



Financial Statements
June 30, 2012

**Independent School District No. 206
Alexandria Public Schools**

Independent School District No. 206
 Alexandria Public Schools
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School Board		
<u>Name</u>	<u>Position</u>	<u>Term Expires</u>
Dean Anderson	Chairperson	2014
Dave Anderson	Vice Chairperson	2012
Jean Robley	Treasurer	2014
Pam Carlson	Director	2012
Jim Hafdal	Director	2012
Alan Zeithamer	Director	2014
Sandy Susag	Director	2014

Administration

Terry Quist, Ph. D.	Superintendent
Trevor Peterson	Director of Business Services



Independent Auditor's Report

The School Board of
Independent School District No. 206
Alexandria Public Schools
Alexandria, Minnesota

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 206, Alexandria Public Schools, as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the government activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2012, and the respective changes in financial position and the respective budgetary comparison for the General Fund 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 11, 2012 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of 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 considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedule of funding progress as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The school board and administration, combining and individual fund schedules, and other supplementary information are presented for purposes of additional analysis and are not a required part of the 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 also not a required part of the basic financial statements of the District. The combining and individual fund schedules and schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole. In addition, in our opinion, the statement of changes in student activity cash balances presents fairly the changes in the cash balances of the student activity funds for the year ended June 30, 2012. The school board and administration and uniform accounting and reporting compliance table have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

A handwritten signature in black ink that reads "Eric Sully LLP". The signature is written in a cursive, flowing style.

Fargo, North Dakota
October 11, 2012

This section of Alexandria Public Schools' – Independent School District No. 206's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2012. Please read it in conjunction with the District's financial statements, which immediately follow this section.

Financial Highlights

Key financial highlights for the 2011-2012 fiscal year include the following:

- General Fund 01 – The overall revenues were \$37,467,606 while the overall expenditures were \$37,430,870. These, along with other financing sources of \$407,615, increased the fund balance by \$444,351.
- Food Service Fund 02 – The revenues were \$2,207,983 while the expenditures were \$2,176,077; increasing the fund balance by \$31,906.
- Community Service Fund 04 – The revenues were \$1,570,187 while the expenditures were \$1,618,415; decreasing the fund balance by \$48,228.
- Debt Service Fund 07 – The revenues were \$2,989,266 while the expenditures were \$3,033,153; decreasing the fund balance by \$43,887.

Overview of the Financial Statements

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.
- 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 statement 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 service, 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 uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (e.g., repaying its long-term debts) or to show that it is properly using 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 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 belong to others. The District is responsible for ensuring that the assets reported in these funds are used only by those to whom the assets belong.

Financial Analysis of the District as a Whole

Net Assets

The District's combined net assets were a positive \$12,726,979 on June 30, 2012.

Statement of Net Assets
 June 30, 2012 and 2011

	2012	2011
Assets		
Current assets	\$ 89,895,452	\$ 26,869,825
Capital assets	47,441,912	45,327,753
Total assets	\$ 137,337,364	\$ 72,197,578
Liabilities and Net Assets		
Liabilities		
Other liabilities	\$ 21,111,152	\$ 17,285,753
Long-term liabilities	105,733,542	39,674,546
Total liabilities	126,844,694	56,960,299
Net Assets		
Invested in capital assets, net of related debt	10,560,372	14,184,763
Restricted for specific purposes	-	1,027,870
Unrestricted	469,887	24,646
Total net assets	11,030,259	15,237,279
Total liabilities and net assets	\$ 137,874,953	\$ 72,197,578

Independent School District No. 206
 Alexandria Public Schools
 Management's Discussion and Analysis
 Year Ended June 30, 2012

Statement of Activities
 Years Ended June 30, 2012 and 2011

	2012	2011
Revenues		
Program revenues		
Charges for service	\$ 2,367,454	\$ 2,471,577
Operating grants and contributions	443,225	10,280,429
Capital grants and contributions	785,650	907,813
General		
Property taxes	7,811,243	9,224,241
Aids and payments from state and other	33,992,779	21,174,295
Unrestricted investment earnings	-	34,588
Miscellaneous revenues	485,023	685,310
Total revenues	45,885,374	44,778,253
Expenses		
Administration	1,390,802	1,543,025
District support services	1,268,107	1,239,411
Regular instruction	14,290,575	18,205,412
Vocational instruction	448,940	438,776
Special education instruction	8,938,799	9,456,709
Community education and services	1,593,715	1,540,824
Instructional support services	901,090	1,834,286
Pupil support services	5,274,539	4,127,373
Sites and buildings	6,692,958	4,736,574
Fiscal and other fixed-cost programs	7,596,149	70,327
Food Service	-	2,040,375
Unallocated - Depreciation	-	954,240
Interest and Fiscal Charges on LT Liabilities	-	1,867,631
Total expenses	48,395,674	48,054,963
Change in Net Assets	(2,510,300)	(3,276,710)
Net Assets - Beginning	13,237,279	16,513,989
Net Assets - Ending	\$ 10,726,979	\$ 13,237,279

Changes in Net Assets – The District's total revenues were approximately \$45.9 million for the year ended June 30, 2012. Property taxes and state formula aid accounted for 90% of total revenue for the year. Another 10% came from other program revenues.

The total cost of all programs and services was approximately \$48.4 million. The District's expenses are predominantly related to educating and caring for students. The purely administrative activities of the District accounted for just 3% of total costs.

The total expenses exceeded revenues decreasing the net assets approximately \$2.5 million for fiscal year 2012.

Independent School District No. 206
 Alexandria Public Schools
 Management's Discussion and Analysis
 Year Ended June 30, 2012

General Fund

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

The following schedule presents a summary of General Fund Revenues.

	Year Ended June 30,		Amount of Increase (Decrease)	Percent Increase (Decrease)
	2012	2011		
Local property taxes	\$ 3,932,406	\$ 3,851,826	\$ 80,580	2.1%
Other local sources	1,453,497	513,229	940,268	183.2%
State sources	29,781,381	28,957,997	823,384	2.8%
Federal sources	2,282,447	3,495,627	(1,213,180)	-34.7%
Miscellaneous	17,864	32,000	(14,136)	-44.2%
Total General Fund revenues	\$ 37,467,595	\$ 36,850,679	\$ 616,916	1.7%

Total General Fund revenue *increased* by \$616,927 or 1.7% from the previous year. Basic general education revenue is determined by a state per student funding formula and consists of an equalized mix of property tax and state aid revenue. The mix of property tax and state aid can change significantly from year to year without any net change on revenue. The majority of the increase in revenue for 2012 was in the area of State sources and was caused by the District's increase in general education state aid and special education revenue.

The following schedule presents a summary of General Fund expenditures.

	Year Ended June 30,		Amount of Increase (Decrease)	Percent Increase (Decrease)
	2012	2011		
Salaries and benefits	\$ 29,599,830	\$ 30,713,088	\$ (1,113,258)	-3.6%
Purchased services	4,348,867	4,512,156	(163,289)	-3.6%
Supplies and materials	1,547,555	1,820,105	(272,550)	-15.0%
Capital expenditures	1,756,460	1,293,686	462,774	35.8%
Other expenditures	178,147	212,774	(34,627)	-16.3%
Total General Fund expenditures	\$ 37,430,859	\$ 38,551,809	\$ (1,120,950)	-2.9%

Total General Fund expenditures *decreased* by \$1,120,939 or 2.9% from the previous year.

General Fund Budgetary Highlights

The District's general fund results when compared to the final budget are:

- Actual revenues were \$122,962 *more than* budget, mainly because of more than anticipated special education aid from the state.
- Actual expenditures were \$321,696 *less than* budget.

Other Non-Major Funds –

The Food Service Fund incurred a current year surplus of \$31,906. From the standpoint of maintaining current operating expenditures within the range of annual revenue, the Community Service Fund and Food Service Fund continue to operate on a sound financial basis. The OPEB Debt Service Fund was created in 2009 to account for the future debt service of the OPEB bonds.

Capital Assets and Debt Administration

Capital Assets

By the end of 2012, the District had invested approximately \$47 million in a broad range of capital assets, including school buildings, athletic facilities, computer and audit-visual equipment, and school vehicles. Total depreciation expense for the year was \$1,701,029.

Capital Assets Governmental Activities
 June 30, 2012 and 2011

	2012	2011
Land	\$ 6,234,903	\$ 6,234,903
Buildings	49,322,017	49,076,265
Improvements	8,621,778	2,774,881
Equipment	10,947,149	10,717,578
Accumulated Depreciation	(27,683,935)	(26,241,374)
Total capital assets	\$ 47,441,912	\$ 42,562,253

Long-Term Debt

At year end the District had \$105,733,542 of long term debt. This consisted of bonded indebtedness of \$103,630,000, unamortized bond premiums of \$1,378,680, capital leases payable of \$635,849 and compensated absences payable of \$89,013. Note 10 presents the detail of the District's long-term debt.

Factors Bearing on the District's Future

- With the exception of voter-approved excess operating referendum, the District is dependent on the State of Minnesota for its revenue authority. Although the State did decrease funding for public schools, this decrease was replaced with one time federal stabilization funds. The District will need to carefully watch expenditures since state revenue will not be increased in the next few years.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or would like additional information, contact the Business Office, Independent School District No. 206, Alexandria, Minnesota.

Independent School District No. 206
 Alexandria Public Schools
 Statement of Net Assets
 June 30, 2012

Assets	
Cash and investments	\$ 4,103,045
Cash held with fiscal agent	63,498,183
Receivables	
Current property taxes	5,404,898
Delinquent property taxes	107,700
Accounts	86,790
Due from other governmental units	11,599,567
Prepaid items	108,418
Inventory	23,066
Net supplemental pension asset	371,978
Net OPEB obligation asset	4,591,807
	<u>89,895,452</u>
Capital assets, net of accumulated depreciation where applicable	
Non-depreciable	
Land	6,234,903
Construction in progress	2,234,309
Depreciable	
Buildings and improvements	32,273,577
Land improvements	5,995,765
Equipment	2,937,667
Total capital assets	<u>49,676,221</u>
Total assets	<u>\$ 139,571,673</u>
Liabilities and Net Assets	
Liabilities	
Aid anticipation certificates	\$ 3,438,321
Accounts payable	705,649
Salaries payable	3,927,258
Accrued interest payable	4,037,544
Unearned revenue	49,336
Property taxes levied for subsequent year	8,953,044
Long-term liabilities	
Portion due or payable within one year	2,414,179
Portion due or payable after one year	103,319,363
Total liabilities	<u>126,844,694</u>
Net Assets	
Invested in capital assets, net of related debt	10,560,372
Restricted for specific purposes	
Deferred maintenance	118,681
Health and safety	37,666
Operating capital	155,765
Debt service	673,436
Food service	534,813
Community education	107,687
Early childhood and family education	32,705
Community service	35,967
Unrestricted	469,887
Total net assets	<u>12,726,979</u>
Total liabilities and net assets	<u>\$ 139,571,673</u>

The Notes to Financial Statements are an integral part of this statement.

Independent School District No. 206
 Alexandria Public Schools
 Statement of Activities
 Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities					
Administration	\$ 1,390,802	\$ 193,843	\$ 391,061	\$ -	\$ (805,898)
District support services	1,268,107	4,700	-	-	(1,263,407)
Regular instruction	14,290,575	303,723	-	-	(13,986,852)
Vocational instruction	448,940	-	-	-	(448,940)
Special education instruction	8,938,799	48,851	-	-	(8,889,948)
Community education and services	1,593,715	599,409	48,321	-	(945,985)
Instructional support services	901,090	-	3,843	-	(897,247)
Pupil support services	5,274,539	1,216,928	-	-	(4,057,611)
Sites and buildings	6,692,958	-	-	785,650	(5,907,308)
Fiscal and other fixed-cost programs	7,596,149	-	-	-	(7,596,149)
Total governmental activities	<u>\$ 48,395,674</u>	<u>\$ 2,367,454</u>	<u>\$ 443,225</u>	<u>\$ 785,650</u>	<u>(44,799,345)</u>
General Revenues					
Property taxes, levied for general purposes					4,580,396
Property taxes, levied for community education and services					401,168
Property taxes, levied for debt service					2,829,679
Aids and payments from the state					33,784,999
County apportionment					207,780
Miscellaneous revenues					485,023
Total general revenues					<u>42,289,045</u>
Changes in Net Assets					(2,510,300)
Net Assets - Beginning					<u>15,237,279</u>
Net Assets - Ending					<u>\$ 12,726,979</u>

Independent School District No. 206
 Alexandria Public Schools
 Governmental Funds
 Balance Sheet
 June 30, 2012

	General	Capital Projects	Debt Service	Other Governmental Funds	Totals
Assets					
Cash and investments	\$ -	\$ 254,659	\$ 2,650,218	\$ 1,198,168	\$ 4,103,045
Cash held with fiscal agent	-	63,498,183	-	-	63,498,183
Receivables					
Current property taxes	1,824,185	-	3,014,307	566,406	5,404,898
Delinquent property taxes	36,198	-	60,186	11,316	107,700
Accounts	79,184	-	-	7,606	86,790
Due from other governmental units	11,358,566	-	56,987	184,014	11,599,567
Due from other funds	-	-	1,058,721	-	1,058,721
Prepaid items	108,418	-	-	-	108,418
Inventories	-	-	-	23,066	23,066
Total assets	\$ 13,406,551	\$ 63,752,842	\$ 6,840,419	\$ 1,990,576	\$ 85,990,388
Liabilities and Fund Balance					
Liabilities					
Aid anticipation certificates	\$ 3,438,321	\$ -	\$ -	\$ -	\$ 3,438,321
Accounts payable	662,725	17,110	-	25,814	705,649
Due to other funds	1,058,721	-	-	-	1,058,721
Salaries payable	3,747,878	-	-	179,380	3,927,258
Interest payable	57,305	-	-	-	57,305
Deferred revenue	45,621	-	60,187	51,228	157,036
Property taxes levied for subsequent year	1,846,332	-	6,149,343	957,369	8,953,044
Total liabilities	10,856,903	17,110	6,209,530	1,213,791	18,297,334
Fund Balance					
Nonspendable	108,418	-	-	23,066	131,484
Restricted	312,112	63,735,732	630,889	753,719	65,432,452
Unassigned	2,129,118	-	-	-	2,129,118
Total fund balance	2,549,648	63,735,732	630,889	776,785	67,693,054
Total liabilities and fund balance	\$ 13,406,551	\$ 63,752,842	\$ 6,840,419	\$ 1,990,576	\$ 85,990,388

Independent School District No. 206
Alexandria Public Schools
Reconciliation of the Balance Sheet to the Statement of Net Assets
June 30, 2012

Total Fund Balances - Governmental Funds	\$ 67,693,054
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 in the funds.	49,676,221
Accrued interest payable for long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.	(3,980,239)
Delinquent property taxes are not considered available for current financial resources and are therefore deferred in the funds. However, they are properly recognized as revenue in the entity-wide statements.	107,700
Negative net OPEB obligation and net supplemental pension assets are created through treatment of OPEB Obligation Bonds as employer contributions are not recognized in the funds.	4,963,785
Long-term liabilities, including bonds payable, capital lease payable, bond premiums, and compensated absences are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(105,733,542)</u>
Total Net Assets - Governmental Activities	<u><u>\$ 12,726,979</u></u>

Independent School District No. 206
 Alexandria Public Schools
 Statement of Revenues, Expenditures, and Changes in Fund Balances
 Year Ended June 30, 2012

	General	Capital Projects	Debt Service	Other Governmental Funds	Totals
Revenues					
Local property tax levies	\$ 3,932,406	\$ -	\$ 2,829,679	\$ 1,097,324	\$ 7,859,409
Other local and county sources	1,453,497	785,650	-	677,384	2,916,531
State sources	29,781,381	-	159,359	573,198	30,513,938
Federal sources	2,282,447	-	-	968,269	3,250,716
Sales and other conversion of assets	-	-	-	1,171,019	1,171,019
Miscellaneous	17,864	75,217	228	39,899	133,208
Total revenues	<u>37,467,595</u>	<u>860,867</u>	<u>2,989,266</u>	<u>4,527,093</u>	<u>45,844,821</u>
Expenditures					
Administration	1,389,188	-	-	-	1,389,188
District support services	1,157,261	-	-	-	1,157,261
Regular instruction	17,192,878	-	-	-	17,192,878
Vocational instruction	446,160	-	-	-	446,160
Special education instruction	8,938,799	-	-	-	8,938,799
Community education and service	-	-	-	1,618,415	1,618,415
Instructional support services	1,670,584	-	-	-	1,670,584
Pupil support services	2,777,894	-	-	2,176,077	4,953,971
Sites and buildings	3,762,170	5,288,809	-	-	9,050,979
Fiscal and other fixed cost programs	95,925	-	3,033,153	752,350	3,881,428
Total expenditures	<u>37,430,859</u>	<u>5,288,809</u>	<u>3,033,153</u>	<u>4,546,842</u>	<u>50,299,663</u>
Excess (Deficiency) of Revenues over (under) Expenditures	36,736	(4,427,942)	(43,887)	(19,749)	(4,454,842)
Other Financing Sources					
Capital lease proceeds	407,615	-	-	-	407,615
Bond proceeds	-	65,150,000	-	-	65,150,000
Total other financing sources	<u>407,615</u>	<u>65,150,000</u>	<u>-</u>	<u>-</u>	<u>65,557,615</u>
Net Change in Fund Balance	444,351	60,722,058	(43,887)	(19,749)	61,102,773
Fund Balance, Beginning of Year	<u>2,105,297</u>	<u>3,013,674</u>	<u>674,776</u>	<u>796,534</u>	<u>6,590,281</u>
Fund Balance, End of Year	<u>\$ 2,549,648</u>	<u>\$ 63,735,732</u>	<u>\$ 630,889</u>	<u>\$ 776,785</u>	<u>\$ 67,693,054</u>

Independent School District No. 206
 Alexandria Public Schools
 Reconciliation of the Statement of Revenues, Expenditures,
 and Changes in Fund Balances to the Statement of Activities
 Year Ended June 30, 2012

Net Change in Fund Balances - Total Governmental Funds \$ 61,102,773

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	\$ 6,311,686	
Depreciation expense	<u>(1,701,029)</u>	
Excess of capital outlay over depreciation expense		4,610,657

The net effect of the disposal of capital assets is to decrease net assets. (262,189)

Delinquent property taxes are not considered available for current financial resources and are therefore deferred in the funds. However, they are properly recognized as revenue in the statement of activities.

Current period balance	107,700	
Prior period balance	<u>(67,148)</u>	
Current year effect		40,552

In the statement of activities compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used.

Current period balance	(89,013)	
Prior period balance	<u>-</u>	
Current year effect		(89,013)

Interest payable and bond issue costs are reported in the government wide statement of net assets but is not recorded in the governmental funds.

Current period balance	(3,980,239)	
Prior period balance	<u>590,591</u>	
Current year effect		(3,389,648)

In the statement of activities OPEB and Net Supplemental Pension assets are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used.

Current period balance	4,963,785	
Prior period balance	<u>(5,551,804)</u>	
Current year effect		(588,019)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however has any effect on net assets. In the current period these amounts consist of:

Bond principal retirement	1,865,000	
Bond proceeds	(65,150,000)	
Capital lease principal payments	271,552	
Capital lease proceeds	(407,615)	
Amortization of premium on bond issuance	66,624	
Additions to premium on bonds payable	<u>(580,974)</u>	
		<u>(63,935,413)</u>

Change in Net Assets of Governmental Activities \$ (2,510,300)

Independent School District No. 206
Alexandria Public Schools

Statement of Revenues, Expenditures and Changes in Fund Balances – Budget to Actual – General Fund
Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues				
Local property tax levies	\$ 3,812,499	\$ 3,812,499	\$ 3,932,406	\$ 119,907
Other local and county sources	1,257,660	1,403,204	1,453,497	50,293
State sources	29,771,750	29,623,552	29,781,381	157,829
Federal sources	2,445,024	2,496,181	2,282,447	(213,734)
Miscellaneous	10,000	10,000	17,864	7,864
Total revenues	37,296,933	37,345,436	37,467,595	122,159
Expenditures				
Administration	1,497,262	1,259,547	1,389,188	(129,641)
District support services	1,191,754	1,197,905	1,157,261	40,644
Regular instruction	17,653,164	17,649,727	17,192,878	456,849
Vocational instruction	431,800	443,077	446,160	(3,083)
Special education instruction	7,929,907	8,942,636	8,938,799	3,837
Instructional support services	2,007,435	1,746,573	1,670,584	75,989
Pupil support services	2,665,369	2,617,593	2,777,894	(160,301)
Sites and buildings	3,572,700	3,213,702	3,762,170	(548,468)
Fiscal and other fixed cost programs	338,747	274,185	95,925	178,260
Total expenditures	37,288,138	37,344,945	37,430,859	(85,914)
Excess of Revenues over Expenditures	8,795	491	36,736	36,245
Other Financing Source				
Capital lease proceeds	-	-	407,615	407,615
Net Change in Fund Balance	\$ 8,795	\$ 491	444,351	\$ 443,860
Fund Balance, Beginning of Year			2,105,297	
Fund Balance, End of Year			\$ 2,549,648	

Independent School District No. 206
 Alexandria Public Schools
 Statement of Fiduciary Net Assets
 June 30, 2012

	Dental Agency Fund	OPEB Trust	Total
Assets			
Cash and investments	\$ 90,928	\$ 6,170,460	\$ 6,261,388
Liabilities and Net Assets			
Liabilities			
Due to other organizations	90,928	-	90,928
Net assets			
Unrestricted	-	6,170,460	6,170,460
Total liabilities and net assets	\$ 90,928	\$ 6,170,460	\$ 6,261,388

Independent School District No. 206
Alexandria Public Schools
Statement of Changes in Fiduciary Net Assets
Year Ended June 30, 2012

	<u>OPEB Trust</u>
Additions	
Interest	<u>\$ 317,247</u>
Deductions	
OPEB health insurance	<u>\$ 722,278</u>
Net Change in Net Assets	(405,031)
Net Assets, Beginning of Year	<u>6,575,491</u>
Net Assets, End of Year	<u><u>\$ 6,170,460</u></u>

Note 1 - Summary of Significant Accounting Policies

Organization

Independent School District No. 206, Alexandria Public Schools, Alexandria, Minnesota (the District) was formed and operates pursuant to applicable Minnesota laws and statutes. The District is governed by a School Board elected by voters of the District. The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America 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.

Reporting Entity

The accompanying financial statements include all funds, departments, agencies, boards, commissions, and other organizations that comprise the District, along with any component units.

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 burden or benefit with the potential component unit, or is fiscally depended upon by the potential component unit.

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

Extracurricular student activities are determined 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 elected not to control or be otherwise financially accountable with respect to the underlying extracurricular activities. Accordingly, the extracurricular student activity accounts are not included in these financial statements.

Government-Wide Financial Statement Presentation

The government-wide financial statements (Statement of Net Assets and 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 funds. The fiduciary funds are reported in the Statement of Fiduciary Net Assets at the fund financial statement level. Generally, the effect of interfund activity has been removed from the government-wide financial statements.

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 internally directed revenues are reported as general revenues.

The government-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 the related cash flows. Property taxes are generally recognized as revenues in the fiscal year for which they are levied, except for amounts advance recognized in accordance with a statutory “tax shift” described later in these notes. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met.

The District applies restricted resources first when an expense is incurred for which both restricted and unrestricted resources are available. For capital assets that can be specifically identified with, or allocated to functional areas, depreciation expense is included as a direct expense in the functional areas that utilize the related capital assets. Interest on long-term debt is considered an indirect expense and is reported separately on the Statement of Activities.

Fund Financial Statement Presentation

Major individual governmental funds are reported as separate columns in the fund financial statements. Aggregated information for the remaining nonmajor governmental funds is reported in a single column in the fund financial statements.

Fiduciary funds are presented in the fiduciary fund financial statements by type: pension (or other benefit) trust and agency. Since, by definition, fiduciary fund 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 government-wide statements.

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

1. Revenue Recognition – Revenue is recognized when it becomes measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the District generally considers revenues to be available if they are collected within 60 days after year-end. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met. State revenue is recognized in the year to which it applies according to Minnesota Statutes. Federal revenue is recorded in the year in which the related expenditure is made. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

2. Recording of Expenditures – Expenditures are generally recorded when a liability is incurred, except for principal and interest on long-term debt, severance and healthcare benefits, and compensated absences, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are included within the applicable functional areas.

Fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as described earlier in these notes.

Description of Funds

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

Major Governmental Funds

General Fund – The general fund is used to account for all financial resources except those required to be accounted for in another fund. It includes the general operations and pupil transportation activities of the District, as well as the capital related activities such as maintenance of facilities, equipment purchases, and health and safety projects.

Capital Projects Fund – The capital projects fund is used to account for construction projects within the District.

Debt Service Fund – The debt service fund is used to account for the accumulation of resources for, and payment of, general obligation bond principal, interest, and related costs.

Nonmajor Governmental Funds

Food Service Fund – The food service fund is used to account for food service revenues and expenditures.

Community Service Fund – The community service fund is used to account for services provided to residents in the areas of recreation, civic activities, nonpublic pupils, adult or early childhood programs, extended day programs, or other similar services.

OPEB Debt Service Fund – The OPEB debt service fund is used to account for the accumulation of resources for, and payment of, general obligation OPEB bond principal, interest, and related costs.

Fiduciary Funds

Agency Funds – The Dental Agency fund is used to account for the assets of the District’s dental plan.

Trust Fund – The Postemployments Benefits Irrevocable Trust Fund is used to report the resources set aside and held in an irrevocable arrangement for postemployment benefits, including health insurance premiums.

Other Significant Accounting Policies

Budgeting

An operating budget is adopted by July 1 of each fiscal year for all governmental funds on the same modified accrual basis used to reflect actual revenues and expenditures. The superintendent is authorized to transfer budget amounts within line items; however, supplemental appropriations that amend total appropriations of any fund require a board resolution. Reported budgeted amounts are as originally adopted or as amended by board resolution. Unencumbered appropriations lapse at year-end.

Cash and Investments

Cash balances for all district funds are pooled and invested to the extent possible. Interest earned from such investments is allocated to each of the funds based on the fund's average monthly cash and investments balance. Funds that incur a deficit balance in pooled cash and investments during the year are charged interest.

Deposits and investments consist of certificates of deposit and monies deposited with the Minnesota School District Liquid Asset Fund (MSDLAF) and Credit Agricole Corporate & Investment Bank and are stated at market.

Cash Held with Fiscal Agent

In the Capital Projects fund, the Series 2011 bond funds are used to fund expenses related to the new high school construction project.

Receivables

All receivables are shown net of any allowance for uncollectibles. No allowances for uncollectibles have been recorded. The only receivables not expected to be collected within one year are property taxes receivable.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. Prepaid items are reported using the consumption method and recorded as an expense or expenditure at the time of consumption.

Inventories

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

Property Taxes

The majority of district revenue is determined annually by statutory funding formulas. The total revenue allowed by these formulas is allocated between property taxes and state aids by the Legislature based on education funding priorities.

Generally, property taxes are recognized as revenue by the District in the fiscal year that begins midway through the calendar year in which the tax levy is collectible. To help balance the state budget, the Minnesota Legislature utilizes a tool referred to as the “tax shift,” which periodically changes the District’s recognition of property tax revenue. The tax shift advance recognizes cash collected for the subsequent year’s levy as current year revenue, allowing the state to reduce the amount of aid paid to the District.

Property tax levies are certified to the County Auditor in December of each year for collection from taxpayers in May and October of the following calendar year. In Minnesota, counties act as collection agents for all property taxes. The county spreads all levies over taxable property. Such taxes become a lien on property on the following January 1. The county general remits taxes to the District at periodic intervals as they are collected. A portion of the property taxes levied is paid by the State of Minnesota through various tax credits, which are included in revenue from state sources in the financial statements.

Taxes which remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is deferred in the fund financial statements because it is not known to be available to finance the operations of the District in the current year. No allowance for uncollectible taxes is considered necessary.

Capital Assets

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historic 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 cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded in the government-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 purposes by the District, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 3 to 50 years.

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

The District does not possess any material amounts of infrastructure capital assets. Items such as sidewalks and other land improvements are considered to be part of the cost of buildings or other improvable property.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bond issuance costs, if material, are also 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.

Accrued Employee Benefits

Vacation – The District compensates substantially all full-time noncertified employees for unused vacation upon termination. The expenditure for vacation pay is recognized when earned. As of June 30, 2012, this amount did not exceed a normal year’s accumulation.

Sick Leave – The District grants 13 days per year with an accumulation of up to 120 days of sick leave. Upon accumulation of 120 days of 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.

Severance Pay – The District maintains various severance plans for its employee groups. Each employee group plan contains benefit formulas based on years of service and/or minimum age requirements. The related supplemental pension liability was actuarially determined, in accordance with GASB No. 27 at July 1, 2011.

Unearned Revenue

Unearned revenue represents amounts collected but not earned as of June 30, 2012.

Risk Management

The District is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; natural disasters; and workers’ compensation for which the District carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There were no significant reductions in the District’s insurance coverage in fiscal year 2012.

Net Assets and Fund Balance

Net assets represent the difference between assets and liabilities in the government-wide and fiduciary fund 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 government-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.

In the governmental fund financial statements, fund balances are classified as nonspendable, restricted, committed, assigned or unassigned.

- Nonspendable fund balance represents a portion of fund balance that includes amounts that cannot be spent because they are either a) not in spendable form or b) legally or contractually required to be maintained intact.

- Restricted fund balances represents a portion of fund balance that reflects constraints placed on the use of resources (other than nonspendable items) that are either: a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation
- Committed fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision-making authority which is the School Board through an ordinance or resolution.
- Assigned fund balance represents amounts constrained by the government’s intent to be used for specific purposes, but neither restricted nor committed.
- Unassigned fund balance represents residual classification for the general fund. This classification represents fund balance not assigned to other funds and not restricted, committed, or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes, it would be necessary to report a negative unassigned fund balance.

The first priority is to utilize the balance as restricted fund balance. Committed funds will be considered second with assigned fund balance third when expenditures is incurred for purposes for which amounts in any of those unrestricted fund balance classification could be used like assigned or unassigned.

The District will strive to maintain an unassigned general fund balance ranging between 8.5% and 12.75% of the annual general fund budget.

Note 2 - Stewardship, Compliance, and Accountability

Excess of Expenditures Over Appropriations – Budget control for the general fund is established by the fund’s total appropriations. The general fund had expenditures exceeding appropriations in the amount of \$85,925 for the year ended June 30, 2012. This over expenditure was covered by capital lease proceeds recorded as an other financing source.

Note 3 - Interfund Receivables and Payables

Interfund receivables/payables are used when a fund has a cash deficit. A summary of the District’s interfund balances at June 30, 2012, is as follows:

Receivable	Amount	Payable	Amount
Debt Service	\$ 1,058,721	General	\$ 1,058,721

Note 4 - Deposits and Investments

Deposits

In accordance with applicable Minnesota Statutes, the District maintains deposits at depository banks authorized by the District's School Board. All such depositories are members of the Federal Reserve System.

The following is considered the most significant risk associated with deposits:

Custodial Credit Risk – In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may be lost.

Minnesota Statutes require that all deposits be protected by federal deposit insurance, corporate surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by federal deposit insurance or corporate surety bonds. Authorized collateral includes treasury bills, notes, and bonds; issues of U.S. government agencies; general obligations rated "A" or better; revenue obligations rated "AA" or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota Statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

At June 30, 2012, all deposits were insured or collateralized by securities held by the District's agent in the District's name.

Investments

Credit Risk – Investments

Minnesota Statutes authorize the District to invest in obligations of the U.S. Treasury, agencies and instrumentalities, bankers' acceptances, certain repurchase agreements and commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record. The District had no such investments during the year or at year-end.

Custodial Credit Risk – Investments

The investment in the Minnesota School District Liquid Asset Fund is not subject to the credit risk classifications as noted in paragraph 9 of GASB Statement No. 40.

Interest Rate Risk – Investments

The District does not have a formal policy that limits investment maturities.

Independent School District No. 206
 Alexandria Public Schools
 Notes to Financial Statements
 June 30, 2012

The following table presents the District's deposit and investment balances at June 30, 2012:

Type	Fair Value	Investment Maturities (in Years)		
		N/A	< 1	1 - 5
Cash and cash equivalents				
Minnesota School				
District Liquid Asset Fund	\$ 3,009,453	\$ 3,009,453	\$ -	\$ -
Deposits	195,002	195,002	-	-
Petty cash	350	350	-	-
Money market	423,613	423,613	-	-
Investments				
Fixed income	6,736,015	-	1,946,149	4,789,866
	<u>\$ 10,364,433</u>	<u>\$ 3,628,418</u>	<u>\$ 1,946,149</u>	<u>\$ 4,789,866</u>

Cash and investments are included on the basic financial statements as follows:

Cash and Investments - Statement of Net Assets	\$ 4,103,045
Cash and Investments - Statement of Fiduciary Net Assets	<u>6,261,388</u>
	<u>\$ 10,364,433</u>

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

Note 5 - Due from Other Governmental Units

Amounts receivable from other governments as of June 30, 2012, include:

Fund	Federal	State	Total
Major funds			
General	\$ 511,062	\$ 10,847,504	\$ 11,358,566
Debt service	-	56,987	56,987
Non-major funds	-	184,014	184,014
	<u>\$ 511,062</u>	<u>\$ 11,088,505</u>	<u>\$ 11,599,567</u>

Note 6 - Capital Assets

Capital asset activity for the year ended June 30, 2012 is as follows:

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012
Capital assets not being depreciated:				
Land	\$ 6,234,903	\$ -	\$ -	\$ 6,234,903
Construction in progress	2,765,500	5,288,809	(5,820,000)	2,234,309
Total capital assets, not being depreciated	9,000,403	5,288,809	(5,820,000)	8,469,212
Capital assets being depreciated:				
Buildings and improvements	49,076,265	245,752		49,322,017
Equipment	10,717,578	750,228	(520,657)	10,947,149
Land improvements	2,774,881	5,846,897	-	8,621,778
Total capital assets being depreciated	62,568,724	6,842,877	(520,657)	68,890,944
Less accumulated depreciation for:				
Buildings and improvements	16,157,022	891,418	-	17,048,440
Equipment	7,675,913	592,037	(258,468)	8,009,482
Land improvements	2,408,439	217,574	-	2,626,013
Total accumulated depreciation	26,241,374	1,701,029	(258,468)	27,683,935
Net capital assets, depreciated	36,327,350	5,141,848	(262,189)	41,207,009
Total capital assets, net	\$ 45,327,753	\$ 10,430,657	\$ (6,082,189)	\$ 49,676,221

Depreciation expense for the year ended June 30, 2012 was charged to the following functions/programs:

Administration	\$ 1,614
District support services	110,846
Regular instruction	8,684
Vocational education instruction	2,780
Special education instruction	1,344
Instructional support services	45,694
Pupil support services	294,523
Sites and buildings	283,903
Unallocated	951,641
	\$ 1,701,029
Total depreciation expense	\$ 1,701,029

Note 7 - Aid Anticipation Certificates

The District sold general obligation aid anticipation certificates dated September 1, 2010 with a value of \$1,967,639 at an interest rate of 2 percent. These certificates matured on September 1, 2011. The District sold general obligation aid anticipation certificates dated August 25, 2011 with a value of \$3,438,321 at an interest rate of 2.00 percent. These certificates mature on September 9, 2012. Interest and fiscal charges on aid anticipation certificates for the year ended June 30, 2012 in the General Fund totaled \$57,305.

Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012
\$ 1,967,639	\$ 3,438,321	\$ 1,967,639	\$ 3,438,321

Subsequent to year-end, the District entered into a line of credit agreement with a local bank to replace aid anticipation certificates for the current year. This agreement has a maximum line of credit of \$3,500,000 with a variable interest rate starting at 3 percent and adjusting monthly to a rate of 0.25 percent below the Wall Street Journal US Prime Rate. This line of credit has an August 24, 2017 maturity date. Subsequent to year-end, the \$3,438,321 of this available line was used to pay off current outstanding aid anticipation certificates.

Note 8 - Other Post-Employment Benefits

Plan Description – All employees are allowed upon meeting the eligibility requirements under Minn. Stat. 471.61 subd, 2b, to participate in the District’s health insurance plan after retirement. This plan covers active and retired employees. Benefit provisions are established through negotiations between the District and the union representing District employees and are renegotiated at the end of each contract period. Contract groups receive other post-retirement benefits as follows:

Superintendent – For retirees reaching age 55 with 3 years of service, the District will pay the full medical insurance premium until Medicare eligibility for the retiree and spouse. For retirees reaching age 55 with 3 years of service, the District will pay the full premium at the time of retirement for a \$40,000 life insurance policy until Medicare eligibility.

Principals and Administration – For retirees reaching age 55 with 10 years of service (or “Rule of 90”), the District will pay the full medical insurance premium until Medicare eligibility (includes HSA contributions up to IRS maximum) for the retiree and spouse. For retirees reaching age 55 with 10 years of service (or “Rule of 90”), the District will pay the full premium at the time of retirement for a \$40,000 life insurance policy until age 65.

Cabinet – For retirees reaching age 58 with 7 years of service (or “Rule of 90”), the District will pay the full medical insurance premium until Medicare eligibility (includes HSA contributions up to IRS maximum) for the retiree and spouse. For retirees reaching age 58 with 7 years of service (or “Rule of 90”), the District will pay the full premium at the time of retirement for a \$40,000 life insurance policy until age 65.

Teachers – For retirees reaching age 55 with 10 years of service, the District will pay the Board Contribution for medical insurance premium at the same as active teachers (full single or 2/3 of family if retired before June 30, 2005) which is currently \$496 per month until Medicare eligibility. For retirees reaching age 55 with 10 years of service, the District will pay the full premium at the time of retirement for a \$10,000 life insurance policy until age 65.

Secretaries, Custodians, K-12 Classified Personnel and Food Service – For retirees reaching age 55 with 10 years of service, the District will pay the Board Contribution for medical insurance premium at the same as actives which is currently \$425 per month for Secretaries and Custodians, and \$402 per month for K-12 Classified Personnel and Food Service, until Medicare eligibility.

Confidential Secretary – For retirees reaching age 55 with 10 years of service (or 58 with no years of service requirement), the District will pay the Board Contribution for medical insurance premium at the same as actives which is currently \$425 per month, until Medicare eligibility.

The retiree health plan does not issue a publicly available financial report.

Funding Policy – In November 2008, the District issued \$7,910,000 General Obligation Other Post-Employment Benefits (OPEB) bonds to provide resources for funding the OPEB Trust.

Annual OPEB Cost and Net OPEB Obligation – The District’s annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of thirty years. The following table shows the components of the District’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District’s net OPEB obligation (asset):

Annual required contribution	\$ 556,088
Interest on net OPEB obligation	(158,035)
Adjustment to annual required contribution	<u>277,977</u>
Annual OPEB cost	676,030
Contributions made	<u>-</u>
Change in net OPEB obligation (asset)	676,030
Net OPEB obligation (asset), beginning of year	<u>(5,267,837)</u>
Net OPEB obligation (asset), end of year	<u><u>\$ (4,591,807)</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the previous five years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Actual Employer Contribution</u>	<u>Percentage Contributed</u>	<u>Net Ending OPEB Obligation (Asset)</u>
06/30/12	\$ 676,030	\$ -	0.00%	\$ (4,591,807)
06/30/11	662,666	-	0.00%	(5,267,837)
06/30/10	603,242	-	0.00%	(5,930,503)
06/30/09	841,878	6,533,815	776.10%	(6,533,745)
06/30/08	847,763	390,819	46.10%	390,890

Funded Status and Funding Progress – As of July 1, 2011, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$9,310,455 and the actuarial value of assets was \$6,682,252, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,628,203. The covered payroll (annual payroll of active employees covered by the plan) was \$20,028,813, and the ratio of the UAAL to the covered payroll was 13.1 percent.

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

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

In the July 1, 2011, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 3.0 percent investment rate of return (net of investment expenses), which is a blended rate of the expected long-term investment returns on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 8.0 percent initially, reduced by decrements to an ultimate rate of 5.0 percent after six years. Both rates included an inflation assumption. The UAAL is being amortized as a level percentage of projected payroll on an open basis over 30 years.

Note 9 - Supplemental Benefit Plan

Plan Description – The District provides a defined contribution supplemental pension benefit to certain eligible employees. All of the pension benefits are based on contractual agreements with employee groups. . Contract groups receive other supplement benefits as follows:

Superintendent – For retirees reaching 3 years of service (completion of contract), the District will pay 5 days per year of service times the daily rate of pay at the time of termination, in the form of two equal annual payments.

Teachers – For retirees reaching age 55 with 10 years of service, the benefit where probation is complete before July 1, 1998 and not electing the Matching Contribution Program is \$27,000. All teachers with 20 years of service and electing the Matching Contribution Plan the benefit is \$27,000 minus the District contributions to the Matching Contribution Plan. The limitation on the total benefit is \$27,000 and matching contributions are equal to 2% of annual base salary up to \$2,000 per year. The benefit is payable in 3 equal payments over 2 years to a 403(b) plan.

Principals and Administration – For retirees reaching age 55 with 10 years of service, the benefit is \$37,500 minus the District contributions to the Matching Contribution Plan. The limitation on the total benefit is \$37,500 and matching contributions are equal to 2% of annual base salary up to \$2,000 per year. The benefit is payable in 3 equal payments over 2 years to a 403(b) plan.

Cabinet – For retirees reaching age 58 with 7 years of service, the District will pay 5 days per year of service times the daily rate of pay at the time of termination, minus the District contributions to the Matching Contribution Plan. The limitation on the total benefit is 120 days and matching contributions are equal to 2% of annual base salary up to \$2,000 per year. The benefit is payable in 3 equal payments over 2 years to a 403(b) plan.

K-12 Classified Employees, Secretaries, Paraprofessionals and Bus Drivers – For retirees reaching age 55 with 10 years of service (15 for Secretaries and 25 for K-12 Classified Employees) the benefit is a percentage of annual salary at the time of retirement at the following rates:

With 10-15 years of service	20%
With 16-19 years of service	30%
With 20+ years of service	40%

(Note: Secretaries have 30% with 15-19 years of service)

The benefit is payable in one lump sum.

Confidential Employees – For retirees reaching age 55 with 15 years of service the benefit is a percentage of annual salary at the time of retirement at the following rates:

With 15-19 years of service	30%
With 20-24 years of service	40%
With 25+ years of service	50%

The benefit is payable in one lump sum.

Food Service Employees – For retirees reaching age 55 with 20 years of service the District will pay \$1,200 in one lump sum.

Funding Policy – Payments under the plan are made on a pay-as-you-go basis. There are no invested plan assets accumulated for payment of future benefits. All benefits are paid out of the General Fund and the District makes all contributions.

Annual Pension Cost and Net Pension Obligation – The District’s annual pension cost (expense) is calculated based on annual reported contributions (ARC) of the District. This amount is determined by an actuary in accordance with the parameters of GASB Statement No. 27. The ARC represents a level funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the District’s annual pension cost for the year, the amount actually contributed to the plan, and the changes in the District net pension obligations to the plan:

Annual required contribution	\$ 163,741
Interest on net pension obligation	(8,519)
Adjustment to annual required contribution	<u>14,172</u>
 Annual pension cost	 169,394
Contributions made	<u>(257,405)</u>
 Change in net pension obligation	 (88,011)
Net pension asset, beginning of year	(283,967)
Net pension asset, end of year	<u><u>\$ (371,978)</u></u>

The District’s annual pension cost, the District’s annual contribution, the percentage of annual pension cost contributed to the plan, and the net pension obligation for the past four years are as follows:

Fiscal Year Ended	Annual Pension Cost	Actual Employer Contribution	Percentage Contributed	Net Ending Pension Obligation (Asset)
06/30/12	\$ 169,394	\$ 257,405	151.96%	\$ (371,978)
06/30/11	199,854	488,443	244.40%	(283,967)
06/30/10	198,685	282,133	142.00%	4,624
06/30/09	166,660	78,664	47.20%	88,028

Funded Status and Funding Progress – As of July 1, 2011, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefit was \$1,604,563, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,604,563. The covered payroll (annual payroll of active employees covered by the plan) was \$21,215,725, and the ratio of the UAAL to the covered payroll was 7.6%

Actuarial Methods and Assumptions – The annual required contribution for the current year was determined as part of the July 1, 2011 actuarial valuation using the projected unit actuarial cost method. The actuarial assumptions included a 3.0% discount rate, which is a blended rate of the expected long-term investment returns on plan assets and on the employer’s own investments calculated based on the funded level of the plan at the valuation date and projected salary increases at 3.0%.

The actuarial methods and assumptions include techniques that are designed to reduce the effect of short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long term perspective of the calculations. The UAAL is being amortized as a level percentage of projected payroll over a 30 year period.

Note 10 - Long-Term Liabilities

Changes in long-term liabilities during the year ended June 30, 2012 are as follows:

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012	Due Within One Year
Bonds payable	\$ 40,345,000	\$ 65,150,000	\$ 1,865,000	\$ 103,630,000	\$ 1,930,000
Unamortized bond premium	864,330	580,974	66,624	1,378,680	95,354
Capital leases payable	499,786	407,615	271,552	635,849	299,812
Vacation and sick leave	-	327,674	238,661	89,013	89,013
	<u>\$ 41,709,116</u>	<u>\$ 66,466,263</u>	<u>\$ 2,441,837</u>	<u>\$ 105,733,542</u>	<u>\$ 2,414,179</u>

Vacation and sick leave consists of vested vacation and sick leave as discussed in Note 1. These expenses are paid out of the general fund.

Capital leases payable are to account for items that the District has entered into leases that are considered capital assets to the District. These leases include copiers, buses, and network hardware. Total cost of capital lease assets as of June 30, 2012 was \$1,252,246 and total accumulated depreciation on these assets as of June 30, 2012 was \$348,779.

New bonds were issued during the current year to finance the new high school construction project. The Series 2011A bonds will be used to fund a majority of the building project while the rest will be funded by approximately \$4,000,000 of donations and \$2,000,000 of revenue for the sale of the previous building. The District has a signed purchase agreement for the sale of the building to be completed when the new high school is done. A portion of the pledges that the District will receive will not be until fiscal year 2016. To fund the project until that time, the District entered into an agreement for the Series 2011B bonds in the amount of \$650,000. These bonds will be paid off with the pledges received during fiscal year 2016. During the current year, the District received \$615,000 in donations recorded in the Capital Projects Fund to assist with current year building expenditures.

Subsequent to year end, the District entered into an agreement to lease 4 buses that were received in August 2012. These buses had a total equipment cost of \$400,033 with annual lease payments of \$107,376.

Independent School District No. 206
Alexandria Public Schools
Notes to Financial Statements
June 30, 2012

Following is a summary of bonds payable as of June 30, 2012:

Bond Description	Final	Interest Rate	Original Principal	Outstanding Balance
General Obligation Refunding Bonds Series 2007A	2013	3.75%	\$ 7,740,000	\$ 1,670,000
General Obligation School Building Bonds Series 2008A	2028	4 - 5%	23,590,000	23,590,000
General Obligation Taxable OPEB Bonds Series 2008B	2029	6 - 7%	7,910,000	7,400,000
General Obligation Alternative and Capital Facilities Bonds Series 2010A	2025	1.25 - 4.5%	5,820,000	5,820,000
General Obligation School Building Bonds Series 2011A	2037	2 - 5%	64,500,000	64,500,000
General Obligation School Building Bonds Series 2011B	2037	2 - 3%	650,000	650,000
				<u>\$ 103,630,000</u>

Bond principal and interest payments are made by the debt service fund, except for the principal and interest payments on the OPEB Bonds of 2010A, which are made by the OPEB debt service fund.

Remaining principal and interest payments on long-term debt are as follows:

Years Ending June 30,	Bonds Payable		Capital Lease Payable		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 1,930,000	\$ 4,647,564	\$ 299,812	\$ 20,514	\$ 2,229,812	\$ 4,668,078
2014	2,480,000	4,230,450	227,389	9,272	2,707,389	4,239,722
2015	2,595,000	4,160,450	108,648	505	2,703,648	4,160,955
2016	2,790,000	4,085,725	-	-	2,790,000	4,085,725
2017	2,870,000	4,005,463	-	-	2,870,000	4,005,463
2018 - 2022	16,665,000	18,385,582	-	-	16,665,000	18,385,582
2023 - 2027	19,160,000	14,809,712	-	-	19,160,000	14,809,712
2028 - 2032	24,730,000	10,051,030	-	-	24,730,000	10,051,030
2033 - 2037	30,410,000	4,376,368	-	-	30,410,000	4,376,368
	<u>\$ 103,630,000</u>	<u>\$ 68,752,344</u>	<u>\$ 635,849</u>	<u>\$ 30,291</u>	<u>\$ 104,265,849</u>	<u>\$ 68,782,635</u>

Note 11 - Fund Balance

Certain portions of fund balances are restricted based on state requirements to track special program funding, to provide for funding on certain long-term liabilities, or as required by other outside parties.

The following is a summary of fund balances as of June 30, 2012:

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Other Government Funds</u>	<u>Totals</u>
Nonspendable					
Inventory	\$ -	\$ -	\$ -	\$ 23,066	\$ 23,066
Prepays	108,418	-	-	-	108,418
Total nonspendable	<u>108,418</u>	<u>-</u>	<u>-</u>	<u>23,066</u>	<u>131,484</u>
Restricted					
Deferred maintenance	118,681	-	-	-	118,681
Health and safety	37,666	-	-	-	37,666
Operating capital	155,765	-	-	-	155,765
Debt service	-	630,889	-	-	630,889
OPEB debt service	-	-	-	42,547	42,547
Food service	-	-	-	534,813	534,813
Community education	-	-	-	107,687	107,687
Early childhood and family education	-	-	-	32,705	32,705
Community service	-	-	-	35,967	35,967
Capital projects	-	-	63,735,732	-	63,735,732
Total restricted	<u>312,112</u>	<u>630,889</u>	<u>63,735,732</u>	<u>753,719</u>	<u>65,432,452</u>
Unassigned	<u>2,129,118</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,129,118</u>
Total fund balance	<u>\$ 2,549,648</u>	<u>\$ 630,889</u>	<u>\$ 63,735,732</u>	<u>\$ 776,785</u>	<u>\$ 67,693,054</u>

Note 12 - Defined Benefit Pension Plans - Statewide

Substantially all employees of the District are required by state law to belong to defined benefit, multi-employer, cost-sharing pension plans administered by the Teachers' Retirement Association (TRA) or Public Employees' Retirement Association (PERA), all of which are administered on a state-wide basis. Disclosures relating to these plans are as follows:

Teachers' Retirement Association

Plan Description

All teachers employed by Independent School District No. 206 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 Basic members were first hired prior to July 1, 1989. 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 five consecutive years of allowable service, age, and a formula multiplier based on 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:

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

With these provisions:

1. Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.
2. 3 percent per year early retirement reduction factors for all years under normal retirement age.
3. 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 percent's 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 is eligible for a refund of their employee contributions plus interest.

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

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

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

Funding Policy

Minnesota Statutes Chapter 354 sets the rates for the employee and employer contributions. These statutes are established and amended by the state legislature. Coordinated and Basic Plan members are required to contribute 6.0 percent and 9.5 percent, respectively, of their annual covered salary as employee contributions. The TRA employer contribution rates are 6.0 percent for Coordinated members and 10.0 percent for Basic members. Total covered payroll salaries for all TRA members statewide during the fiscal year ended June 30, 2011 was approximately \$3.84 billion. TRA covered payroll for all members statewide for the fiscal years ended June 30, 2010 and June 30, 2009 were \$3.79 billion and \$3.76 billion, respectively.

The District contributions for the years ended June 30, 2012, 2011, and 2010 were \$1,107,495, \$1,050,874 and \$1,036,124, respectively, equal to the required contributions for each year as set by state statute.

Public Employees' Retirement Association

Plan Description

All full-time and certain part-time employees of Independent School District No. 206 are covered by defined benefit plans 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, Chapters 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.

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For 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 equal 90. Normal retirement age is 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for PERF. That report may be obtained on the internet at www.mnpera.org, by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The District makes annual contributions to the pension plans equal to the amount required by state statutes. PERF Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in calendar year 2011. The District is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members and 7.25% for Coordinated Plan PERF members.

The District's contributions to the Public Employees Retirement Fund for the years ended June 30, 2012, 2011, and 2010 were \$423,161, \$361,469, and \$396,087, respectively, equal to the contractually required contributions for each year as set by state statute.

Note 13 - Employee Benefit Plan 403(B)

All teachers having completed their tenth year of teaching in the District are eligible to participate in the matching 403(b) program. The District will match the employees' deferral up to a maximum of \$2,000 per year. The maximum career matching contribution by the District will not exceed \$30,000 per teacher. Contributions are invested in tax deferred annuities selected and owned by Plan participants. The District contributions for the years ended June 30, 2012, 2011, and 2010 were \$250,331, \$259,286, and \$243,765.

Note 14 - Commitments and Contingencies

Federal and State Revenue

Amounts received or receivable from federal and state agencies are subject to agency audit and adjustment. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of funds which may be disallowed by the agencies cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

Contingencies

The District has the usual and customary legal claims pending at year-end. Although the outcomes of these lawsuits are not presently determinable, the District believes that the resolution of these matters will not have a material adverse effect on its financial position.

Construction Commitments – The District has an active construction project for building of the new high school as of June 30, 2012. As of year-end, the District's commitments on these projects amounted to \$69,627,252.

Operating Lease

The District is obligated under certain leases accounted for as operating leases. These leases are generally cancelable on an annual basis by the District. Operating leases do not give rise to property rights or lease obligations and, therefore, the results of the lease agreements are not reflected as a liability in the Districts financial statements. The District has operating leases for copiers and gymnastics space. The leases expire in July 2012, and require annual lease payments of \$6,600 per year. Lease expense for all leases of the District for the current year was \$6,602.

Note 15 - Joint Ventures

Lakes Area Recreation was established by an agreement between Independent School District No. 206 and the Alexandria and LaGrande Townships, pursuant to authority contained in the Minnesota State Statute 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 on 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 member 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
- Independent School District No. 547, Parkers Prairie, Minnesota

Central Minnesota Educational Telecommunications System, (CMETS) is a joint powers entity established pursuant to provisions of Minnesota Statute Section 471.59. The purpose of 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. 547, Parkers Prairie, Minnesota
- Independent School District No. 740, Melrose, Minnesota
- Independent School District No. 743, Sauk Centre, Minnesota
- Independent School District No. 2149, Glenwood, Minnesota

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



Required Supplementary Information
June 30, 2012

Independent School District No. 206 Alexandria Public Schools

Schedule of Funding Progress – Other Postemployment Benefits

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Simplified Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
07/01/11	\$ 6,682,252	\$ 9,310,455	\$ 2,628,203	71.77%	\$ 20,028,813	13.12%
07/01/09	7,355,603	9,083,042	1,727,439	0.80%	20,213,404	8.50%
07/01/07	-	7,766,513	7,766,513	0.00%	21,521,280	34.00%

Note to the Schedule of Funding Progress – Other Postemployment Benefits

The standard requires a schedule of funding progress for the three most recent valuations and accompanying notes to describe factors that significantly affect the trends in the amounts reported. The District implemented the standard as of July 1, 2007 and there have been three valuations performed.

Since the last actuarial valuation as of July 1, 2009, the following actuarial assumptions have changed:

- The discount rate was changed from 4.50% to 3.00% to reflect the District’s investment policy for the Irrevocable OPEB Trust.
- Retirees’ medical subsidy amounts are assumed to trend at half the medical trend instead of full trend for all Contract Groups except retired Administrators (including the Superintendent), Cabinet, and Principals.

Since the last actuarial valuation as of July 1, 2009, the following plan provisions have changed:

- Administrators, Cabinet and Principals now have an HAS contribution included in the post employment medical subsidy.
- Teachers’ post employment medical subsidy no longer includes any employer contribution toward the spouse coverage.

Schedule of Funding Progress – Supplemental Pension

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Simplified Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
07/01/11	\$ -	\$ 1,604,563	\$ 1,604,563	0.00%	\$ 21,215,725	7.56%
07/01/09	-	1,941,469	1,941,469	0.00%	20,577,111	9.40%
07/01/07	-	4,466,309	1,466,309	0.00%	19,636,421	7.50%

Note to the Schedule of Funding Progress – Supplemental Pension

The standard requires a schedule of funding progress for the three most recent valuations and accompanying notes to describe factors that significantly affect the trends in the amounts reported. The District implemented the standard as of July 1, 2007 and there have been three valuations performed.

Since the last actuarial valuation as of July 1, 2009, the following assumptions and plan provisions have changed:

- The discount rate was changed from 4.50% to 3.00%.
- Cabinet members no longer need the hired and at least age 40 before July 1, 1999 requirement.



Combining and Individual Fund Schedules
June 30, 2012

Independent School District No. 206 Alexandria Public Schools

Independent School District No. 206
 Alexandria Public Schools
 General Fund
 Schedule of Changes in UFARS Fund Balances
 Year Ended June 30, 2012

	Fund Balance Beginning of Year	Net Change in Fund Balance	Fund Balance End of Year
Nonspendable	\$ 107,275	\$ 1,143	108,418
Restricted for deferred maintenance	65,910	52,771	118,681
Restricted for health and safety	19,528	18,138	37,666
Restricted for operating capital	188,814	(33,049)	155,765
Unassigned	1,723,770	405,348	2,129,118
	\$ 2,105,297	\$ 444,351	\$ 2,549,648

Independent School District No. 206
 Alexandria Public Schools
 Nonmajor Governmental Funds
 Combining Balance Sheet
 June 30, 2012

	<u>Food Service</u>	<u>Community Service</u>	<u>OPEB Debt Service Fund</u>	<u>Totals</u>
Assets				
Cash and investments	\$ 638,562	\$ 150,274	\$ 409,332	\$ 1,198,168
Receivables				
Current property taxes	-	200,328	366,078	566,406
Delinquent property taxes	-	4,004	7,312	11,316
Accounts	-	7,606	-	7,606
Due from other governmental units	-	169,770	14,244	184,014
Inventories	23,066	-	-	23,066
	<u>23,066</u>	<u>-</u>	<u>-</u>	<u>23,066</u>
Total assets	<u>\$ 661,628</u>	<u>\$ 531,982</u>	<u>\$ 796,966</u>	<u>\$ 1,990,576</u>
Liabilities and Fund Balance				
Liabilities				
Accounts payable	\$ 5,788	\$ 20,026	\$ -	\$ 25,814
Salaries payable	92,961	86,419	-	179,380
Deferred revenue	5,000	38,916	7,312	51,228
Property taxes levied for subsequent year	-	210,262	747,107	957,369
Total liabilities	<u>103,749</u>	<u>355,623</u>	<u>754,419</u>	<u>1,213,791</u>
Fund Balance				
Nonspendable	23,066	-	-	23,066
Restricted	534,813	176,359	42,547	753,719
Total fund balance	<u>557,879</u>	<u>176,359</u>	<u>42,547</u>	<u>776,785</u>
Total liabilities and fund balance	<u>\$ 661,628</u>	<u>\$ 531,982</u>	<u>\$ 796,966</u>	<u>\$ 1,990,576</u>

Independent School District No. 206
 Alexandria Public Schools
 Nonmajor Governmental Funds
 Combining Schedule of Revenues, Expenditures and Changes in Fund Balance
 Year Ended June 30, 2012

	<u>Food Service</u>	<u>Community Service</u>	<u>OPEB Debt Service Fund</u>	<u>Totals</u>
Revenues				
Local property tax levies	\$ -	\$ 388,300	\$ 709,024	\$ 1,097,324
Other local and county sources	11,399	665,985	-	677,384
State sources	91,423	481,775	-	573,198
Federal sources	934,142	34,127	-	968,269
Sales and other conversion of assets	1,171,019	-	-	1,171,019
Miscellaneous	-	-	39,899	39,899
Total revenues	<u>2,207,983</u>	<u>1,570,187</u>	<u>748,923</u>	<u>4,527,093</u>
Expenditures				
Community education and service	-	1,618,415	-	1,618,415
Pupil support services	2,176,077	-	-	2,176,077
Fiscal and other fixed cost programs	-	-	752,350	752,350
Total expenditures	<u>2,176,077</u>	<u>1,618,415</u>	<u>752,350</u>	<u>4,546,842</u>
Excess (Deficiency) of Revenues over (under) Expenditures	31,906	(48,228)	(3,427)	(19,749)
Fund Balance, Beginning of Year	<u>525,973</u>	<u>224,587</u>	<u>45,974</u>	<u>796,534</u>
Fund Balance, End of Year	<u>\$ 557,879</u>	<u>\$ 176,359</u>	<u>\$ 42,547</u>	<u>\$ 776,785</u>



Other Supplementary Information
June 30, 2012

Independent School District No. 206 Alexandria Public Schools

Independent School District No. 206
 Alexandria Public Schools
 Changes in Student Activity Cash Balances
 Year Ended June 30, 2012

Activity	Balance 7/1/11	Receipts and and Transfers	Disbursements and Transfers	Balance 6/30/12
A-Club	\$ 69,628	\$ 82,225	\$ 67,776	\$ 84,077
AD Cardinal	9,646	4,000	-	13,646
Alexian	651	22,102	21,053	1,700
Baseball	1,457	5,814	6,817	454
Boys Basketball	1,090	600	857	833
Boys Hockey	157	8,251	4,251	4,157
Boys Soccer	4,673	1,892	1,568	4,997
Cardinal Dance	7,368	13,263	10,798	9,833
CES	7,053	11,246	11,860	6,439
CES Deep Portage	1,743	7,960	9,340	363
CES MN Trip	650	260	380	530
CES PAC	3,110	18,694	17,939	3,865
Cheerleaders	5	7,827	7,044	788
Cross Country	6,609	6,145	4,529	8,225
Custodial Sunshine	347	20	20	347
District Office Sunshine	138	-	33	105
DMS 9th Gr Service Lrng Proj	-	83	-	83
DMS 9th Gr. Drama Trip	4	-	-	4
DMS Box Tops	6,849	1,671	309	8,211
DMS Cardinal	6,586	2,865	2,763	6,688
DMS Cardinal Participation	705	-	-	705
DMS Choir	613	-	155	458
DMS DOGS	1	171	150	22
DMS Environmental Trip	170	-	40	130
DMS Guthrie Trip	133	8,575	8,707	1
DMS Heatwave Club	5,240	4,610	4,334	5,516
DMS Jersey Fund	6,631	-	1,347	5,284
DMS Library	201	52	-	253
DMS Orchestra	1,050	2,261	2,217	1,094
DMS PAC	358	-	-	358
DMS Pencil Fund	527	265	308	484
DMS Renaissance	2,069	2,127	2,361	1,835
DMS Science Field Trip	2,547	10,015	9,892	2,670

Independent School District No. 206
 Alexandria Public Schools
 Changes in Student Activity Cash Balances
 Year Ended June 30, 2012

Activity	Balance 7/1/11	Receipts and and Transfers	Disbursements and Transfers	Balance 6/30/12
DMS Student Council	14,931	10,751	12,199	13,483
DMS Washington DC Trip	1	503	290	214
DMS What's the Hype	1,134	-	387	747
DMS Yearbook	3,841	9,254	10,831	2,264
Drama Club	1,378	712	1,179	911
EEC Advisory Board	2,368	6,348	6,637	2,079
Football	25,220	28,559	43,903	9,876
GES Academic Support	356	500	-	856
GES Activity	9,151	11,701	10,858	9,994
GES Deep Portage	5,098	3,050	5,920	2,228
GES Field Trip	1,378	-	188	1,190
GES Media Center	3,093	2,013	3,263	1,843
GES PAC	6,010	23,444	19,885	9,569
GES Playground	2,042	1,500	3,080	462
Gifted & Talented	1,333	500	1,096	737
Girls Basketball	2,330	25,537	20,581	7,286
Girls Hockey	14,243	16,136	26,687	3,692
Girls Soccer	3,107	1,608	3,201	1,514
Golf	1,754	-	80	1,674
Gymnastic	1,647	1,511	2,509	649
Have A Heart	1,914	279	470	1,723
JHS 212 Club	2,686	2,062	1,000	3,748
JHS Amnesty Int'l	58	182	190	50
JHS Band	1,283	1,844	1,140	1,987
JHS Career Fair	3,921	6,586	7,234	3,273
JHS Carolers	799	3,018	2,852	965
JHS Choir	718	3,635	4,171	182
JHS Faculty	434	73	351	156
JHS FFA	195	12,063	11,536	722
JHS Fine Arts	271	-	-	271
JHS Guidance Office	4,295	11,854	16,149	-
JHS Industrial Ed (VICA)	517	215	-	732
JHS Jazz Band	39	4,046	3,620	465
JHS Jr Viking Sportsmen	376	-	-	376
JHS Knowledge Bowl	1,068	-	138	930
JHS Math Team	1,068	-	96	972
JHS National Honor Society	1,037	300	302	1,035
JHS Orchestra	847	8,991	9,838	-

Independent School District No. 206
 Alexandria Public Schools
 Changes in Student Activity Cash Balances
 Year Ended June 30, 2012

Activity	Balance 7/1/11	Receipts and and Transfers	Disbursements and Transfers	Balance 6/30/12
JHS Rainbow Strings	801	2,425	2,399	827
JHS Science Fund	3,767	1,990	1,913	3,844
JHS Senior Citizen Dance	1,798	1,494	1,532	1,760
JHS Service Learning	405	5,806	4,799	1,412
JHS SLAM	289	-	131	158
JHS Speech	536	20	-	556
JHS Student Benevolence	1,301	1,025	1,924	402
JHS Student Council	8,484	18,854	15,545	11,793
JHS Student Recognition	2,753	2,801	945	4,609
Kids Voting	46	-	-	46
LES	23,320	74,704	83,605	14,419
Literacy Team	540	2,000	2,250	290
MES	20,573	48,626	50,690	18,509
MES Water Festival	2,695	4,213	3,933	2,975
Miscellaneous	(87)	3,084	2,041	956
Nordic Skiing	963	1,101	652	1,412
Softball	1,109	400	837	672
Swimming	7,733	20,612	25,768	2,577
Tennis	226	-	113	113
Tourney Fund	14,995	-	14,995	-
Track	2,777	1,809	1,211	3,375
VES Caring Kids	1,916	510	199	2,227
VES Faculty Fund	4,228	-	326	3,902
VES Heifer	11	-	-	11
VES Literacy	2,687	-	75	2,612
VES Media Center	5,642	3,797	4,620	4,819
VES Music	2,691	258	981	1,968
VES PAC	19,146	15,579	18,137	16,588
VES Playground	2,267	-	62	2,205
VES Student	11,176	53,685	48,358	16,503
VES Technology	1,776	-	-	1,776
Volleyball	14,436	17,043	14,778	16,701
Weight Training	4,967	2,207	571	6,603
Wellness	37,405	1,850	2,224	37,031
WES 6th Grade	-	1,396	813	583
WES	18,043	62,531	64,176	16,398
WES Cupigram	-	1,216	623	593
WES Ohio Grant	7,408	-	-	7,408
WES PAC	4,421	3,343	1,206	6,558
WES Sunshine	-	2,150	569	1,581
WES TLC	1,784	3,291	3,546	1,529
Wrestling	-	2,124	1,662	462
	<u>\$ 504,978</u>	<u>\$ 783,713</u>	<u>\$ 806,918</u>	<u>\$ 481,773</u>

Independent School District No. 206
 Alexandria Public Schools
 Schedule of Expenditures of Federal Awards
 Year Ended June 30, 2012

Federal Grantor/Program Title	Federal CFDA Number	Pass Through Number	Expenditures
Department of Agriculture			
<i>Passed through Minnesota Department of Education</i>			
Food Districtuiong	10.558	N/A	\$ 95,105
School Breakfast Program	10.553	N/A	\$ 114,680
National School Lunch Program	10.555	N/A	627,260
Summer Food Service Program for Children	10.559	N/A	55,492
Total Child Nutrition Cluster			<u>797,432</u>
Total Department of Agriculture			\$ 892,537
Department of Energy			
<i>Passed through Minnesota Department of Education</i>			
ARRA - Energy Efficiency and Conservation Block Grant	81.128	N/A	69,666
Department of Education			
<i>Passed through Minnesota Department of Education</i>			
ARRA - State Fiscal Stabilization Funds	84.394	0206-01-000 FIN 151	40,562
ARRA - Education Jobs Fund Formula	84.410	0206-01-000 FIN 152	332,690
Title I, Part A, Improving the Academic Achievement of the Disadvantaged	84.010	0206-01-000 FIN 401	435,282
ARRA - Title I, Part A, Improving the Academic Achievement of the Disadvantaged Stimulus	84.389	0206-01-000 FIN 470	34,359
Total Title I Cluster			469,641
Title II, Part A, Teacher and Principal Training and Recruitment	84.367	0206-01-000 FIN 414	125,957
Part C IEIC, Ages 0-2	84.181	0206-01-000 FIN 422	36,435
Limited Eligibility Adult Basic Education	84.002	0206-01-000 FIN 438	7,985
Part B Section 611 Continuous Improvement Monitoring Process (CIMP)	84.027	0206-01-000 FIN 435	8,942
IDEA Special Education Part B, Section 611	84.027	0206-01-000 FIN 419	1,227,670
Part B Section 619 Preschool Incentive, Ages 3-5	84.173	0206-01-000 FIN 420	36,004
Part B Section 619 Preschool Incentive Personnel Development, Ages 3-5	84.173	0206-01-000 FIN 437	513
Total Special Education Cluster			<u>1,273,129</u>
Total Department of Education			<u>2,286,399</u>
Total expenditures of federal awards			<u>\$3,248,602</u>

Note A – Significant Accounting Policies

The accompanying schedule of expenditures of federal awards is presented on the accrual basis of accounting.

Note B – Food Distribution

Non-monetary assistance is reported in the schedule of expenditures of federal awards at the fair market value of commodities received and disbursed.

Note C – Agency or Pass-Through Number

The pass-through entity has not provided us with all the identifying numbers. These programs are noted by a “N/A”.



Additional Reports
June 30, 2012

Independent School District No. 206 Alexandria Public Schools



**Report on Internal Control over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards and the Minnesota Legal Compliance Audit Guide**

The School Board of
Independent School District No. 206
Alexandria Public Schools
Alexandria, Minnesota

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 206, Alexandria Public Schools, as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 11, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Independent School District No. 206 is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over financial reporting described in the accompanying schedule of findings and questioned costs as items 12-1, 12-2, 12-3, and 12-4 to be material weaknesses.

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider deficiency 12-5, as described in the accompanying schedule of findings and questioned costs to be a significant deficiency.

Compliance and Other Matters

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

Minnesota Legal Compliance

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

The *Minnesota Legal Compliance Audit Guide for Local Government* covers six main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and uniform financial accounting and reporting standards for school districts. Our study included all of the listed categories. The results of our tests disclosed one instances of noncompliance that is required to be reported the *Minnesota Legal Compliance Audit Guide for Local Government*, described in the accompanying schedule of findings and questioned costs as item 12-6.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the School Board, 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.

A handwritten signature in black ink that reads "Eric Sully LLP". The signature is written in a cursive, flowing style.

Fargo, North Dakota
October 11, 2012



Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133

The School Board of
Independent School District No. 206
Alexandria Public Schools
Alexandria, Minnesota

Compliance

We have audited the District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133*. Those standards and *OMB Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with *OMB Circular A-133*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as items 12-7 and 12-8 that we consider to be significant deficiencies in internal control over compliance. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention of those charged with governance.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the District's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, the School Board, 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.

A handwritten signature in black ink that reads "Eric Bailly LLP". The signature is written in a cursive, flowing style.

Fargo, North Dakota
October 11, 2012



Report on Compliance over Financial Reporting of the Student Activity Accounts

The School Board of
Independent School District No. 206
Alexandria Public Schools
Alexandria, Minnesota

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 206, Alexandria Public Schools, for the year ended June 30, 2012, and have issued our report thereon dated October 11, 2012. 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, and the provisions of the Manual for Activity Fund Accounting (MAFA).

Compliance

As part of obtaining reasonable assurance about whether the District's student activity accounts are free of material misstatement, we performed tests of the district's compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of student activity 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 three instances of noncompliance that are required to be reported, shown as items 12-9, 12-10, and 12-11 in the accompanying schedule of findings and questioned costs.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the District's responses and, accordingly, we express no opinion on them.

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

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Fargo, North Dakota
October 11, 2012

2011-03 Payroll Certifications – Special Education Cluster CFDA #84.027, 84.391, 84.173, 84.392 and Title I Cluster CFDA #84.010, 84.389

Finding – During 2011 audit, it was noted that several employees coded within the Special Education and Title I cluster programs did not have sufficient payroll certifications prepared to support the salaries paid, time studies, or timesheets.

Status – The District has made an effort to obtain payroll certifications as required.

Auditor’s Response – The District has made progress in obtaining payroll certifications and there were no instances found during the current audit.

2011-04 Employee Coding – Special Education Cluster CFDA #84.027, 84.391, 84.173, 84.392

Finding – During 2011 audit, it was noted that one employee coded within the Special Education cluster was not actually working in the special education department.

Status – The District has made an effort to ensure only those working in the special education department were coded as such.

Auditor’s Response – The District has made progress in coding employees and there were no instances found during the current audit.

2011-05 IEP Requirements – Special Education Cluster CFDA #84.027, 84.391, 84.173, 84.392

Finding – During 2011 audit, it was noted that several students did not have a signed parent consent form within the IEP file and/or did not have the appropriate objective criteria and evaluation procedures in their IEP file.

Status – The District has made an effort to ensure all appropriate documentation has been kept for students’ IEP files.

Auditor’s Response – The District has made progress in ensuring adequate IEP files and there were no instances found during the current audit.

2011-06 Controls Over Reimbursement Requests – Special Education Cluster CFDA #84.027, 84.391, 84.173, 84.392, Title I Cluster CFDA #84.010, 84.390, and Education Jobs Funding (ARRA) 84.410

Finding – During 2011 audit, it was noted that the same individual was both preparing and submitting the reimbursement requests.

Status – The District has made an effort to segregate the duties of reimbursement requests.

Auditor’s Response – The District has made progress in segregating these duties. The Director of Business Services does not prepare the information used in the reimbursement request process.

2011-07 **Controls Over Required Reports** – Special Education Cluster CFDA #84.027, 84.391, 84.173, 84.392 and Education Jobs Funding (ARRA) 84.410

Finding – During 2011 audit, it was noted that the Section 1512 of ARRA for Education Jobs Funding reports were prepared and submitted by the same individual. Reports required by Section 1512 of ARRA for Special Education were not being prepared and submitted.

Status – The District has made an effort to segregate the duties of the reporting process.

Auditor’s Response – Through discussion with the Minnesota Department of Education, it was noted that MDE completes all 1512 reporting requirements on behalf of the District. As a result of this, the District does not have a current year finding regarding controls over required 1512 of ARRA reports.

2011-08 **Payroll Certifications** – Education Jobs Funding (ARRA) CFDA #84.410

Finding – During 2011 audit, it was noted that semi-annual time certifications and/or personnel activity reports for employees working within the program were not completed by employees.

Status – The District has made an effort to obtain payroll certifications as required.

Auditor’s Response – The District has made progress in obtaining payroll certifications and there were no instances found during the current audit.

2011-09 **Controls Over Required Reports** – Special Education Cluster CFDA #84.027, 84.391, 84.173, 84.392

Finding – During 2011 audit, it was noted that the Section 1512 of ARRA reports were not being prepared and submitted quarterly.

Status – The District has made an effort to ensure the 1512 reports were completed.

Auditor’s Response – Through discussion with the Minnesota Department of Education, it was noted that MDE completes all 1512 reporting requirements on behalf of the District. As a result of this, the District does not have a current year finding regarding controls over required 1512 of ARRA reports.

Independent School District No. 206
 Alexandria Public Schools
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2012

A. Summary of Audit Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified?	<u> X </u> yes	<u> </u> no
Significant deficiency(ies) identified?	<u> X </u> yes	<u> </u> none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

Material weakness(es) identified?	<u> </u> yes	<u> X </u> no
Significant deficiency(ies) identified?	<u> X </u> yes	<u> </u> none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported
 in accordance with Section 510(a) of OMB Circular A-133? X yes no

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.027, 84.173	Special Education Cluster
84.410	ARRA-Education Jobs Fund
84.010, 84.389	ARRA-Title I, Part A Cluster
10.553, 10.555, 10.559	Child Nutrition Cluster

Dollar threshold used to distinguish
 between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee? yes X no

B. Findings – Financial Statement Audit

Material Weakness

12-1 Preparation of Financial Statements

Condition – The District does not have an internal control system designed to provide for the preparation of the financial statements being audited. The auditors were requested to, and did, draft the financial statements and accompanying notes to the financial statements.

Criteria – A good system of internal accounting control contemplates an adequate system for internally preparing the District’s financial statements.

Effect – The disclosures in the financial statements could be incomplete.

Cause – The District does not have an internal control system designed to provide for the preparation of the financial statements being audited.

Recommendation – It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Corrective Action Plan (CAP)

1. Actions Planned in Response to the Finding – The District will continue to have the auditors prepare the financial statements; however, the District has established an internal control policy to document the annual review of the financial statements by the School Board and management.
2. Explanation of Disagreement – There is no disagreement with the audit finding.
3. Official Responsible for Ensuring Corrective Action – The District’s Superintendent.
4. Planned Completion Date for the Corrective Action – June 30, 2013.
5. Plan to Monitor Completion of Corrective Action – The School Board will monitor.

Material Weakness

12-2 Significant Journal Entries

Condition – During the course of our engagement, we proposed material audit adjustments that were not identified as a result of the District’s existing internal controls, and therefore could have resulted in a material misstatement of the District’s financial statements.

Criteria – A good system of internal accounting control contemplates an adequate system for recording and processing entries material to the financial statements.

Effect – This deficiency could result in a misstatement to the financial statements that would not be prevented or detected.

Cause – The District does not have an internal control system designed to identify all necessary adjustments.

Recommendation – A thorough review and reconciliation of accounts in each fund should take place prior to the beginning of the audit. This review should be done at both the accounting staff and accounting supervisor levels.

Corrective Action Plan (CAP)

1. Actions Planned in Response to the Finding – The District will review the prior year journal entries to determine training needs with the intent to reduce the overall frequency or number of adjusting journal entries.
2. Explanation of Disagreement – There is no disagreement with the audit finding.
3. Official Responsible for Ensuring Corrective Action – Trevor Peterson, Director of Business Services.
4. Planned Completion Date for the Corrective Action – June 30, 2013.
5. Plan to Monitor Completion of Corrective Action – The School Board will monitor.

Material Weakness

12-3 Segregation of Duties

Condition – The District does not adequately separate duties in cash receipts and journal entry posting.

Criteria – A good system of internal control requires an adequate segregation of duties so that no one individual has incompatible responsibilities. No one person should have more than one duty relating to the authorization (approval), custody of assets (check signers), record keeping and reconciliation functions.

Effect – Inadequate segregation of duties could adversely affect the District's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

Cause – One individual is responsible for receipting cash, preparing the deposit slip, making the deposit in the financial institution, and entering the transaction into the accounting system. Also, there is no formal process to review journal entries that are posted into the accounting system.

Recommendation – The accounting functions should be reviewed to determine if additional segregation of duties is feasible and to improve the efficiency and effectiveness of financial management and financial statement accuracy for the District. Segregation of authorization, custody of assets, record keeping and reconciliation functions would assist in mitigating the risk of fraud or misstatements to the financial statements.

Corrective Action Plan (CAP)

1. Actions Planned in Response to the Finding – Management plans on reviewing control processes and segregating duties further to mitigate the risk of unauthorized transactions or loss of assets.
2. Explanation of Disagreement – There is no disagreement with the audit finding.
3. Official Responsible for Ensuring Corrective Action – Trevor Peterson, Director of Business Services.
4. Planned Completion Date for the Corrective Action – June 30, 2013.
5. Plan to Monitor Completion of Corrective Action – The School Board will monitor.

Material Weakness

12-4 Preparation of the Schedule of Expenditures of Federal Awards

Condition – During the course of our engagement, we assisted with the preparation of the Schedule of Expenditures of Federal Awards as the District did not properly include all federal expenditures and CFDA numbers.

Criteria or Specific Requirement – As described in § ____ .310(b)(3) of OMB Circular A-133, auditees must complete the Schedule of Expenditures of Federal Awards and include Catalog of Federal Domestic Assistance (CFDA) title and numbers provided in Federal awards/subawards and associated expenditures.

Effect – There were additional federal expenditures that were not properly identified in the Schedule of Expenditures of Federal Awards. This control deficiency could result in a misstatement to the Schedule of Expenditures of Federal Awards that would not be prevented or detected.

Cause – The lack of proper communication between management and pass-through agencies regarding the federal funding identification.

Recommendation – Develop a system in identifying and tracking the following information for each control: pass-through agency, Catalog of Federal Domestic Assistance (CFDA) title and number, award number and year, and name of the federal agency.

Corrective Action Plan (CAP)

1. Actions Planned in Response to the Finding – Management plans on reviewing the Schedule of Expenditures of Federal Awards and determine the necessary training to ensure completeness of the schedule going forward.
2. Explanation of Disagreement – There is no disagreement with the audit finding.
3. Official Responsible for Ensuring Corrective Action – Trevor Peterson, Director of Business Services.
4. Planned Completion Date for the Corrective Action – June 30, 2013.
5. Plan to Monitor Completion of Corrective Action – The School Board will monitor.

Significant Deficiency

12-5 Completeness of Financial Statements

Condition – During the course of our engagement, we noted several instances of expenditures reported in the student activity funds that do not meet the definition of a student activity, and thus should be under Board control and reported as a district expenditure following the UFARS guidelines.

Criteria or Specific Requirement – Activity such as public funding and school-wide expenditures should be reported as a district expenditure following the UFARS guidelines.

Effect – The exclusion of district expenditures could result in misstatement of the District’s financial statements.

Cause – The lack of proper review of student accounts and their activity.

Recommendation – Develop an internal control system to adequately review and approve student activity accounts and regular transactions to ensure they are being recorded properly.

Corrective Action Plan (CAP)

1. Actions Planned in Response to the Finding – Management plans on reviewing the student activities to ensure they are properly recorded.
2. Explanation of Disagreement – There is no disagreement with the audit finding.
3. Official Responsible for Ensuring Corrective Action – Trevor Peterson, Director of Business Services.
4. Planned Completion Date for the Corrective Action – June 30, 2013.
5. Plan to Monitor Completion of Corrective Action – The School Board will monitor.

C. Findings – Minnesota Legal Compliance

12-6 Unallowed Borrowing of Funds

Condition – During the course of our engagement we noted that the District borrowed funds from the Debt Service Fund to cover a negative cash balance in the General Fund at June 30, 2012.

Criteria or Specific Requirement – Minnesota State Statute §123B.78, Subd. 4 prohibits a district from borrowing or transferring funds from the Building Construction Fund, Debt Redemption Fund, Trust and Agency Fund, or from any sinking fund for outstanding bonds to increase the available cash balance in another fund..

Effect – The District is in violation of Minnesota State Statute.

Cause – The District does not properly ensure that they are in compliance with statutory requirements.

Recommendation – Management should review the Minnesota State Statutes and ensure they are in compliance with all relevant requirements.

Corrective Action Plan (CAP)

1. Actions Planned in Response to the Finding – The District will make an effort to review Minnesota State Statutes and ensure compliance with those statutes.
2. Explanation of Disagreement – There is no disagreement with the finding.
3. Official Responsible for Ensuring Corrective Action – The District’s Superintendent.
4. Planned Completion Date for the Corrective Action –June 30, 2013.
5. Plan to Monitor Completion of Corrective Action – The School Board will monitor.

D. Findings – Major Federal Award Programs Audit

Significant Deficiency – Internal Control Over Compliance

12-7 Reporting – No Review of Reports Submitted

Department of Education

ARRA-Education Jobs Fund CFDA #84.410, ARRA-Title I, Part A Cluster CFDA #84.010 and 84.389,
and Special Education Cluster CFDA #84.027 and 84.173

Condition – During the course of our engagement we noted that the controls surrounding the reporting function of these programs were not being properly segregated. There was no review being performed to ensure that all required reports were submitted accurately.

Criteria or Specific Requirement – A good system of internal accounting control contemplates an adequate system for ensuring that all reports are completed accurately.

Effect – The control deficiency could result in the District’s reports within these programs not being completed accurately.

Questioned Costs – None.

Cause – The District does not have an internal control system designed to ensure all reports submitted are done so accurately.

Recommendation – Management should put a procedure in place to ensure that all reports are submitted timely and accurately.

Corrective Action Plan (CAP)

1. Actions Planned in Response to the Finding – The District will update their procedures to implement proper internal controls to ensure all reports are submitted accurately with proper review.
2. Explanation of Disagreement – There is no disagreement with the finding.
3. Official Responsible for Ensuring Corrective Action – The District’s Superintendent.
4. Planned Completion Date for the Corrective Action –June 30, 2013.
5. Plan to Monitor Completion of Corrective Action – The School Board will monitor.

Significant Deficiency

12-8 Allowable Costs – Lack of Review of PARS reports

Department of Education
Special Education Cluster CFDA #84.027 and 84.173

Condition – During the course of our engagement we noted instances of Personnel Activity Reports (PARS) that were not properly approved by the employee’s supervisor.

Criteria or Specific Requirement – A good system of internal accounting control contemplates an adequate system for ensuring that all PARS reports are properly approved.

Effect – The control deficiency could result in reports not being appropriately approved.

Questioned Costs – None.

Cause – The District does not have an internal control system designed to ensure all reports are properly approved.

Recommendation – Management should put a procedure in place to ensure that all reports approved properly.

Corrective Action Plan (CAP)

1. Actions Planned in Response to the Finding – The District will update their procedures to implement proper internal controls to ensure all reports are properly reviewed.
2. Explanation of Disagreement – There is no disagreement with the finding.
3. Official Responsible for Ensuring Corrective Action – The District’s Superintendent.
4. Planned Completion Date for the Corrective Action –June 30, 2013.
5. Plan to Monitor Completion of Corrective Action – The School Board will monitor.

E. Findings – Student Activities

12-9 Unallowed Student Activity Accounts

Condition – During the course of our engagement we noted that there are several accounts included in student activities that are not allowed by the Manual for Activity Fund Accounting (MAFA) guidelines.

Criteria or Specific Requirement – MAFA guidelines state that funds for parent-teacher (student) organization cannot be accounted for within the tax identification number of a school district. MAFA also does not permit any inclusion of non-student accounts or convenience accounts in a student activity fund.

Effect – The control deficiency could result in the District’s misuse of student activity funds.

Cause – The District does not have an internal control system designed to ensure student activity accounts are in accordance with MAFA guidelines.

Recommendation – Management should put a procedure in place to ensure that all student activity accounts are reviewed for compliance with guidelines.

Corrective Action Plan (CAP)

1. Actions Planned in Response to the Finding – The District will update their procedures to implement proper internal controls to ensure all student activity accounts are reviewed for compliance.
2. Explanation of Disagreement – There is no disagreement with the finding.
3. Official Responsible for Ensuring Corrective Action – The District’s Superintendent.
4. Planned Completion Date for the Corrective Action –June 30, 2013.
5. Plan to Monitor Completion of Corrective Action – The School Board will monitor.

12-10 District Activity in Student Accounts

Condition – During the course of our engagement we noted several instances of activity in the student activity funds that should be reported as district expenditures and under Board control.

Criteria or Specific Requirement – MAFA guidelines state that public funds are not allowed to be included in student activity accounts. In addition, co-curricular activities must be accounted for as district expenditures and under Board control.

Effect – The control deficiency could result in the District’s misuse of student activity funds.

Cause – The District does not have an internal control system designed to properly review activity through student accounts to ensure it is properly being recorded.

Recommendation – Management should put a procedure in place to properly review activity through student accounts to ensure it is being properly recorded.

Corrective Action Plan (CAP)

1. Actions Planned in Response to the Finding – The District will update their procedures to implement proper internal controls to ensure activity through the District and student accounts is being recorded properly.
2. Explanation of Disagreement – There is no disagreement with the finding.
3. Official Responsible for Ensuring Corrective Action – The District’s Superintendent.
4. Planned Completion Date for the Corrective Action – June 30, 2013.
5. Plan to Monitor Completion of Corrective Action – The School Board will monitor.

12-11 Inappropriate Use of Student Activity Funds

Condition – During the course of our engagement we noted several instances of activity in the student activity funds that are unallowable activities in student funds.

Criteria or Specific Requirement – MAFA guidelines state that student activity funds must be used for student activity purposes and must directly benefit the students who raise the funds.

Effect – The control deficiency could result in the District’s misuse of student activity funds.

Cause – The District does not have an internal control system designed to properly review activity through student accounts to ensure it is allowable through MAFA guidelines

Recommendation – Management should put a procedure in place to properly review activity through student accounts to ensure it is allowable through MAFA guidelines.

Corrective Action Plan (CAP)

1. Actions Planned in Response to the Finding – The District will update their procedures to implement proper internal controls to ensure activity in the student accounts is in compliance with MAFA guidelines.
2. Explanation of Disagreement – There is no disagreement with the finding.
3. Official Responsible for Ensuring Corrective Action – The District’s Superintendent.
4. Planned Completion Date for the Corrective Action –June 30, 2013.
5. Plan to Monitor Completion of Corrective Action – The School Board will monitor.