

**FARIBAULT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656**

**FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2011**



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INDEPENDENT SCHOOL DISTRICT NO. 656  
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INDEPENDENT SCHOOL DISTRICT NO. 656  
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## INTRODUCTORY SECTION

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**FARIBAUT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
BOARD OF EDUCATION AND ADMINISTRATION  
FISCAL YEAR 2010 – 2011**

**BOARD OF EDUCATION**

	<u>Term on Board Expires December 31,</u>	<u>Position on Board During 2010-2011</u>
Jerry Robicheau	2012	Chair
Jason Engbrecht	2012	Vice-Chair
Debra Davis	2014	Clerk
James Wolf	2012	Treasurer
Howard Bode	2014	Director
Thomas Casper	2014	Director
Richard Olson	2014	Director

**ADMINISTRATION**

Dr. Robert Stepaniak	Superintendent
Colleen Mertesdorf	Director of Finance and Operations
Elizabeth Keenan	Director of Curriculum and Instruction
Lora Arnott	Director of Special Services

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## FINANCIAL SECTION

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## INDEPENDENT AUDITORS' REPORT

Board of Education  
Independent School District No. 656  
Faribault, 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. 656 as of and for the year ended June 30, 2011, 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. The prior year partial comparative information has been derived from the Independent School District No. 656's 2010 financial statements and, in our report dated November 27, 2010, we expressed unqualified opinions on the respective financial statements of the governmental activities, each major fund, and the aggregate remaining fund information.

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 financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 656 at June 30, 2011 and the respective changes in financial position thereof, and the budgetary comparison for the General Fund, Food Service Fund, and Community Service Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.


As discussed in the notes to the financial statements, Independent School District No. 656 adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as of and for the year ended June 30, 2011. This statement results in the District reporting nonspendable, restricted, committed, assigned and unassigned fund balances in its governmental funds.

Board of Education  
Independent School District No. 656

In accordance with *Government Auditing Standards*, we have also issued a report dated November 04, 2011, on our consideration of Independent School District No. 656'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.

The schedule of funding progress for postemployment benefit plans and management's discussion and analysis as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise Independent School District No. 656's basic financial statements. The supplementary schedule of expenditure of federal awards as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the Uniform Financial Accounting and Reporting Standards Compliance Table are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
**LarsonAllen LLP**

Austin, Minnesota  
November 4, 2011

## **REQUIRED SUPPLEMENTARY INFORMATION**

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**FARIBAUT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
MANAGEMENT DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2011**

This section of Independent School District No. 656's annual financial report presents its discussion and analysis of the District's financial performance during the fiscal year ending June 30, 2011. Please read it in conjunction with the District's financial statements, which immediately follow this letter.

The Management's Discussion and Analysis (MD&A) is an element of Required Supplementary Information specified in the Government Accounting Standard Board's (GASB) Statement No. 34 – Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments issued in June 1999.

**FINANCIAL HIGHLIGHTS**

Key financial highlights for the 2010-11 fiscal year include the following:

- Student enrollment – student enrollment decreased from the previous year, going from 3,984 in 2009-10 to 3,864 in 2010-11.
- The General Fund Unassigned Fund Balance increased, going from \$3,279,475 at the end of 2009-10 to \$4,499,730 at the end of 2010-11.
- The District continues to work on deferred maintenance projects financed by the 2009 sale of bonds. The \$5,085,904 decrease in the Building Construction Fund reflects this.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The financial section of the annual report consists of four parts: Independent Auditors' Report, Required Supplementary Information which includes MD&A (this section), the basic financial statements, Single Audit and other required reports.

The basic financial statements include several statements that present different views of the District:

The ***government-wide financial statements***, including the *Statement of Net Assets* and the *Statement of Activities*, provide both short-term and long-term information about the District's overall financial status. The government-wide statements (Statement of Net Assets and Statement of Activities) 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 government-wide statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the District's overall health, additional consideration should be given to non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities.

**FARIBAUT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
MANAGEMENT DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2011**

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

The ***fund financial statements*** provide more detailed information about the District's funds, focusing on its most significant or "major" funds rather than 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.

The District maintains two groups of fund financial statements. They are:

- ***Governmental funds statements*** tell how basic services were financed in the short term as well as what remains for future spending. The District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets can readily be converted to cash flow in and out, and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that determines whether there are more or less financial resources that can be spent in the future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information (reconciliation schedules) is provided following the governmental funds statement that explains the relationship (or differences) between these two types of financial statement presentations.
- ***Fiduciary funds statements*** provide information about the financial relationships in which the District acts only as a trustee or agent for the benefit of others to whom the resources belong.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data.

**FARIBAUT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
MANAGEMENT DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2011**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

**Net assets.** The District's combined net assets were \$32.1 million on June 30, 2011. This represents an increase of 8.12 percent from the prior year. (See Figure A-1 below.)

**Figure A-1  
Independent School District No. 656  
Net Assets – Governmental Activities  
As of June 30, 2011 and 2010**

	<b>Governmental Activities</b>		<b>Percentage</b>
	<b>2011</b>	<b>2010</b>	<b>Change</b>
Current and Other Assets	\$ 26,421,098	\$ 32,353,661	-18.34%
Capital and Non-Current Assets	55,029,901	51,581,163	6.69%
<b>Total Assets</b>	<b>81,450,999</b>	<b>83,934,824</b>	<b>-2.96%</b>
Current Liabilities	17,015,659	18,189,332	-6.45%
Long Term Liabilities	32,365,180	36,082,911	-10.30%
<b>Total Liabilities</b>	<b>49,380,839</b>	<b>54,272,243</b>	<b>-9.01%</b>
Net Assets			
Invested in Capital Assets			
Net of Related Debt	24,319,874	22,469,080	8.24%
Restricted	2,260,663	2,624,658	-13.87%
Unrestricted	5,489,623	4,568,843	20.15%
<b>Total Net Assets</b>	<b>\$ 32,070,160</b>	<b>\$ 29,662,581</b>	<b>8.12%</b>

**Changes in net assets.** The District's total revenues were \$48.5 million and total expenses were \$46.1 million for the year ended June 30, 2011. (See Figure A-2 on the next page.) Unallocated state and federal aid and local property taxes accounted for 63 percent of the total revenue for the year. Operating and capital grants and charges for specific programs contributed 36 percent. (See Figure A-3 on page 8.) Student education and educational support accounted for 66 percent of the District's expenses. The District's administrative activities accounted for 4 percent of total costs. (See Figure A-4 on page 8.) Total revenues surpassed expenditures, increasing net assets by \$2,407,579.

**FARIBAUT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
MANAGEMENT DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2011**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)**

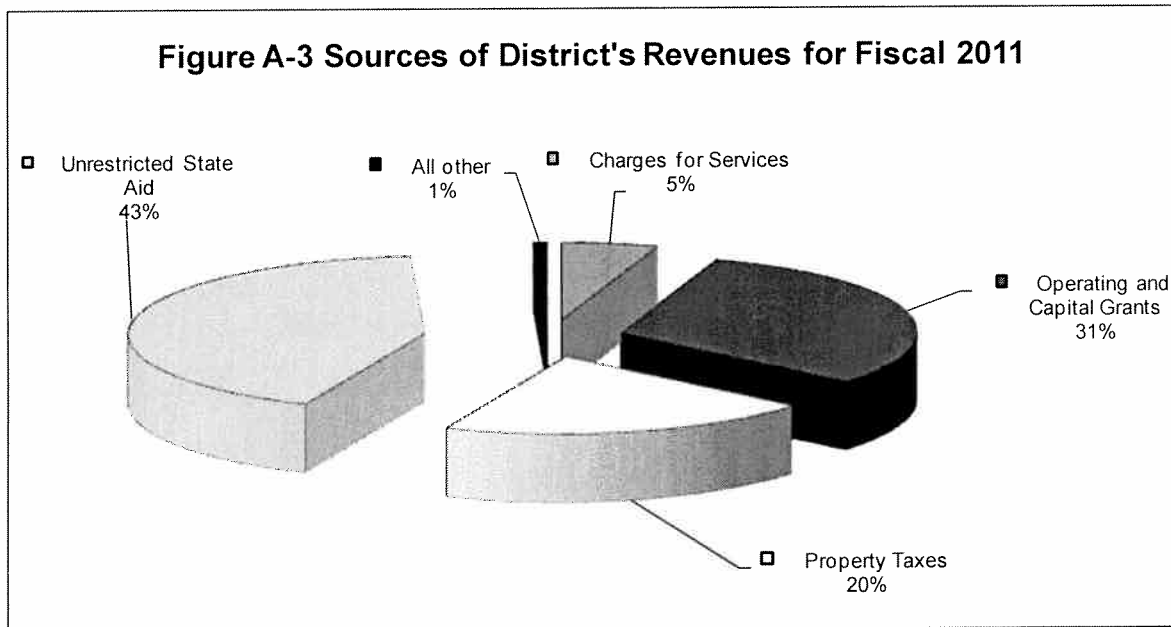
**Figure A-2  
Independent School District No. 656  
Change in Net Assets  
For the Years Ended June 30, 2011 and 2010**

	<b>Governmental Activities for the fiscal year ended June 30,</b>		<b>Total %</b>
	<b>2011</b>	<b>2010</b>	<b>Change</b>
<b>Revenues</b>			
<u>Program Revenues</u>			
Charges for Services	\$ 2,545,978	\$ 2,661,800	-4.35%
Operating Grants and Contributions	14,705,255	16,693,554	-11.91%
Capital Grants and Contributions	338,073	323,671	4.45%
<u>General Revenues</u>			
Property Taxes	9,861,957	8,319,602	18.54%
Unrestricted State Aid	20,671,147	19,749,859	4.66%
Investment Earnings	103,683	255,741	-59.46%
Other	267,671	284,571	-5.94%
Total Revenues	<u>48,493,764</u>	<u>48,288,798</u>	<b>0.42%</b>
<b>Expenses</b>			
Administration	1,636,975	1,600,240	2.30%
District Support Services	1,989,132	1,949,709	2.02%
Regular Instruction	18,705,495	18,340,339	1.99%
Vocational Education Instruction	218,381	212,414	2.81%
Special Education Instruction	8,398,873	8,376,568	0.27%
Instructional Support Services	2,134,403	2,213,280	-3.56%
Pupil Support Services	3,569,537	3,314,221	7.70%
Sites and Buildings	4,021,518	4,400,916	-8.62%
Fiscal and Other Fixed Cost Programs	71,820	87,472	-17.89%
Food Service	2,366,266	2,174,830	8.80%
Community Service	1,632,604	1,604,418	1.76%
Interest and Fiscal Charges on Long-Term Liabilities	1,341,181	1,456,007	-7.89%
Total Expenses	<u>46,086,185</u>	<u>45,730,414</u>	<b>0.78%</b>
<b>Increase in Net Assets</b>	2,407,579	2,558,384	-5.89%
Beginning Net Assets	29,662,581	27,104,197	9.44%
Ending Net Assets	<u>\$ 32,070,160</u>	<u>\$ 29,662,581</u>	<b>8.12%</b>

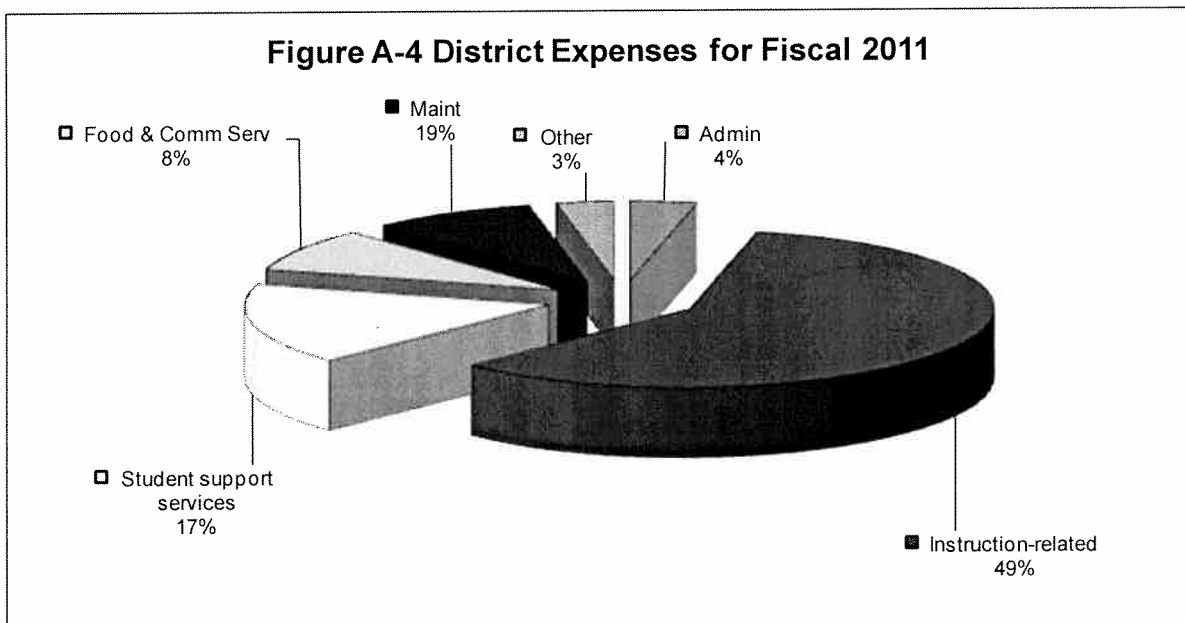
**FARIBAUT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
MANAGEMENT DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2011**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)**

**Figure A-3  
Independent School District No. 656  
Sources of Revenues  
For Fiscal Year 2011**



**Figure A-4  
Independent School District No. 656  
Expenses  
For Fiscal Year 2011**



**FARIBAULT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
MANAGEMENT DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2011**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)**

**Governmental Activities**

Figure A-5, seen below, presents the cost of twelve major District activities such as instruction, pupil and instructional services, administration, maintenance and operations, transportation, and others. The table also shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs).

- The cost of all governmental activities this year was \$46.1 million. The net cost of all governmental activities this year was \$28.5 million.
- The users of the District's programs financed \$2.5 million of the cost of activities through various charges for services.
- The federal and state governments, along with local donations, subsidized certain programs with grants and contributions of \$15.0 million.
- District property taxpayers financed \$9.9 million of governmental activities and state taxpayers financed \$20.7 million of unrestricted state aid based on the statewide education aid formula.

**Figure A-5  
Independent School District No. 656  
Net Cost of Governmental Activities  
For the Years Ended June 30, 2011 and 2010**

	<b>Total Cost of Services</b>		<b>Percentage Change</b>	<b>Net Cost of Services</b>		<b>Percentage Change</b>
	<b>2011</b>	<b>2010</b>		<b>2011</b>	<b>2010</b>	
Administration	\$ 1,636,975	\$ 1,600,240	2.30%	\$ 1,632,403	\$ 1,596,897	2.22%
District Support Services	1,989,132	1,949,709	2.02%	1,839,405	1,844,026	-0.25%
Regular Instruction	18,705,495	18,340,339	1.99%	10,674,261	8,603,212	24.07%
Vocational Education Instruction	218,381	212,414	2.81%	202,406	198,465	1.99%
Special Education Instruction	8,398,873	8,376,568	0.27%	3,125,190	2,579,781	21.14%
Instructional Support Services	2,134,403	2,213,280	-3.56%	1,931,620	2,131,561	-9.38%
Pupil Support Services	3,569,537	3,314,221	7.70%	3,399,946	3,092,554	9.94%
Sites and Buildings	4,021,518	4,400,916	-8.62%	3,620,398	4,000,254	-9.50%
Fiscal and Other Fixed Cost Programs	71,820	87,472	-17.89%	71,820	87,472	-17.89%
Food Service	2,366,266	2,174,830	8.80%	290,261	146,808	97.71%
Community Service	1,632,604	1,604,418	1.76%	367,988	314,352	17.06%
Interest and Fiscal Charges on Long-Term Liabilities	1,341,181	1,456,007	-7.89%	1,341,181	1,456,007	-7.89%
<b>Total</b>	<b>\$ 46,086,185</b>	<b>\$ 45,730,414</b>	<b>0.78%</b>	<b>\$ 28,496,879</b>	<b>\$ 26,051,389</b>	<b>9.39%</b>

**FARIBAULT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
MANAGEMENT DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2011**

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

The financial performance of the District as a whole is reflected in its governmental funds. The General Fund revenues exceeded expenditures thereby increasing the fund balance in this fund. The Food Service Fund, community Service Fund, Capital Projects – Building Construction Fund and Debt Service Fund expenditures exceeded revenues, thereby decreasing the fund balance in these funds.

The General Fund increased due to the fact that revenues were more than what was budgeted and expenditures were less than what was budgeted. A more detailed analysis will follow this general section.

The Food Service Fund saw a decrease of approximately \$245,000. Because the Food Service fund balance has remained at a strong level for the previous three years, the District is allowed to reclassify costs of lunchroom supervision, lunchroom custodial services and utility costs and other administrative costs that are generally the responsibility of the General Fund to the Food Service Fund. The decrease in the Food Service fund Balance during 2010-11 was due to a combination of this reclassification of typical General Fund costs and the fact that revenues came in below budget.

The restricted fund balances for School Readiness, Adult Basic Education and the Restricted for Other Purposes Community Service fund balance all saw increases in their fund balances. The Restricted for Community Education and Early Childhood/Family Education fund balances decreased during the year. All programs will need to be closely monitored to maintain a continued balanced budget.

The Capital Projects – Building Construction Fund decreased significantly due to active deferred maintenance projects planned as a result of the \$15,000,000 bond issue during the 2008-09 year.

The Debt Service Fund decreased approximately \$81,000 due to payments made on the District's long-term debt.

At the end of the 2010-11 fiscal year, the District's governmental funds reported combined fund balances of \$13,344,123. This is a 26% decrease from the prior year. The decrease is mostly due to the deferred maintenance projects.

Revenues for the District's governmental funds were \$48,427,078, while total expenditures were \$53,053,255. As a result, the District completed the year with a deficiency of revenues under expenditures of \$4,646,177, prior to other financing sources of \$40,877.

**General Fund**

The General Fund is used to account for all revenues and expenditures of the school district not accounted for elsewhere. The General Fund is used to account for: K-12 educational activities; District instructional and student support programs; expenditures for the superintendent; District administration; normal operations and maintenance; pupil transportation; capital expenditures; and legal District expenditures not specifically designated to be accounted for in any other fund.

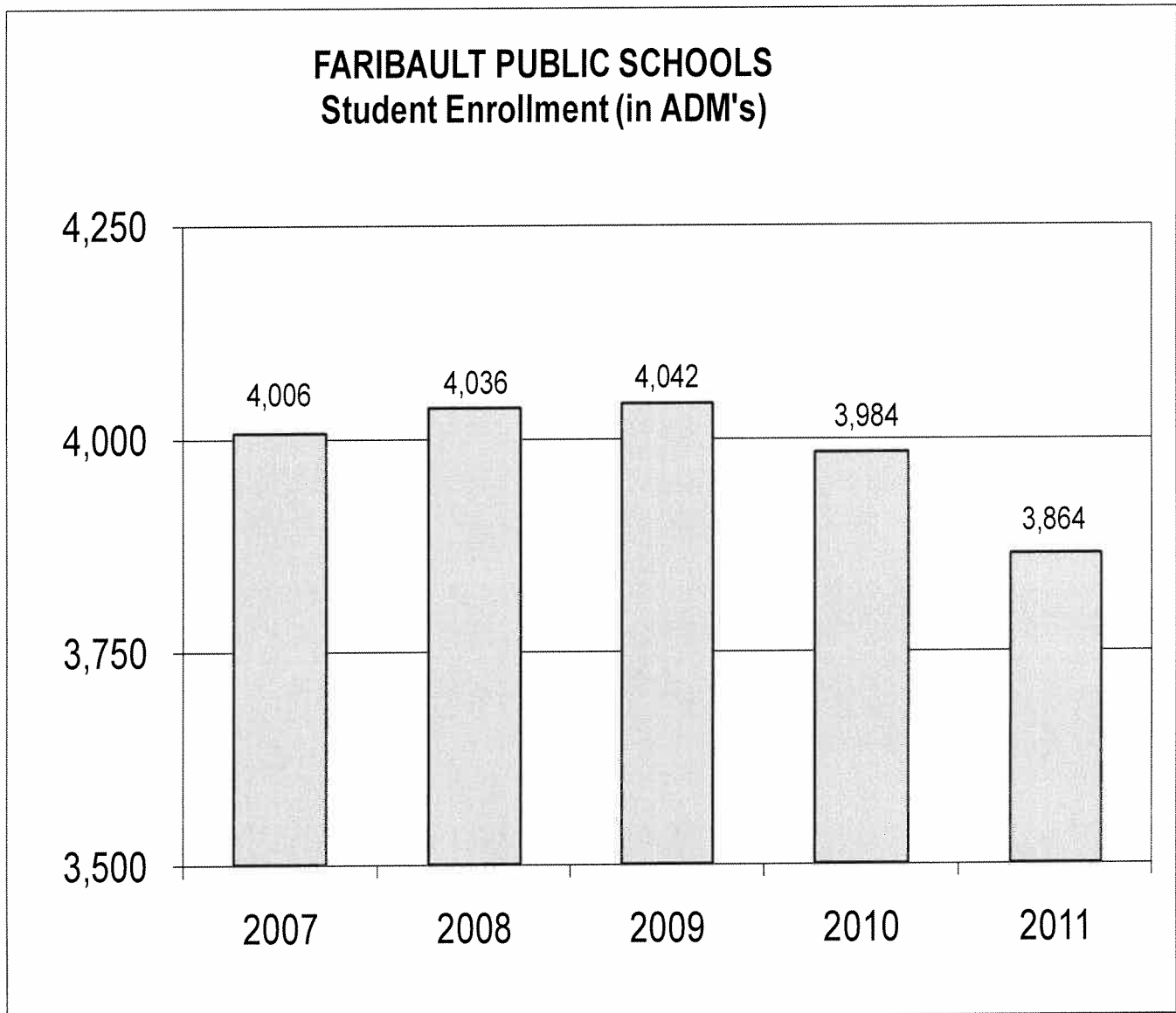
**FARIBAULT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
MANAGEMENT DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2011**

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (CONTINUED)**

**Enrollment**

Funding for Minnesota school districts is largely driven by enrollment. The majority of Minnesota school districts are facing declining enrollment. As seen in Figure A-6 below, there was an enrollment decrease for the year of 120 students from the prior year. This decrease was greater than anticipated and due to unforeseen factors; this decrease will be factored into future enrollment projections.

**Figure A-6  
Independent School District No. 656  
Student Average Daily Membership  
As of June 30, 2011**





**FARIBAULT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
MANAGEMENT DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2011**

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (CONTINUED)**

**General Fund**

A summary of General Fund revenues and expenditures is shown in Figure A-7 below.

**Figure A-7  
Independent School District No. 656  
Summary of General Fund Revenues and Expenditures  
For the Years Ended June 30, 2011 and 2010**

Description	Year Ended		Change	
	June 30, 2011	June 30, 2010	Increase (Decrease)	Percent
<b>Revenues:</b>				
Local Sources				
Property Taxes	\$ 4,939,278	\$ 3,797,978	\$ 1,141,300	30.1%
Earnings on Investments	2,650	6,979	(4,329)	-62.0%
Other	1,621,530	1,597,613	23,917	1.5%
State Sources	30,925,617	29,123,340	1,802,277	6.2%
Federal Sources	2,327,569	5,239,979	(2,912,410)	-55.6%
Total General Fund Revenue	<u>\$ 39,816,644</u>	<u>\$ 39,765,889</u>	<u>\$ 50,755</u>	0.1%
	Year Ended		Amount of Increase (Decrease)	Percent Increase (Decrease)
	June 30, 2011	June 30, 2010		
<b>Expenditures:</b>				
Salaries	\$ 23,153,666	\$ 22,948,778	\$ 204,888	0.9%
Employee Benefits	7,984,604	7,752,811	231,793	3.0%
Purchased Services	5,125,448	4,989,364	136,084	2.7%
Supplies and Materials	1,704,766	1,777,396	(72,630)	-4.1%
Capital Expenditures	1,004,399	1,041,726	(37,327)	-3.6%
Other Expenditures	30,375	51,226	(20,851)	-40.7%
Total Expenditures	<u>\$ 39,003,258</u>	<u>\$ 38,561,301</u>	<u>\$ 441,957</u>	1.1%

**Revenues**

Fiscal year 2011 saw a decrease in enrollment of 120 students. The formula allowance was at \$5,124 per adjusted marginal cost pupil unit for the 2010-11 year. Revenues totaled \$39,816,644 or an increase of \$50,755 over fiscal year 2010. The .1% revenue increase is due to the net decrease in federal revenues with an offsetting increase to state aid revenue, property tax revenue and miscellaneous revenue.

**Expenditures**

Expenditures totaled \$39,003,258 – an increase of \$441,957 over fiscal year 2010. Most expenditure functions saw increases due to increased costs of labor contracts. There was a slight increase in purchased services while supplies and capital outlay saw decreases in the General Fund for 2010-11.

**FARIBAUT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
MANAGEMENT DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2011**

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (CONTINUED)**

**General Fund (Continued)**

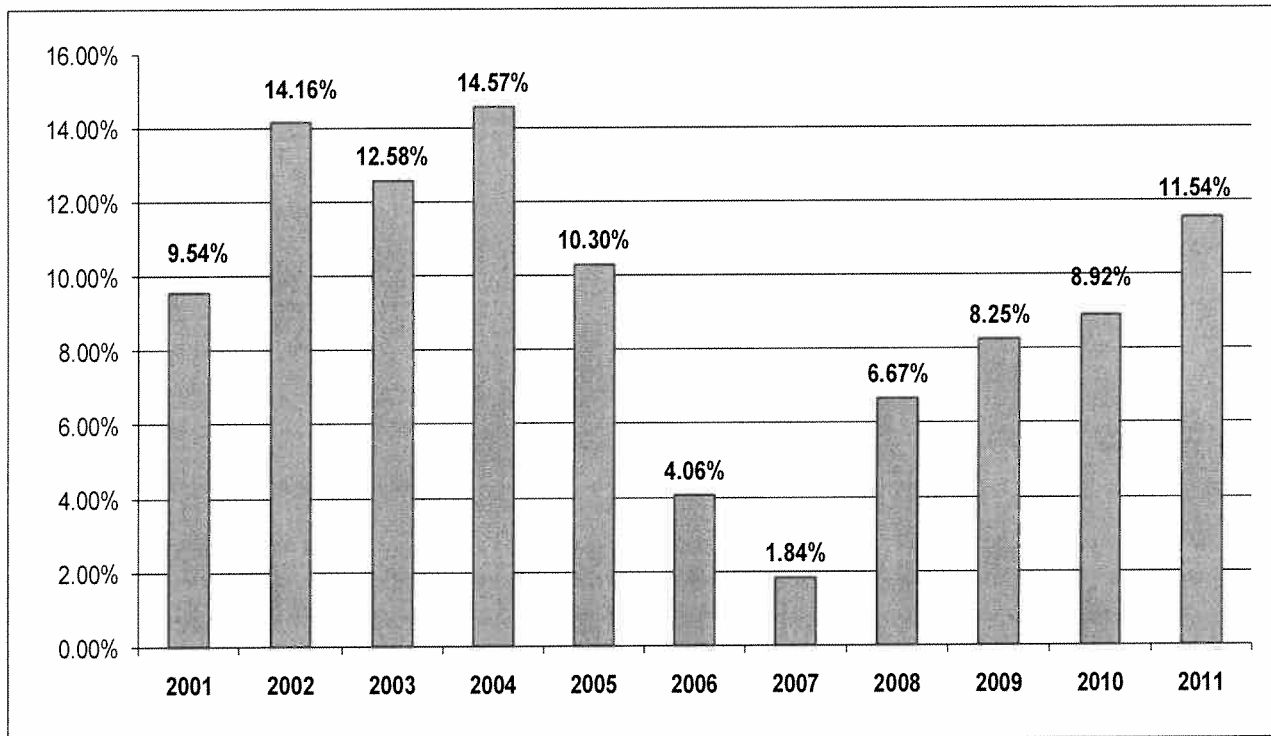
**Fund Balance**

The unassigned fund balance is \$4,499,730, committed fund balance for postemployment benefits is \$2,500,000, nonspendable fund balance is \$135,151 and the restricted fund balances for staff development, health and safety, operating capital, and area learning center total \$392,658.

The graph in Figure A-8, below, depicts the General Fund unassigned fund balance as a percentage of total expenditures for the 11 fiscal years ending June 30, 2001–2011. The District's unassigned fund balance offers the single best measure of the District's overall financial health. The unassigned fund balance on June 30, 2011 represents 11.54% of annual expenditures.

The District closely monitors the General Fund unassigned fund balance through the use of financial software spending controls, a detailed financial planning model, up to two budget revisions during the year, and monthly budget analysis. The Board of Education has adopted a fund balance policy to maintain a fund balance in the unreserved undesignated General Fund of not less than 9.5% of the annual operation budget for that fund.

**Figure A-8  
Independent School District No. 656  
General Fund Unassigned Fund Balance as a Percentage of Total Expenditures**



**FARIBAULT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
MANAGEMENT DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2011**

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (CONTINUED)**

**BUDGETARY HIGHLIGHTS**

The District revised the annual operating budget from the preliminary budget approved in June 2010 to the final budget approved in June of 2011.

**General Fund**

The District's final budget for the general fund anticipated that expenditures would exceed revenues and other financing sources by \$261,120. The actual results for the year show revenues and other financing sources exceeding expenditures by \$854,263.

- Actual revenues were \$672,096 above budget, with most of the difference in the property taxes category. This is mostly due to the property tax shift that occurred in 2010-11.
- Actual expenditures were \$413,430 below budget with most of the difference in supplies (approximately \$200,000).

**Food Service Fund**

The Food Service Fund revenues for 2010-11 totaled \$2.1 million and expenditures were \$2.3 million. The June 30, 2011 fund balance is \$430,137, a decrease of \$244,724 from fiscal year 2010. The decrease in the fund balance is due to the District being allowed to reclassify costs of lunchroom supervision, lunchroom custodial services and utility costs and other administrative costs that are generally the responsibility of the General Fund to the Food Service Fund as a result of the strong Food Service fund balance. The District contracts with Sodexo for management of the District food service program. Sodexo continues to provide exemplary management services.

**Community Service Fund**

The Community Service Fund revenues for 2010-11 totaled \$1.6 million and expenditures were \$1.6 million. The June 30, 2011 fund balance is \$210,009, a decrease of \$28,116 from fiscal year 2010. The individual restricted accounts of Community Education and Early Childhood Family Education decreased during the year, while the School Readiness, Adult Basic Education and the Restricted for Other Purposes accounts continue to generate excess revenues and have sufficient fund balances.

**Debt Service Fund**

The Debt Service Fund is used to record revenues and expenditures for a school district's outstanding bonded indebtedness, whether for building construction, operating capital, or for initial or refunding bonds. The Debt Service Fund revenues for 2010-11 totaled \$4.8 million and expenditures were \$4.9 million. The June 30, 2011 restricted fund balance is \$934,148, a decrease of \$80,819 from fiscal year 2010. Every year the Minnesota Department of Education calculates Debt Service excess fund balance amounts and uses those amounts to reduce future levies.

**Capital Projects Fund**

The Capital Projects Fund is used to account for revenues and expenditures for a school district's long term capital projects. As mentioned earlier, the activity in the fund largely relates to active deferred maintenance projects.

**FARIBAULT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
MANAGEMENT DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2011**

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

By the end of 2011, the District had invested \$55,029,901 in a broad range of capital assets, including school buildings, computer equipment, audio-visual equipment, and other equipment for various instructional programs. (See Figure A-9 below.) Accumulated depreciation totaled \$27,359,053 as of June 30, 2011. More detailed information about capital assets can be found in Note 3 of the financial statements.

**Figure A-9  
Independent School District No. 656  
Capital Assets  
June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>	<u>Percentage Change</u>
Land	\$ 1,835,754	\$ 1,835,754	0.0%
Construction in Progress	2,276,889	1,377,510	65.3%
Land Improvements	3,200,257	3,200,257	0.0%
Buildings and Improvements	70,912,416	66,836,493	6.1%
Equipment	4,163,638	4,050,031	2.8%
Less: Accumulated Depreciation	<u>(27,359,053)</u>	<u>(25,718,882)</u>	<u>6.4%</u>
<b>Total</b>	<u><u>\$ 55,029,901</u></u>	<u><u>\$ 51,581,163</u></u>	<u><u>6.7%</u></u>

**Long-Term Liabilities**

For the fiscal year ended June 30, 2011, the District had \$34.3 million in general obligation bonds outstanding. (See Figure A-10 below.) The District also had \$1.7 million in health benefits, separation and severance payable as of June 30, 2011. In fiscal year 2011, the District's total outstanding long-term liabilities decreased by 8.9 percent. More detailed information about the District's long-term liabilities is presented in Note 4 of the financial statements.

**Figure A-10  
Independent School District No. 656  
Outstanding Long-Term Liabilities  
June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>	<u>Percentage Change</u>
General Obligation Bonds	\$ 34,310,000	\$ 37,830,000	-9.3%
Net Bond Premium and Discount	248,086	313,344	-20.8%
Other Postemployment Benefits Payable	290,777	235,523	23.5%
Compensated Absences Payable	<u>1,409,534</u>	<u>1,403,194</u>	<u>0.5%</u>
<b>Total</b>	<u><u>\$ 36,258,397</u></u>	<u><u>\$ 39,782,061</u></u>	<u><u>-8.9%</u></u>
Long-Term Liabilities:			
Due Within One Year	\$ 3,893,217	\$ 3,699,150	
Due in More Than One Year	<u>32,365,180</u>	<u>36,082,911</u>	
	<u><u>\$ 36,258,397</u></u>	<u><u>\$ 39,782,061</u></u>	

**FARIBAUT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
MANAGEMENT DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2011**

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

With the exception of a voter-approved excess operating referendum, the District is dependent on the State of Minnesota for its revenue authority. Recent experience demonstrates that legislated revenue increases have been minimal or non-existent and have not been sufficient to meet instructional needs and increased costs due to inflation. The current economic conditions will have a significant negative impact on the funding for school districts; therefore, cost containment will be necessary in order to maintain the financial health of the District.

Enrollments will be closely monitored and projections will be done using several models. Faribault Public Schools may continue to see a decline in the numbers of students served. Declining enrollments will significantly impact our state and federal revenue streams and budget adjustments will need to be made to reflect decreased revenue and maintain a balanced budget.

The District will continue to seek all available sources of funding, balance revenue to expenditures, and maintain systems that ensure financial stability. If state funding remains below inflation levels and cost containment is not achieved, we project growing General Fund budget deficits and a declining fund balance in subsequent years.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the District's citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact Colleen Mertesdorf, Director of Finance and Operations, at the ISD 656 District Office, 2800 1st Avenue NW, Suite 1, P.O. Box 618, Faribault, MN 55021 or visit the District's website at [www.faribault.k12.mn.us](http://www.faribault.k12.mn.us).

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## **BASIC FINANCIAL STATEMENTS**

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**FARIBAULT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
STATEMENT OF NET ASSETS  
JUNE 30, 2011  
(WITH COMPARATIVE DATA AS OF JUNE 30, 2010)**

	<b>Governmental Activities</b>	
	<b>2011</b>	<b>2010</b>
<b>ASSETS</b>		
Cash and Investments	\$ 10,111,400	\$ 17,764,907
Receivables		
Property Taxes	4,866,030	4,505,194
Other Governments	10,983,958	9,462,023
Other	205,612	330,126
Prepaid Items	60,466	97,275
Inventories	78,449	61,230
Bond Issuance Costs, Net	115,183	132,906
Capital Assets		
Land and Construction in Progress	4,112,643	3,213,264
Other Capital Assets, Net of Depreciation	50,917,258	48,367,899
Total Assets	<u>81,450,999</u>	<u>83,934,824</u>
<b>LIABILITIES</b>		
Salaries and Wages Payable	3,606,879	3,588,663
Accounts and Contracts Payable	1,481,213	2,242,109
Accrued Interest	324,328	335,624
Due to Other Governmental Units	404,562	76,453
Property Tax Shift Adjustment	59,817	-
Deferred Revenue		
Property Taxes	7,092,823	8,027,014
Local Sources	152,820	220,319
Long-Term Liabilities		
Portion Due Within One Year	3,893,217	3,699,150
Portion Due in More Than One Year	32,365,180	36,082,911
Total Liabilities	<u>49,380,839</u>	<u>54,272,243</u>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	24,319,874	22,469,080
Restricted for:		
Operating Capital Purposes	430,509	396,951
State-Mandated Reserves	83,716	338,445
Food Service	430,137	674,861
Community Service	219,480	238,125
Debt Service	702,590	679,343
Capital Projects - Building Construction	394,231	296,933
Unrestricted	5,489,623	4,568,843
Total Net Assets	<u>\$ 32,070,160</u>	<u>\$ 29,662,581</u>

See accompanying Notes to Basic Financial Statements.

**FARIBAULT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2011  
(WITH COMPARATIVE DATA FOR THE YEAR ENDED JUNE 30, 2010)**

2011			
Functions	Expenses	Charges for Services	Program Operating Grants and Contributions
<b>Governmental Activities</b>			
Administration	\$ 1,636,975	\$ 519	\$ 4,053
District Support Services	1,989,132	424	-
Regular Instruction	18,705,495	374,548	7,617,460
Vocational Education Instruction	218,381	440	14,014
Special Education Instruction	8,398,873	745,365	4,517,685
Instructional Support Services	2,134,403	18,092	177,515
Pupil Support Services	3,569,537	4,261	165,330
Sites and Buildings	4,021,518	270,906	-
Fiscal and Other Fixed Cost Programs	71,820	-	-
Food Service	2,366,266	732,880	1,343,125
Community Service	1,632,604	398,543	866,073
Interest and Fiscal Charges on Long-Term Liabilities	1,341,181	-	-
Total School District	<u>\$ 46,086,185</u>	<u>\$ 2,545,978</u>	<u>\$ 14,705,255</u>

**General Revenues**

Property Taxes Levied for:  
     General Purposes  
     Community Service  
     Debt Service  
 State Aid Not Restricted to Specific Purposes  
 Earnings on Investments  
 Gain on Sale of Fixed Assets  
 Miscellaneous  
     Total General Revenues  
     Change in Net Assets  
 Net Assets - Beginning  
 Net Assets - Ending

See accompanying Notes to Basic Financial Statements.

	2011	2010
	Net (Expense) Revenue and Changes in Net Assets	Net (Expense) Revenue and Changes in Net Assets
Revenues	Total	Total
Capital	Governmental	Governmental
Grants and Contributions	Activities	Activities
\$ -	\$ (1,632,403)	\$ (1,596,897)
149,303	(1,839,405)	(1,844,026)
39,226	(10,674,261)	(8,603,212)
1,521	(202,406)	(198,465)
10,633	(3,125,190)	(2,579,781)
7,176	(1,931,620)	(2,131,561)
-	(3,399,946)	(3,092,554)
130,214	(3,620,398)	(4,000,254)
-	(71,820)	(87,472)
-	(290,261)	(146,808)
-	(367,988)	(314,352)
-	(1,341,181)	(1,456,007)
<u>\$ 338,073</u>	<u>(28,496,879)</u>	<u>(26,051,389)</u>

4,950,347	3,818,289
434,475	341,482
4,477,135	4,159,831
20,671,147	19,749,859
103,683	255,741
2,994	-
264,677	284,571
<u>30,904,458</u>	<u>28,609,773</u>
2,407,579	2,558,384
29,662,581	27,104,197
<u>\$ 32,070,160</u>	<u>\$ 29,662,581</u>

**FARIBAULT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2011  
(WITH COMPARATIVE DATA AS OF JUNE 30, 2010)**

	<b>Major</b>		
	<b>General</b>	<b>Food Service</b>	<b>Community Service</b>
<b>ASSETS</b>			
Cash and Investments	\$ 1,270,897	\$ 491,330	\$ 98,407
Receivables			
Current Property Taxes	1,858,692	-	183,590
Delinquent Property Taxes	64,694	-	6,214
Due from Other Minnesota School Districts	100,406	-	6,858
Due from Minnesota Department of Education	9,816,995	-	189,184
Due from Federal through Minnesota Department of Education	657,999	26,451	73,646
Other Receivables	104,561	-	45,881
Prepaid Items	56,702	3,307	457
Inventory	78,449	-	-
Total Assets	<u>\$ 14,009,395</u>	<u>\$ 521,088</u>	<u>\$ 604,237</u>
<b>LIABILITIES AND FUND BALANCE</b>			
Liabilities			
Salaries and Wages Payable	\$ 1,756,323	\$ -	\$ 72,492
Payroll Deductions and Employer Contributions Payable	1,778,064	-	-
Accounts and Contracts Payable	446,459	66,396	115,712
Due to Other Governmental Units	404,562	-	-
Property Tax Shift Adjustment	59,817	-	-
Deferred Revenue:			
Property Taxes Levied for Subsequent Year	1,862,536	-	180,946
Delinquent Property Taxes	64,694	-	6,214
Local Sources	109,401	24,555	18,864
Total Liabilities	<u>6,481,856</u>	<u>90,951</u>	<u>394,228</u>
Fund Balance			
Nonspendable			
Prepays Items	56,702	3,307	457
Inventory	78,449	-	-
Restricted for			
Staff Development	23,450	-	-
Area Learning Center	60,266	-	-
Health and Safety	(121,567)	-	-
Operating Capital	430,509	-	-
Community Education Programs	-	-	(3,257)
Early Childhood and Family Education Programs	-	-	8,265
School Readiness	-	-	38,469
Adult Basic Education	-	-	96,819
Other Purposes	-	426,830	69,256
Committed	2,500,000	-	-
Unassigned	4,499,730	-	-
Total Fund Balance	<u>7,527,539</u>	<u>430,137</u>	<u>210,009</u>
Total Liabilities and Fund Balance	<u>\$ 14,009,395</u>	<u>\$ 521,088</u>	<u>\$ 604,237</u>

See accompanying Notes to Basic Financial Statements.

Funds		Total Governmental	
Capital Projects	Debt Service	Funds	
		2011	2010
\$ 5,039,491	\$ 3,211,275	\$ 10,111,400	\$ 17,764,907
-	2,660,070	4,702,352	4,368,420
-	92,770	163,678	136,774
-	-	107,264	48,445
-	112,419	10,118,598	8,245,302
-	-	758,096	1,168,276
55,170	-	205,612	330,126
-	-	60,466	97,275
-	-	78,449	61,230
<u>\$ 5,094,661</u>	<u>\$ 6,076,534</u>	<u>\$ 26,305,915</u>	<u>\$ 32,220,755</u>
\$ -	\$ -	\$ 1,828,815	\$ 1,744,138
-	-	1,778,064	1,844,525
852,371	275	1,481,213	2,242,109
-	-	404,562	76,453
-	-	59,817	-
-	5,049,341	7,092,823	8,027,014
-	92,770	163,678	136,774
-	-	152,820	220,319
<u>852,371</u>	<u>5,142,386</u>	<u>12,961,792</u>	<u>14,291,332</u>
-	-	60,466	97,275
-	-	78,449	61,230
-	-	23,450	34,059
-	-	60,266	207,779
-	-	(121,567)	96,607
-	-	430,509	396,951
-	-	(3,257)	71,562
-	-	8,265	19,832
-	-	38,469	5,913
-	-	96,819	74,869
4,242,290	934,148	5,672,524	11,083,871
-	-	2,500,000	2,500,000
-	-	4,499,730	3,279,475
<u>4,242,290</u>	<u>934,148</u>	<u>13,344,123</u>	<u>17,929,423</u>
<u>\$ 5,094,661</u>	<u>\$ 6,076,534</u>	<u>\$ 26,305,915</u>	<u>\$ 32,220,755</u>

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**FARIBAUT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2011  
(WITH COMPARATIVE DATA AS OF JUNE 30, 2010)**

	<u>2011</u>	<u>2010</u>
<b>Total Fund Balance for Governmental Funds</b>	\$ 13,344,123	\$ 17,929,423
Total net assets reported for governmental activities in the statement of net assets is different because:		
Capital assets used in governmental funds are not financial resources and therefore are not reported in the funds. Those assets consist of:		
Land	1,835,754	1,835,754
Construction in Progress	2,276,889	1,377,510
Land Improvements, Net of Accumulated Depreciation	1,703,137	1,813,194
Buildings and Improvements, Net of Accumulated Depreciation	48,208,524	45,572,495
Equipment, Net of Accumulated Depreciation	1,005,597	982,210
Some of the District's property taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are reported as deferred revenue in the funds.		
	163,678	136,774
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.		
	(324,328)	(335,624)
Bond issuance costs are reported as expenditures in the governmental funds.		
	115,183	132,906
Long-term liabilities that pertain to governmental funds, including bonds payable, are not due and payable in the current period and therefore are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net assets. Balances at year-end are:		
Bonds Payable	(34,310,000)	(37,830,000)
Unamortized Premiums and Discounts	(248,086)	(313,344)
Compensated Absences Payable	(1,409,534)	(1,403,194)
Other Postemployment Benefits Payable	(290,777)	(235,523)
<b>Total Net Assets of Governmental Activities</b>	<u>\$ 32,070,160</u>	<u>\$ 29,662,581</u>

**FARIBAULT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2011  
(WITH COMPARATIVE DATA FOR THE YEAR ENDED JUNE 30, 2010)**

	<b>Major</b>		
	<b>General</b>	<b>Food Service</b>	<b>Community Service</b>
<b>REVENUES</b>			
Local Sources			
Property Taxes	\$ 4,939,278	\$ -	\$ 434,192
Earnings on Investments	2,650	653	200
Other	1,621,530	732,882	433,473
State Sources	30,925,617	118,505	508,125
Federal Sources	2,327,569	1,224,618	221,295
Total Revenues	<u>39,816,644</u>	<u>2,076,658</u>	<u>1,597,285</u>
<b>EXPENDITURES</b>			
Current			
Administration	1,641,429	-	-
District Support Services	1,557,551	-	-
Regular Instruction	16,933,277	-	-
Vocational Education Instruction	204,093	-	-
Special Education Instruction	8,348,578	-	-
Instructional Support Services	2,110,179	-	-
Pupil Support Services	3,645,483	-	-
Sites and Buildings	3,486,449	-	-
Fiscal and Other Fixed Cost Programs	71,820	-	-
Food Service	-	2,236,711	-
Community Service	-	-	1,625,401
Capital Outlay	1,004,399	84,671	-
Debt Service			
Principal	-	-	-
Interest and Fiscal Charges	-	-	-
Total Expenditures	<u>39,003,258</u>	<u>2,321,382</u>	<u>1,625,401</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	813,386	(244,724)	(28,116)
<b>OTHER FINANCING SOURCES</b>			
Sale of Equipment Proceeds	4,089	-	-
Judgments for Districts	36,788	-	-
Total Other Financing Sources	<u>40,877</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	854,263	(244,724)	(28,116)
Fund Balances - Beginning	6,673,276	674,861	238,125
Fund Balances - Ending	<u><u>\$ 7,527,539</u></u>	<u><u>\$ 430,137</u></u>	<u><u>\$ 210,009</u></u>

See accompanying Notes to Basic Financial Statements



Funds			
Capital Projects - Building Construction	Debt Service	Total Governmental Funds	
		2011	2010
\$ -	\$ 4,461,583	\$ 9,835,053	\$ 8,271,192
97,298	2,882	103,683	255,741
-	-	2,787,885	2,806,230
-	374,728	31,926,975	30,253,981
-	-	3,773,482	6,626,656
97,298	4,839,193	48,427,078	48,213,800
-	-	1,641,429	1,588,183
-	-	1,557,551	1,529,825
-	-	16,933,277	16,780,695
-	-	204,093	198,078
-	-	8,348,578	8,331,619
-	-	2,110,179	2,213,064
-	-	3,645,483	3,314,838
-	-	3,486,449	3,475,801
-	-	71,820	87,472
-	-	2,236,711	2,122,443
-	-	1,625,401	1,610,478
5,183,202	-	6,272,272	4,728,316
-	3,520,000	3,520,000	3,355,000
-	1,400,012	1,400,012	1,393,715
5,183,202	4,920,012	53,053,255	50,729,527
(5,085,904)	(80,819)	(4,626,177)	(2,515,727)
-	-	4,089	-
-	-	36,788	26,588
-	-	40,877	26,588
(5,085,904)	(80,819)	(4,585,300)	(2,489,139)
9,328,194	1,014,967	17,929,423	20,418,562
\$ 4,242,290	\$ 934,148	\$ 13,344,123	\$ 17,929,423

**FARIBAUT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2011  
(WITH COMPARATIVE DATA FOR THE YEAR ENDED JUNE 30, 2010)**

	<u>2011</u>	<u>2010</u>
<b>Net Change in Fund Balance-Total Governmental Funds</b>	<b>\$ (4,585,300)</b>	<b>\$ (2,489,139)</b>
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$2,500 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. Also, governmental funds report proceeds from sales of capital assets while, in the statement of activities, only the gain or loss is included.		
Capital Outlays	5,171,162	3,439,544
Gain (Loss) on Disposal of Capital Assets	2,994	(13,224)
Proceeds from Sales of Capital Assets	(4,089)	-
Depreciation Expense	(1,721,329)	(1,673,549)
The governmental funds report bond proceeds as financing sources, while repayment of bond principal is reported as an expenditure. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability. Also, governmental funds report the effect of issuance costs and premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of general obligation bonds and related items is as follows:		
Repayment of Bond Principal	3,520,000	3,355,000
Change in Accrued Interest Expense - General Obligation Bonds	11,296	(109,827)
Amortization of Bond Issuance Costs	(17,723)	(17,723)
Amortization of Bond Premium and Discount	65,258	65,258
Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.	26,904	48,410
In the statement of activities, certain operating expenses - 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 (essentially, the amounts actually paid).	(61,594)	(46,366)
<b>Change in Net Assets of Governmental Activities</b>	<b><u>\$ 2,407,579</u></b>	<b><u>\$ 2,558,384</u></b>

**FARIBAUT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL  
GENERAL FUND**

**YEAR ENDED JUNE 30, 2011**

**(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2010)**

	2011				2010
	Budgeted Amounts		Actual	Over (Under) Final Budget	Actual
	Original	Final	Amounts		Amounts
REVENUES					
Local Sources					
Property Taxes	\$ 3,342,920	\$ 3,538,270	\$ 4,939,278	\$ 1,401,008	\$ 3,797,978
Earnings on Investments	75,000	75,000	2,650	(72,350)	6,979
Other	1,300,324	1,351,282	1,621,530	270,248	1,597,613
State Sources	31,429,448	31,672,231	30,925,617	(746,614)	29,123,340
Federal Sources	2,521,837	2,507,765	2,327,569	(180,196)	5,239,979
Total Revenues	38,669,529	39,144,548	39,816,644	672,096	39,765,889
EXPENDITURES					
Current:					
Administration	1,618,092	1,609,479	1,641,429	31,950	1,588,183
District Support Services	1,511,537	1,534,720	1,557,551	22,831	1,529,825
Regular Instruction	16,964,930	17,174,570	16,933,277	(241,293)	16,780,695
Vocational Education Instruction	215,794	207,586	204,093	(3,493)	198,078
Special Education Instruction	8,713,208	8,632,337	8,348,578	(283,759)	8,331,619
Instructional Support Services	1,953,360	2,302,974	2,110,179	(192,795)	2,213,064
Pupil Support Services	3,291,824	3,258,832	3,645,483	386,651	3,314,838
Sites and Buildings	3,720,232	3,473,984	3,486,449	12,465	3,475,801
Fiscal and Other Fixed Cost Programs	78,000	78,000	71,820	(6,180)	87,472
Capital Outlay	919,761	1,144,206	1,004,399	(139,807)	1,041,726
Total Expenditures	38,986,738	39,416,688	39,003,258	(413,430)	38,561,301
Excess (Deficiency) of Revenues Over (Under) Expenditures	(317,209)	(272,140)	813,386	1,085,526	1,204,588
OTHER FINANCING SOURCES					
Sale of Equipment Proceeds	-	1,600	4,089	2,489	-
Judgments for Districts	3,000	9,420	36,788	27,368	26,588
Total Other Financing Sources	3,000	11,020	40,877	29,857	26,588
Net Change in Fund Balances	\$ (314,209)	\$ (261,120)	854,263	\$ 1,115,383	1,231,176
FUND BALANCE					
Beginning of Year			6,673,276		5,442,100
End of Year			\$ 7,527,539		\$ 6,673,276

See accompanying Notes to Basic Financial Statements.

**FARIBAUT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL  
FOOD SERVICE FUND**

**YEAR ENDED JUNE 30, 2011**

**(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2010)**

	2011			2010
	Budgeted Amounts		Actual Amounts	Over (Under) Final Budget
	Original	Final		Actual Amounts
<b>REVENUES</b>				
Local Sources				
Earnings on Investments	\$ 15,000	\$ 15,000	\$ 653	\$ (14,347)
Other - Primarily Meal Sales	781,627	816,627	732,882	(83,745)
State Sources	132,632	132,632	118,505	(14,127)
Federal Sources	1,174,482	1,194,482	1,224,618	30,136
Total Revenues	2,103,741	2,158,741	2,076,658	(82,083)
<b>EXPENDITURES</b>				
Current				
Food Service	2,136,370	2,231,386	2,236,711	5,325
Capital Outlay	10,000	96,696	84,671	(12,025)
Total Expenditures	2,146,370	2,328,082	2,321,382	(6,700)
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ (42,629)	\$ (169,341)	(244,724)	\$ (75,383)
<b>FUND BALANCE</b>				
Beginning of Year			674,861	772,282
End of Year			\$ 430,137	\$ 674,861

See accompanying Notes to Basic Financial Statements.

**FARIBAULT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL  
COMMUNITY SERVICE FUND  
YEAR ENDED JUNE 30, 2011  
(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2010)**

	2011				2010
	Budgeted Amounts		Actual	Over (Under) Final Budget	Actual
	Original	Final	Amounts		Amounts
<b>REVENUES</b>					
Local Sources					
Property Taxes	\$ 340,399	\$ 340,399	\$ 434,192	\$ 93,793	\$ 339,122
Earnings on Investments	3,000	3,000	200	(2,800)	1,532
Other - Primarily Tuition and Fees	413,600	444,100	433,473	(10,627)	447,960
State Sources	517,041	668,954	508,125	(160,829)	658,152
Federal Sources	29,500	266,836	221,295	(45,541)	243,544
Total Revenues	<u>1,303,540</u>	<u>1,723,289</u>	<u>1,597,285</u>	<u>(126,004)</u>	<u>1,690,310</u>
<b>EXPENDITURES</b>					
Current					
Community Service	1,320,213	1,746,003	1,625,401	(120,602)	1,610,478
Capital Outlay	7,000	3,000	-	(3,000)	5,775
Total Expenditures	<u>1,327,213</u>	<u>1,749,003</u>	<u>1,625,401</u>	<u>(123,602)</u>	<u>1,616,253</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ (23,673)</u>	<u>\$ (25,714)</u>	(28,116)	<u>\$ (2,402)</u>	74,057
<b>FUND BALANCE</b>					
Beginning of Year			<u>238,125</u>		<u>164,068</u>
End of Year			<u>\$ 210,009</u>		<u>\$ 238,125</u>

See accompanying Notes to Basic Financial Statements.

**FARIBAULT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
STATEMENT OF FIDUCIARY NET ASSETS  
JUNE 30, 2011**

	<u>Private- Purpose Trust</u>
<b>ASSETS</b>	
Cash and Investments	\$ 2,500
Total Assets	<u>\$ 2,500</u>
<b>NET ASSETS</b>	
Unrestricted	\$ 2,500
Total Net Assets	<u>\$ 2,500</u>

**FARIBAULT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
YEAR ENDED JUNE 30, 2011**

	<u>Private- Purpose Trust</u>
<b>ADDITIONS</b>	
Gifts and Donations	\$ 7,000
Total Additions	<u>7,000</u>
<b>DEDUCTIONS</b>	
Scholarships Awarded	<u>4,500</u>
Total Deductions	<u>4,500</u>
Change in Net Assets	2,500
Net Assets - Beginning of Year	-
Net Assets - End of Year	<u>\$ 2,500</u>

See accompanying Notes to Basic Financial Statements.

**FARIBAULT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2011**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Basis of Presentation**

The financial statements of Independent School District No. 656 have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The GASB pronouncements are recognized as U.S. generally accepted accounting principles for state and local governments.

**B. Financial Reporting Entity**

Independent School District No. 656 (the District) is an instrumentality of the State of Minnesota established to function as an educational institution. The elected Board of Education (Board) is responsible for legislative and fiscal control of the District. A Superintendent is appointed by the Board and is responsible for administrative control of the District.

U.S. Generally Accepted Accounting Principles (GAAP) require that the District's financial statements include all funds, departments, agencies, boards, commissions, and other organizations which are not legally separated from the District. In addition, the District's financial statements are to include all component units - entities for which the District is financially accountable.

Financial accountability includes such aspects as appointing a voting majority of the organization's governing body, significantly influencing the programs, projects, activities or level of services performed or provided by the organization or receiving specific financial benefits from, or imposing specific financial burden on, the organization. These financial statements include all funds and account groups of the District. There are no other entities for which the District is financially accountable.

Student activities are determined primarily by student participants under the guidance of an adult and are generally conducted outside school hours. The Board of Education does have a fiduciary responsibility in establishing broad policies and ensuring that appropriate financial records are maintained for student activities. However, in accordance with Minnesota State Statutes, the District's Board of Education has not elected to control or exercise oversight responsibility with respect to the underlying student activities. Accordingly, the student activity accounts are not included in these financial statements.

**C. Basic Financial Statement Presentation**

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

**FARIBAULT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2011**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. Basic Financial Statement Presentation (Continued)**

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational; or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The District applies restricted resources first when an expense is incurred for purpose for which both restricted and unrestricted net assets are available. Depreciation expense that can be specifically identified by function is included in the direct expenses of each function. Interest on long-term debt is considered an indirect expense and is reported separately on the Statement of Activities. Generally, the effect of material interfund activity has been removed from the government-wide financial statements.

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

Fiduciary funds are presented in the fiduciary fund financial statements by type: private purpose trust fund. 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.

**D. Measurement Focus and Basis of Accounting**

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of 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.



**FARIBAULT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2011**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Measurement Focus and Basis of Accounting (Continued)**

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. Property tax revenue is generally considered as available if collected within 60 days after year-end. State revenue is recognized in the year to which it applies according to Minnesota Statutes and U.S. generally accepted accounting principles. Minnesota Statutes include state aid funding formulas for specific fiscal years. Federal revenue is recorded in the year in which the related expenditure is made. Food service sales, community education tuition, and other miscellaneous revenue (except investment earnings) are recorded as revenues when received because they are generally not measurable until then. Investment earnings are recorded when earned because they are measurable and available. A six-month availability period is generally used for other fund revenue.
2. Recording of Expenditures – Expenditures are generally recorded when a liability is incurred. However, expenditures are recorded as prepaid for approved disbursements or liabilities incurred in advance of the year in which the item is to be used. Principal and interest on long-term debt issues are recognized on their due dates.

The District reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Deferred revenues also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to incurring the qualifying expenditures. In subsequent periods when both revenue recognition criteria are met or when the District has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

**Description of Funds**

The existence of the various District funds has been established by the State of Minnesota, Department of Education. The accounts of the district are organized on the basis of funds, each of which is considered a separate accounting 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, health and safety projects, and disabled accessibility projects.

**FARIBAULT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2011**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Measurement Focus and Basis of Accounting (Continued)**

Food Service Special Revenue Fund - The Food Service Fund is used to account for food service revenues and expenditures. Revenues for the Food Service Fund come from user fees, and reimbursements from the Federal and State governments.

Community Service Special Revenue Fund - The Community Service Fund is used to account for services provided to residents in the areas of recreation, civic activities, nonpublic pupils, veterans, adult or early childhood programs or other similar services. Revenues for the Community Service Special Revenue Fund are composed of user fees, local levy dollars, and State credits.

Capital Projects - Building Construction Fund - The Capital Projects - Building Construction Fund is used to account for financial resources used for the acquisition or construction of major capital facilities.

Debt Service Fund - The Debt Service Fund is used to account for the accumulation of resources for, and payment of, general long-term obligation bond principal, interest, and related costs.

*Fiduciary Funds*

Private Purpose Trust Fund - The Private Purpose Trust Fund is used to account for trust arrangements under which the income benefits individuals. This fund accounts for funds established for various annual scholarships that are awarded to students based on the requirements of the donor.

**E. Budgeting**

Budgets presented in this report for comparison to actual amounts are presented in accordance with U.S. generally accepted accounting principles. Each June, the Board of Education adopts an annual budget for the following fiscal year for the General, Food Service, Community Service, and Debt Service Funds. The approved budget is published in summary form in the District's legal newspaper by November 30 of each year. Reported budget amounts represent the amended budget as adopted by the Board of Education. All annual appropriations lapse at fiscal year end. Legal budgetary control is at the fund level.

Procedurally, in establishing the budgetary data reflected in these financial statements, the Superintendent submits to the Board of Education prior to July 1, a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means to finance them. The budget is legally enacted by Board of Education action. Revisions to budgeted amounts must be approved by the Board of Education.

Total fund expenditures in excess of the budget require approval of the Board of Education. Spending control is established by the amount of expenditures budgeted for the fund, but management control is exercised at line item levels.

**FARIBAULT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2011**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**E. Budgeting (Continued)**

Budget provisions for the Debt Service Fund are set by state law governing required debt service levels.

**F. Cash and Investments**

Cash and investments consist of demand deposit accounts, certificates of deposit, deposits in the Minnesota School District Liquid Asset Fund (MSDLAF), government agency bonds and notes, and cash on hand.

Cash balances from all funds are combined and invested to the extent available in various securities as authorized by Minnesota Statutes. Earnings from the pooled cash and investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund, except for the capital projects fund.

**G. Receivables**

Represents amounts receivable from individuals, firms, and corporations for goods and services furnished by the District. No substantial losses are anticipated from present receivable balances, therefore, no allowance for uncollectible accounts is deemed necessary. The only receivables not expected to be collected within one year are current property taxes receivable.

**H. Inventories**

Inventories are recorded using the consumption method of accounting and consist of supplies on hand at June 30, 2011. Purchases are recorded at invoice cost, computed on a first-in, first-out method, and surplus commodities are stated at standardized cost, as determined by the Department of Agriculture. The District had no food or commodity inventory on hand at June 30, 2011.

**I. Prepaid Items**

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

**J. Property Taxes**

Property tax levies are established by the Board of Education in December each year and are certified to the County for collection 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 January 1. Taxes are due on May 15 and October 15. The County generally remits taxes to the District at periodic intervals as they are collected. A portion of property taxes levied is paid through various state tax credits which are included in revenue from state sources in the financial statements.

**FARIBAULT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2011**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**J. Property Taxes (Continued)**

Generally, tax revenue is recognized in the fiscal year ending June 30, following the calendar year in which the tax levy is collectible, while the current calendar year tax levy is recorded as deferred revenue (property taxes levied for subsequent year). The majority of District revenue in the General Fund (and to a lesser extent in the District's Community Service Special Revenue Fund) is determined annually by statutory funding formulas. The total revenue allowed by these formulas is then allocated between taxes and state aids by the Legislature based on education funding priorities. Changes in this allocation are periodically accompanied by a change in property tax revenue recognition referred to as the "tax shift."

In accordance with State law, the current tax shift consists of an amount equal to 31% of the District's 2000 Pay 2001 operating referendum levy (frozen at \$329,972) for the District. Starting in fiscal year 2011, the shift was expanded to include all other general and community service fund levies. State aids are then reduced in fiscal year 2011 by this expanded shift amount, making this portion of the tax shift revenue neutral to school districts. This resulted in a significant increase in the advance recognition of tax revenue in the District's General Fund (and corresponding state aid holdback totaling \$1,431,220) and an increase in the District's Community Service Fund (and corresponding state aid hold back totaling \$171,064). Certain other portions of the District's 2010 pay 2011 levy, normally revenue for the 2011-12 fiscal year, are also advance recognized at June 30, 2011, as required by state statute to match revenue with the same fiscal year as the related expenditures.

Taxes that 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 because it is not known to be available to finance the operations of the District in the current year. No allowance for uncollectible taxes has been provided as such amounts are not expected to be material. Current levies of local taxes, less the amount recognized as revenue in the current period, including portions assumed by the State which will be recognized as revenue in the next fiscal year beginning July 1, 2011, are included in Property Taxes Levied for Subsequent Year to indicate that, while they are current assets, they will not be recognized as revenue until the following year.

**K. Capital Assets**

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The District maintains a threshold level of \$2,500 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.

**FARIBAULT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2011**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**K. Capital Assets ( Continued)**

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

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

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.

**L. Long-Term Liabilities**

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, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs, if material, are 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.

**M. Accrued Employee Benefits**

**Compensated Absences Payable**

The District compensates substantially all full-time classified employees for vacation benefits at various rates based on length of service. The expenditure for vacation pay is recognized when payment is made. At June 30, 2011, unpaid vacation pay totaling \$97,959 is recorded in the financial statements.

Substantially all District employees are entitled to sick leave at various rates for each month of full-time service. The District pays clerical, custodial and educational assistants for one quarter (1/4) of unused sick leave earned, above the maximum accumulation, during the contract year. The District also pays paraprofessionals for one quarter (1/4) of unused paid absence leave earned, above the maximum accumulation during the contract year. The District makes this payment during the month of July of each year.

**FARIBAUT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2011**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**M. Accrued Employee Benefits (Continued)**

**Compensated Absences Payable (Continued)**

Compensated absences payable also includes severance and early retirement incentives that are calculated based on unused sick leave days. The District maintains various severance payment plans for its employee groups. Each employee group plan contains benefit formulas based on years of service and/or minimum age requirements. For substantially all employees, early retirement incentive benefits are eliminated if retirement occurs at the normal retirement age of 65 as specified in their contracts. In addition, certain bargaining unit members are eligible to be compensated for unused accumulated sick leave upon termination subject to certain conditions.

**1. Faribault Principals Association**

Members of the Faribault Principals Association, upon retirement or resigning from the District, will receive severance at the rate of \$95 per day of unused sick leave. Also, principals will be eligible to participate in a district matching deferred compensation program as entitled under M.S. 356.24. The district match is according to a table in the Principals Association Agreement and is not to exceed \$30,000 over the years of employment.

**2. Administrators**

Full-time administrators upon retirement or resigning from the District may receive severance at the rate of \$95 to \$110 per day of unused sick leave. Also, they are eligible to participate in a district matching deferred compensation program as entitled under M.S. 356.24. The district match is according to a table in the administrative policy series and is not to exceed \$30,000 over the years of employment.

**3. Teachers**

Teachers who retire between the age of 55 and 65 and have 15 years of full time continuous service with the District or are 50 years of age with at least 20 years of full time continuous service with the District are eligible to receive a \$15,000 severance payment. The payment is made in two installments according to the dates specified in the contract.

Full-time teachers who have completed at least 15 years of service with the District, and who are at least 55 years of age are eligible for payment of \$90 per day of unused sick leave, up to a maximum of 100 days.

The District has recorded a liability for accrued convertible sick leave based on the sick leave accumulated at June 30, 2011 by employees currently eligible to receive termination payments, as well as other employees who are expected to become eligible in the future to receive such payments. Under this "vesting method", accruals for those employees expected to become eligible in the future are based on assumptions concerning the probability that the employees will become eligible to receive termination payments (vest) at some point in the future. The District's policy is to record a liability for the teachers lump sum payment for those individuals that are eligible to receive the payments.

**FARIBAULT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2011**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**M. Accrued Employee Benefits (Continued)**

**Compensated Absences Payable (Continued)**

During fiscal year 2011, total expenditures for early retirement incentive payments and convertible sick leave were \$336,002. At June 30, 2011, a liability for early retirement incentive payments and convertible sick leave totaling \$1,311,575 is recorded on the Statement of Net Assets.

**Other Postemployment Health Care Benefits**

Under the terms of certain collectively bargained employment contracts, the District is required to pay a portion of health insurance premiums for substantially all retired employees until they reach age 65. All premiums are funded on a pay-as-you-go basis. This amount was actuarially determined, in accordance with GASB 45.

**N. Deferred Revenues**

Deferred revenues are those in which resources are received by the District before it has a legal claim to them. The District received excess Tax Increment Financing in previous years. The State of Minnesota has the right to adjust future funding to account for this excess revenue. This excess revenue is recorded in deferred revenue in the General Fund. In addition, the District has recorded deferred revenue in the General Fund for student deposits. The District has reported deferred revenues for 2011-2012 school lunch deposits in the Food Service Fund. The District also recorded deferred revenue in the Community Service Fund in an amount equal to prepaid daycare account balances.

**O. Fund Balance**

At June 30, 2011, the District adopted Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. June 30, 2010 partial comparative fund balance data has been reclassified to be presented in accordance with GASBS No. 54.

In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned or unassigned. Nonspendable portions of fund balance relate to prepaids and inventories. Restricted funds are constrained by outside parties (statute, grantors, bond agreements, etc.). Committed fund balances are established and modified by a resolution approved by the Board of Education. The Board of Education passed a resolution authorizing the Superintendent and Director of Finance and Operations the ability to assign fund balances and their intended uses. Unassigned fund balances are considered the remaining amounts, usually in the General Fund only.

In accordance with the District's fund balance policy, when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available; it is the District's policy to use restricted first, then unrestricted fund balance. When an expenditure is incurred for purposes for which committed, assigned and unassigned fund balance is available, it is the District's policy to use committed first, then assigned and finally unassigned fund balance.

**FARIBAULT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2011**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**O. Fund Balance (Continued)**

The District has a minimum fund balance policy, which identifies a minimum unassigned fund balance in the General Fund of 9.5% of the annual expenditure budget.

**P. Risk Management**

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

The District has joined together with other school districts in Minnesota in the Southeast Service Cooperative Gross Self-Insured Health Insurance Plan, a public entity risk pool currently operating as common risk management and insurance program for member districts. The District pays an annual premium to this plan for its health insurance coverage. These premiums are used to purchase reinsurance through commercial companies. The administrators of the plan believe assessment to participating districts for future losses sustained is extremely remote.

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

**Q. Net Assets**

Net assets represent the difference between assets and liabilities in the government-wide financial statements. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net assets are reported as restricted in the government-wide financial statement when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments. The government-wide statement of net assets reports \$2,260,663 of restricted net assets, all of which is restricted by enabling legislation.

**R. Comparative Data**

Comparative data for the prior year has been presented only for certain sections of the accompanying financial statements in order to provide an understanding of the changes in the District's financial position and operations.



**FARIBAULT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2011**

**NOTE 2 CASH AND INVESTMENTS**

**A. Deposits**

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District's deposit policy for custodial credit risk follows Minnesota Statutes for deposits.

The District maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash and Investments." In accordance with applicable Minnesota Statutes, the District maintains deposits at depository banks authorized by the School District's Board.

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

The District's deposits in banks at June 30, 2011 were entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota statutes.

In accordance with applicable Minnesota Statutes, the District maintains deposits at depository banks authorized by the Board of Education.

**B. Investments**

The District may also invest idle funds as authorized by Minnesota Statutes, as follows:

- direct obligations or obligations guaranteed by the United States or its agencies
- shares of investment companies registered under the Federal Investment Company Act of 1940 and receives the highest credit rating, is rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of thirteen months or less
- general obligations rated "A" or better; revenue obligations rated "AA" or better
- general obligations of the Minnesota Housing Finance Agency rated "A" or better
- bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System
- commercial paper issued by United States corporations or their Canadian subsidiaries, of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less
- Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories
- repurchase or reverse purchase agreements and securities lending agreements financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.

**FARIBAULT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2011**

**NOTE 2 CASH AND INVESTMENTS (CONTINUED)**

**B. Investments (Continued)**

At June 30, 2011, the District had the following investments:

**Investments Held by Broker -**

	At Amortized Cost
Minnesota School District Liquid Asset Fund Plus (MDSLAF+)	\$ 1,155,940
Minnesota School District LAF MAX Series (MSDMAX)	4,260,407
	<u>\$ 5,416,347</u>

The MSDLAF and MSDMAX are external investment pools and their investments are valued at amortized cost, which approximates fair value in accordance with Rule 2a-7 of the Investment Company Act of 1940. The amortized cost method of valuation values a security at its cost on the date of purchase and thereafter assumes a constant amortization to maturity of any discount or premium, regardless of the impact of fluctuating interest rates on the market value of instruments.

	Fair Value
FHLB Bonds	\$ 2,169,692
FFCB Bonds	446,379
FNMA Global Benchmark Notes	172,962
	<u>\$ 2,789,033</u>

***Interest Rate Risk***

The District has a formal investment policy that addresses permissible investments, portfolio diversification and instrument maturities. Investment maturities are scheduled to coincide with projected school district cash flow needs. Within these parameters, it is the District's policy to stagger portfolio maturities to avoid undue concentration of assets, provide for stability of income, and limit exposure to fair value losses arising from rising interest rates.

The following summarizes maturities of the District's investments:

Type	Fair Value	12 Months or Less	13 to 24 Months	25 to 60 Months
Minnesota School District Liquid Asset Fund Max Series (MSDMAX)	\$ 4,260,407	\$ 4,260,407	\$ -	\$ -
Minnesota School District Liquid Asset Fund Plus (MDSLAF+)	1,155,940	1,155,940	-	-
FHLB Bonds	2,169,692	1,106,770	1,062,922	-
FFCB Bonds	446,379	-	446,379	-
FNMA Global Benchmark Notes	172,962	-	172,962	-
	<u>\$ 8,205,380</u>	<u>\$ 6,523,117</u>	<u>\$ 1,682,263</u>	<u>\$ -</u>

**FARIBAULT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2011**

**NOTE 2 CASH AND INVESTMENTS (CONTINUED)**

**B. Investments (Continued)**

***Custodial Credit Risk***

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At June 30, 2011 all investments and collateral were listed in the name of the District.

***Credit Risk***

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The following chart summarizes year-end ratings for the District's investments as rated by Moody's Investors Service or Standard & Poor's:

Type	Rated by	Credit Rating
Minnesota School District Liquid Asset Fund Plus (MDSLAF+)	S&P	AAAm
Minnesota School District LAF MAX Series (MSDMAX)	S&P	AAAm
FHLB Bonds	Moody's	Aaa
FFCB Bonds	Moody's	Aaa
FNMA Global Benchmark Notes	Moody's	Aaa

***Concentration of Credit Risk***

On an annual basis, the investment officer prepares and presents to the Board of Education for its review and approval a table specifying the maximum percentage of the school district's investment portfolio that may be invested in a single type of investment instrument. The following is a list of investments which individually comprise more than 5% of the District's total investments:

Type	Amount	Percentage
Minnesota School District Liquid Asset Fund Plus (MDSLAF+)	\$ 1,155,940	14.09%
Minnesota School District Liquid Asset Fund Max Series (MSDMAX)	4,260,407	51.92%
FHLB Bonds	2,169,692	26.44%

**C. Balance Sheet Presentation**

Deposits and investments are presented on the combined balance sheet as follows:

Cash and Investments - Statement of Net Assets	\$ 10,111,400
Cash and Investments - Statement of Fiduciary Net Assets	2,500
Total Cash and Investments	<u>\$ 10,113,900</u>

**FARIBAULT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2011**

**NOTE 2 CASH AND INVESTMENTS (CONTINUED)**

**C. Balance Sheet Presentation (Continued)**

Total cash and investments at June 30, 2011 consisted of the following:

Deposits	\$ 767,775
Cash on hand	2,745
Certificates of deposit	1,138,000
Minnesota School District Liquid Asset Funds	5,416,347
Government bonds and notes	2,789,033
	<u>\$ 10,113,900</u>

**NOTE 3 CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2011 was as follows:

	Beginning Balance	Increases	Transfers and Decreases	Ending Balance
<b>Governmental Activities</b>				
Capital Assets, Not Being Depreciated				
Land	\$ 1,835,754	\$ -	\$ -	\$ 1,835,754
Construction in Progress	1,377,510	4,877,981	(3,978,602)	2,276,889
Total Capital Assets, Not Being Depreciated	3,213,264	4,877,981	(3,978,602)	4,112,643
Capital Assets, Being Depreciated				
Land Improvements	3,200,257	-	-	3,200,257
Buildings and Improvements	66,836,493	4,075,923	-	70,912,416
Equipment	4,050,031	195,860	(82,253)	4,163,638
Total Capital Assets, Being Depreciated	74,086,781	4,271,783	(82,253)	78,276,311
Accumulated Depreciation for				
Land Improvements	(1,387,063)	(110,057)	-	(1,497,120)
Buildings and Improvements	(21,263,998)	(1,439,894)	-	(22,703,892)
Equipment	(3,067,821)	(171,378)	81,158	(3,158,041)
Total Accumulated Depreciation	(25,718,882)	(1,721,329)	81,158	(27,359,053)
Total Capital Assets, Being Depreciated, Net	48,367,899	2,550,454	(1,095)	50,917,258
Governmental Activities Capital Assets, Net	<u>\$ 51,581,163</u>	<u>\$ 7,428,435</u>	<u>\$ (3,979,697)</u>	<u>\$ 55,029,901</u>

Depreciation expense was charged to functions of the District as follows:

<b>Governmental Activities</b>	
District Support Services	\$ 4,738
Regular Instruction	1,629,661
Vocational Education Instruction	9,391
Special Education Instruction	2,069
Pupil Support Services	2,200
Sites and Buildings	28,253
Food Service	44,884
Community Service	133
Total Depreciation Expense, Governmental Activities	<u>\$ 1,721,329</u>

**FARIBAUT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2011**

**NOTE 4 LONG-TERM LIABILITIES**

**A. Components of Long-Term Liabilities**

The District has issued general obligation school building bonds to finance the construction of capital facilities or refinance previous bond issues. Assets of the Debt Service Fund, together with scheduled future tax levies, are dedicated for the retirement of these bonds. These levies are subject to reduction if fund balance amounts exceed limitations imposed by Minnesota law.

Issue Date	Net Interest Rate	Original Issue	Final Maturity	Principal Outstanding	
				Due Within One Year	Total
12/1/2003	3.00% - 4.00%	\$ 8,140,000	12/1/2017	\$ 605,000	\$ 5,330,000
12/1/2003	2.50% - 4.00%	2,605,000	12/1/2013	285,000	915,000
3/1/2005	3.00% - 4.00%	2,375,000	2/1/2020	145,000	1,740,000
3/5/2008	3.25% - 3.50%	18,965,000	6/1/2015	2,655,000	11,325,000
4/15/2009	3.00% - 4.125%	15,000,000	2/1/2024	40,000	15,000,000
Total General Obligation Bonds				3,730,000	34,310,000
Bond Premium - Net				67,804	280,651
Bond Discounts - Net				(2,546)	(32,565)
Other Postemployment Benefits Payable				-	290,777
Compensated Absences Payable				97,959	1,409,534
				<u>\$ 3,893,217</u>	<u>\$ 36,258,397</u>

**B. Minimum Debt Payments**

Minimum annual principal and interest payments required to retire General Obligation Bonds payable are as follows:

Year Ending June 30	General Obligation Bonds Payable	
	Principal	Interest
2012	\$ 3,730,000	\$ 1,273,571
2013	4,000,000	1,141,524
2014	4,185,000	997,841
2015	4,005,000	852,141
2016	2,270,000	706,441
2017 - 2021	10,115,000	2,324,181
2022 - 2024	6,005,000	500,779
	<u>\$ 34,310,000</u>	<u>\$ 7,796,478</u>

**FARIBAULT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2011**

**NOTE 4 LONG-TERM LIABILITIES (CONTINUED)**

**C. Description of Long-Term Liabilities**

**General Obligation Bonds**

On December 1, 2003, the District issued \$8,140,000 of General Obligation Alternative Facilities Bonds, Series 2003A. The proceeds of this issue were used to finance the costs of certain health and safety projects in the District. Future ad valorem tax levies are dedicated to retire these bonds.

On December 1, 2003, the District issued \$2,605,000 of General Obligation Capital Facilities Bonds, Series 2003B. The proceeds of this issue were used to finance the acquisition and betterment of capital projects in the District. Future ad valorem tax levies are dedicated to retire these bonds.

On March 1, 2005, the District issued \$2,375,000 of General Obligation Alternative Facilities Bonds, Series 2005A. The proceeds of this issue were used to finance certain health and safety projects in the District. Future ad valorem tax levies are dedicated to retire these bonds.

On March 5, 2008, the District issued \$18,965,000 of General Obligation School Building Refunding Bonds, Series 2008A. The proceeds of this issue were used to refund, in advance of their stated maturities, the remaining maturities of the District's General Obligation Refunding Bonds, Series 1998. Future ad valorem tax levies are dedicated to the retirement of these bonds.

On April 15, 2009, the District issued \$15,000,000 of General Obligation School Building Bonds, Series 2009A. The proceeds of this issue were used to finance the construction and betterment of various school sites and facilities. Future ad valorem tax levies are dedicated to the retirement of these bonds.

**Compensated Absences Payable**

At June 30, 2011, compensated absences payable consists of unused vacation and severance and convertible sick leave payable to employees upon retirement. In the past, compensated absences payable has been liquidated by the General Fund, the Food Service Fund, and the Community Service Fund.

**FARIBAULT PUBLIC SCHOOLS  
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NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2011**

**NOTE 4 LONG-TERM LIABILITIES (CONTINUED)**

**D. Changes in Long-Term Liabilities**

	June 30, 2010	Additions	Retirements	June 30, 2011
Bonds Payable	\$ 37,830,000	\$ -	\$ 3,520,000	\$ 34,310,000
Bond Premium	348,455	-	67,804	280,651
Bond Discounts	(35,111)	-	(2,546)	(32,565)
Other Postemployment Benefits Payable	235,523	797,421	742,167	290,777
Compensated Absences Payable	1,403,194	541,131	534,791	1,409,534
	<u>\$ 39,782,061</u>	<u>\$ 1,338,552</u>	<u>\$ 4,862,216</u>	<u>\$ 36,258,397</u>

**NOTE 5 RESTRICTED FUND BALANCES**

**Fund Equity**

Certain portions of fund balance 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 the restricted fund balances for the governmental funds:

**A. Restricted for Staff Development**

In accordance with state statute, 2% of basic General Education revenue is allocated to staff development. The cumulative excess of such revenues over staff development expenditures is reported as a restriction of fund balance in the General Fund.

**B. Restricted for Area Learning Center**

Represents available resources dedicated exclusively for students attending an area learning center as required by state statute.

**C. Restricted for Health and Safety**

Restricted for health and safety represents available resources to be used only to provide for the removal of hazardous substances and other state approved life/health safety projects. Under Minnesota statute, a deficit in this restriction generates specific future levy authority.

**D. Restricted for Operating Capital**

The District levies taxes and receives state aid to be used for the purchase of equipment, books and vehicles and to purchase, rent, improve, and repair school facilities as allowed by state statute. The cumulative excess of such revenues over equipment and facilities expenditures is reported as a restriction of fund balance in the General Fund.

**FARIBAULT PUBLIC SCHOOLS  
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JUNE 30, 2011**

**NOTE 5 RESTRICTED FUND BALANCES (CONTINUED)**

**E. Restricted for Community Education Programs**

The fund balance restriction represents accumulated resources available to provide general community education programming.

**F. Restricted for Early Childhood and Family Education Programs**

This fund balance restriction represents accumulated resources available to provide services for early childhood family education programming.

**G. Restricted for School Readiness**

The fund balance restriction represents accumulated resources available to provide school readiness programming.

**H. Restricted for Adult Basic Education**

Represents accumulated resources available to provide services for adult basic education programs.

**I. Restricted for Other Purposes**

Represents amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

**J. Committed for Separation/Retirement Benefits**

This commitment represents resources segregated by the District for the payment of retirement benefits.

**NOTE 6 PENSION PLANS**

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

**A. Teachers Retirement Association (TRA)**

**1. Plan Description**

All teachers employed by the District are covered by a cost sharing, multiple employer defined benefit pension plan administered by the State of Minnesota Teachers Retirement Association (TRA). TRA members belong to either the Coordinated Plan or the Basic Plan. Coordinated members are covered by Social Security and Basic members are not. All new members must participate in the Coordinated Plan. These plans are established and administered in accordance with Minnesota Statutes, Chapters 354 and 356.



**FARIBAULT PUBLIC SCHOOLS  
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NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2011**

**NOTE 6 PENSION PLANS (CONTINUED)**

**A. Teachers Retirement Association (TRA) (Continued)**

**1. Plan Description (Continued)**

TRA provides retirement benefits as well as death and 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 five consecutive years of allowable service, age, and years of credit at termination of service.

TRA publicly issues a Comprehensive Annual Financial Report (CAFR) presenting financial statements, supplemental information on funding levels, and further information on benefits provisions. A copy of the report may be obtained by writing TRA at Teachers Retirement Association, 60 Empire Drive Suite 400, St. Paul, MN 55103 or by calling (651) 296-6449 or 1-800-657-3853.

**2. 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 5.5% and 9.0%, respectively, of their annual covered salary while the District is required to contribute at an actuarially determined rate.

The District is required to contribute the following percentages of annual covered payroll: 5.5% for Coordinated Plan members and 9.5% for Basic plan members. The contribution requirements of plan members and the District are established and may be amended by State Statute. The District contributions for the years ended June 30, 2011, 2010, and 2009 were \$965,049, \$949,737, and \$932,622, respectively, equal to the required contributions for each year as set by state statute.

The 2010 Legislature approved employee and employer contribution rate increases to be phased-in over a four-year period beginning July 1, 2011. Employee and employer contribution rates will rise 0.5 percent each year of the four-year period. Beginning July 1, 2014, TRA Coordinated employee and employer contribution rates will each be 7.5 percent.

**B. Public Employees' Retirement Association (PERA)**

**1. Plan Description**

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

**FARIBAULT PUBLIC SCHOOLS  
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**NOTE 6 PENSION PLANS (CONTINUED)**

**B. Public Employees' Retirement Association (PERA)**

**1. Plan Description (Continued)**

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

**2. 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. GERS Basic Plan members and Coordinated Plan members are required to contribute 9.10% and 6.00%, respectively, of their annual covered salary in 2011. Employee contribution rates for the Coordinated Plan increased to 6.25% effective January 1, 2011.

The District is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan GERS members, 7.00% for Coordinated Plan GERS members. Employer contribution rates for the Coordinated Plan increased to 7.25% effective January 1, 2011. The contribution requirements of plan members and the District are established by and may be amended by State Statute. The District's contributions for the years ending June 30, 2011, 2010 and 2009 were \$392,403, \$370,818, and \$339,560, respectively, equal to the contractually required contributions for each year as set by state statute.

**C. Defined Contribution Plan**

The District provides eligible employees future retirement benefits through the District's 403(b) Plan (the "Plan"). Employees of the District are eligible to participate in the Plan commencing on the date of their employment. Eligible employees may elect to have a percentage of their pay contributed to the Plan. Some employees are eligible to receive a District match of employee contributions up to the qualifying amounts set forth in their respective collective bargaining agreements. Contributions are invested in tax deferred annuities selected and owned by Plan participants. The District contributions for the years ended June 30, 2011, 2010, and 2009 are \$197,933, \$184,484, and \$140,534, respectively. The related employee contributions were \$524,957, \$551,585, and \$839,090, for the years ended June 30, 2011, 2010, and 2009, respectively.

**FARIBAUT PUBLIC SCHOOLS  
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**NOTE 7 OTHER POSTEMPLOYMENT BENEFIT PLAN**

The following information relates to the District's Other Postemployment Benefit Plan:

**A. Plan Description**

The District operates a single-employer retiree benefit plan ("the Plan") that provides health insurance to eligible employees and their spouses through the District's self-insured health insurance plan. There are 453 active participants, 78 retired participants, and 5 spouses of retirees receiving payments. Benefit and eligibility provisions are established through negotiations between the District and various unions representing District employees and are renegotiated each two-year bargaining period. The Plan does not issue a publicly available financial report.

**B. Funding Policy**

Contribution requirements are also negotiated between the District and union representatives. The District contributes up to \$400 per month of the cost of current-year premiums for eligible retired plan members and their spouses. For fiscal year 2011, the District contributed \$742,166 to the plan.

**C. Annual OPEB Cost and Net OPEB Obligation**

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

Annual Required Contribution	\$ 801,044
Interest on Net OPEB Obligation	10,599
Adjustment to Annual Required Contribution	(14,223)
Annual OPEB Cost (Expense)	<u>797,420</u>
Contributions Made	<u>(742,166)</u>
Increase in Net OPEB Obligation	55,254
Net OPEB Obligation - Beginning of Year	<u>235,523</u>
Net OPEB Obligation - End of Year	<u><u>\$ 290,777</u></u>

The District's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011, 2010 and 2009:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2011	\$ 797,420	93.1%	\$ 290,777
6/30/2010	\$ 799,838	80.6%	\$ 235,523
6/30/2009	\$ 652,253	87.7%	\$ 80,114

**FARIBAULT PUBLIC SCHOOLS  
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**NOTE 7 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)**

**D. Funded Status and Funding Progress**

As of July 1, 2009, the most recent actuarial valuation date, the District's unfunded actuarial accrued liability (UAAL) was \$7,598,658. The annual payroll for active employees covered by the plan in the actuarial valuation was \$20,773,506 for a ratio of UAAL to covered payroll of 36.6%.

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

**E. Actuarial Methods and Assumptions**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the 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, 2009 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.5% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date. The initial healthcare trend rate was 9.0%, reduced by decrements to an ultimate rate of 5% after eight years. The UAAL is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at June 30, 2011 doesn't exceed 30 years.

**NOTE 8 FLEXIBLE BENEFIT PLAN**

The District has a flexible benefit plan that is classified as a "cafeteria plan" under Section 125 of the Internal Revenue Code. All employee groups of the District are eligible if and when the collective bargaining agreement or contract with their group allows eligibility. Eligible employees can elect to participate by contributing pre-tax dollars withheld from payroll checks to the plan for health care and dependent care benefits.

**FARIBAUT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2011**

**NOTE 8 FLEXIBLE BENEFIT PLAN (CONTINUED)**

Before the beginning of the plan year, which is from December 31 to December 30, each participant designates a total amount of pre-tax dollars to be contributed to the plan during the year. At June 30, the District is contingently liable for claims against the total amount of participants' annual contributions for the health care portion of the plan, whether or not such contributions have been made.

Payments of health insurance premiums are made by the District directly to the designated insurance companies. These payments are made on a monthly basis and are accounted for in the General, Food Service, and Community Service Funds.

Payments for amounts withheld for medical reimbursement and dependent care are made to participating employees upon submitting a request for reimbursement of eligible expenses.

All plan property and income attributable to that property is solely the property of the District, subject to the claims of the District's general creditors. Participants' rights under the plan are equal to those of general creditors of the District in an amount equal to eligible health care and dependent care expenses incurred by the participants. The District believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

**NOTE 9 LEASE COMMITMENTS**

**A. As Lessee**

The District has entered into various operating leases for vehicles, office equipment and buildings. Rent expense under annual operating leases for the year ending June 30, 2011 was \$552,994.

Minimum rental commitments on leases in effect at June 30, 2011 are as follows:

<u>Year Ending June 30,</u>	<u>Annual Lease Payments</u>
2012	\$ 165,652
2013	164,412
2014	161,932
2015	161,932
2016	134,943
Total	<u>\$ 788,871</u>

**B. As Lessor**

The District entered into an agreement with Nerstrand Elementary School to lease a 17,700 square foot building located at 205 South Second Street, Nerstrand, Minnesota. The lease is renewed on an annual basis. The District received \$158,094 of rent for this building during the year ended June 30, 2011, as per the terms of the lease agreement. In addition to the lease of the building, the District also has in place agreements with Nerstrand Elementary School to provide Food Service and custodial service.

**FARIBAULT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2011**

**NOTE 10 COMMITMENTS AND CONTINGENCIES**

**A. Federal and State Programs**

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 fund. 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.

**B. Legal Contingencies**

The District is subject to legal proceedings and claims which arise in the ordinary course of business. Although the outcome of these lawsuits against the District is not presently determinable, management believes the resolution of these matters will not have a material impact on the District.

**C. Construction Commitments**

As of June 30, 2011 the District had entered into various construction contracts for school building projects. Total remaining commitments under these contracts were \$451,370 at June 30, 2011.

**NOTE 11 JOINT POWERS AGREEMENTS**

**Community Education**

The District and the City of Faribault have entered into a Joint Powers agreement to collaborate and coordinate in the provision of social, educational, vocational, and recreational services to members of the community. The Joint Powers Entity is governed by the Joint Powers Board, which includes two City Council members, two Board of Education members, and a resident of the District jointly appointed by the City Council and the Board of Education. The City is responsible for provision of adult community education and youth enrichment programs. The School District is responsible for provision of early childhood, adult disabled and adult basic education programs. Under the terms of the agreement, the School District paid the City for its provision of services \$160,340 for the period ending June 30, 2011. An amount necessary to pay costs for future years will be determined by the parties beginning on July 1 of each fiscal year. The agreement is perpetual but may be canceled upon six months' written notice by either party.

**FARIBAUT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2011**

**NOTE 11 JOINT POWERS AGREEMENTS (CONTINUED)**

**Wind Energy**

The District and 13 other school districts in Minnesota have entered into a Joint Powers Agreement to form the Minnesota Schools Wind Energy Cooperative (the Cooperative). The purpose of the Cooperative is to acquire, develop, construct, finance, operate, and maintain a wind energy project to be located in Minnesota. The Cooperative is governed by a Joint Powers Board, which consists of two members (a Board of Education member, and the superintendent or another district employee) from each of the participating district. Any district may withdraw from the Cooperative prior to the issuance of any project financing instruments, provided that the withdrawing district reimburses the Cooperative for its pro rata portion of the total development or other project costs or other obligations incurred by the Cooperative. Once financing instruments, other than Clean Renewable Energy Bonds (CREBs), have been issued, a district may withdraw provided it prepays the outstanding balance of its pro rata portion of any outstanding financing instruments. Upon issuance of the CREBs, no district may withdraw membership until the CREBs have been repaid in full. The District has not committed any financial resources to the Cooperative as of June 30, 2011.

**NOTE 12 JOINTLY GOVERNED ORGANIZATION**

The District is a member of the Rice County Family Services Collaborative (Collaborative). The Collaborative was established to provide comprehensive services to strengthen family functioning. As a result, the Collaborative members share certain costs related to social workers and split related time study revenues. The District received \$25,000 to reimburse it for certain salaries and benefits expenditures that the District may not otherwise have incurred.

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## REQUIRED SUPPLEMENTARY INFORMATION

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**FARIBAULT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF FUNDING PROGRESS FOR OTHER POSTEMPLOYMENT BENEFIT PLAN  
JUNE 30, 2011**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/2007	\$ -	\$ 6,400,766	\$ 6,400,766	0.0%	\$ 18,380,763	34.8%
7/1/2009	\$ -	\$ 7,598,658	\$ 7,598,658	0.0%	\$ 20,773,506	36.6%

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## **SINGLE AUDIT AND OTHER REQUIRED REPORTS**

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**FARIBAUT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2011**

Grantor/Program	CFDA Number	Agency or Pass-Through Number	Federal Expenditures
US Department of Agriculture			
Pass-Through Minnesota Department of Education			
Non-Cash Assistance (Commodities):			
National School Lunch Program	a	10.555	1-656-000
			\$ 39,486
Total Non-Cash Assistance			\$ 39,486
Cash Assistance:			
School Breakfast Program	a	10.553	1-656-000
			298,562
National School Lunch Program - Commodities Rebate	a	10.555	1-656-000
			62,307
National School Lunch Program	a	10.555	1-656-000
			777,119
After School Snack	a	10.555	1-656-000
			10,144
Summer Food	a	10.559	1-656-000
			36,999
Total Cash Assistance			1,185,131
Total US Department of Agriculture			1,224,617
US. Department of Education			
Pass-Through Minnesota Department of Education			
Cash Assistance:			
Adult Basic Education		84.002	**
			11,927
Title I, Part A - Grants to Local Education Agencies	c	84.010	**
			411,574
Special Education - Grants to States	b	84.027	**
			1,000,206
Special Education - Preschool Incentive	b	84.173	**
			19,491
Special Education - Preschool Incentive - Personal Dev.	b	84.173	**
			1,620
Special Education - Preschool Supplemental, IEIC	b	84.173	**
			2,433
Special Education - Grants for Infants and Families with Disabilities	d	84.181	**
			107,531
Title IV, Part A - Safe and Drug Free Schools		84.186A	**
			6,178
Title IV, Part B - 21st Century Community Learning Centers		84.287	**
			209,368
Title III - English Language Acquisition Grants		84.365A	**
			78,905
Title II, Part A - Improving Teacher Quality		84.367	**
			152,539
ARRA - Special Education - Grants for Infants and Families with Disabilities - Part C	d	84.393	**
			45,506
ARRA - Title I, Part A - Grants to Local Education Agencies	c	84.389	**
			32,537
ARRA - Targeted Fund - IDEA Part B 611	b	84.391	**
			447,246
ARRA - Targeted Fund - IDEA Part B 619 - Preschool Grant	b	84.392	**
			21,803
Total US Department of Education - Cash Assistance			2,548,864
TOTAL FEDERAL FINANCIAL ASSISTANCE EXPENDED			\$ 3,773,481

- a Child Nutrition Cluster  
b Special Education Cluster  
c Title I Cluster  
d Early Intervention Services Cluster  
\*\* Not Available

See accompanying Notes to Schedule of Expenditures of Federal Awards.

**FARIBAULT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2011**

**NOTE 1    GENERAL**

The accompanying Schedule of Expenditures of Federal Awards presents the expenditures of all federal financial assistance programs of Independent School District No. 656. The reporting entity is defined in Note 1 to the District's financial statements. All federal financial assistance received directly from federal agencies as well as federal financial assistance passed through other government agencies are included on the schedule.

**NOTE 2    BASIS OF ACCOUNTING**

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting, which is described in Note 1 to the District's financial statements.



**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**

Board of Education  
Independent School District No. 656  
Faribault, 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. 656 as of and for the year ended June 30, 2011, which collectively comprise Independent School District No. 656's basic financial statements and have issued our report thereon dated November 4, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Independent School District No. 656's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not 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 the 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 deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2011-1 and 2011-2 to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Independent School District No. 656's financial statements are free of material misstatements, 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*.

We have also issued a separate letter to management dated November 4, 2011, regarding business and other matters not deemed to be reportable conditions and nonmaterial compliance matters.

Independent School District No. 656's responses to the findings identified in our audit are described in the accompanying schedules of findings and questioned costs. We did not the 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, Board of Education, the Office of the State Auditor of Minnesota, and other state agencies and is not intended to be and should not be used by anyone other than those specified parties.

  
**LarsonAllen LLP**

Austin, Minnesota  
November 4, 2011

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
WITH REQUIREMENTS THAT COULD HAVE A DIRECT  
AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND  
ON INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Education  
Independent School District No. 656  
Faribault, Minnesota

**Compliance**

We have audited the compliance of Independent School District No. 656 with the types of compliance requirements described in the U.S. Office of Management and Budget (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, 2011. Independent School District No. 656's major federal programs are identified in the summary of auditors' results sections of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Independent School District No. 656's management. Our responsibility is to express an opinion on Independent School District No. 656's compliance based on our audit.

We conducted our audits of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Independent School District No. 656's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Independent School District No. 656's compliance with those requirements.

In our opinion, Independent School District No. 656 complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with Circular A-133, which are described in the accompanying Schedule of Findings and Questioned Costs as items 2011-3 and 2011-4.

**Internal Control Over Compliance**

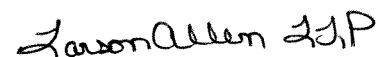
The management of Independent School District No. 656 is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Independent School District No. 656's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on 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 Independent School District No. 656's internal control over compliance.

Our consideration of the 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 internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings and questioned costs, we identified deficiencies in internal control that we consider to be material weaknesses.

*A deficiency in internal control over compliance* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. *A 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. We consider the deficiencies listed as items 2011-3 through 2011-5 in the accompanying schedule of findings and questioned costs to be material weaknesses.

Independent School District No. 656's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not the audit the District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Education, management of Independent School District No. 656, the Minnesota Department of Education, and state and federal awarding entities and is not intended to be and should not be used by anyone other than these specified parties.

  
**LarsonAllen LLP**

Austin, Minnesota  
November 4, 2011

## REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of Education  
Independent School District No. 656  
Faribault, Minnesota

We have audited the financial statements of Independent School District No. 656 as of and for the year ended June 30, 2011, and have issued our report thereon dated November 4, 2011.

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 Political Subdivisions, promulgated by the Legal Compliance Task Force 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 Political Subdivisions covers seven main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and uniform financial accounting and reporting standards for school districts. Our study included all of the listed categories.

The results of our tests indicate that for the items tested the Independent School District No. 656 complied with the material terms and conditions of applicable legal provisions.

This report is intended solely for the information and use of the Independent School District No. 656, the Office of the State Auditor, and other state agencies and is not intended to be and should not be used by anyone other than these specified parties.

  
**LarsonAllen LLP**

Austin, Minnesota  
November 4, 2011

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**FARIBAUT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2011**

**PART I: SUMMARY OF AUDITORS' RESULTS**

1. The auditors' report expresses an unqualified opinion on the basic financial statements of Independent School District No. 656.
2. Deficiencies in internal control were disclosed during the audit of the financial statements and are listed as Findings 2011-1 and 2011-2. These deficiencies are considered to be material weaknesses.
3. No instances of noncompliance material to the basic financial statements of Independent School District No. 656 were disclosed during the audit.
4. Three deficiencies in internal control over compliance were disclosed during the audit of the major federal award programs. These deficiencies are considered to be material weaknesses. These are listed as Findings 2011-3 through 2011-5.
5. The auditors' report on compliance for the major federal award programs for Independent School District No. 656 expresses an unqualified opinion.
6. Two audit findings relative to the major federal award programs for Independent School District No. 656 were disclosed during the audit. These are listed as Findings 2011-3 and 2011-4.
7. The programs tested as major programs included:
  - U.S. Department of Education
  - Special Education Cluster:
    - Special Education – Grants to States CFDA #84.027
    - ARRA – Targeted Fund - IDEA Part B 611 CFDA #84.391
    - ARRA – Targeted Fund - IDEA Part B 619 – Preschool Grant CFDA #84.392
    - Special Education – Preschool Incentive CFDA #84.173
    - Special Education – Preschool Supplemental, IEIC CFDA #84.173
    - Special Education – Preschool Incentive – Personnel Dev. CFDA #84.173
  - Title I Cluster:
    - Title I, Part A – Grants to Local Education Agencies CFDA #84.010
    - ARRA – Title I, Part A – Grants to Local Education Agencies CFDA #84.389
  - Early Intervention Services Cluster:
    - Grants for Infants and Families with Disabilities CFDA #84.181
    - ARRA - Grants for Infants and Families with Disabilities CFDA #81.393
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Independent School District No. 656 was not determined to be a low-risk auditee.

**FARIBAULT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2011**

**PART II: FINDINGS RELATED TO THE GENERAL PURPOSE FINANCIAL STATEMENTS:**

**FINDING: 2011-01 MATERIAL AUDIT ADJUSTMENTS**

- Condition:** The audit firm proposed and the District posted to its general ledger accounts certain misstatements.
- Criteria:** The District should have controls in place to prevent or detect a material misstatement in the financial statements in a timely manner.
- Questioned Costs:** None
- Context:** The District has informed us that they will continue to rely upon the audit firm to propose such audit adjustments as are necessary to adjust accounts in accordance with GAAP. Management will review and approve those entries prior to recording them.
- Effect:** The financial statements could have a material misstatement that would not be prevented or detected by the District's controls.
- Cause:** The District has not established controls to ensure that all accounts are adjusted to their appropriate year end balances in accordance with Generally Accepted Accounting Principles (GAAP).
- Recommendation:** The District should continue to evaluate its internal control processes to determine if additional internal control procedures should be implemented to ensure that accounts are adjusted to their appropriate year end balances in accordance with GAAP.

**CORRECTIVE ACTION PLAN (CAP):**

**Explanation of Disagreement with Audit Findings**

There is no disagreement with the audit finding.

**Actions Planned in Response to Finding:**

The Controller will review the 2011 audit adjustments and work papers prior to start of the 2012 audit in order to identify areas which may require adjustment. The District will also reconcile key accounts on a monthly basis.

**Official Responsible for Ensuring CAP:**

Colleen Mertesdorf, Director of Finance and Operations, is the official responsible for ensuring corrective action of the deficiency.

**Planned Completion Date for CAP:**

The planned completion date is June 30, 2012.

**Plan to Monitor Completion of CAP:**

The Board of Education and administration will be monitoring this corrective action plan.



**FARIBAULT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2011**

**PART II: FINDINGS RELATED TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
(CONTINUED):**

**FINDING: 2011-2     ANNUAL FINANCIAL REPORTING UNDER GENERALLY ACCEPTED  
ACCOUNTING PRINCIPLES (GAAP)**

**Condition:**            The District has adopted an internal control to review the financial statements prepared by the auditors. However, the District has not adopted a control over disclosures included in the annual financial report therefore, the potential exists that a material misstatement related to the disclosures in the annual financial statements could occur and not be prevented or detected by the District's internal controls.

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

**Questioned Costs:**   None

**Context:**            The District has informed us they are working to eliminate this finding through changes in staffing.

**Effect:**            The potential exists that a material disclosure could be omitted from the financial statements and not be prevented or detected by the District's internal controls.

**Cause:**            The District has not adopted an internal control policy over the annual financial reporting; however, they have reviewed and approved the annual financial statements as prepared by the audit firm.

**Recommendation:**   We recommend the District continue to evaluate their internal staff and expertise to determine if an internal control policy over the annual financial reporting is beneficial.

**CORRECTIVE ACTION PLAN (CAP):**

**Explanation of Disagreement with Audit Findings:**

There is no disagreement with the audit finding.

**Actions Planned in Response to Finding:**

Continue training of business staff in financial reporting to gain competencies in this area for future preparation of financial statements.

**Official Responsible for Ensuring CAP:**

Colleen Mertesdorf, Director of Finance and Operations, is the official responsible for ensuring corrective action of the deficiency.

**Planned Completion Date for CAP:**

June 30, 2012

**Plan to Monitor Completion of CAP:**

The Board of Education and administration will monitor this corrective action plan.

**FARIBAULT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2011**

**PART III: FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS:**

**FINDING: 2011-3**     **SPECIAL EDUCATION CLUSTER – CFDA# 84.027, 84.391, 84.392, & 84.173  
TITLE I, PART A, CLUSTER - CFDA # 84.010 & 84.389 and EARLY  
INTERVENTION SERVICES CLUSTER – CFDA # 84.181 & 84.393 PASS  
THROUGH MINNESOTA DEPARTMENT OF EDUCATION INAPPROPRIATE  
TIME AND EFFORT DISTRIBUTION RECORD COMPLETION**

**Condition:**            Three Title I employees did not complete the required Time Certifications or PARs as required by OMB Circular A-87. In addition, two Special Education employees and one employee for Early Intervention Services did not complete the required Time Certifications or PARs as required by OMB Circular A-87.

**Criteria:**            OMB Circular A-87, Attachment B, paragraph 8.h.(4) requires that employees who are expected to work solely on a single Federal award or cost objective, complete semi-annual time certifications. In addition, paragraph 13d requires employees that do not work 100% on a single Federal cost objective to prepare a "personal activity report" or timesheet. Employee payroll should match the time and effort distribution records.

**Questioned Costs:**   None

**Context:**            None.

**Effect:**            The potential exists that undocumented time could be incorrectly charged to the federal program code. No known effect on the financial statements.

**Cause:**            Misunderstanding of requirements.

**Recommendation:**   We recommend the District utilize detailed time cards signed and dated monthly by employees and supervisors to record Federal program and non-Federal program time worked. Pay distribution should be in accordance with the time card, or the cumulative time cards should be reconciled annually to Federal program employee's pay distribution. Employees coded fully to a single federal cost objective should complete the appropriate time certifications.

**CORRECTIVE ACTION PLAN (CAP):**

**Explanation of Disagreement with Audit Findings**

There is no disagreement with the audit finding.

**Actions Planned in Response to Finding:**

The District will immediately implement the recommendation.

**Official Responsible for Ensuring CAP:**

Cheryl Hall, Special Services Director, and Joanne Ostrom, Director of Curriculum & Instruction, are the officials responsible for ensuring corrective action of the deficiency.

**Planned Completion Date for CAP:**

December 31, 2011.

**Plan to Monitor Completion of CAP:**

The Board of Education and administration will monitor this corrective action plan.

**FARIBAULT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2011**

**PART III: FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS  
(CONTINUED):**

**FINDING: 2011-4      SPECIAL EDUCATION CLUSTER – CFDA # 84.027, 84.173, 84.391, AND  
84.392 PASS THROUGH MINNESOTA DEPARTMENT OF EDUCATION CHILD  
COUNT**

**Condition:**            Out of 40 students tested, one student was included on the December 1, 2010  
Child Count Sheet that did not have an IEP completed within the previous 12  
months.

**Criteria:**            Minnesota Department of Education regulations require that a student listed  
as a special education student on the December 1, 2010 child count report to  
have an Individualized Education Plan (IEP) developed or approved within the  
past 12 months.

**Questioned Costs:** None

**Context:**            Not applicable.

**Effect:**            Overstatement of number of students that qualify for Special Education  
services at December 1.

**Cause:**            Not known.

**Recommendation:** We recommend that the District implement a review process to ensure that no  
students are included on the December 1 count sheet that have not received  
services.

**CORRECTIVE ACTION PLAN (CAP):**

**Explanation of Disagreement with Audit Findings**

There is no disagreement with the audit finding.

**Actions Planned in Response to Finding:**

The District will immediately implement the recommendation.

**Official Responsible for Ensuring CAP:**

Cheryl Hall, Special Services Director, is the official responsible for ensuring corrective action of the  
deficiency.

**Planned Completion Date for CAP:**

December 31, 2011.

**Plan to Monitor Completion of CAP:**

The Board of Education and administration will monitor this corrective action plan.

**FARIBAUT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2011**

**PART III: FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS  
(CONTINUED):**

**FINDING: 2011-5**      **SPECIAL EDUCATION CLUSTER – CFDA# 84.027, 84.391, 84.392, & 84.173  
TITLE I, PART A, CLUSTER - CFDA # 84.010 & 84.389 AND EARLY  
INTERVENTION SERVICES CLUSTER – CFDA # 84.181 & 84.393 PASS  
THROUGH MINNESOTA DEPARTMENT OF EDUCATION PASS THROUGH  
MINNESOTA DEPARTMENT OF EDUCATION INTERNAL CONTROL OVER  
CASH MANAGEMENT AND REPORTING**

**Condition:**              During our testing of cash management and reporting, it was noted that an independent member of management does not review and approve the reimbursement requests on SERVVS and the quarterly 1512 reports prior to the data submitted for reimbursement and reporting for these grants.

**Criteria:**                The District must be able to prevent or detect a material misstatement of data submitted for these grants.

**Questioned Costs:**    None

**Context:**                The data that was submitted for grant reimbursement was not approved by an independent member of management.

**Effect:**                 The potential exists that incorrect data for the grants could be submitted.

**Cause:**                 Not Known

**Recommendation:**    The District should reemphasize its controls over the approval of the submission of the grant data.

**CORRECTIVE ACTION PLAN (CAP):**

**Explanation of Disagreement With Audit Findings**

There is no disagreement with the audit finding.

**Actions Planned in Response to Finding:**

The District will immediately implement the recommendation.

**Official Responsible for Ensuring CAP:**

Colleen Mertesdorf, Director of Finance and Operations, is the official responsible for ensuring corrective action of the deficiency.

**Planned Completion Date for CAP:**

The planned completion date is December 31, 2011.

**Plan to Monitor Completion of CAP:**

The Board of Education and administration will be monitoring this corrective action plan.

**PART IV: FINDINGS AND QUESTIONED COSTS – MINNESOTA LEGAL COMPLIANCE**

**NONE**

**FARIBAULT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
SUMMARY SCHEDULE OF PRIOR FEDERAL AUDIT FINDINGS  
YEAR ENDED JUNE 30, 2011**

<u>Comment Reference</u>	<u>Comment Title</u>	<u>Status</u>	<u>If not Corrected, Provide Planned Corrective Action or Other Explanation</u>
2010-3	Completion of Jobs Survey Form 1512	Corrected	
2010-4	Improper Time Reporting Documentation	Not Corrected	See current year Finding 2011-3
2010-5	Internal Control Over Improper Time Reporting Documentation	Not Corrected	See current year Finding 2011-3
2010-6	Internal Control Over Cash Management and Reporting	Not Corrected	See current year Finding 2011-5

**FARIBAUT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS  
COMPLIANCE TABLE  
JUNE 30, 2011**

	Audit	UFARS	Audit - UFARS		Audit	UFARS	Audit - UFARS
<b>01 GENERAL FUND</b>				<b>06 BUILDING CONSTRUCTION</b>			
Total Revenue	\$ 39,853,432	\$ 39,853,446	\$ (14)	Total Revenue	\$ 97,298	\$ 97,298	\$ -
Total Expenditures	\$ 39,003,258	\$ 39,003,268	\$ (10)	Total Expenditures	\$ 5,183,202	\$ 5,183,203	\$ (1)
Nonspendable:				Nonspendable:			
460 Nonspendable	\$ 135,151	\$ 135,151	\$ -	460 Nonspendable	\$ -	\$ -	\$ -
Restricted:				Restricted:			
403 Staff Development	\$ 23,450	\$ 23,450	\$ -	407 Capital Projects Levy	\$ -	\$ -	\$ -
405 Deferred Maintenance	\$ -	\$ -	\$ -	409 Alternative Facility Program	\$ -	\$ -	\$ -
406 Health & Safety	\$ (121,567)	\$ (121,567)	\$ -	413 Project Funded by COP	\$ -	\$ -	\$ -
407 Capital Project Levy	\$ -	\$ -	\$ -	419 Encumbrances	\$ -	\$ -	\$ -
408 Cooperative Programs	\$ -	\$ -	\$ -	464 Other Purposes	\$ 4,242,290	\$ 4,242,290	\$ -
409 Deferred Maintenance	\$ -	\$ -	\$ -	Unreserved:			
411 Severance	\$ -	\$ -	\$ -	463 Unassigned	\$ -	\$ -	\$ -
414 Operating Debt	\$ -	\$ -	\$ -				
416 Levy Reduction	\$ -	\$ -	\$ -	<b>07 DEBT SERVICE</b>			
423 Certain Teacher Programs	\$ -	\$ -	\$ -	Total Revenue	\$ 4,839,193	\$ 4,839,192	\$ 1
424 Operating Capital	\$ 430,509	\$ 430,509	\$ -	Total Expenditures	\$ 4,920,012	\$ 4,920,011	\$ 1
426 \$25 Taconite	\$ -	\$ -	\$ -	Restricted:			
427 Disabled Accessibility	\$ -	\$ -	\$ -	425 Bond Refundings	\$ -	\$ -	\$ -
428 Learning & Development	\$ -	\$ -	\$ -	451 QZAB Payments	\$ -	\$ -	\$ -
434 Area Learning Center	\$ 60,266	\$ 60,266	\$ -	464 Other Purposes	\$ 934,148	\$ 934,148	\$ -
435 Contracted Alt. Programs	\$ -	\$ -	\$ -	Unassigned:			
436 State Approved Alt. Program	\$ -	\$ -	\$ -	463 Unassigned	\$ -	\$ -	\$ -
438 Gifted & Talented	\$ -	\$ -	\$ -				
441 Basic Skills Programs	\$ -	\$ -	\$ -	<b>08 TRUST</b>			
446 First Grade Preparedness	\$ -	\$ -	\$ -	Total Revenue	\$ 7,000	\$ 7,000	\$ -
449 Safe Schools Levy	\$ -	\$ -	\$ -	Total Expenditures	\$ 4,500	\$ 4,500	\$ -
450 Prekindergarten	\$ -	\$ -	\$ -	Unassigned:			
451 QZAB Payments	\$ -	\$ -	\$ -	422 Unassigned	\$ 2,500	\$ 2,500	\$ -
452 OPEB Liab Not In Trust	\$ -	\$ -	\$ -				
453 Unfunded Sev & Retirement Levy	\$ -	\$ -	\$ -	<b>09 AGENCY</b>			
464 Other Purposes	\$ -	\$ -	\$ -	Unreserved: Should Always Be -0-			
Committed:				422 Unassigned	\$ -	\$ -	\$ -
418 Severance - Ins. Premium	\$ 2,500,000	\$ 2,500,000	\$ -				
461 Committed	\$ -	\$ -	\$ -	<b>20 INTERNAL SERVICE</b>			
Assigned:				Total Revenue	\$ -	\$ -	\$ -
462 Assigned	\$ -	\$ -	\$ -	Total Expenditures	\$ -	\$ -	\$ -
Unassigned:				Unassigned:			
422 Unassigned	\$ 4,499,730	\$ 4,499,733	\$ (3)	422 Unassigned	\$ -	\$ -	\$ -
<b>02 FOOD SERVICE</b>				<b>25 OPEB REVOCABLE TRUST</b>			
Total Revenue	\$ 2,076,658	\$ 2,076,655	\$ 3	Total Revenue	\$ -	\$ -	\$ -
Total Expenditures	\$ 2,321,382	\$ 2,321,379	\$ 3	Total Expenditures	\$ -	\$ -	\$ -
Nonspendable:				Unassigned:			
460 Nonspendable	\$ 3,307	\$ 3,307	\$ -	422 Unassigned	\$ -	\$ -	\$ -
Restricted:							
452 OPEB Liab Not In Trust	\$ -	\$ -	\$ -	<b>45 OPEB IRREVOCABLE TRUST</b>			
464 Other Purposes	\$ 426,830	\$ 426,830	\$ -	Total Revenue	\$ -	\$ -	\$ -
Unassigned:				Total Expenditures	\$ -	\$ -	\$ -
463 Unassigned	\$ -	\$ -	\$ -	Unassigned:			
				422 Unassigned	\$ -	\$ -	\$ -
<b>04 COMMUNITY SERVICE</b>							
Total Revenue	\$ 1,597,285	\$ 1,597,282	\$ 3	<b>47 OPEB DEBT SERVICE</b>			
Total Expenditures	\$ 1,625,401	\$ 1,625,397	\$ 4	Total Revenue	\$ -	\$ -	\$ -
Nonspendable:				Total Expenditures	\$ -	\$ -	\$ -
460 Nonspendable	\$ 457	\$ 457	\$ -	Restricted:			
Restricted:				464 Other Purposes	\$ -	\$ -	\$ -
426 \$25 Taconite	\$ -	\$ -	\$ -	Unassigned:			
431 Community Education	\$ (3,257)	\$ (3,257)	\$ -	463 Unassigned	\$ -	\$ -	\$ -
432 E.C.F.E.	\$ 8,265	\$ 8,265	\$ -				
444 School Readiness	\$ 38,469	\$ 38,469	\$ -				
447 Adult Basic Education	\$ 96,819	\$ 96,819	\$ -				
452 OPEB Liab Not In Trust	\$ -	\$ -	\$ -				
464 Other Purposes	\$ 69,256	\$ 69,257	\$ (1)				
Unassigned:							
463 Unassigned	\$ -	\$ -	\$ -				