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INDEPENDENT SCHOOL DISTRICT NO. 206

Alexandria, Minnesota

Report on Audit

Year Ended June 30, 2005

(With Partial Comparative Information as of June 30, 2004)

Ness, Waller, Pearson & Co., Ltd.

Alexandria, Minnesota

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INDEPENDENT AUDITORS' REPORT

Members of the Board
Independent School District No. 206
Alexandria, Minnesota

We have audited the accompanying financial statements of the governmental activities, each major fund and the agency fund of Independent School District No. 206, Alexandria, Minnesota, as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of Independent School District No. 206, Alexandria, Minnesota. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the agency fund of the Independent School District No. 206 Alexandria, Minnesota, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2005 on our consideration of the internal control over financial reporting of Independent School District No. 206, Alexandria, Minnesota, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and the budgetary comparison information on pages 4 through 13 and 41 through 44, respectively, are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of Independent School District No. 206, Alexandria, Minnesota. The schedules 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 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of Independent School District No. 206, Alexandria, Minnesota. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

New, Waller, Pearson & Co., Ltd

October 26 , 2005

REQUIRED SUPPLEMENTARY INFORMATION

**INDEPENDENT SCHOOL DISTRICT NO. 206
ALEXANDRIA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005**

This section of Independent School District No. 206 – Alexandria Public Schools' annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2005. Please read it in conjunction with the District's financial statements, which immediately follow this section.

The Management's Discussion and Analysis (MD&A) is an element of a reporting model that is required by the Governmental Accounting Standards Board's (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued in June, 1999. Statement No. 34 contains significant requirements that enhance financial reporting. These requirements are also designed to make annual reports easier for the public to understand and more useful to stakeholders. Specifically, Statement No. 34 establishes new reporting requirements that include new financial statements, expanded disclosure, and supplemental information, including the MD&A (this section).

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2004-2005 fiscal year include the following:

1. Net assets decreased less than three percent over the prior year.
2. Overall actual revenues in the Statement of Activities were \$37,337,898 while overall expenses totaled \$37,772,528.
3. The General fund balance decreased \$362,460 while the Food Service fund balance increased \$5,635 and Community Service fund balance decreased \$14,428.
4. The Debt Service fund balance increased by \$23,028 as a result of local property tax receipts and interest earned allocation.

**INDEPENDENT SCHOOL DISTRICT NO. 206
ALEXANDRIA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005**

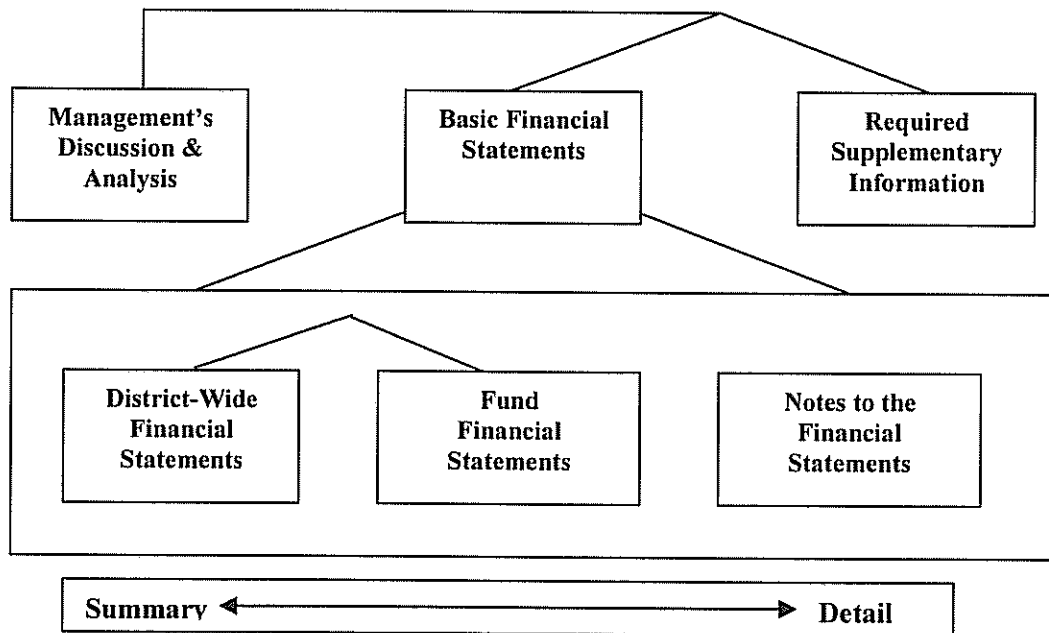
OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of four parts – Independent Auditor's Report, required supplementary information which includes the management's discussion and analysis (this section), the basic financial statements, and supplemental information. The basic financial statements include two kinds of statements that present different views of the District:

1. 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.
2. 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.
3. 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.
4. *Fiduciary funds* statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the resources belong.

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Figure A-1 Organization of ISD #206 – Alexandria, Minnesota Annual Financial Report



**INDEPENDENT SCHOOL DISTRICT NO. 206
ALEXANDRIA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005**

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2 Major Features of the District-wide and Fund Financial Statements

	District-Wide	Governmental	Fiduciary
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance, food service, and community education.	Instances in which the district administers resources on behalf of someone else, such as dental insurance.
Required financial statements	1. Statements of net assets 2. Statement of activities	3. Balance Sheet 4. Statement of revenue, expenditures and changes in fund balances	5. Statement of Fiduciary Net Assets 6. Statement of Changes in Fiduciary Net Assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

District-Wide Statements

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes *all* of the District's assets and liabilities. All of the current 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 assets* and how they have changed. Net assets – the difference between the District's assets and liabilities – is one way to measure the District's financial health or *position*.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.

**INDEPENDENT SCHOOL DISTRICT NO. 206
ALEXANDRIA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005**

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

- To assess the overall health of the District you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

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

- Governmental activities – Most of the District's basic services are included here, such as regular and special education, transportation, administration, food services, and community education. Property taxes and state aids finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's *funds* – focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District used to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (e.g., repaying its long-term debts) or to show that it is properly using certain revenues (e.g., federal grants).

The District has two kinds of funds:

- Governmental funds – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information following the governmental funds statements that explains the relationship (or differences) between them.
- Fiduciary funds – The District is the trustee, or *fiduciary*, for assets that belongs to others, such as the dental plan. The District is responsible for ensuring that only those to whom the assets belong use the assets reported in these funds. The District's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

**INDEPENDENT SCHOOL DISTRICT NO. 206
ALEXANDRIA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005**

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

Net Assets

The District's *combined* net assets were \$14,868,454 on June 30, 2005. This was a slight decrease from June 30, 2004. See Table A-1.

**Table A-1
ISD #206 - Alexandria, Minnesota
Combined Statement of Net Assets
Governmental Activities**

	<u>2005</u>	<u>2004</u>	<u>Total Percentage Change 2004-2005</u>
Current and Other Assets	\$14,454,920	\$13,556,813	6.62%
Capital Assets	<u>21,271,850</u>	22,412,912	<u>(5.09%)</u>
Total Assets	\$35,726,770	\$35,969,725	.07%
Long-term Liabilities	\$11,180,000	\$12,270,000	(8.88%)
Other Liabilities	<u>9,678,316</u>	<u>8,396,641</u>	15.65%
Total Liabilities	\$20,858,316	\$20,666,641	.93%
Net Assets			
Invested in capital assets, Net of related debt	\$ 9,658,850	\$ 9,657,912	0.00%
Restricted	1,848,120	1,828,530	1.07%
Unrestricted	<u>3,361,484</u>	<u>3,816,642</u>	<u>(11.93%)</u>
Total Net Assets	\$14,868,454	\$15,303,084	(2.84%)

The District's stable financial position is the product of many factors, but is indicative of how tight the District's operating budget is in view of marginal state funding.

**INDEPENDENT SCHOOL DISTRICT NO. 206
ALEXANDRIA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005**

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

Change in Net Assets

The decrease in net assets occurs as a result of the District's expenses being more than its revenues for the year ended June 30, 2005. A summary of the revenue and expenses is presented in Table A-2 below.

**Table A-2
ISD #206 - Alexandria, Minnesota
Change in Net Assets**

	For the Years Ended June 30,	
	2005	2004
Revenues		
Program revenues		
Charges for services	\$ 2,110,365	\$ 1,916,350
Operating grants and contributions	7,299,957	6,706,223
Restricted earnings	16,588	5,962
General revenues		
Property taxes	3,139,152	3,124,130
Aids and payments from state and other governments	24,657,198	24,461,928
Other sources	114,638	161,191
Total Revenues	<u>\$ 37,337,898</u>	<u>\$ 36,375,784</u>
Expenses		
District and school administration	\$ 1,275,318	\$ 1,194,221
District support services	1,141,776	1,283,085
Regular instruction	17,176,582	16,699,322
Vocational instruction	481,111	499,658
Exceptional instruction	6,499,832	5,635,404
Community education & services	1,120,975	1,139,640
Instructional support services	1,463,910	1,668,098
Site, buildings and equipment	4,335,323	3,170,103
Pupil support	2,889,552	4,375,400
Fiscal & other fixed cost programs	748,219	788,671
Unallocated - depreciation, expenses	639,930	475,079
Total Expenses	<u>\$ 37,772,528</u>	<u>\$ 36,928,681</u>
Change in Net Assets	(434,630)	(552,897)
Ending of Year Net Assets	<u>\$ 14,868,454</u>	<u>\$15,303,084</u>

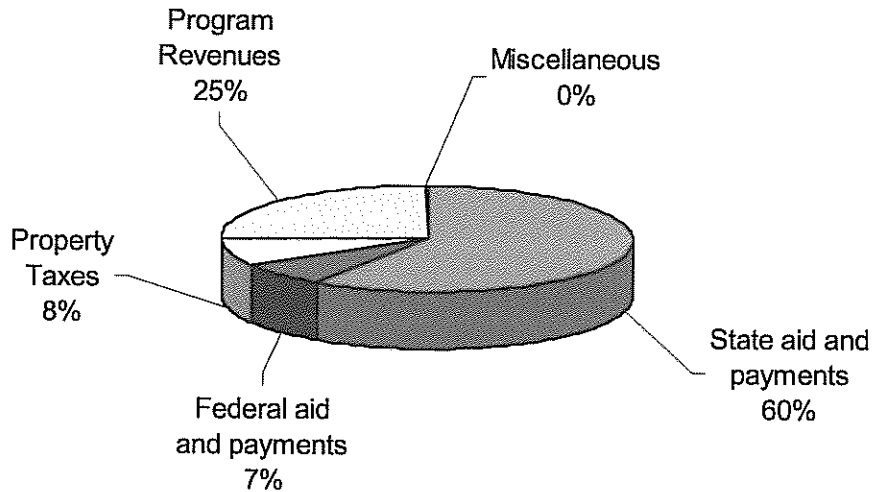
**INDEPENDENT SCHOOL DISTRICT NO. 206
ALEXANDRIA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005**

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

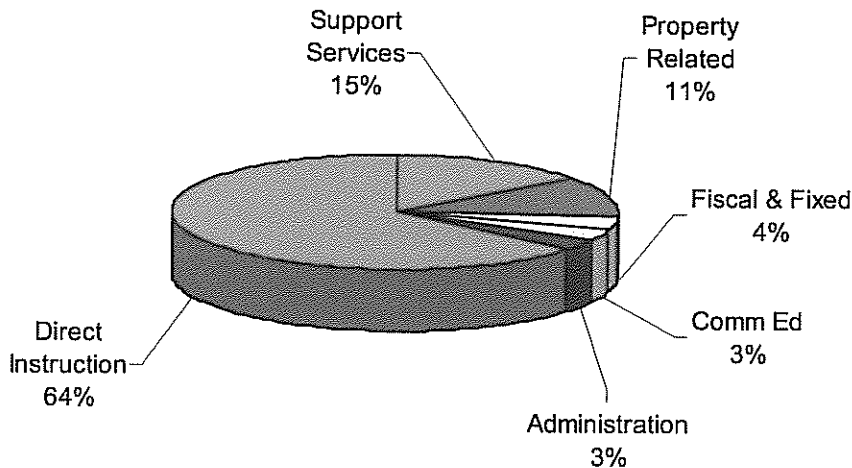
The District's total revenues consisted of program revenues of \$9,426,910, property taxes of \$3,139,152, aids and payments from the state of \$21,999,104 aids and payments from the federal government of \$2,658,094 and miscellaneous sources of \$114,638. Expenses totaling \$37,772,528 consisted mainly of regular, vocational and exceptional instruction costs of \$24,157,525, district, instructional and pupil support services of \$5,495,238, site, building and equipment related costs of \$4,335,323, fiscal and fixed-cost programs of \$1,389,149, community education services of \$1,120,975 ,and administrative costs of \$1,275,318.

Pie charts for revenue and expense categories are present in Tables A-3 and A-4.

Revenues - Table A-3



Expenses - Table A-4



**INDEPENDENT SCHOOL DISTRICT NO. 206
ALEXANDRIA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005**

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

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported a *combined* fund balance of \$6,195,130, a decrease of \$348,225 or 5.30% from last year's ending fund balance.

Revenues of the District's governmental funds were \$37,305,492, while total expenditures were \$37,648,549. A summary of the revenues and expenditures reported on the governmental fund financial statements appears in Table A-5 below:

<p>Table A-5 ISD #206 – Alexandria, Minnesota Revenue & Expenditures – Governmental Funds</p>
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	<u>Revenue</u>	<u>Expenditures</u>	<u>Other Financing Sources</u>	<u>Fund Balance Increase (Decrease)</u>
General Fund	\$32,745,306	\$ 33,138,598	\$ 30,832	(362,460)
Food Service Fund	1,617,299	1,611,664		5,635
Community Service Fund	1,118,517	1,132,945		(14,428)
Debt Service Fund	<u>1,824,370</u>	<u>1,801,342</u>	<u> </u>	<u>\$ 23,028</u>
Totals	<u><u>\$37,305,492</u></u>	<u><u>\$ 37,684,549</u></u>	<u><u>\$ 30,832</u></u>	<u><u>\$ (348,225)</u></u>

GENERAL FUND BUDGETARY HIGHLIGHTS

During the year ended June 30, 2005, the District revised its operating budget four times. The first revision was planned, and was necessary because when the initial budget was prepared and adopted (*a budget must be in place prior to the beginning of the fiscal year on July 1*) details of student enrollment numbers, staffing levels, grant allocations, budget reinvestments and other significant information items were not yet known. When these items became known, the budget was revised to reflect them. This revision was made in November following the Budget Assumptions that were approved by the Board. A similar revision is made each year for the same reasons. The second revision was made in February to reflect the details of federal programs. The third and fourth budget revisions made in April and June were to reflect updated information on the federal dollar allocations for the district [the result of changes made by the Runestone Area Education District]. The RAED changes are part of District's 206 budget as we serve as their fiscal host.

The District's final general fund budget anticipated that expenditures would exceed revenues by \$363,987, the actual results for the year showed a deficit of \$362,460. Though the difference is only \$1,527, there were several areas where revenues exceeded budget and expenditures were under budget that combines to produce the favorable outcome.

**INDEPENDENT SCHOOL DISTRICT NO. 206
ALEXANDRIA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005**

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

OTHER MAJOR FUNDS

The Food Service Fund had a surplus of \$5,635 due to two main factors: (1) more free and reduced meals were served and (2) a planned equipment purchase/repair being funded with Health & Safety dollars instead of Food Service operations budget.

The Community Service Fund adjusted their programming in order to absorb budget cuts enacted by the Legislature. The budgets reductions were the result of legislative changes made in the 2003 session, which resulted in the unallotment of dollars earmarked for Community Service operations. The Community Service Fund had a sufficient fund balance to withstand these initial cuts in funding, but will continue to adjust programming in order to operate on a sound financial basis. Fiscal year 2005 operations resulted in a nearly balanced budget, with a net decrease in fund balance of \$14,428 compared to the projected deficit of \$9,175.

CAPITAL ASSETS

Note #8 to the financial statements presents an analysis fo fixed assets transactions during the year ended June 30, 2005. Additions consisted primarily of site, technology and bus fleet improvements. Capital asset deletions were primarily food service and technology items that had become obsolete and were eliminated.

DEBT ADMINISTRATION

Long-Term Debt

At year end the District had \$11,615,000 of bonded long-term debt. Under current state statutes, the District's general obligation bonded debt issuances are subject to a legal limitation equal to 15% of the actual value of all taxable property within the District. The District is within its legal authority for bonded debt.

The bonds consisted of General Obligation refunding bonds. Note #12 to the financial statements present details and repayment provisions of these items.

The District also has \$765,000 reserved for severance payable.

**INDEPENDENT SCHOOL DISTRICT NO. 206
ALEXANDRIA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005**

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

FACTORS BEARING ON THE DISTRICT'S FUTURE

The District passed one (1) question on a four-question Operating Levy Referendum ballot during November 2004, providing additional revenues for the next ten fiscal years. The passed resolution provides revenue to maintain the district's current programming and course offerings and to minimize future cuts.

The three (3) questions that failed addressed the concerns of technology updates, transportation fleet updates and maintaining extracurricular activities. These areas of programming will need to be monitored and difficult decisions may need to be made as the District plans for the future allocation of funds.

The two major concerns for the District, as we move forward with planning for the future, are the funding levels provided by the state legislature and District enrollment numbers.

While history shows that legislative revenue increases have not been sufficient to meet instructional program needs and increased cost due to inflation, fortunately the District has experienced a stable enrollment period to counteract the declining funding that many state districts are encountering. However, October enrollment for FY06 shows a district-wide decrease in enrollment for the first time in the last seven years. The District will study the reasons behind this enrollment decrease to determine if this was a one-year aberration or a future trend that needs to be addressed. This study will impact the budget adjustments that are brought forward for board approval.

Another area of concern is the fuel and utility increases that are projected for the winter of 2005-06. Again the district will be proactive in monitoring and implementing measures to help curtail the projected cost increases.

Accordingly, the District will continue to utilize the Reinvestment Budgeting Process and the District Financial Stabilization Plan. These programs have been successful in the past and will improve our allocation of resources according to District priorities. The District will strive to maintain its long-standing commitment of academic excellence and educational opportunity for students within a framework of financial fiduciary responsibility.

CONTACTING THE DISTRICT'S MANAGEMENT

The financial report is designed to provide our 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 the Business Office, Independent School District #206, 715 Elm Street, Alexandria, Minnesota 56308.

BASIC FINANCIAL STATEMENTS

INDEPENDENT SCHOOL DISTRICT NO. 206
ALEXANDRIA, MINNESOTA
STATEMENT OF NET ASSETS
(With Comparative Information as of June 30, 2004)

	June 30,	
	2005	2004
ASSETS		
Cash and investments	\$ 5,956,262	\$ 5,602,788
Current property taxes receivable	2,450,155	1,700,188
Delinquent property taxes receivable	33,950	32,376
Due from other Minnesota school districts	233,922	179,293
Due from Minnesota Department of Education	5,031,492	5,092,418
Due from federal government through Minnesota Department of Education	648,504	576,239
Receivable - property tax shift		313,468
Accounts receivable	15,987	20
Prepaid items	76,320	54,367
Inventory	8,328	5,656
Capital assets		
Land	841,422	841,422
Land improvements	2,782,283	2,725,580
Buildings	29,503,565	29,396,268
Equipment	16,820,831	16,698,137
Less accumulated depreciation	<u>(28,676,251)</u>	<u>(27,248,495)</u>
Total Assets	<u>\$ 35,726,770</u>	<u>\$ 35,969,725</u>
LIABILITIES		
Salaries payable	\$ 2,940,220	\$ 2,689,616
Current portion of long-term obligations	1,200,000	1,140,000
Accrued interest payable	252,476	275,559
Accounts payable	505,510	627,362
Due to other Minnesota school districts	788,834	893,680
Due to other governments	3,605	(26)
Defined contributions payable	579,207	520,947
Payroll deductions	39,747	40,983
Deferred revenue	54,402	63,643
Property taxes levied for subsequent years	3,314,315	2,144,877
Severance payable	765,000	655,000
Portion due or payable after one year	<u>10,415,000</u>	<u>11,615,000</u>
Total Liabilities	<u>\$ 20,858,316</u>	<u>\$ 20,666,641</u>
NET ASSETS		
Invested in capital assets, net of related debt	\$ 9,658,850	\$ 9,657,912
Restricted for specific purposes	1,848,120	1,828,530
Unrestricted	<u>3,361,484</u>	<u>3,816,642</u>
Total Net Assets	<u>\$ 14,868,454</u>	<u>\$ 15,303,084</u>

See accompanying Notes to Basic Financial Statements.

INDEPENDENT SCHOOL DISTRICT NO. 206
ALEXANDRIA, MINNESOTA
STATEMENT OF ACTIVITIES
(With Partial Comparative Information as of June 30, 2004)

For the Years Ended June 30.

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
Functions / Programs	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	2005	2004
Governmental activities					
District and school administration	\$ 1,275,318	\$ 5,842		\$ (1,269,476)	\$ (1,194,221)
District support services	1,141,776	8,538		(1,133,238)	(1,271,942)
Regular instruction	17,176,582	1,291,107		(15,685,555)	(15,200,839)
Vocational instruction	481,111	36,250		(444,861)	(464,732)
Exceptional instruction	6,499,832	4,312,739		(1,662,355)	(1,335,508)
Community education and services	1,120,975	238,402		(391,695)	(370,371)
Instructional support services	1,463,910	20,596		(1,424,185)	(1,622,445)
Pupil support services	4,335,323	1,050,725		(2,356,975)	(2,449,030)
Site, buildings and equipment	2,889,552	70,142		(2,607,221)	(3,135,782)
Fiscal and other fixed-cost programs	748,219	1,504	\$ 16,588	(730,127)	(780,197)
Unallocated - depreciation, expenses	639,930			(639,930)	(475,079)
Total Governmental Activities	<u>\$37,772,528</u>	<u>\$ 7,299,957</u>	<u>\$ 0</u>	<u>\$(28,345,618)</u>	<u>\$(28,300,146)</u>
General revenues					
Taxes					
Property taxes, levied for general purposes				\$ 1,237,655	\$ 1,054,101
Property taxes, levied for community education and services				156,416	214,441
Property taxes levied for early childhood family education				116,717	85,763
Property taxes, levied for debt services				1,628,364	1,769,825
Aids and payments from the state				24,379,260	24,207,415
Market value credit				277,938	254,513
Unrestricted investment earnings				98,610	44,458
Miscellaneous revenues				16,028	116,733
Total General Revenues				<u>\$ 27,910,988</u>	<u>\$ 27,747,249</u>
Change in net assets				\$ (434,630)	\$ (552,897)
Net assets - beginning				<u>15,303,084</u>	<u>15,855,981</u>
Net assets - ending				<u>\$14,868,454</u>	<u>\$ 15,303,084</u>

See accompanying Notes to Basic Financial Statements.

INDEPENDENT SCHOOL DISTRICT NO. 206
ALEXANDRIA, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
(With Partial Comparative Information as of June 30, 2004)

	For the Years Ended June 30.				
	2005		2004		Total Governmental Funds
	General Fund	Food Service Fund	Community Service Fund	Debt Service Fund	
ASSETS					
Cash and investments	\$ 4,086,607	\$ 379,119	\$ 176,047	\$ 1,314,489	\$ 5,602,788
Current property taxes receivable	1,310,709		189,070	950,376	1,700,188
Delinquent property taxes receivable	18,333		2,716	12,901	32,376
Due from other Minnesota school districts	233,922			233,922	179,293
Due from Minnesota Department of Education	4,942,757	503	60,063	28,169	5,092,418
Due from federal government through Minnesota Department of Education	648,504			648,504	576,239
Receivable - property tax shift					313,468
Accounts receivable	15,987			15,987	20
Prepaid items	76,320			76,320	54,367
Inventory		<u>8,328</u>		<u>8,328</u>	<u>5,656</u>
Total Assets	<u>\$ 11,333,139</u>	<u>\$ 387,950</u>	<u>\$ 427,896</u>	<u>\$ 2,305,935</u>	<u>\$ 13,556,813</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Salaries payable	\$ 2,845,925	\$ 50,195	\$ 44,100	\$ 2,940,220	\$ 2,689,616
Accounts payable	458,308	8,151	39,051	505,510	627,362
Due to other Minnesota school districts	778,258		10,576	788,834	893,680
Due to other governments	3,605			3,605	(26)
Defined contributions payable	563,934	8,505	6,768	579,207	520,947
Payroll deductions	39,747			39,747	40,983
Deferred revenue - delinquent taxes	18,333		2,716	\$ 12,901	32,376
Deferred revenue	10,733		43,669	54,402	63,643
Property taxes levied for subsequent years	<u>1,330,929</u>		<u>198,546</u>	<u>1,784,840</u>	<u>2,144,877</u>
Total Liabilities	<u>\$ 6,049,772</u>	<u>\$ 66,851</u>	<u>\$ 345,426</u>	<u>\$ 1,797,741</u>	<u>\$ 7,013,458</u>
Fund Balances					
Reserved	\$ 1,800,079		\$ 48,041	\$ 1,848,120	\$ 1,828,530
Unreserved	<u>3,483,288</u>	<u>\$ 321,099</u>	<u>34,429</u>	<u>\$ 508,194</u>	<u>4,714,825</u>
Total Fund Balances	<u>\$ 5,283,367</u>	<u>\$ 321,099</u>	<u>\$ 82,470</u>	<u>\$ 508,194</u>	<u>\$ 6,543,355</u>
Total Liabilities and Fund Balances	<u>\$ 11,333,139</u>	<u>\$ 387,950</u>	<u>\$ 427,896</u>	<u>\$ 2,305,935</u>	<u>\$ 13,556,813</u>

See accompanying Notes to Basic Financial Statements.

INDEPENDENT SCHOOL DISTRICT NO. 206
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2005
(With Comparative Information as of June 30, 2004)

	2005	2004
Total fund balances - governmental funds	\$ 6,195,130	\$ 6,543,355
 Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The estimated historical cost of the assets is \$49,661,407 and the accumulated depreciation is \$27,248,495 for 2004. The estimated historical cost of the assets is \$49,948,101 and the accumulated depreciation is \$28,676,251 for 2005.	21,271,850	22,412,912
Amounts for severance payable are not due and payable in the current period; and therefore, are not reported as liabilities in the governmental funds.	(765,000)	(655,000)
 Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:		
Bonds payable	(11,615,000)	(12,755,000)
Delinquent taxes are earned, but not available in the current period. Therefore, they are recorded as a liability in the funds but are part of net assets.	33,950	32,376
Governmental funds do not report a liability for accrued interest until due and payable	<u>(252,476)</u>	<u>(275,559)</u>
Total net assets - governmental activities	<u>\$ 14,868,454</u>	<u>\$ 15,303,084</u>

See accompanying Notes to Basic Financial Statements.

INDEPENDENT SCHOOL DISTRICT NO. 206

ALEXANDRIA, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

(With Partial Comparative Information as of June 30, 2004)

	For the Years Ended June 30,				
	2005	2004	2005	2004	Total
	General Fund	Food Service Fund	Community Service Fund	Debt Service Fund	Governmental Funds
REVENUES					
Local property tax levies	\$ 1,448,269		\$ 294,762	\$ 1,628,364	\$ 3,371,395
Other local and county revenues	1,023,553	\$ 6,524	430,255	16,588	1,476,920
Revenues from state sources	28,188,142	63,392	370,431	179,418	28,801,383
Revenue from federal sources	2,085,342	549,684	23,069		2,658,095
Sales and other conversions of assets		997,699			997,699
Total Revenues	<u>\$ 32,745,306</u>	<u>\$ 1,617,299</u>	<u>\$ 1,118,517</u>	<u>\$ 1,824,370</u>	<u>\$ 37,305,492</u>
EXPENDITURES					
District and school administration	\$ 1,273,704				\$ 1,273,704
District support services	823,590				823,590
Regular instruction	16,786,963				16,786,963
Vocational instruction	476,935				476,935
Exceptional instruction	6,499,832				6,499,832
Community education and services			\$ 1,119,631		1,119,631
Instructional support services	1,463,910				1,463,910
Pupil support services	2,684,624	\$ 1,611,664	13,314		4,309,602
Site, buildings and equipment	3,019,080				3,019,080
Fiscal and other fixed cost programs	109,960			1,801,342	1,911,302
Total Expenditures	<u>\$ 33,138,598</u>	<u>\$ 1,611,664</u>	<u>\$ 1,132,945</u>	<u>\$ 1,801,342</u>	<u>\$ 37,684,549</u>
EXCESS (DEFICIT) OF REVENUES OVER (UNDER) EXPENDITURES	\$ (393,292)	\$ 5,635	\$ (14,428)	\$ 23,028	\$ (379,057)
OTHER FINANCING SOURCES					
Insurance proceeds					30,832
NET CHANGE IN FUND BALANCES	\$ (362,460)	\$ 5,635	\$ (14,428)	\$ 23,028	\$ (348,225)
FUND BALANCES - Beginning	<u>5,645,827</u>	<u>315,464</u>	<u>96,898</u>	<u>485,166</u>	<u>6,543,355</u>
FUND BALANCES - Ending	<u>\$ 5,283,367</u>	<u>\$ 321,099</u>	<u>\$ 82,470</u>	<u>\$ 508,194</u>	<u>\$ 6,195,130</u>

See accompanying Notes to Basic Financial Statements.

**INDEPENDENT SCHOOL DISTRICT NO. 206
ALEXANDRIA, MINNESOTA
RECONCILIATION OF THE CHANGE IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005
(With Comparative Information as of June 30, 2004)**

	2005	2004
Net change in fund balances - total governmental funds	\$ (348,225)	\$ (132,160)
 Amounts reported for governmental activities in the statement of activities are different because:		
 Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period these amounts are:		
Capital outlay	374,473	295,778
Depreciation expense	(1,515,535)	(1,770,312)
 Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities on the statement of net assets. In the current period these amounts consist of:		
Bond principal retirement	1,140,000	1,100,000
Severance payable increase	(110,000)	(53,000)
Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.	1,574	(14,744)
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however interest expense is recognized as interest accrues, regardless of when it is due.	23,083	21,541
Change in net assets - governmental activities	<u>\$ (434,630)</u>	<u>\$ (552,897)</u>

See Accompanying Notes to Basic Financial Statements.

INDEPENDENT SCHOOL DISTRICT NO. 206
ALEXANDRIA, MINNESOTA
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2005
 (With Comparative Information as of June 30, 2004)

	<u>2005</u>	<u>2004</u>
	Agency	Agency
	Fund	Fund
ASSETS		
Cash and investments	\$16,585	<u>\$46,386</u>
Total Assets	<u>\$16,585</u>	<u>\$46,386</u>
 LIABILITIES		
Funds held for other organizations	\$16,585	\$46,386
Total Liabilities	<u>\$16,585</u>	<u>\$46,386</u>
 NET ASSETS	 <u>\$ 0</u>	 <u>\$ 0</u>

See accompanying Notes to Basic Financial Statements.

INDEPENDENT SCHOOL DISTRICT NO. 206
ALEXANDRIA, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements of Independent School District No. 206 have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The GASB has issued codification of governmental accounting and financial reporting standards dated June 30, 2000. This codification and subsequent GASB pronouncements are recognized as U.S. generally accepted accounting principles for state and local government.

This financial report has been prepared in conformity with GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*; Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus* and Interpretation No. 6 *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, all issued in June 1999.

B. Reporting Entity

Independent School District No. 206 is an educational entity established by the State of Minnesota and is considered a charitable organization under Internal Revenue Code Section 170.

The District's Board consists of eight members, seven elected and the District's superintendent serves as a nonvoting eighth member. The majority of the District's funding is provided by county levies and state aid.

The District's policy is to include in the financial statements all funds, departments, agencies, boards, commissions, and other component units for which the District is considered to be financially accountable.

Component units are legally separate entities for which the District (primary government) is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit include whether or not the primary government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally dependent upon by the potential component unit.

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

Extracurricular student activities are carried on primarily by student participants under the guidance of an adult and are generally conducted outside of school hours. In accordance with Minnesota Statutes, the District's School Board has not elected to control or be otherwise financially accountable with respect to the underlying extracurricular student activities. Accordingly, the extracurricular student activity accounts are not included in these financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 206
ALEXANDRIA, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basic Financial Statement Presentation

The District-wide financial statements (i.e. the Statement of Net Assets and the Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the District, except for the fiduciary fund. The fiduciary fund is only reported in the Statement of Fiduciary Net Assets at the fund financial statement level.

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 assets are available. Depreciation expense that can be specifically identified by function is included in the direct expenses of each function. Interest on long-term debt is considered an indirect expense and is reported separately on the Statement of Activities. Generally, the effect of material interfund activity has been removed from the District-wide financial statements.

Separate fund financial statements are provided for governmental funds and fiduciary funds. All individual governmental funds are reported in separate columns in the fund financial statements. The fiduciary fund is presented in the fiduciary fund financial statement by type (agency fund). Since by definition these assets are being held for the benefit of a third party and cannot be used for activities or obligations of the District, these funds are excluded from the District-wide statements.

Proprietary funds are used to report business-type activities carried on by a school district. No activities of the District were determined to be of this nature, so no proprietary funds are presented in the 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 of related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. The modified accrual basis of accounting recognizes expenses when incurred, except principal and interest on general long-term debt which is recognized when due, and revenue under the following principles:

Property tax revenue is recorded under the intact levy concept, whereby taxes collectible during a calendar year are recorded as revenue in the fiscal year beginning within the year of collection.

State aids are recorded as revenue in the fiscal year for which the aids are designated by statute.

**INDEPENDENT SCHOOL DISTRICT NO. 206
ALEXANDRIA, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other revenues are recognized when susceptible to accrual, i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined, and "available" means collectable within the current period or soon enough therefore to be used to pay liabilities of the current period which is not greater than 60 days.

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. A description of the funds included in this report are as follows:

Governmental Funds

General Fund - Accounts for all financial resources and transactions except those required to be accounted for in other funds.

Special Revenue Funds - Accounts for the proceeds of specific revenue sources (other than expendable trust and major capital projects) that are legally restricted to expenditures for specified purposes. The District's special revenue funds and their purposes are as follows:

Food Service - 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 - Accounts for the resources designated for programs other than those for elementary and secondary students.

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

Fiduciary Fund

Agency Fund - Account for assets held solely in a custodial capacity.

GASB Statement No. 34 specifies that the accounts and activities of each of the District's most significant governmental funds (termed "major funds") be reported in separate columns on the fund financial statements. Other non-major funds can be reported in total.

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

E. Specific Account Information

Cash and Investments - Cash consists of demand deposits and short-term investments with original maturities of three months or less. Investments are recorded at cost. Interest earned on investments is allocated to specific funds based on the average cash balance carried in each fund during the year.

**INDEPENDENT SCHOOL DISTRICT NO. 206
ALEXANDRIA, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxes Receivable - Taxes receivable represents taxes levied in 2004 which are not payable until 2005, net of the amount received prior to June 30.

Property Taxes - Property tax levies are set by the School Board in October of each year, and are certified to the County for collection in the following year. In Minnesota, counties act as collection agents for all property taxes. The County spread all levies over taxable property.

Real property taxes may be paid by taxpayers in two equal installments on May 15 and October 15. Personal property taxes may be paid on February 28 and June 30. The County provides tax settlements to schools and other taxing districts four times a year, in February, April, June and November.

Taxes which remain unpaid at June 30 are classified as delinquent taxes receivable and are fully offset by deferred revenue in the governmental funds because they are not known to be available to finance current expenditures. No allowances for uncollectible taxes has been provided because such amounts are not expected to be material.

Due from Other Governments - Amounts due from the Minnesota Department of Education, from the Federal government through the Department of Education, and from other governmental units for general education aids and reimbursements under various specific programs are reported at the estimated amounts to be received based on available information at the date of this report. In some instances, adjustments and proration by these agencies, which are dependent upon the amount of funds available for distribution, may result in differing amounts actually being received. Any such differences will be absorbed into operations of the subsequent period.

Receivable - Property Tax Shift - This balance represents the amount of the 2003 payable 2004 property tax levy the Minnesota state legislature required the District to recognize early, as general education aid, in excess of actual collections of the levy at June 30, 2004.

Inventory - Inventory, consisting of food service goods and commodities on hand in designated central storage areas at June 30, 2005, is reported at cost. The cost of supplies, other than food items, not housed in a designated central stores area is not reported as an asset in accordance with instructions issued by the Department of Education. School District officials have not determined the value of such unrecorded items at June 30, 2005.

Prepaid Items - Prepaid items consist of amounts paid during the year ended June 30, 2005 which will be recognized over future periods. Included in this account are heating oil, gasoline, diesel fuel, general supplies and insurance.

Capital Assets - Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The District maintains a threshold level of \$10,000 or more for capitalizing capital assets. The system for accumulation of fixed assets cost data does not provide the means for determining the percentage of assets valued at actual and those valued at estimated cost.

INDEPENDENT SCHOOL DISTRICT NO. 206
ALEXANDRIA, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Capital assets not being depreciated include land and construction in progress, if any.

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, as well as issuance costs, 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 reported as deferred charges and amortized over the term of the related debt.

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.

Deferred Revenue - Delinquent Taxes - Represents an amount equal to the delinquent taxes receivable in each fund less any amounts received by the District within sixty (60) days of the fiscal year end.

Deferred Revenue - Deferred revenue represents the amount of Federal grant and special education funds received for a subsequent year.

Property Taxes Levied for Subsequent Year - Property taxes levied for subsequent year represents the 2004 levy of local taxes, including the portions assumed by the State, with the exception of those levies shifted per Note 7 of the financial statements. These levy amounts will not be recognized as revenue until the fiscal year beginning July 1, 2005.

Net Assets - Net assets represent the difference between assets and liabilities in the District-wide financial statements. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net assets are reported as restricted in the District-wide financial statements when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

Fund Balance Reserved for Re-employment Insurance - The reserved fund balance represents available resources dedicated exclusively for re-employment insurance obligations. The balance consists of the total amount levied for this purpose over the years less any claims paid or recorded as payable since levying began. The School District reimburses the State for claims charged to its account. As such when reimbursements are made, they are charged to operations of the General Fund.

INDEPENDENT SCHOOL DISTRICT NO. 206
ALEXANDRIA, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance Reserved for Severance - The reserved fund balance is the estimated potential amount of early retirement benefit payments to be made in the 2005-2006 school year if all eligible teachers were approved for retirement during the next year.

Fund Balance Reserved for Community Education - The reserved fund balance represents resources available to provide programming such as: nonvocational, recreational and leisure time activities, programs for adults with disabilities, non-credit summer programs, adult basic education programs, youth development and youth service programming and extended day programs.

Fund Balance Reserved for Operating Capital - Beginning July 1, 1996, the fund balance reserved for equipment aid and facilities are included in the general fund. The previous balances of the two reserves were merged into the reserve for operating capital. The reserved fund balance now represents resources available for technology personnel costs, purchase of school buses, equipment purchases, repair and restoration of existing district-owned facilities and plans for new construction.

Fund Balance Reserved for Health and Safety - The reserved fund balance represents the available resources for correction of fire, life and other safety hazards, including the removal and clean-up of asbestos and polychlorinated biphenyls. Also, the funds may be used for the removal, clean-up, disposal and repairs related to the storage of heating and transportation fuels.

Fund Balance Reserved for Early Childhood and Family Education - The reserved fund balance represents resources available to provide for services for Early Childhood Family Education programming.

Fund Balance Reserved for School Readiness - Represents the resources available to provide for services for School Readiness Programs.

Fund Balance Reserved for Staff Development - Represents the unspent staff development revenues set aside from General Education Revenue.

Fund Balance Unreserved - Undesignated - The fund balance indicates that portion of fund equity which is available for budgeting in future periods.

NOTE 2 - BUDGETARY DATA

Budgets - Budgets are prepared for School 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 generally accepted accounting principles.

Formal budgetary integration is employed as a management control device during the year for the general fund and all special revenue funds.

Encumbrances - Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriations, may be employed by the District to assure effective budgetary control and to facilitate effective cash planning and control. Encumbrance information has not been incorporated into the financial statements, however.

**INDEPENDENT SCHOOL DISTRICT NO. 206
ALEXANDRIA, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 3 - UNRESERVED FUND BALANCE

The District's unreserved general fund balance of \$3,483,288 on June 30, 2005, includes \$80,000 of board designated funds for replacement of Dean Melton (softball field) facilities.

The unreserved fund balances of the special revenue and debt service funds are undesignated.

NOTE 4 - FUND BALANCE - RESERVED

Reserved fund balances represent available resources for specific purposes as outlined in Note 1 in the various funds as follows:

<u>Fund Balances (Deficit)</u>	<u>General</u>	<u>Community Service</u>	<u>Total</u>
Reserved for:			
Re-employment insurance	\$ 7,807		\$ 7,807
Severance	765,000		765,000
Community education		\$ 5,068	5,068
Operating capital	873,831		873,831
Health and safety	12,234		12,234
Early childhood and family education		22,851	22,851
School readiness		20,122	20,122
Staff development	<u>141,207</u>		<u>141,207</u>
 Total Reserved	 <u>\$ 1,800,079</u>	 <u>\$ 48,041</u>	 <u>\$1,848,120</u>

NOTE 5 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

There were no deficit fund balances as of June 30, 2005.

**INDEPENDENT SCHOOL DISTRICT NO. 206
ALEXANDRIA, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 6 - DEPOSITS AND INVESTMENTS

In accordance with Minnesota Statutes, the District maintains deposits at those institutions authorized by the School Board. All such depositories are members of the Federal Reserve System or are state designated investment pools.

Deposits, at cost, as of June 30, 2005 consist of the following:

	<u>Depository Balances</u>	<u>Carrying Amount</u>
1) Insured or collateralized by securities held by the District or its agents in the District's name.		
Bank deposits	\$ 721,011	\$ 779,381
2) Collateralized with securities held by the pledging institutions trust department in the District's name.		
3) Uncollateralized or collateralized with securities held by the pledging institution, but not in the District's name.	_____	_____
	<u>\$ 721,011</u>	<u>\$ 779,381</u>

Minnesota Statutes require all District deposits be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance on bonds.

Authorized collateral includes: (1) United States government treasury bills, treasury notes, treasury bonds; (2) issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity; (3) general obligation securities of any state or local government with taxing powers which is rated "A" or better by a national bond rating service, or revenue obligation securities of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service; (4) irrevocable standby letters of credit issued by Federal Home Loan Banks to a municipality accompanied by written evidence that the bank's public debt is rated "AA" or better by Moody's Investors Service, Inc., or Standard & Poor's Corporation; and (5) time deposits that are fully insured by the Federal Deposit Insurance Corporation. Minnesota statutes require that securities pledged as collateral be held in safekeeping by the District or in a financial institution other than that furnishing the collateral.

**INDEPENDENT SCHOOL DISTRICT NO. 206
ALEXANDRIA, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 6 - DEPOSITS AND INVESTMENTS (Continued)

Balances of investments at June 30, 2005 were as follows:

<u>Securities Type</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>Fair Value</u>	<u>Carrying Amount</u>
Investments not subject to categorization:					
State Designated Investment Pool -					
Minnesota School District Liquid Asset					
Fund Plus Guaranteed Investment				\$5,193,466	\$5,193,466
				<u>\$5,193,466</u>	<u>\$5,193,466</u>

The District's investments are categorized above to give an indication of the level of risk assumed at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the District's name.

All funds in the Minnesota School District Liquid Asset Fund Plus are invested in accordance with Section 475.66 of the Minnesota Statutes. Each district owns a pro-rata share of each investment or deposit, which is held in the name of the Fund.

A reconciliation of deposits and investments as shown on the statement of net assets for the District follows:

Cash deposits	\$ 779,381
Investments	5,193,466
Less: Fiduciary cash and investments	<u>(16,585)</u>
Deposits and Investments	<u>\$ 5,956,262</u>

NOTE 7 - PROPERTY TAX SHIFT

Several years ago, the state of Minnesota passed a state aid reduction bill which resulted in reduced general education aid payments to school districts. This legislation instructed school districts to compensate for the loss of state aid by making an early recognition of property taxes which were levied for the subsequent year. This procedure was termed a "tax shift." although the state ultimately repaid the aid reduction, elements of the tax shift remained for certain categories of revenue. Recently, in its effort to balance the state's budget, the legislature again reduced general education aid payments and expanded the tax shift to compensate for the lost revenue. In certain cases, if the amount of property taxes available to the district was not sufficient to accomplish this, early recognition of state aids intended for the subsequent year was mandated. The tax shift procedure is termed "revenue neutral" since it affects only cash flow and does not result in either an increase or decrease in the amount of revenues recognized by the district in any year.

For the year ended June 30, 2005, \$1,415,304 of property taxes which would have ordinarily been recognized in the 2006 fiscal year were taken into revenue of the current year.

**INDEPENDENT SCHOOL DISTRICT NO. 206
ALEXANDRIA, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005 is as follows:

	<u>Land</u>	<u>Land Improvements</u>	<u>Buildings</u>	<u>Equipment</u>	<u>Total</u>
Cost at July 1, 2004	\$841,422	\$ 2,725,580	\$29,396,268	\$16,698,137	\$ 49,661,407
Additions		56,703	107,297	210,473	374,473
Deletions				(87,779)	(87,779)
Capital assets, cost at June 30, 2005	<u>\$841,422</u>	<u>\$ 2,782,283</u>	<u>\$29,503,565</u>	<u>\$16,820,831</u>	<u>\$49,948,101</u>

Accumulated depreciation activity for the year ended June 30, 2005 is as follows:

	<u>Land</u>	<u>Land Improvements</u>	<u>Buildings</u>	<u>Equipment</u>	<u>Total</u>
Accumulated depreciation at July 1, 2004		\$ 1,797,861	\$12,367,837	\$13,082,797	\$27,248,495
Current depreciation provision		120,439	538,399	856,697	1,515,535
Deletions				(87,779)	(87,779)
Accumulated depreciation at June 30, 2005		<u>\$ 19,118,300</u>	<u>\$12,906,236</u>	<u>\$13,851,715</u>	<u>\$28,676,251</u>
Capital assets, net of depreciation at June 30, 2005	<u>\$ 841,422</u>	<u>\$ 863,983</u>	<u>\$16,597,329</u>	<u>\$ 2,969,116</u>	<u>\$21,271,850</u>

Depreciation expense of \$1,515,535 for the year ended June 30, 2005 was charged to the following functions/programs:

Administration	\$ 1,614
District support services	318,186
Regular instruction	293,614
Vocational instruction	4,176
Community education and services	1,344
Pupil support	180,549
Site, buildings and equipments	76,122
Unallocated	<u>639,930</u>
Total depreciation expense	<u>\$ 1,515,535</u>

**INDEPENDENT SCHOOL DISTRICT NO. 206
ALEXANDRIA, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 9 - RETIREMENT PLANS

Substantially all employees of the District are required by State law to belong to pension plans administered by Teachers Retirement Association (TRA) or Public Employees Retirement Association (PERA), both of which are administered on a statewide basis. These are cost-sharing, multiple-employer defined benefit pension plans.

TEACHERS RETIREMENT ASSOCIATION (TRA)

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

TRA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by Minnesota Statute and vest after three years of service credit. The defined retirement benefits are based on a member's highest average salary for any 5 consecutive years of allowable service, age, and years of credit at termination of service.

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

Tier I:	<u>Step Rate Formula</u>	<u>Coordinated</u>	<u>Basic</u>
	1st ten years	1.2 percent per year	2.2 percent per year
	All years after	1.7 percent per year	2.7 percent per year

With these provisions:

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

or

Tier II: A level formula of 1.7 percent per year for coordinated members and 2.7 percent per year for basic members. These percents apply to all years of service. Actuarially equivalent early retirement reduction factors with augmentation are used for early retirement before the normal age of 65. These reduction factors average approximately 4 to 5.5 percent per year.

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

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

**INDEPENDENT SCHOOL DISTRICT NO. 206
ALEXANDRIA, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 9 - RETIREMENT PLANS (Continued)

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

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

Teachers Retirement Association
60 Empire Drive, Suite 400
St Paul MN 55103-4000
(651) 296-6449
(800) 657-3853

Funding Policy - Minnesota Statutes Chapter 354.42 sets the rates for the employee and employer contributions. These statutes are established and amended by the state legislature. As of June 30, 2004 Coordinated and Basic Plan members are required to contribute 5.0 percent and 9.0 percent, respectively, of their annual covered salary. Employer contribution rates match the rates paid by the member of 5.0 percent for Coordinated members and 9.0 percent for Basic members. Total covered payroll salaries for all TRA members statewide during fiscal year 2004 was approximately \$3.032 billion.

The District contributions for the years ending June 30, 2005, 2004, and 2003 were \$827,688, \$789,060, and \$777,760, respectively, equal to the required contributions for each year as set by state statute.

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA)

Plan Description - All full-time and certain part-time employees of the District, other than teachers, are covered by a defined benefit plan administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the Public Employees Retirement Fund (PERF) which is a cost sharing, multiple-employer retirement plan. This plan is established and administered in accordance with Minnesota Statutes, Chapter 353 and 356.

PERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan.

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

INDEPENDENT SCHOOL DISTRICT NO. 1
ALEXANDRIA, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 9 - RETIREMENT PLANS (Continued)

Two methods are used to compute benefits for PERF's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for Coordinated members is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For all PERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equals 90. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for PERF. That report may be obtained on the web at www.mnpera.com, by writing to PERA at 60 Empire Drive, #200, St. Paul, Minnesota, 55103-2085 or by calling (651) 296-7460 or (800) 652-9026.

Funding Policy-Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The District makes annual contributions to the pension plans equal to the amount required by state statutes. PERF Basic Plan members and Coordinated Plan members are required to contribute 9.10% and 5.10%, respectively of their annual covered salary, and the District is required to contribute 11.78% for Basic Plan PERF members and 5.53% for Coordinated Plan members. The District's contributions to the Public Employees Retirement Fund for the years ending June 30, 2005, 2004, and 2003 were \$262,668, \$252,259, and \$251,587, respectively. The District's contributions were equal to the contractually required contributions for each year as set by state statute.

NOTE 10- DEFINED CONTRIBUTION PLAN

The District participates in a defined contribution plan for teachers and administrators in lieu of participation in the existing severance program. Under the Matching Funds Program, the District shall make a matching contribution not to exceed 2% of the annual base salary paid to the eligible teacher or administrator. Matching contributions made by the District will continue until the total matching contribution made by the District for the eligible individual reaches the District's contribution limit or the person becomes ineligible to participate in the program.

For the fiscal year ended June 30, 2005, the District's contributions to the plan were \$199,396 for teachers and \$16,461 for administrators.

**INDEPENDENT SCHOOL DISTRICT NO. 206
ALEXANDRIA, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 11 - VACATION, SEVERANCE, PERSONAL LEAVE AND SICK PAY

Vacation Pay - Vacation pay is charged to expense in the year earned. As of June 30, 2005, \$38,588 of vacation pay was included in salaries payable.

Severance Pay - Full time teachers and principals who have met certain requirements may be eligible to receive severance pay. The severance pay provision is computed as a multiple of five days pay for each full year of full time service, not to exceed one hundred days. This calculation total may be subject to a proration formula.

Personal Leave - Full-time teachers are granted a leave of 2 teaching days per year (3 days after 15 years of service). Eligible teachers may accumulate personal leave as outlined in the master agreement. Any teacher eligible to accumulate personal days who has not used all available leave during the school year may choose to apply those days towards their accumulated personal days or be paid at the rate of \$90 per day. As of June 30, 2005, \$21,492 of personal leave pay was included in salaries payable.

Sick Pay - Sick pay is automatically granted at 13 days per year with an accumulation of up to 120 days. Upon accumulating 120 days of sick leave, each teacher will be eligible for a buy back for unused days to a maximum number of 10 days per year at a rate of \$90 per day. No sick pay was accrued at June 30, 2005.

NOTE 12 - BONDS PAYABLE

General obligation refunding bonds payable at June 30, 2005 are comprised of the following individual issues:

<u>Issue Date</u>	<u>Interest Rate</u>	<u>Total Original Issue</u>	<u>Final Maturity</u>	<u>Remaining Indebtness As of June 30, 2005 Principal</u>
2-01-97	4.7 - 5.4%	\$ 13,855,000	2-01-13	\$ 11,615,000

On February 1, 1997, the District advance refunded a general obligation bond issue with general obligation refundings. The District issued \$13,855,000 of general obligation refunding bonds to provide resources to purchase U.S. Government State and Local Government Series Securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of the refunded debt. As a result, the refunded bonds are considered to be an in-substance defeasance and the liability has been removed from the general long-term debt account group. This advance refunding was undertaken to reduce total debt service payments over the next sixteen years by \$666,259 and to obtain an economic gain (difference between the present value of the debt service payments of the refunded and refunding bonds) of \$379,176. The District paid \$661,343 in interest for the year ended June 30, 2005.

**INDEPENDENT SCHOOL DISTRICT NO. 206
ALEXANDRIA, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 12 - BONDS PAYABLE

Annual debt service requirements over the next five years and thereafter required to service all outstanding bonded debt at June 30, 2005 are as follows:

<u>Year Ending June 30.</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total</u>
2006	\$ 1,200,000	\$ 606,623	\$ 1,806,623
2007	1,265,000	547,822	1,812,822
2008	1,330,000	484,573	1,814,573
2009	1,415,000	416,743	1,831,743
2010	1,475,000	343,162	1,818,162
2011 - 2014	<u>4,930,000</u>	<u>538,844</u>	<u>5,468,844</u>
	<u>\$ 11,615,000</u>	<u>\$2,937,767</u>	<u>\$ 14,552,767</u>

The following is a summary of changes in the general long-term debt:

	<u>Balance June 30, 2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2005</u>
General Obligation Refunding Bonds	\$ 12,755,000	_____	\$1,140,000	\$ 11,615,000
	<u>\$ 12,755,000</u>	<u>\$ 0</u>	<u>\$1,140,000</u>	<u>\$ 11,615,000</u>

**INDEPENDENT SCHOOL DISTRICT NO. 206
ALEXANDRIA, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 13 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of or destruction of assets; errors and omissions; injuries to employees; employees health, life and dental and natural disasters. The District manages these various risks of loss as follows:

<u>Type of Loss</u>	<u>Method Managed</u>	<u>Risk of Loss Retained</u>
Workers Compensation	Covered by commercial insurance with statutory limits.	None
Accident Plan for District Volunteers	Covered by commercial insurance with statutory limits.	None
Covered by commercial insurance with the following limits:		
Property and Casualty Plan	Total blanket limit \$77,447,703	
	Real and Personal Property - Replacement cost (agreed value)	90% Coinsurance
	Liability - \$1,000,000 Each occurrence Limit	None
	\$2,000,000 Aggregate limit	
	Employee Theft (per employee) - \$50,000 per occurrence	\$250 Deductible
	Commercial umbrella	\$10,000 Deductible
	\$1,000,000 per occurrence Aggregate limit	
	Garage and Garagekeepers Coverage	\$100 Comprehension
	\$25,000 each covered auto minus deductible	\$250 Collision Deductible
	Comprehensive Auto Liability - \$1,000,000 CSL	None
Terrorism		
Losses of \$5,000,000 or less	None	
Losses over \$5,000,000	10%	
Scheduled Property Floater	\$500 Deductible	
\$100,000 limit	80% Coinsurance	
Employee Benefits Liability	\$1,000 Deductible	
\$1,000,000 each claim		
\$2,000,000 aggregate limit		

**INDEPENDENT SCHOOL DISTRICT NO. 206
ALEXANDRIA, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 13 - RISK MANAGEMENT (Continued)

<u>Type of Loss</u>	<u>Method Managed</u>	<u>Risk of Loss Retained</u>
	Linebacker \$1,000,000 each occurrence, each claim and aggregate limit	\$2,000 Deductible
Fleet	\$1,000,000 each occurrence	\$250 - \$1,000 Deductible
Public Employees Bond	\$50,000	None
Treasurers Bond	\$10,000	None
Depositors Forgery	\$25,000	None
Employee Medical	Participation in Lakes Country Service COOP to purchase commercial insurance	None
Employee Dental	Primarily Self-funded with Delta Dental administering claims. Cash deposits are held by the District to pay claims incurred	None

NOTE 14 - JOINT VENTURES

Lakes Area Recreation was established by an agreement between Independent School District No. 206, City of Alexandria, Minnesota, and the Alexandria and LaGrande Townships, pursuant to authority contained in Minnesota Statute Section 471.59. The Recreation Board is responsible for legislative and fiscal control of the program. The majority of the Recreation Program's funding is provided by patron fees and local government contributions.

The Runestone Area Education District No. 61-6014 was organized August 15, 1988. The purpose of the Education District is to increase options for learning and access to educational opportunities for all residents within the boundaries of the member districts by facilitating cooperation among School Districts. Funding is provided by the member districts. The following School Districts are the members of the Runestone Area Education District:

- Independent School District No. 206, Alexandria, Minnesota
- Independent School District No. 207, Brandon, Minnesota
- Independent School District No. 208, Evansville, Minnesota
- Independent School District No. 213, Osakis, Minnesota
- Independent School District No. 2149, Glenwood, Minnesota (Minnewaska Area Schools)
- Independent School District No. 547, Parkers Prairie, Minnesota

INDEPENDENT SCHOOL DISTRICT NO. 206
ALEXANDRIA, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 15 - JOINT VENTURES (Continued)

Central Minnesota Educational Telecommunications System is a joint powers entity established pursuant to provisions of Minnesota Statute Section 471.59. The purpose of the Central Minnesota Educational Telecommunications System, "CMETS", is to provide a comprehensive educational program for all member districts involved. Member districts jointly provide planning, research, purchasing, development, implementation, and programming of distance learning systems and technological services. The following School Districts are members of CMETS:

Independent School District No. 745, Albany, Minnesota
Independent School District No. 206, Alexandria, Minnesota
Independent School District No. 207, Brandon, Minnesota
Independent School District No. 208, Evansville, Minnesota
Independent School District No. 213, Osakis, Minnesota
Independent School District No. 740, Melrose, Minnesota
Independent School District No. 743, Sauk Centre, Minnesota
Independent School District No. 2149, Glenwood, Minnesota (Minnewaska Area Schools)

Each joint ventures' financial statements are audited and available for inspection.

NOTE 16 - CONTINGENCIES

The District receives significant financial assistance from numerous federal, state and local governmental agencies in the form of grants and aid. 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 such disallowed claims will not have a 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, 2005.

NOTE 17 - RECLASSIFICATIONS

Certain reclassifications have been made to the June 30, 2004 totals to conform to the classifications used for June 30, 2005.

BUDGETARY COMPARISON INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 206
ALEXANDRIA, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variances with
	<u>Original</u>	<u>Final</u>		Final Budget - Over (Under)
REVENUES				
Local property tax levies	\$ 4,015,000	\$ 1,189,600	\$ 1,448,269	\$ 258,669
Other local and county revenues	924,290	916,950	1,023,553	106,603
Revenues from state sources	24,393,786	28,079,670	28,188,142	108,472
Revenue from federal sources	1,952,132	1,970,224	2,085,342	115,118
Sales and other conversions of assets	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Revenues	<u>\$ 31,285,208</u>	<u>\$ 32,156,444</u>	<u>\$ 32,745,306</u>	<u>\$ 588,862</u>
EXPENDITURES				
District and school administration	\$ 1,180,312	\$ 1,269,288	\$ 1,273,704	\$ 4,416
District support services	871,203	845,424	823,590	(21,834)
Regular instruction	15,393,527	16,478,300	16,786,963	308,663
Vocational instruction	477,941	477,063	476,935	(128)
Exceptional instruction	5,342,943	6,233,579	6,499,832	266,253
Instructional support services	1,312,489	1,366,077	1,463,910	97,833
Pupil support services	3,034,657	2,585,290	2,684,624	99,334
Site, buildings and equipment	2,726,902	3,049,997	3,019,080	(30,917)
Fiscal and other fixed cost programs	<u>204,321</u>	<u>215,413</u>	<u>109,960</u>	<u>(105,453)</u>
Total Expenditures	<u>\$ 30,544,295</u>	<u>\$32,520,431</u>	<u>\$ 33,138,598</u>	<u>\$ 618,167</u>
EXCESS (DEFICIT) OF REVENUE OVER (UNDER) EXPENDITURES	740,913	(363,987)	(393,292)	(29,305)
OTHER FINANCING SOURCES			30,832	30,832
Insurance proceeds	<u> </u>	<u> </u>	<u> </u>	<u> </u>
NET CHANGE IN FUND BALANCES	\$ 740,913	\$ (363,987)	\$ (362,460)	\$ 1,527
FUND BALANCES - Beginning	<u>5,645,827</u>	<u>5,645,827</u>	<u>5,645,827</u>	<u> </u>
FUND BALANCES - Ending	<u>\$ 6,386,740</u>	<u>\$ 5,281,840</u>	<u>\$ 5,283,367</u>	<u>\$ 1,527</u>

**INDEPENDENT SCHOOL DISTRICT NO. 206
ALEXANDRIA, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOOD SERVICE FUND
YEAR ENDED JUNE 30, 2005**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variances with
	<u>Original</u>	<u>Final</u>		Final Budget - Over (Under)
REVENUES				
Other local and county revenues	\$ 3,050	\$ 2,500	\$ 6,524	\$ 4,024
Revenues from state sources	77,970	58,050	63,392	5,342
Revenue from federal sources	475,185	511,868	549,684	37,816
Sales and other conversions of assets	<u>954,855</u>	<u>972,510</u>	<u>997,699</u>	<u>25,189</u>
 Total Revenues	 <u>\$ 1,511,060</u>	 <u>\$ 1,544,928</u>	 <u>\$ 1,617,299</u>	 <u>\$ 72,371</u>
EXPENDITURES				
Pupil support services	\$ 1,500,626	\$ 1,558,257	\$ 1,611,664	\$ 53,407
 Total Expenditures	 <u>\$ 1,500,626</u>	 <u>\$ 1,558,257</u>	 <u>\$ 1,611,664</u>	 <u>\$ 53,407</u>
 NET CHANGE IN FUND BALANCES	 \$ 10,434	 \$ (13,329)	 \$ 5,635	 \$ 18,964
 FUND BALANCES - Beginning	 <u>315,464</u>	 <u>315,464</u>	 <u>315,464</u>	 <u> </u>
 FUND BALANCES - Ending	 <u>\$ 325,898</u>	 <u>\$ 302,135</u>	 <u>\$ 321,099</u>	 <u>\$ 18,964</u>

**INDEPENDENT SCHOOL DISTRICT NO. 206
ALEXANDRIA, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
COMMUNITY SERVICE FUND
YEAR ENDED JUNE 30, 2005**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variances with
	<u>Original</u>	<u>Final</u>		Final Budget - Over (Under)
REVENUES				
Local property tax levies	\$ 314,853	\$ 314,853	\$ 294,762	\$ (20,091)
Other local and county revenues	389,600	399,800	430,255	30,455
Revenues from state sources	402,223	408,448	370,431	(38,017)
Revenue from federal sources	22,069	18,421	23,069	4,648
Sales and other conversions of assets	<u>2,500</u>	<u>29,200</u>	<u> </u>	<u>(29,200)</u>
 Total Revenues	 <u>\$ 1,131,245</u>	 <u>\$ 1,170,722</u>	 <u>\$ 1,118,517</u>	 <u>\$ (52,205)</u>
EXPENDITURES				
Community education and services	\$ 1,129,823	\$ 1,161,837	\$ 1,119,631	(42,206)
Pupil support services	<u>15,304</u>	<u>18,060</u>	<u>13,314</u>	<u>\$ (4,746)</u>
 Total Expenditures	 <u>\$ 1,145,127</u>	 <u>\$ 1,179,897</u>	 <u>\$ 1,132,945</u>	 <u>\$ (46,952)</u>
 NET CHANGE IN FUND BALANCES	 \$ (13,882)	 (9,175)	 \$ (14,428)	 (5,253)
 FUND BALANCES - Beginning	 <u>96,898</u>	 <u>96,898</u>	 <u>96,898</u>	 <u> </u>
 FUND BALANCES - Ending	 <u>\$ 83,016</u>	 <u>\$ 87,723</u>	 <u>\$ 82,470</u>	 <u>\$ (5,253)</u>

**INDEPENDENT SCHOOL DISTRICT NO. 206
ALEXANDRIA, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
DEBT SERVICE FUND
YEAR ENDED JUNE 30, 2005**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variances with
	<u>Original</u>	<u>Final</u>		Final Budget - Over (Under)
REVENUES				
Local property tax levies	\$ 1,556,090	\$ 1,556,090	\$ 1,628,364	\$ 72,274
Other local and county revenues	5,000	5,900	16,588	10,688
Revenues from state sources	<u>240,000</u>	<u>240,800</u>	<u>179,418</u>	<u>(61,382)</u>
Total Revenues	<u>\$ 1,801,090</u>	<u>\$ 1,802,790</u>	<u>\$ 1,824,370</u>	<u>\$ 21,580</u>
EXPENDITURES				
Fiscal and other fixed cost programs	<u>\$ 1,801,342</u>	<u>\$ 1,801,342</u>	<u>\$ 1,801,342</u>	<u>\$</u>
Total Expenditures	<u>\$ 1,801,342</u>	<u>\$ 1,801,342</u>	<u>\$ 1,801,342</u>	<u>\$</u>
NET CHANGE IN FUND BALANCES	\$ (252)	\$ 1,448	\$ 23,028	\$ 21,580
FUND BALANCES - Beginning	<u>485,166</u>	<u>485,166</u>	<u>485,166</u>	<u></u>
FUND BALANCES - Ending	<u>\$ 484,914</u>	<u>\$ 486,614</u>	<u>\$ 508,194</u>	<u>\$ 21,580</u>

SUPPLEMENTARY INFORMATION

**INDEPENDENT SCHOOL DISTRICT NO. 206
ALEXANDRIA, MINNESOTA
SCHOOL BOARD OFFICIALS
YEAR ENDED JUNE 30, 2005**

<u>Officer</u>	<u>Title</u>	<u>Term Expires</u>
Dean Anderson	Chairperson	December 31, 2006
Tim Philbrick	Vice-Chairperson	December 31, 2006
Judy Florell	Clerk/Treasurer	December 31, 2006
Pamela Carlson	Director	December 31, 2008
Jim Hafdal	Director	December 31, 2008
Alan Zeithamer	Director	December 31, 2006
David Anderson	Director	December 31, 2008
Ric Dressen, Ph.D.	Superintendent	

**INDEPENDENT SCHOOL DISTRICT NO. 206
ALEXANDRIA, MINNESOTA
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS
COMPLIANCE TABLE
JUNE 30, 2005**

GENERAL FUND

Total Revenue	\$ 32,776,138	Fund Balance	
Total Expenditures	\$ 33,138,598	Reserved	
Fund Balance (Deficit)		4.11 Severance Pay	
Reserved		4.18 Severance Premium	
4.03 Staff Development	\$ 141,207	4.19 Encumbrances	
4.06 Health and Safety	\$ 12,234	4.26 \$25 Taconite	
4.07 Down Payment Levy		4.31 Community Education	\$ 5,068
4.08 Cooperative Revenue		4.32 ECFE	\$ 22,851
4.09 Deferred Maintenance		4.44 School Readiness	\$ 20,123
4.10 Reemployment Insurance	\$ 7,807	Unreserved	
4.11 Severance Pay	\$ 765,000	4.21 Unreserved/Undesignated since S.O.D.-1977	
4.12 Bus Purchase		4.22 Unreserved/Undesignated	\$ 34,429
4.14 Operating Debt			
4.15 Reduce SOD-77			
4.16 Levy Reduction			
4.18 Severance-Ins. Premium			
4.19 Encumbrances			
4.23 Certain Teacher Programs			
4.24 Operating Capital	\$ 873,831		
4.26 \$25 Taconite			
4.27 Disabled Accessibility			
4.28 Learning & Development			
4.29 Parental Involvement			
4.33 Student Transport Safety			
4.34 Area Learning Center			
4.35 Contracted Alt. Programs			
4.36 State Approved Alt. Programs			
4.37 Grad Standards Staff Develop.			
4.38 Grad Standards Gifted & Talented			
4.39 Grad Standards			
4.41 Basic Skills Program			
4.42 Class Size, All-Day Kindergarten and Special Education Student-To-Instructor Ratio Reduction			
4.43 Telecommunication Access Cost			
4.45 Career and Technical Programs			
4.46 First Grade Preparedness			
Unreserved			
4.18 Designated Severance - Ins. Prem.			
4.20 Undesignated S.O.D.-1977			
4.21 Unreserved/Undesignated since S.O.D.-1977			
4.22 Unreserved/Undesignated	\$ 3,483,288		

BUILDING CONSTRUCTION

Total Revenue	
Total Expenditures	
Fund Balance	
Reserved	
4.07 Down Payment Levy	
4.09 Alternative Fac. Program	
4.19 Encumbrances	
Unreserved	
4.22 Unreserved/Undesignated	

DEBT SERVICE

Total Revenue	\$ 1,824,370
Total Expenditures	\$ 1,801,342
Fund Balance	
Reserved	
4.25 Bond Refundings	
Unreserved	
4.22 Unreserved/Undesignated	\$ 508,194

TRUST

Total Revenue	
Total Expenditures	
Fund Balance	
Reserved	
4.19 Encumbrances	
Unreserved	
4.22 Unreserved/Undesignated	

AGENCY

Unreserved	
4.22 Unreserved/Undesignated	

INTERNAL SERVICE

Total Revenue	
Total Expenditures	
Fund Balance	
Reserved	
4.19 Encumbrances	
Unreserved	
4.22 Unreserved/Undesignated	

COMMUNITY SERVICE

Total Revenue	\$ 1,118,517
Total Expenditures	\$ 1,132,945

**INDEPENDENT SCHOOL DISTRICT NO. 206
ALEXANDRIA, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2005**

<u>Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
U.S. Department of Agriculture		
Passed through the Minnesota Department of Finance		
Food Distribution	10.550	\$ 113,388
Child Nutrition Cluster National School Lunch Program	10.555	431,193
U.S. Department of Education		
Passed through the Minnesota Department of Children, Families and Learning		
Title I Grant	84.010	382,628
Title II, Part A - Improving Teacher Quality	84.367	152,660
Title V, Part A - Innovative Education Strategies	84.298	19,130
Special Education State Grant	84.027	1,334,896
Special Education Preschool Grant	84.173	53,451
Special Education - Infants & Families With Disabilities Grant	84.181	58,334
Safe & Drug Free Schools	84.186	18,447
Adult Education - State Grant	84.002	13,041
Technology Literacy Challenge Fund Grant	84.318	9,108
U.S. Department of Health & Human Services		
Passed through the Minnesota Department of Human Services		
Medical Assistance (IEP Services)	93.778	<u>178,958</u>
Total Federal Awards		<u>\$ 2,765,234</u>

INDEPENDENT SCHOOL DISTRICT NO. 206
ALEXANDRIA, MINNESOTA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2005

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Independent School District No. 206, Alexandria, Minnesota and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**INDEPENDENT SCHOOL DISTRICT NO. 206
ALEXANDRIA, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005**

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the basic financial statements of Independent School District No. 206, Alexandria, Minnesota.
2. No reportable conditions relating to the audit of the financial statements are reported in the *Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of Independent School District No. 206, Alexandria, Minnesota, were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal award programs are reported in the *Independent Auditors' Report on Compliance with Requirements Applicable to each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133*.
5. The auditors' report on compliance for the major federal award programs for Independent School District No. 206, Alexandria, Minnesota, expresses an unqualified opinion on all major federal programs.
6. There are no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 in this schedule.
7. The programs tested as major programs include:

Special Education - Grants to States	CFDA No. 84.027
Special Education - Preschool Grants	CFDA No. 84.173
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Independent School District No. 206, Alexandria, Minnesota, was determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

None

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

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DONNA R. ALLISON, C.P.A.
PATRICIA L. PETERSON, C.P.A.

**INDEPENDENT AUDITORS' REPORT
ON MINNESOTA LEGAL COMPLIANCE**

Members of the Board
Independent School District No. 206
Alexandria, Minnesota

We have audited the financial statements of Independent School District No. 206, Alexandria, Minnesota, as of and for the year ended June 30, 2005, and have issued our report thereon dated October 26, 2005.

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

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

The results of our tests indicate that for the items tested, the District complied with the material terms and conditions of applicable legal provisions.

This report is intended solely for the information and use of the District, the Minnesota Department of Education and other state agencies, the federal cognizant audit agency and other federal agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

Ness, Waller, Pearson & Co., Ltd.

October 26, 2005

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

Members of the Board
Independent School District No. 206
Alexandria, Minnesota

We have audited the financial statements of the governmental activities, each major fund and the agency fund of Independent School District No. 206, Alexandria, Minnesota, as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 26, 2005. 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.

Compliance

As part of obtaining reasonable assurance about whether the financial statements of Independent School District No. 206, Alexandria, Minnesota are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the internal control of Independent School District No. 206, Alexandria, Minnesota, over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

Ness, Waller, Pearson & Co., Ltd.

October 26, 2005

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

New Walker, Pearson & Co. PA

October 26, 2005