Fund is rated AAA by Standard & Poor’s.

Concentration of Credit Risk - The District places no limit on the amount the District may invest in any one issuer.

Custodial Credit Risk - Deposits – The District does not have a formal custodial credit risk policy. In accordance with Minnesota Statutes, the District maintains deposits at those depository banks authorized by the District's board, all of which 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 percent of the deposits not covered by insurance or bonds. As of June 30, 2025, the District was not exposed to custodial credit risk.

Custodial Credit Risk - Investments - The investment in the Minnesota School District Liquid Asset Fund is not subject to the credit risk classifications as noted in paragraph 9 of GASB Statement 40.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2025

NOTE 4 CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2025, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Not Being depreciated or amortized.				
Construction in Process	\$ 1,828,690	\$ -	\$ 1,726,812	\$ 101,878
Capital Assets, Being Depreciated or Amortized:				
Land Improvements	2,264,903	-	-	2,264,903
Buildings	92,371,394	2,756,315	-	95,127,709
Equipment	12,508,269	432,654	-	12,940,923
Right-to-Use-Leased Equipment	400,074	401,498	400,074	401,498
Total Capital Assets, Being depreciated or amortized	<u>107,544,640</u>	<u>3,590,467</u>	<u>400,074</u>	<u>110,735,033</u>
Less Accumulated depreciation and amortization:				
Land Improvements	708,726	90,815	-	799,541
Buildings	34,258,637	2,124,884	-	36,383,521
Equipment	7,533,291	712,288	-	8,245,579
Right-to-Use Leased Equipment	100,019	92,010	100,019	92,010
Total Accumulated depreciation and amortization	<u>42,600,673</u>	<u>3,019,997</u>	<u>100,019</u>	<u>45,520,651</u>
Total Capital Assets, Being depreciated or amortized, Net	<u>64,943,967</u>	<u>570,470</u>	<u>300,055</u>	<u>65,214,382</u>
Governmental Activities Capital Assets, Net	<u>\$ 66,772,657</u>	<u>\$ 570,470</u>	<u>\$ 2,026,867</u>	<u>\$ 65,316,260</u>

In the statement of activities, depreciation and amortization expense were charged to the following governmental functions:

District Support Services	\$ 92,678
Elementary & Secondary Regular Instruction	40,769
Special Education Instruction	619
Community Education and Services	718
Instructional Support Services	838
Pupil Support Services	381,782
Sites and Buildings	<u>1,212,465</u>
	1,729,869
Unallocated	1,290,128
Total Depreciation Expense and Amortization	<u>\$ 3,019,997</u>

NOTE 5 DEFINED BENEFIT PENSION PLANS- STATEWIDE

Substantially, all employees of the District are required by state law to belong to pension plans administered by the Teachers Retirement Association (TRA) or Public Employees Retirement Association (PERA), all of which are administered on a statewide basis.

Disclosures relating to these plans follow:

A. Public Employees Retirement Association

Plan Description

The District participates in the following cost-sharing multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). These plan provisions are established and administered according to Minnesota Statutes chapters 353, 353D, 353E, 353G, and 356. Minnesota Statutes chapter 356 defines each plan's financial reporting requirements. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

General Employees Retirement Plan

Membership in the General Plan includes employees of counties, cities, townships, schools in non-certified positions, and other governmental entities whose revenues are derived from taxation, fees, or assessments. Plan membership is required for any employee who is expected to earn more than \$425 in a month, unless the employee meets exclusion criteria.

Benefits Provided – PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state Legislature. 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. When a member is “vested,” they have earned enough service credit to receive a lifetime monthly benefit after leaving public service and reaching an eligible retirement age. Members who retire at or over their Social Security full retirement age with at least one year of service qualify for a retirement benefit.

General Employees Plan requires three years of service to vest. 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 General Plan members. Members hired prior to July 1, 1989, receive the higher of the Step or Level formulas. Only the Level formula is used for members hired after June 30, 1989. Under the Step formula, General Plan members receive 1.2 percent of the highest average salary for each of the first 10 years of service and 1.7 percent for each additional year. Under the Level formula, General Plan members receive 1.7 percent of highest average salary for all years of service. For members hired prior to July 1, 1989 a full retirement benefit is available when age plus years of service equal 90 and normal retirement age is 65. Members can receive a reduced requirement benefit as early as age 55 if they have three or more years of service. Early retirement benefits are reduced by .25 percent for each month under age 65. Members with 30 or more years of service can retire at any age with a reduction of .25 percent for each month the member is younger than age 62. The Level formula allows General Plan members to receive a full retirement benefit at age 65 if they were first hired before July 1, 1989 or at age 66 if they were hired on or after July 1, 1989. Early retirement begins at age 55 with an actuarial reduction applied to the benefit.

Benefit increases are provided to benefit recipients each January. The postretirement increase is equal to 50 percent of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2025

percent and a maximum of 1.5 percent. The 2024 annual increase was 1.5 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least one month but less than a full year as of June 30 before the effective date of the increase will receive a prorated increase.

Contributions – Minnesota Statutes Chapter 353, 353E, 353G, 356 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state Legislature.

General Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2025 and the District was required to contribute 7.50 percent for Coordinated Plan members. The District's contributions to the General Employees Fund for the year ended June 30, 2025, were \$688,812. The District's contributions were equal to the required contributions as set by state statute.

Pension Costs – At June 30, 2025, the District reported a liability of \$3,758,363 for its proportionate share of the General Employees Fund's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled \$97,192.

District's proportionate share of net pension liability	\$ 3,758,363
State of Minnesota's proportionate share of the net pension liability associated with the District	97,192
Total	\$ <u>3,855,555</u>

The net pension liability was measured as of June 30, 2024, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportionate share of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2023, through June 30, 2024, relative to the total employer contributions received from all of PERA's participating employers. The District's proportionate share was 0.1017% at the end of the measurement period and 0.1047% for the beginning of the period.

For the year ended June 30, 2025, the District recognized pension expense of \$325,783 for its proportionate share of the General Employee Plan's pension expense. In addition, the District recognized \$2,606 as grant revenue for its proportionate share of the State of Minnesota's pension expense for the annual \$16 million contribution.

During the plan year ended June 30, 2024, the State of Minnesota contributed \$170.1 million to the General Employees Fund. The State of Minnesota is not included as a non-employer contributing entity in the General Employees Plan pension allocation schedules for the \$170.1 million in direct state aid because this contribution was not considered to meet the definition of a special funding situation. The District recognized \$16,688 for the year ended June 30, 2025 as revenue and an offsetting reduction of net pension liability for its proportionate share of the State of Minnesota's on-behalf contributions to the General Employees Fund.

At June 30, 2025, the District reported its proportionate share of General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2025

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 356,194	\$ -
Net difference between projected and actual earnings on pension plan investments.	-	1,007,581
Changes in actuarial assumptions	18,285	1,453,668
Changes in proportion	236,141	141,375
Employer contributions subsequent to the measurement date	688,812	-
Total	<u>\$ 1,299,432</u>	<u>\$ 2,602,624</u>

The \$688,812 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2026. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	Pension Expense Amount
2026	\$ (971,684)
2027	(220,736)
2028	(511,420)
2029	(288,164)

Long-Term Expected Return on Investments

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness on a regular basis of the long-term expected rate of return using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	33.50%	5.10%
Private Markets	25.00%	5.90%
Fixed Income	25.00%	0.75%
International Equity	16.50%	5.30%

Actuarial Methods and Assumptions – The total pension liability for each of the cost-sharing defined benefit plans was determined by an actuarial valuation as of June 30, 2024, using the entry age normal actuarial cost method. The long-term rate of return on pension plan investments used to determine the total liability is 7%. The 7% assumption is based on a review of inflation and investment return assumptions from a number of national investment consulting firms. The review provided a range of investment return rates considered reasonable by the actuary. An investment return of 7% is within that range.

- Inflation is assumed to be 2.25% for the General Employees Plan.
- Benefit increases after retirement are assumed to be 1.25% for the General Employees Plan.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2025

Salary growth assumptions in the General Employees Plan range in annual increments from 10.25% after one year of service to 3% after 27 years of service.

Mortality rates for the General Employees Plan are based on the Pub-2010 General Employee Mortality Table.

Actuarial assumptions are reviewed every four years. The most recent four-year experience study was completed in 2022. The assumption changes were adopted by the Board and became effective with the July 1, 2023 actuarial valuation.

The following changes in actuarial assumptions and plan provisions occurred in 2024:

Changes in Actuarial Assumptions:

- Rates of merit and seniority were adjusted, resulting in slightly higher rates.
- Assumed rates of retirement were adjusted as follows: increase the rate of assumed unreduced retirements, slight adjustments to Rule of 90 retirement rates, and slight adjustments to early retirement rates for Tier 1 and Tier 2 members.
- Minor increase in assumed withdrawals for males and females.
- Lower rates of disability.
- Continued use of Pub-2010 general mortality table with slight rate adjustments as recommended in the most recent experience study.
- Minor changes to form of payment assumptions for male and female retirees.
- Minor changes to assumptions made with respect to missing participant data.

Changes in Plan Provisions:

- The workers' compensation offset for disability benefits was eliminated. The actuarial equivalent factors updated to reflect the changes in assumptions.

Discount Rate – The discount rate used to measure the total pension liability in 2024 was 7.0%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Pension Liability Sensitivity – The following presents the District's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

Sensitivity Analysis - NPL at Different Discount Rates		
1% Decrease in Discount rate	Discount rate	1% Increase in Discount rate
(6.0%)	(7.0%)	(8.0%)
\$ 8,208,870	\$ 3,758,363	\$ 97,415

Pension Plan Fiduciary Net Position – Detailed information about each defined benefit pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at www.mnpera.org.

B. Teachers Retirement Association

Plan Description - The Teachers Retirement Association (TRA) is an administrator of a multiple employer, cost-sharing, defined benefit retirement fund. TRA administers a Basic Plan (without Social Security coverage) and a Coordinated Plan (with Social Security coverage) in accordance with Minnesota Statutes, Chapters 354 and 356. TRA is a separate statutory entity and administered by a Board of Trustees. The Board consists of four active members, one retired member, and three statutory officials.

Educators employed in Minnesota’s public elementary and secondary schools, charter schools, and certain other TRA-covered educational institutions maintained by the state are required to be TRA members (except those employed by St. Paul schools or Minnesota State colleges and universities). Educators first hired by Minnesota State may elect either TRA coverage within one year of eligible employment or elect coverage through the Defined Contribution Retirement Plan (DCR) administered by Minnesota State. A teacher employed by Minnesota State and electing DCR plan is not a member of TRA except for purposes of social security coverage.

Benefits Provided - TRA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by Minnesota Statute and vest after three years of service credit. The defined retirement benefits are based on a member's highest average salary for any consecutive 60 months of formula service, age and years of formula service credit at termination of service. TRA members belong to either the Basic or Coordinated Plan.

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 benefits as described:

Tier I Benefits:

<u>Tier I</u>	<u>Step Rate Formula</u>	<u>Percentage</u>
Basic	1 st ten years of service	2.2 percent per year
	All years after	2.7 percent per year
Coordinated	1 st ten years if service years are up to July 1, 2006	1.2 percent per year
	1 st ten years if service years are July 1, 2006 or after	1.4 percent per year
	All other years of service if service years are up to July 1, 2006	1.7 percent per year
	All other years of service if service years are July 1, 2006 or after	1.9 percent per year

With these provisions:

- a) Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.
- b) 3 percent per year early retirement reduction 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

For years of service prior to July 1, 2006, a level formula of 1.7% per year for coordinated members and 2.7% per year for basic members is applied. For years of service July 1, 2006 and after, a level formula of 1.9% per year for coordinated members and 2.7% per year for Basic members applies. An early retirement reduction is applied to members retiring prior to age 65. Members who reach age 62 with 30 years of service have a lower (more favorable to the member) reduction rate applied.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2025

Mortality Assumption	
Pre-retirement	PubT-2010(A) Employee Mortality Table, male rates set forward 1 year and female rates unadjusted. Generational projection uses the MP-2021 scale.
Healthy Retirees	PubT-2010 (A) Retiree Mortality Table, male rates set forward 1 year and female rates unadjusted. Generational projection uses the MP-2021 scale.
Beneficiaries	Pub-2010 (A) Contingent Survivor Mortality Table, male rates set forward 1 year and female rates unadjusted. Generational projection uses the MP-2021 scale.
Disabled Retirees	PubNS-2010 Disabled Retiree Mortality Table, male rates set forward 1 year and female rates unadjusted. Generational projection uses the MP-2021 scale.

* The assumptions prescribed are based on the experience study dated August 2, 2023. For GASB67 purposes, the long-term rate of return assumptions is selected by TRA management in consultation with actuary.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	33.50%	4.36%
International Equity	16.50%	5.28%
Private Markets	20.00%	6.70%
Fixed Income	25.00%	2.03%
Cash	5.00%	2.92%

Changes in actuarial assumptions since the 2023 valuation:

- Mortality tables were updated for active employees, retirees, disabled retirees, and contingent beneficiaries to recently published tables derived from public plan data known as the Pub2010 family.
- Retirement rates were increased for some of the Tier II early retirement ages and some of the unreduced retirement rates were modified for both tiers to better align with actual experience.
- Probability that new female retirees elect either the Straight Life Annuity or 100% Joint & Survivor Annuity were refined to reflect the actual experience.
- Termination rates were reduced in the first 10 years of employment and slightly increased in years 16 to 25 to better match the observed experience.
- Disability rates were decreased beyond age 45 by 15% to reflect the continued lower than expected observations.

Discount Rate - The discount rate used to measure the total pension liability was 7.00 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal 2024 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2025

Net Pension Liability - On June 30, 2025, the District reported a liability of \$15,466,417 for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2024, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis, and Minneapolis School District. District proportionate share was 0.2434% at the end of the measurement period and 0.2302% for the beginning of the year.

The pension liability amount reflected a reduction due to direct aid provided to TRA. The amount recognized by the District as its proportionate share of the net pension liability, the direct aid, and total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of net pension liability	\$ 15,466,417
State's proportionate share of the net pension liability associated with the District	\$ 1,011,882

For the year ended June 30, 2025, the District recognized pension expense of \$1,802,117. It also recognized \$55,624 as a decrease to pension expense for the support provided by direct aid.

During the plan year ended June 30, 2024, the State of Minnesota contributed \$176 million to the Fund. The State of Minnesota is not included as a non-employer contributing entity in the plan pension allocation schedules for the \$176 million in direct state aid because this contribution was not considered to meet the definition of a special funding situation. The District recognized \$92,314 for the year ended June 30, 2025 as revenue and an offsetting reduction of net pension liability for its proportionate share of the State of Minnesota's on-behalf contributions to the Fund.

On June 30, 2025, the District had deferred resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 726,485	\$ 186,326
Net difference between projected and actual earnings on plan inv.	-	2,144,070
Changes in actuarial assumptions	1,380,374	1,844,412
Changes in proportion	1,591,936	127,740
District contributions subsequent to the measurement date	1,460,722	-
Total	<u>\$ 5,159,517</u>	<u>\$ 4,302,548</u>

\$1,460,722 reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2026. Other amounts reported as deferred outflows and inflows of resources related to TRA pensions will be recognized in pension expense as follows:

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2025

Year Ending June 30	Pension Expense Amount
2026	\$ (614,759)
2027	1,535,768
2028	(739,094)
2029	(703,575)
2030	(82,093)

Pension Liability Sensitivity - The following presents the net pension liability calculated using the discount rate of 7.00 percent as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00 percent) or one percentage higher (8.00 percent) than the current rate.

Sensitivity Analysis - NPL at Different Discount Rates		
1% Decrease (6.0%)	Current (7.0%)	1% Increase (8.0%)
\$ 27,237,266	\$ 15,466,417	\$ 5,778,730

The District's proportion of the net pension liability was based on the employer contributions to TRA in relation to TRA's total employer contributions including direct aid contributions from the State of Minnesota, City of Minneapolis, and Minneapolis School District.

Pension Plan Fiduciary Net Position - Detailed information about the plan's fiduciary net position is available in a separately-issued TRA financial report. That report can be obtained at www.MinnesotaTRA.org, by writing to TRA at 60 Empire Drive, Suite 400, St. Paul, MN, 55103-4000; or by calling (651)-296-2409 or (800)-657-3669.

The District recognized total pension expense of \$2,127,900 for all of the pension plans in which it participates.

NOTE 6 OTHER POSTEMPLOYMENT BENEFITS

Plan Description - The District's Plan is a single-employer defined benefit healthcare plan to eligible retirees and their spouses. The authority and requirement to provide these benefits is established in Minnesota Statutes Section 471.61, Subd. 2b. The benefit levels, employee contributions and employer contributions are governed by the District and can be amended by the District through the District's collective bargaining agreements with employee groups. In as much as the Plan has no assets, reporting another employee benefit trust fund in the accompanying financial statements is not required nor was a separate or stand-alone report issued.

Benefits Provided - The District provides healthcare benefits for retirees and their dependents. Benefits are provided through a third-party insurer, and the full cost of the benefits is covered by the plan. The District provides full single coverage healthcare for a retiring principal or teacher until Medicare eligibility. All principals and teachers have a service requirement of three years.

Funding Policy - Retirees and their spouses contribute to the healthcare plan at the same rate as District employees. Since the premium is a blended rate determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy. The District provides postemployment healthcare benefits to qualifying retirees.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2025

Employees Covered by Benefit Term – At June 30, 2025, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefit payments	1
Active plan members	209
Total Members	<u>210</u>

Total OPEB Liability – The District’s total OPEB liability of \$617,555 was measured as of July 1, 2024 and was determined by an actuarial valuation as of July 1, 2023.

Actuarial Assumptions – The total OPEB liability in the July 1, 2023 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.5 percent
Salary increases	Service graded table
Healthcare Cost Trend Rates	6.25 percent decreasing to 5.0 percent over 6 years and then to 4.0 percent over the next 48 years

The mortality tables were updated from the RP-2014 White Collar Mortality Tables with MP-2016 Generational Improvement Scale to the Pub-2010 Public Retirement Plans Headcount-Weighted Mortality Tables (General, Teachers) with MP-2021 Generational Improvement Scale.

The discount rate is based on the estimated yield of 20-year AA-rated municipal bonds. The overall single discount rate is 4.1%.

In the July 1, 2023 actuarial valuation, the entry age, level percentage of pay actuarial cost method was used. Changes in the Total OPEB Liability:

	Total OPEB Liability
Balance at 6/30/2024	\$ 613,092
Changes for the year:	
Service Cost	46,675
Interest Cost	24,576
Assumption Changes	(6,996)
Differences Between Expected and Actual Experience	-
Benefit Payments	<u>(59,792)</u>
Net Changes	4,463
Balance at 6/30/2025	<u>\$ 617,555</u>

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2025

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate – The following presents the total OPEB liability of the District, as well as what the District’s total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (3.1 percent) or one percentage point higher (5.1 percent) than the current rate:

District Total OPEB Liability		
1% Decrease (3.1%)	Current (4.1%)	1% Increase (5.1%)
\$ 660,528	\$ 617,555	\$ 575,905

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates – The following presents the total OPEB liability of the District, as well as what the District’s total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (5.25 percent decreasing to 4.0 percent over 6 years) or one percentage point higher (7.25 percent decreasing to 6.0 percent over 6 years) than the current healthcare cost trend rates:

District Healthcare Cost Trend Rates		
(5.25% decreasing to 4.0% over 6 years)	(6.25% decreasing to 5.00% over 6 years)	(7.25% decreasing to 6.0% over 6 years)
\$ 543,568	\$ 617,555	\$ 705,107

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB – For the year ended June 30, 2025, the District recognized OPEB expense of \$53,426. At June 30, 2025, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Assumption changes	\$ 28,380	\$ 46,020
Differences between expected and actual experience	17,342	152,720
Employer contributions paid subsequent to the measurement date	60,651	-
Total	\$ 106,373	\$ 198,740

\$60,651 reported as deferred outflows of resources related to OPEB resulting from District contributions to OPEB subsequent to the measurement date will be recognized as a reduction of the total other postemployment benefit liability in the year ending June 30, 2026. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in pension expense as follows:

Year Ending June 30	OPEB Expense Amount
2026	\$ (17,825)
2027	(30,121)
2028	(34,262)
2029	(39,661)
2030	(30,153)
Thereafter	(996)

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2025

NOTE 7 LONG-TERM LIABILITIES

Changes in the District's long-term liabilities for the year ended June 30, 2025 are as follows:

Summary of Long-Term Liabilities

	Restated Beginning Balance	Additions	Retired	Ending Balance	Due Within One Year
Capital Loans Payable	\$ 219,781	\$ -	\$ 6,651	\$ 213,130	\$ -
Lease Payable	306,241	401,498	392,807 *	314,932	98,027
Compensated Absences	4,677,564	552,829	-	5,230,393	1,539,855
Total Long-Term Liabilities	<u>\$ 5,203,586</u>	<u>\$ 954,327</u>	<u>\$ 399,458</u>	<u>\$ 5,758,455</u>	<u>\$ 1,637,882</u>

* \$306,241 of retired portion of the lease payable was a modification of the terms of the lease

The District's interest expense for the year ended June 30, 2025 was \$22,023. Compensated absences and lease payable are generally liquidated by the general fund. Compensated absences are presented net of additions and retirements.

A. Capital Loan

Date of Issue	Net Interest Rate	Maturity Dates	Balance 6/30/2024	Current Year Additions	Current Year Retired	Balance 6/30/2025	Amounts Due in 2024-2025	
							Principal	Interest
2015	2.93%	2065	\$ 210,872	\$ -	\$ -	\$ 210,872	\$ -	\$ -
2020		2070	8,909	-	6,651	2,258	-	-
			<u>\$ 219,781</u>	<u>\$ -</u>	<u>\$ 6,651</u>	<u>\$ 213,130</u>	<u>\$ -</u>	<u>\$ -</u>

During the 2015 fiscal year, the District received approval for the construction of the new kitchen and cafeteria at the Red Lake High/Middle School. The loan is a capital loan from the State of Minnesota for \$5,257,101. During fiscal year 2017, an additional amount of \$61,547 was recorded. A portion, totaling \$5,089,905, of this loan was forgiven in fiscal year 2021.

During the 2020 fiscal year, the District received approval for a capital loan from the State of Minnesota to fund the construction of an early childhood center. The loan is in the amount of \$517,207. A portion, totaling \$495,386, of this loan was reduced in fiscal year 2023 due to a state correction of the classification between capital loan and grant.

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

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2025

If the required debt service levy exceeds the District's levy for other debt service obligations, the excess amount will be used to repay the state loan. If the required levy is less than the other debt service obligations, the principal and interest on the capital loan are deferred. The principal and interest unpaid after 50 years are forgiven.

B. Leases

The District leases copiers and printers. The District entered into a new copier lease agreement in FY25. The term of the lease is for a period of 48 months, commencing on August 1, 2024 and terminating on July 31, 2028 with a monthly payment of \$9,047.

Following is a schedule by years of future minimum payments required under the lease:

Maturity Analysis	<u>Principal</u>	<u>Interest</u>	<u>Total Payments</u>
2026	\$ 98,027	\$ 10,542	\$ 108,569
2027	101,920	6,650	108,570
2028	105,966	2,604	108,570
2029	9,019	29	9,048
Total	<u>\$ 314,932</u>	<u>\$ 19,825</u>	<u>\$ 334,757</u>

C. Compensated Absences

The District has compensated absences consisting of severance plans, vacation plans, and sick leave. The District accounts for compensated absences using a days-used approach. This approach consists of gathering the historical usage of compensated absences used to determine both a liability related to leave to be used as time off and leave to be settled in cash upon termination of employment. Salary-related employer payments are included in the calculation of the compensated absence liability. At June 2025, the estimated liability under these plans was \$5,230,393.

NOTE 8 INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances as of June 30, 2025 is as follows:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Nonmajor Governmental Funds	General	\$ 346,899
Nonmajor Governmental Funds	General	<u>154,391</u>
Total		<u>\$ 501,290</u>

The purpose of the transfers is to cover the operating deficit in the food service and community service fund.

NOTE 9 CONTINGENCIES

The District receives significant financial assistance from numerous federal, state, and local governmental agencies in the form of grants and aids. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any disallowed claims will not have a

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2025

material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District at June 30, 2025.

NOTE 10 RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; natural disasters and workers compensation. The District purchases commercial insurance coverage for such risks.

The District has joined together with other school districts in Minnesota in the Northwest Service Cooperative's Minimum Premium Funding Plan (Plan). The Plan is a public entity risk pool established as a health insurance purchasing pool for its members. The agreement for the formation of the Plan provides that the Plan will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$300,000. The pool and its members purchase reinsurance, currently with a \$300,000 specific stop loss attachment point and 110% aggregate stop loss attachment point. If the assets of the Plan were to be exhausted, members would not be responsible for the Plan's liabilities. The Northwest Service Cooperative retains the risk of the Plan's liabilities.

There has been no significant reduction in insurance coverage from the previous year in any of the District's policies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

NOTE 11 NEW PRONOUNCEMENTS

GASB Statement No. 103, *Financial Reporting Model Improvements*, revises the requirements for management's discussion and analysis with the goal of making it more readable and understandable, requires unusual or infrequent items to be presented separately, defines operating and nonoperating revenues, includes a new section for noncapital subsidies for proprietary funds' statement of revenues, expenses and changes in net position, removes the option to disclose major component information in the notes and requires them to be shown individually or in combine financial statements following the fund financial statements and requires budgetary comparisons to be presented as RSI with new columns for variances between original-to-final budget and final budget-to-actual results. This statement is effective for fiscal years beginning after June 15, 2025.

GASB Statement No. 104, *Disclosure of Certain Capital Assets*, establishes requirements for certain types of capital assets to be disclosed separately in the capital assets note. These items include disclosing separately lease assets, intangible right-to-use assets, subscription assets and intangible assets. In addition, additional disclosures will be required for capital assets held for sale. This statement is effective for fiscal years beginning after June 15, 2025. Earlier application is encouraged.

Management has not yet determined the effect these Statements will have on the District's financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
For the Year Ended June 30, 2025

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
REVENUES				
Local Property Tax Levies	\$ 5,962	\$ 6,923	\$ 6,322	\$ (601)
Other Local & County Revenues	1,511,005	1,975,066	1,930,409	(44,657)
Revenue From State Sources	28,754,738	30,983,965	30,459,160	(524,805)
Revenue From Federal Sources	<u>23,353,490</u>	<u>22,682,607</u>	<u>22,108,346</u>	<u>(574,261)</u>
TOTAL REVENUES	<u>53,625,195</u>	<u>55,648,561</u>	<u>54,504,237</u>	<u>(1,144,324)</u>
EXPENDITURES				
Current				
Administration	2,586,314	2,455,821	2,441,836	(13,985)
District Support Services	1,838,348	1,418,476	1,341,456	(77,020)
Elementary & Secondary Regular Instruction	19,543,801	21,616,651	21,429,771	(186,880)
Vocational Education Instruction	167,854	170,910	174,751	3,841
Special Education Instruction	8,975,271	9,033,543	8,889,592	(143,951)
Instructional Support Services	4,121,612	4,749,843	4,415,138	(334,705)
Pupil Support Services	3,320,623	3,868,688	3,759,859	(108,829)
Sites and Buildings	5,586,031	5,779,117	5,374,455	(404,662)
Fixed Costs	304,494	342,433	340,733	(1,700)
Debt Service				
Principal	-	-	86,566	86,566
Interest	-	-	22,023	22,023
Capital Outlay	<u>3,408,723</u>	<u>1,878,201</u>	<u>2,399,280</u>	<u>521,079</u>
TOTAL EXPENDITURES	<u>49,853,071</u>	<u>51,313,683</u>	<u>50,675,460</u>	<u>(638,223)</u>
Revenues Over (Under) Expenditures	3,772,124	4,334,878	3,828,777	(506,101)
OTHER FINANCING SOURCES (USES)				
Debt Issued	-	-	401,498	401,498
Insurance Recovery	45,773	10,022	10,022	0
Transfer Out	<u>(217,721)</u>	<u>(232,209)</u>	<u>(501,290)</u>	<u>(269,081)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(171,948)</u>	<u>(222,187)</u>	<u>(89,770)</u>	<u>132,417</u>
Net Change in Fund Balances	3,600,176	4,112,691	3,739,007	(373,684)
Fund Balances - Beginning	<u>29,247,311</u>	<u>29,247,311</u>	<u>29,247,311</u>	<u>-</u>
Fund Balances - Ending	<u>\$ 32,847,487</u>	<u>\$ 33,360,002</u>	<u>\$ 32,986,318</u>	<u>\$ (373,684)</u>

See Notes to the Required Supplementary Information

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
SCHEDULE OF CHANGES IN THE DISTRICT'S TOTAL OPEB LIABILITY AND RELATED RATIOS
Last 10 Years

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
Total OPEB Liability								
Service Cost	\$ 42,167	\$ 43,432	\$ 47,489	\$ 54,175	\$ 59,939	\$ 48,029	\$ 46,725	\$ 46,675
Interest	43,744	40,870	37,848	34,016	24,165	19,518	31,193	24,576
Assumption Changes	-	-	(13,792)	28,956	30,654	(66,603)	9,767	(6,996)
Differences Between Expected and Actual Experience	-	-	99,843	-	7,195	-	(213,808)	-
Benefit Payments	<u>(177,550)</u>	<u>(165,786)</u>	<u>(188,860)</u>	<u>(199,015)</u>	<u>(227,451)</u>	<u>(147,001)</u>	<u>(69,229)</u>	<u>(59,792)</u>
Net Change in Total OPEB Liability	(91,639)	(81,484)	(17,472)	(81,868)	(105,498)	(146,057)	(195,352)	4,463
Total OPEB Liability - Beginning	<u>1,332,462</u>	<u>1,240,823</u>	<u>1,159,339</u>	<u>1,141,867</u>	<u>1,059,999</u>	<u>954,501</u>	<u>808,444</u>	<u>613,092</u>
Total OPEB Liability - Ending	<u>\$ 1,240,823</u>	<u>\$ 1,159,339</u>	<u>\$ 1,141,867</u>	<u>\$ 1,059,999</u>	<u>\$ 954,501</u>	<u>\$ 808,444</u>	<u>\$ 613,092</u>	<u>\$ 617,555</u>
Covered Payroll	\$ 11,376,047	\$ 11,717,328	\$ 12,825,345	\$ 13,210,105	\$ 12,884,000	\$ 13,270,520	\$ 16,175,054	\$ 16,660,306
District's Total OPEB Liability as a Percentage of a Covered Payroll	10.91%	9.89%	8.90%	8.02%	7.41%	6.09%	3.79%	3.71%

The District implemented GASB No. 75 for the fiscal year ended June 30, 2018. Information from prior years is not available.

See Notes to the Required Supplementary Information

**INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
SCHEDULE OF DISTRICT CONTRIBUTIONS
Last 10 Years**

	<u>Fiscal Year Ended June 30</u>	<u>Statutorily Required Contribution</u>	<u>Contributions in Relation to the Statutorily Required Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>District's Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
PERA						
	2016	\$ 421,714	\$ 421,714	\$ -	\$ 5,553,075	7.59 %
	2017	429,139	437,086	(7,947)	5,721,852	7.64
	2018	460,191	460,191	-	6,135,866	7.50
	2019	513,731	513,731	-	6,852,915	7.50
	2020	540,284	540,284	-	7,255,336	7.45
	2021	490,791	490,791	-	6,543,881	7.50
	2022	557,508	557,508	-	7,433,440	7.50
	2023	634,767	634,767	-	8,463,539	7.50
	2024	658,785	658,785	-	8,783,783	7.51
	2025	688,812	688,812	-	9,216,554	7.47
TRA						
	2016	\$ 805,447	\$ 805,447	\$ -	10,800,663	7.46 %
	2017	832,845	830,311	2,534	11,104,508	7.48
	2018	886,995	886,995	-	11,777,290	7.53
	2019	975,962	975,962	-	12,608,372	7.74
	2020	1,013,254	1,013,254	-	12,732,717	7.96
	2021	1,052,235	1,052,235	-	12,901,912	8.16
	2022	1,171,975	1,171,975	-	14,002,091	8.37
	2023	1,268,688	1,268,688	-	14,788,751	8.58
	2024	1,460,722	1,460,722	-	16,530,661	8.84
	2025	1,630,037	1,630,037	-	18,459,492	8.83

The amounts presented for each fiscal year were determined as of the District's year end which is June 30th.

See Notes to the Required Supplementary Information

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
SCHEDULE OF DISTRICT'S SHARE OF NET PENSION LIABILITY
Last 10 Years

<u>Fiscal Year Ended June 30</u>	<u>District's Proportion of the Net Pension Liability</u>	<u>District's Proportionate Share of the Net Pension Liability</u>	<u>State's Proportionate Share of the Net Pension Liability Associated with the District (if Applicable)</u>	<u>Total</u>	<u>District's Covered Payroll</u>	<u>District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
PERA							
2015	0.0961 %	\$ 4,980,401	\$ -	\$ 4,980,401	\$ 5,403,218	92.17 %	78.19 %
2016	0.0881	7,153,283	93,372	7,246,655	5,553,075	128.82	68.90
2017	0.0889	5,675,317	71,383	5,746,700	5,721,852	99.19	75.90
2018	0.0886	4,915,165	161,215	5,076,380	6,135,866	80.11	79.53
2019	0.0963	5,324,211	165,493	5,489,704	6,852,915	77.69	80.23
2020	0.1009	6,049,416	186,522	6,235,938	7,255,336	83.38	79.06
2021	0.0917	3,916,001	119,586	4,035,587	6,543,881	59.84	87.00
2022	0.1013	8,022,993	235,278	8,258,271	7,433,440	107.93	76.67
2023	0.1047	5,854,707	161,415	6,016,122	8,463,539	69.18	83.10
2024	0.1017	3,758,363	97,192	3,855,555	8,783,783	42.79	89.08
TRA							
2015	0.2035 %	\$ 12,588,488	\$ 1,544,360	\$ 14,132,848	\$ 8,739,215	144.05 %	76.80 %
2016	0.2076	49,517,553	4,969,452	54,487,005	10,800,663	458.47	44.88
2017	0.2028	40,482,559	3,913,248	44,395,807	11,104,508	364.56	51.57
2018	0.2114	13,277,272	1,247,702	14,524,974	11,777,290	112.74	78.07
2019	0.2207	14,067,464	1,244,766	15,312,230	12,608,372	111.57	78.21
2020	0.2174	16,061,803	1,345,918	17,407,721	12,732,717	126.15	75.48
2021	0.2154	9,426,548	795,137	10,221,685	12,901,912	73.06	86.63
2022	0.2248	18,000,795	1,334,526	19,335,321	14,002,091	128.56	76.17
2023	0.2302	19,005,828	1,331,195	20,337,023	14,788,751	128.52	76.42
2024	0.2434	15,466,417	1,011,882	16,478,299	16,530,661	93.56	82.07

The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension liability which is June 30 of the previous fiscal year.

See Notes to the Required Supplementary Information

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 are presented in accordance with accounting principles generally accepted in the United States of America. All appropriations lapse at year-end. Encumbrances represent commitments related to unperformed contracts for goods and services. Encumbrance accounting is not utilized in the governmental funds of the District.

The budget is adopted through the passage of a resolution. Administration can authorize the transfer of budgeted amounts within any fund. Any revisions that alter the total expenditures of any fund must be approved by the governing board. The legal level of budgetary control is the fund level. The annual appropriated budget is not legally binding on the District unless the District has a deficit fund balance which exceeds 2.5% of expenditures.

NOTE 2 DEFINED BENEFIT PLANS

PERA

2024 Changes

Changes in Actuarial Assumptions:

- Rates of merit and seniority were adjusted, resulting in slightly higher rates.
- Assumed rates of retirement were adjusted as follows: increase the rate of assumed unreduced retirements, slight adjustments to Rule of 90 retirement rates, and slight adjustments to early retirement rates for Tier 1 and Tier 2 members.
- Minor increase in assumed withdrawals for males and females.
- Lower rates of disability.
- Continued use of Pub-2010 general mortality table with slight rate adjustments as recommended in the most recent experience study.
- Minor changes to form of payment assumptions for male and female retirees.
- Minor changes to assumptions made with respect to missing participant data.

Changes in Plan Provisions:

- The workers' compensation offset for disability benefits was eliminated. The actuarial equivalent factors updated to reflect the changes in assumptions.

TRA

Changes in actuarial assumptions since the 2023 valuation:

- Mortality tables were updated for active employees, retirees, disabled retirees, and contingent beneficiaries to recently published tables derived from public plan data known as the Pub2010 family.
- Retirement rates were increased for some of the Tier II early retirement ages and some of the unreduced retirement rates were modified for both tiers to better align with actual experience.
- Probability that new female retirees elect either the Straight Life Annuity or 100% Joint & Survivor Annuity were refined to reflect the actual experience.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – CONTINUED
June 30, 2025

- Termination rates were reduced in the first 10 years of employment and slightly increased in years 16 to 25 to better match the observed experience.
- Disability rates were decreased beyond age 45 by 15% to reflect the continued lower than expected observations.

NOTE 3 OTHER POSTEMPLOYMENT BENEFITS

Plan Changes: None

Assumption Changes:

- The discount rate was changed from 3.90% to 4.10%.

Method Changes: None

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS
June 30, 2025

	Special Revenue Funds		Building Fund	Debt Redemption Fund	Total Nonmajor Governmental Funds
	Food Service Fund	Community Service Fund			
ASSETS					
Cash and Investments	\$ 3,260	\$ 249,070	\$ 1,182	\$ 95,077	\$ 348,589
Accounts Receivable	26	-	-	-	26
Due From Department of Education	710	26,608	-	-	27,318
Due From Federal Govt. - DOE	40,020	10,895	-	-	50,915
Due From Other Governments	6,857	-	-	-	6,857
Inventory	6,265	-	-	-	6,265
TOTAL ASSETS	\$ 57,138	\$ 286,573	\$ 1,182	\$ 95,077	\$ 439,970
LIABILITIES					
Accounts Payable	\$ 438	\$ 479	\$ -	\$ -	\$ 917
Salaries Payable	34,958	71,587	-	-	106,545
TOTAL LIABILITIES	35,396	72,066	-	-	107,462
FUND BALANCES					
Nonspendable: Inventory	6,265	-	-	-	6,265
Restricted for Food Service	15,477	-	-	-	15,477
Restricted for Max Effort Loan	-	-	-	95,077	95,077
Restricted for Capital Project	-	-	1,182	-	1,182
Restricted for Community Education	-	4,240	-	-	4,240
Restricted for ECFE	-	210,267	-	-	210,267
TOTAL FUND BALANCES	21,742	214,507	1,182	95,077	332,508
TOTAL LIABILITIES AND FUND BALANCES	\$ 57,138	\$ 286,573	\$ 1,182	\$ 95,077	\$ 439,970

INDEPENDENT SCHOOL DISTRICT NO. 38

RED LAKE, MINNESOTA

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
NONMAJOR GOVERNMENTAL FUNDS**

For the Year Ended June 30, 2025

	Special Revenue Funds		Building Fund	Debt Redemption Fund	Total Nonmajor Governmental Funds
	Food Service Fund	Community Service Fund			
REVENUES					
Local Property Tax Levies	\$ -	\$ 63	\$ -	\$ -	\$ 63
Other Local & County Revenues	6,857	190,371	9	-	197,237
Revenue From State Sources	34,227	270,485	-	-	304,712
Revenue From Federal Sources	1,510,630	44,170	-	-	1,554,800
Sale/Other Conversion of Asset	29,021	-	-	-	29,021
TOTAL REVENUES	1,580,735	505,089	9	-	2,085,833
EXPENDITURES					
Current					
Community Education and Services	-	678,793	-	-	678,793
Pupil Support Services	1,906,254	-	-	-	1,906,254
Debt Service					
Principal	-	-	-	6,651	6,651
Capital Outlay	25,000	-	-	-	25,000
TOTAL EXPENDITURES	1,931,254	678,793	-	6,651	2,616,698
Revenues Over (Under) Expenditures	(350,519)	(173,704)	9	(6,651)	(530,865)
OTHER FINANCING SOURCES					
Transfers In	346,899	154,391	-	-	501,290
TOTAL OTHER FINANCING SOURCES	346,899	154,391	-	-	501,290
Net Change in Fund Balances	(3,620)	(19,313)	9	(6,651)	(29,575)
Fund Balances - Beginning	25,362	233,820	1,173	101,728	362,083
Fund Balances - Ending	\$ 21,742	\$ 214,507	\$ 1,182	\$ 95,077	\$ 332,508

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
SCHEDULE OF CHANGES IN FUND BALANCES
For the Year Ended June 30, 2025

	Balance Beginning of Year	Revenues	Expenditures	Transfers	Debt Issued	Insurance	UFARS Balance End of Year
Governmental Funds							
General Fund							
Nonspendable	\$ 18,000	\$ -	\$ -	\$ 18,846	\$ -	\$ -	\$ 36,846
Restricted for:							
Student Activities	26,715	74,470	75,041	-	-	-	26,144
Scholarships	10,016	17,828	2,300	-	-	-	25,544
Staff Development	8	226,790	206,131	-	-	-	20,667
Literacy Incentive Aid	41,290	41,631	76,688	-	-	-	6,233
American Indian Ed Aid	183,678	747,000	651,739	-	-	-	278,939
Operating Capital	151,883	345,685	497,568	-	-	-	-
Learning and Development	-	355,116	355,116	-	-	-	-
St. Approved Alt Program	1	427,080	421,664	-	-	-	5,417
Basic Skills Programs	275,150	4,879,181	4,947,422	-	-	-	206,909
Gifted and Talented	98,029	20,246	-	-	-	-	118,275
School Library aid	-	40,000	40,000	-	-	-	-
Achievement and Integration	-	401,705	734,372	332,667	-	-	-
Literacy Aid	-	57,554	34,642	-	-	-	22,912
Teacher Comp Read Act	-	51,962	51,962	-	-	-	-
Long-Term Facilities Maintenance	101,027	520,733	314,759	-	-	-	307,001
Student Support Personnel	40,000	40,000	80,000	-	-	-	-
Medical Assistance	111,047	36,815	11,697	-	-	-	136,165
Impact Aid	-	-	-	-	-	-	-
Restricted for Impact Aid	3,404,315	14,249,001	11,353,202	(332,667)	-	-	5,967,447
Unassigned	24,786,152	31,971,440	30,821,157	(520,136)	401,498	10,022	25,827,819
Food Service Fund							
Nonspendable	18,866	-	-	(12,601)	-	-	6,265
Restricted: Food Service	6,496	1,580,735	1,931,254	359,500	-	-	15,477
Community Service Fund							
Restricted for:							
Community Education	10,443	97,763	103,966	-	-	-	4,240
ECFE	172,347	107,962	70,042	-	-	-	210,267
School Readiness	-	291,846	291,846	-	-	-	-
Community Service	51,030	7,518	212,939	154,391	-	-	-
Building Fund							
Restricted for Building Fund	1,173	9	-	-	-	-	1,182
Debt Service Fund							
Restricted for Max Effort Loan	101,728	-	6,651	-	-	-	95,077

INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

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

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 38 as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 16, 2025.

Legal Compliance

In connection with our audit, nothing came to our attention that caused us to believe that the District failed to comply with the provisions of the contracting – bid laws, depositories of public funds and public investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and uniform financial accounting and reporting standards sections of the *Minnesota Legal Compliance Audit Guide for School Districts*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

Purpose of the Report

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.



BRADY MARTZ
GRAND FORKS, NORTH DAKOTA

December 16, 2025

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 38, as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 16, 2025.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2025-001 that we consider to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The District's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the District's response to the finding identified in our audit and described in the accompanying schedule of findings and questioned costs and corrective action plan. The District's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



BRADY MARTZ
GRAND FORKS, NORTH DAKOTA

December 16, 2025

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Independent School District No. 38's compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2025. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the District complied in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2025.

Basis for Opinion on Each Major Federal Program

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 the audit requirements of Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Independent School District No. 38 and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the District's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the District's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the District's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the District's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the District's compliance with the compliance requirements referred to above and performing such other procedures as we consider necessary in the circumstances.
- Obtain an understanding of the District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



BRADY MARTZ
GRAND FORKS, NORTH DAKOTA

December 16, 2025

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2025

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal AL Number	Amount
<u>U.S. Department of Education</u>		
Direct Programs:		
Impact Aid	84.041	\$ 14,249,001
Indian Education	84.060	348,673
Total Direct		<u>14,597,674</u>
Passed-Through Minnesota Department of Education:		
Title I	84.010	1,471,405
Title II, Part A	84.367	121,742
Rural Education	84.358	37,801
Student Support and Academic Enrichment Program	84.424	69,066
Special Education Grants for Infants and Families	84.181	15,793
State Personnel Development	84.323	150,970
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	12,872
COVID-19 Education Stabilization Fund	84.425W	20,085
COVID-19 Education Stabilization Fund	84.425U	5,290,349
Total AL 84.425		<u>5,310,434</u>
<i>Special Education (IDEA) Cluster:</i>		
Special Education Preschool Grants	84.173	19,305
Special Education Grants to States	84.027	248,753
Passed-Through Bemidji Regional Interdistrict Council:		
Special Education Grants to States	84.027	96,701
Total Special Education (IDEA) Cluster:		<u>364,759</u>
Total Indirect		<u>7,554,842</u>
Total U.S. Department of Education		<u>22,152,516</u>
<u>U.S. Department of Agriculture</u>		
Passed-Through Minnesota Department of Education:		
State Administrative Expenses for Child Nutrition -Gear-Up/Get Ready	10.560	3,863
Child Nutrition Discretionary Grants Limited Availability	10.579	25,000
Farm to School Grant Program	10.575	9,700
<i>Child Nutrition Cluster:</i>		
School Breakfast Program	10.553	427,431
National School Lunch Program	10.555	898,187
National School Lunch Program - Nonmonetary Assistance	10.555	82,447
National School Lunch Program- Snacks Federal	10.555	12,249
Fresh Fruit and Vegetable Program	10.582	51,753
Total Child Nutrition Cluster		<u>1,472,067</u>
Total U.S. Department of Agriculture		<u>1,510,630</u>
TOTAL FEDERAL AWARDS		<u>\$ 23,663,146</u>

See Notes to the Schedule of Expenditures of Federal Awards

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2025

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the accompanying schedule of expenditures of federal awards (the Schedule) are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 2 INDIRECT COST RATE

The District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 3 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal award activity of Independent School District No. 38 under programs of the federal government for the year ended June 30, 2025. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Independent School District No. 38, it is not intended to be and does not present the financial position or changes in net position of Independent School District No. 38.

NOTE 4 COMMODITY DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed.

NOTE 5 PASS-THROUGH ENTITIES

Pass-through entities listed above without a pass-through number use the same AL numbers as the federal grantors to identify these grants and have not assigned any additional identifying numbers.

NOTE 6 SUBRECIPIENTS

During 2025, the District did not pass any federal money to subrecipients.

**INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2025**

Section I-Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified
Internal control over financial reporting:
Material weakness(es) identified? yes no
Significant deficiency(ies) identified? yes no
Noncompliance material to financial statements noted? yes no

Federal Awards

Internal Control over major programs:
Material weakness(es) identified? yes no
Significant deficiency(ies) identified? yes no
Type of auditor's report issued on compliance for major programs: Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? yes no

Identification of major programs:

<u>AL Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I
84.041	Impact Aid

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? yes no

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
June 30, 2025

Section II-Financial Statement Findings

2025-001 FINDING

Criteria

An appropriate system of internal controls requires the District to prepare financial statements in compliance with accounting principles generally accepted in the United States of America.

Condition

The District's personnel prepare periodic financial information for internal use that meets the needs of management and the Board of Education. However, the District currently does not prepare the financial statements, including the accompanying note disclosures, as required by accounting principles generally accepted in the United States of America. The District has elected to have the auditors assist in the preparation of the financial statements and notes.

Cause

The District elected to not allocate resources for the preparation of the financial statements.

Effect

There is an increased risk of material misstatement to the District's financial statements.

Repeat Finding

Yes. Prior audit finding 2024-001.

Recommendation

We recommend the District consider the additional risk of having the auditors assist in the preparation of the financial statements and note disclosures and consider preparing them in the future. As a compensating control, the District should establish an internal control policy to document the annual review of the financial statements and schedules and to review a financial statement disclosure checklist.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the recommendation and will review on an annual basis.

Section III-Federal Award Findings and Questioned Costs

None.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2025

2024-001 FINDING

Criteria

An appropriate system of internal controls requires the District to prepare financial statements in compliance with accounting principles generally accepted in the United States of America.

Condition

The District's personnel prepare periodic financial information for internal use that meets the needs of management and the Board of Education. However, the District currently does not prepare the financial statements, including the accompanying note disclosures, as required by accounting principles generally accepted in the United States of America. The District has elected to have the auditors assist in the preparation of the financial statements and notes.

Current Year Status

See current year finding 2025-001.



Red Lake Public School District #38

PO Box 499
Red Lake, MN 56671
218-679-3353 (phone)
218-679-2321 (fax)

"...where each child is valued, life-long learning is embraced, and students are empowered to become Red Lake Nation ambassadors in the global community."

Corrective Action Plan for the Year Ending June 30, 2025

2025-001 FINDING

Contact Person – Tim Lutz, Superintendent

Corrective Action Plan – Will establish a policy to document review of financial statements and notes.

Completion Date – Ongoing

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS COMPLIANCE TABLE
June 30, 2025

District Name:	INDEPENDENT SCHOOL DISTRICT NO. 38			District Number:	38		
	Audit	UFARS	Variance		Audit	UFARS	Variance
01 GENERAL FUND				06 BUILDING CONSTRUCTION			
Total Revenue	54,504,237	54,504,236	1	Total Revenue	9	9	-
Total Expenditures	50,675,460	50,675,460	-	Total Expenditures	-	-	-
<i>Non Spendable</i>				<i>Non Spendable</i>			
460 Non Spendable Fund Balance	36,846	36,846	-	460 Non Spendable Fund Balance	-	-	-
<i>Restricted/Reserved:</i>				<i>Restricted/Reserved:</i>			
401 Student Activities	26,144	26,144	-	407 Capital Projects Levy	-	-	-
402 Scholarships	25,544	25,542	2	413 Projects Funded By COP	-	-	-
403 Staff Development	20,667	20,659	8	467 LTFM	-	-	-
407 Capital Projects Levy	-	-	-	<i>Restricted</i>			
408 Cooperative Revenue	-	-	-	464 Restricted Fund Balance	1,182	1,181	1
412 Literacy Incentive Aid	6,233	6,233	-	<i>Unassigned:</i>			
413 Project Funded by COP	-	-	-	463 Unassigned Fund Balance	-	-	-
414 Operating Debt	-	-	-	Reconciliation of Building Construction	1,191	1,190	1
416 Levy Reduction	-	-	-				
417 Taconite Building Maintenance	-	-	-	07 DEBT SERVICE			
420 American Indian Ed Aid	278,939	278,939	-	Total Revenue	-	-	-
424 Operating Capital	-	-	-	Total Expenditures	6,651	6,651	-
426 \$25 Taconite	-	-	-	<i>Non Spendable</i>			
427 Disabled Accessibility	-	-	-	460 Non Spendable Fund Balance	-	-	-
428 Learning & Development	-	-	-	<i>Restricted/Reserved:</i>			
434 Area Learning Center	-	-	-	425 Bond Refundings	-	-	-
435 Contracted Alt Programs	-	-	-	433 Max Effort Loan	95,077	95,079	(2)
436 State Approved Alt Program	5,417	5,417	-	451 QZAB Payments	-	-	-
437 Q Comp	-	-	-	467 LTFM	-	-	-
438 Gifted & Talented	118,275	118,275	-	<i>Restricted</i>			
440 Teacher Development and Eval	-	-	-	464 Restricted Fund Balance	-	-	-
441 Basic Skills Programs	206,909	206,899	10	<i>Unassigned:</i>			
443 School Library Aid	-	-	-	463 Unassigned Fund Balance	-	-	-
448 Achievement and Integration	-	-	-	Reconciliation of Debt Service	101,728	101,730	(2)
449 Safe Schools Levy	-	-	-				
451 QZAB Payments	-	-	-	08 TRUST			
452 OPEB Liab Not In Trust	-	-	-	Total Revenue	-	-	-
453 Unfunded Sev & Retirement Levy	-	-	-	Total Expenditures	-	-	-
456 Literacy Aid	22,912	22,912	-	<i>Unassigned:</i>			
457 Teacher Comp Read Act	-	-	-	422 Unassigned Fund Balance	-	-	-
459 Basic Skills Ext Time	-	-	-	Reconciliation of Trust	-	-	-
467 LTFM	307,001	307,000	1				
471 Student Support Personnel	-	-	-	20 INTERNAL SERVICE			
472 Medical Assistance	136,165	136,165	-	Total Revenue	-	-	-
473 PPP Loans	-	-	-	Total Expenditures	-	-	-
474 EIDL Loans	-	-	-	<i>Unassigned:</i>			
<i>Restricted</i>				422 Unassigned Fund Balance	-	-	-
464 Restricted Fund Balance	-	-	-	Reconciliation of Internal Service	-	-	-
475 Title VII - Impact Aid	5,967,447	5,967,446	1				
476 PILT	-	-	-	25 OPEB REVOCABLE TRUST FUND			
<i>Committed</i>				Total Revenue	-	-	-
418 Committed for Separation	-	-	-	Total Expenditures	-	-	-
461 Committed	-	-	-	<i>Unassigned:</i>			
<i>Assigned</i>				422 Unassigned Fund Balance	-	-	-
462 Assigned Fund Balance	-	-	-	Reconciliation of OPEB Revocable Trust	-	-	-
<i>Unassigned:</i>							
422 Unassigned Fund Balance	25,827,819	25,827,830	(11)	45 OPEB IRREVOCABLE TRUST FUND			
Reconciliation of General	138,166,015	138,166,003	12	Total Revenue	-	-	-
				Total Expenditures	-	-	-
02 FOOD SERVICE				<i>Unassigned:</i>			
Total Revenue	1,580,735	1,580,734	1	422 Unassigned Fund Balance	-	-	-
Total Expenditures	1,931,254	1,931,254	-	Reconciliation of OPEB Irrevocable Trust	-	-	-
<i>Non Spendable</i>							
460 Non Spendable Fund Balance	6,265	6,265	-	47 OPEB DEBT SERVICE FUND			
<i>Restricted/Reserved:</i>				Total Revenue	-	-	-
452 OPEB Liab Not In Trust	-	-	-	Total Expenditures	-	-	-
474 EIDL Loans	-	-	-	<i>Non Spendable</i>			
<i>Restricted</i>				460 Non Spendable Fund Balance	-	-	-
464 Restricted Fund Balance	15,477	15,479	(2)	<i>Restricted</i>			
<i>Unassigned</i>				425 Bond Refunding	-	-	-
463 Unassigned Fund Balance	-	-	-	464 Restricted Fund Balance	-	-	-
Reconciliation of Food Service	3,533,731	3,533,732	(1)	<i>Unassigned</i>			
				463 Unassigned Fund Balance	-	-	-
04 COMMUNITY SERVICE				Reconciliation of OPEB Debt Service	-	-	-
Total Revenue	505,089	505,089	-				
Total Expenditures	678,793	678,795	(2)				
<i>Non Spendable</i>							
460 Non Spendable Fund Balance	-	-	-				
<i>Restricted/Reserved:</i>							
426 \$25 Taconite	-	-	-				
431 Community Education	4,240	4,241	(1)				
432 E. C. F. E.	210,267	210,267	-				
440 Teacher Development and Eval	-	-	-				
444 School Readiness	-	-	-				
447 Adult Basic Education	-	-	-				
452 OPEB Liab Not In Trust	-	-	-				
473 PPP Loans	-	-	-				
474 EIDL Loans	-	-	-				
<i>Restricted</i>							
464 Restricted Fund Balance	-	-	-				
<i>Unassigned</i>							
463 Unassigned Fund Balance	-	-	-				
Reconciliation of Community Service	1,398,389	1,398,392	(3)				