

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

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2009

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
TABLE OF CONTENTS**

INTRODUCTORY SECTION

BOARD OF EDUCATION AND ADMINISTRATION	1
--	----------

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT	2
-------------------------------------	----------

REQUIRED SUPPLEMENTARY INFORMATION

MANAGEMENT'S DISCUSSION AND ANALYSIS	4
---	----------

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET ASSETS	17
--------------------------------	-----------

STATEMENT OF ACTIVITIES	18
--------------------------------	-----------

BALANCE SHEET – GOVERNMENTAL FUNDS	20
---	-----------

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS	22
---	-----------

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS	23
---	-----------

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES	25
---	-----------

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND	26
--	-----------

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – FOOD SERVICE FUND	27
---	-----------

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – COMMUNITY SERVICE FUND	28
--	-----------

STATEMENT OF FIDUCIARY NET ASSETS	29
--	-----------

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS	29
---	-----------

NOTES TO BASIC FINANCIAL STATEMENTS	30
--	-----------

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS FOR OTHER POSTEMPLOYMENT BENEFIT PLAN	55
---	-----------

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
TABLE OF CONTENTS**

SINGLE AUDIT AND OTHER REQUIRED REPORTS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	56
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	57
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	58
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	60
REPORT ON MINNESOTA LEGAL COMPLIANCE	62
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	63
SUMMARY SCHEDULE OF PRIOR FEDERAL AUDIT FINDINGS	71
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS COMPLIANCE TABLE (UNAUDITED)	72

INTRODUCTORY SECTION

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
BOARD OF EDUCATION AND ADMINISTRATION
FISCAL YEAR 2008 – 2009**

BOARD OF EDUCATION

	<u>Term on Board Expires December 31,</u>	<u>Position on Board During 2008-2009</u>
David Korbel	2010	Chair
Debra Davis	2010	Vice-Chair
Suzanne Berger	2010	Clerk
John Lorenz	2010	Treasurer
Jason Engbrecht	2011	Director
Jerry Robicheau	2011	Director
James Wolf	2011	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

(This page intentionally left blank)

FINANCIAL SECTION

(This page intentionally left blank)

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, 2009, 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 2008 financial statements and, in our report dated December 15, 2008, we expressed unqualified opinions on the respective financial statements of the governmental activities and each major fund.

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, 2009 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 basic financial statements, Independent School District No. 656 adopted the provisions of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefit Other than Pensions*, as of and for the year ended June 30, 2009. This statement results in the District reporting a liability for post-employment benefits other than pensions that the District provides to its employees and retirees.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 07, 2009, 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 an opinion on the financial statements that collectively comprise Independent School District No. 656's basic financial statements. The supplementary schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and is 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. The accompanying Uniform Financial Accounting and Reporting Standards Compliance Table (Unaudited) is presented as supplemental information and is also not a required part of the basic financial statements of the District. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

Larson Allen LLP
LarsonAllen LLP

Austin, Minnesota
December 7, 2009

REQUIRED SUPPLEMENTARY INFORMATION

(This page intentionally left blank)

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2009**

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, 2009. 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 2008-09 fiscal year include the following:

- Student enrollment – student enrollment increased slightly over the previous year, going from 4,036 in 2007-08 to 4,041 in 2008-09.
- The General Fund Unreserved Fund Balance increased significantly, going from \$2,418,290 at the end of 2007-08 to \$3,100,580 at the end of 2008-09.
- The District issued \$15,000,000 of General Obligation School Building Bonds and incurred related construction and other costs of \$2,296,350, with \$463,869 of those costs attributable to amounts required to be deposited to the Debt Service Fund.

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.

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2009**

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, 2009**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Fund Financial Statements (Continued)

Net assets. The District's combined net assets were \$27.1 million on June 30, 2009. This represents an increase of 28.20 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, 2009 and 2008**

	Governmental Activities		Percentage
	2009	2008	Change
Current and Other Assets	\$ 34,969,134	\$ 19,149,336	82.61%
Capital and Non-Current Assets	49,828,392	48,889,007	1.92%
Total Assets	84,797,526	68,038,343	24.63%
Current Liabilities	18,139,412	17,880,234	1.45%
Long Term Liabilities	39,553,917	29,016,210	36.32%
Total Liabilities	57,693,329	46,896,444	23.02%
Net Assets			
Invested in Capital Assets			
Net of Related Debt	21,059,000	18,900,387	11.42%
Restricted	2,913,962	2,314,281	25.91%
Unrestricted	3,131,235	(72,769)	-4402.98%
Total Net Assets	\$ 27,104,197	\$ 21,141,899	28.20%

Changes in net assets. The District's total revenues were \$47.5 million and total expenses were \$41.5 million for the year ended June 30, 2009. (See Figure A-2 on the next page.) Unallocated state and federal aid and local property taxes accounted for 65 percent of the total revenue for the year. Operating and capital grants and charges for specific programs contributed 34 percent. (See Figure A-3 on page 8.) Student education and educational support accounted for 76 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 \$5,962,298.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2009**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

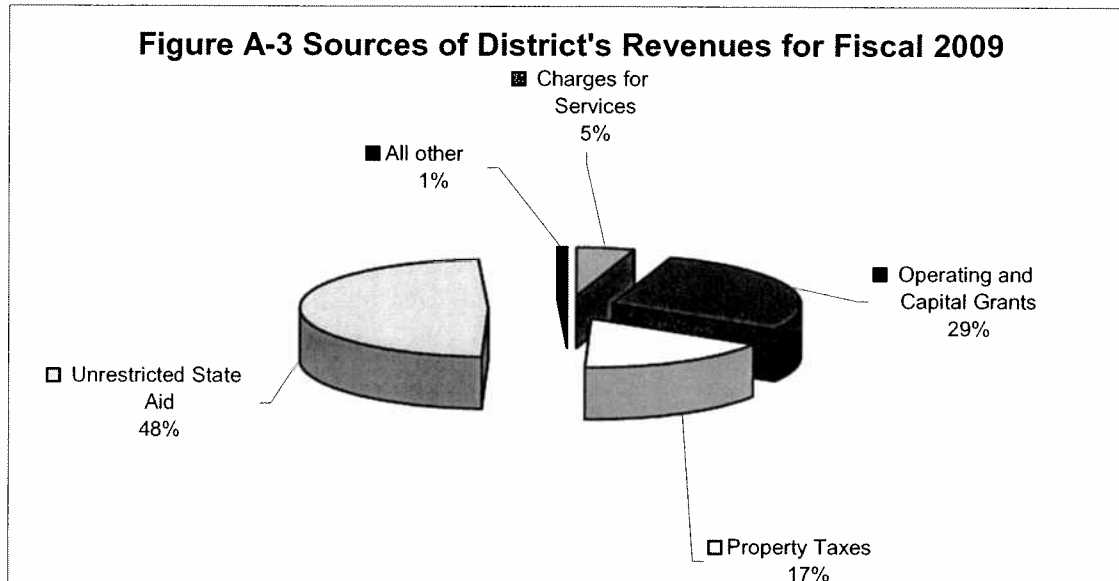
**Figure A-2
Independent School District No. 656
Change in Net Assets
For the Years Ended June 30, 2009 and 2008**

	Governmental Activities for the fiscal year ended June 30,		Total % Change
	2009	2008	
Revenues			
<u>Program Revenues</u>			
Charges for Services	\$ 2,374,853	\$ 2,436,947	-2.55%
Operating Grants and Contributions	12,871,263	12,818,641	0.41%
Capital Grants and Contributions	641,755	659,377	-2.67%
<u>General Revenues</u>			
Property Taxes	8,106,574	7,856,568	3.18%
Unrestricted State Aid	23,029,807	22,375,608	2.92%
Investment Earnings	190,247	421,481	-54.86%
Other	245,837	244,249	0.65%
Total Revenues	<u>47,460,336</u>	<u>46,812,871</u>	1.38%
Expenses			
Administration	1,554,438	1,462,740	6.27%
District Support Services	1,809,208	1,611,774	12.25%
Regular Instruction	16,782,379	17,068,201	-1.67%
Vocational Education Instruction	236,359	258,268	-8.48%
Special Education Instruction	7,857,810	7,483,123	5.01%
Instructional Support Services	1,838,280	2,061,365	-10.82%
Pupil Support Services	3,216,738	2,856,940	12.59%
Sites and Buildings	3,787,835	3,471,748	9.10%
Fiscal and Other Fixed Cost Programs	89,903	89,981	-0.09%
Food Service	1,914,406	2,100,462	-8.86%
Community Service	1,370,755	1,804,575	-24.04%
Interest and Fiscal Charges on Long-Term Liabilities	<u>1,039,927</u>	<u>1,579,123</u>	-34.15%
Total Expenses	<u>41,498,038</u>	<u>41,848,300</u>	-0.84%
Increase in Net Assets	<u>5,962,298</u>	<u>4,964,571</u>	<u>20.10%</u>
Beginning Net Assets	<u>21,141,899</u>	<u>16,177,328</u>	<u>30.69%</u>
Ending Net Assets	<u><u>\$ 27,104,197</u></u>	<u><u>\$ 21,141,899</u></u>	28.20%

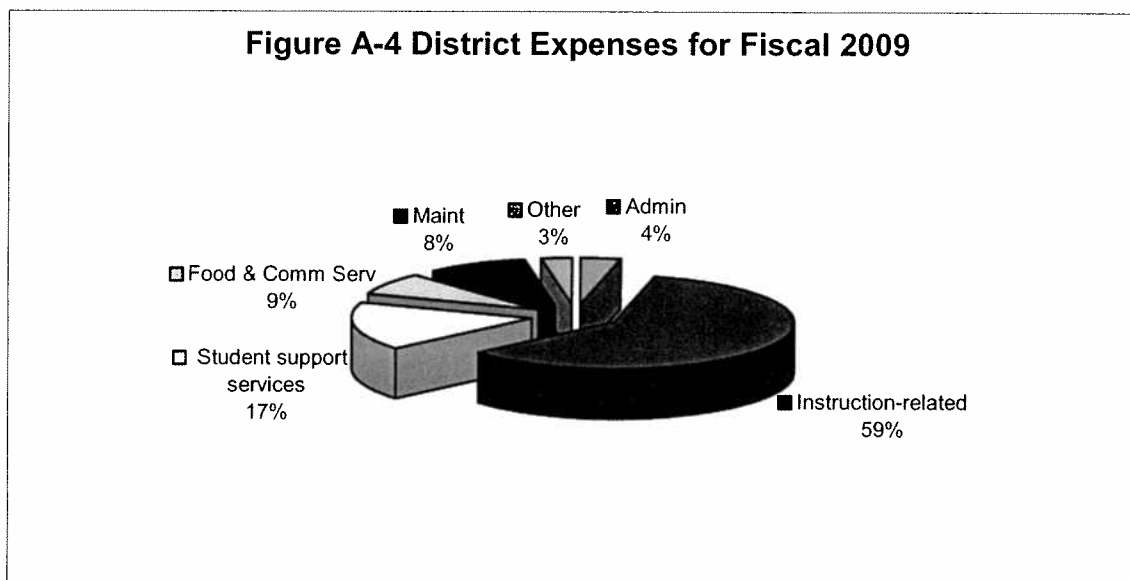
**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2009**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

**Figure A-3
Independent School District No. 656
Sources of Revenues
For Fiscal Year 2009**



**Figure A-4
Independent School District No. 656
Expenses
For Fiscal Year 2009**



**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2009**

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 \$41.50 million. The net cost of all governmental activities this year was \$25.65 million.
- The users of the District's programs financed \$2.4 million of the cost of activities.
- The federal and state governments, along with local donations, subsidized certain programs with grants and contributions of \$13.5 million.
- District property taxpayers financed \$8.1 million of governmental activities and state taxpayers financed \$23.1 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, 2009 and 2008**

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	2009	2008		2009	2008	
Administration	\$ 1,554,438	\$ 1,462,740	6.27%	\$ 1,554,438	\$ 1,462,740	6.27%
District Support Services	1,809,208	1,611,774	12.25%	1,588,918	1,427,631	11.30%
Regular Instruction	16,782,379	17,068,201	-1.67%	10,418,120	11,534,167	-9.68%
Vocational Education Instruction	236,359	258,268	-8.48%	223,080	258,268	-13.62%
Special Education Instruction	7,857,810	7,483,123	5.01%	2,482,888	1,616,562	53.59%
Instructional Support Services	1,838,280	2,061,365	-10.82%	1,777,961	1,575,695	12.84%
Pupil Support Services	3,216,738	2,856,940	12.59%	3,024,926	2,626,005	15.19%
Sites and Buildings	3,787,835	3,471,748	9.10%	3,313,235	2,888,809	14.69%
Fiscal and Other Fixed						
Cost Programs	89,903	89,981	-0.09%	89,903	89,981	-0.09%
Food Service	1,914,406	2,100,462	-8.86%	(160,611)	133,578	-220.24%
Community Service	1,370,755	1,804,575	-24.04%	257,382	740,776	-65.26%
Interest and Fiscal Charges						
on Long-Term Liabilities	1,039,927	1,579,123	-34.15%	1,039,927	1,579,123	-34.15%
Total	\$ 41,498,038	\$ 41,848,300	-0.84%	\$ 25,610,167	\$ 25,933,335	-1.25%

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2009**

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, Food Service Fund, Capital Projects – Building Construction Fund and Debt Service Fund revenues exceeded expenditures thereby increasing the fund balance in these accounts. The Community Education Fund has four reserve components and one unreserved component; for three of these components expenditures exceeded revenues, thereby decreasing the fund balance in this account.

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 an increase of approximately \$177,000. Revenues came in higher than budgeted and expenditures came in lower than budgeted. The Food Service Fund Balance still remains at a strong level at the end of 2008-09 and will now allow the District 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. This reclassification of costs will begin with the 2009-10 fiscal year.

The reserved fund balances for Community Education, Early Childhood/Family Education and School Readiness all experienced expenditures exceeding revenues. These program areas will be adjusted to correct the excess spending. The reserved fund balance for Adult Basic Education and the unreserved undesignated Community Service fund balance both saw increases in their fund balances. However, both programs will need to be closely monitored to maintain a continued balanced budget.

The Capital Projects – Building Construction Fund increased significantly due to the \$15,000,000 bond issue that will be used to pay for deferred maintenance projects over the next 2-3 years.

The Debt Service Fund increased by approximately \$779,000. The increase is mostly due to unspent bond proceeds for the new construction that commenced during the year.

At the end of the 2008-09 fiscal year, the District's governmental funds reported combined reserved and unreserved fund balances of \$20,418,562. This is a 282% increase over the prior year. The increase is mostly due to the sale of the \$15,000,000 bond issue.

Revenues for the District's governmental funds were \$47,431,291, while total expenditures were \$47,354,153. As a result, the District completed the year with an excess of revenues over expenditures of \$77,138, prior to other financing sources of \$14,997,118.

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.

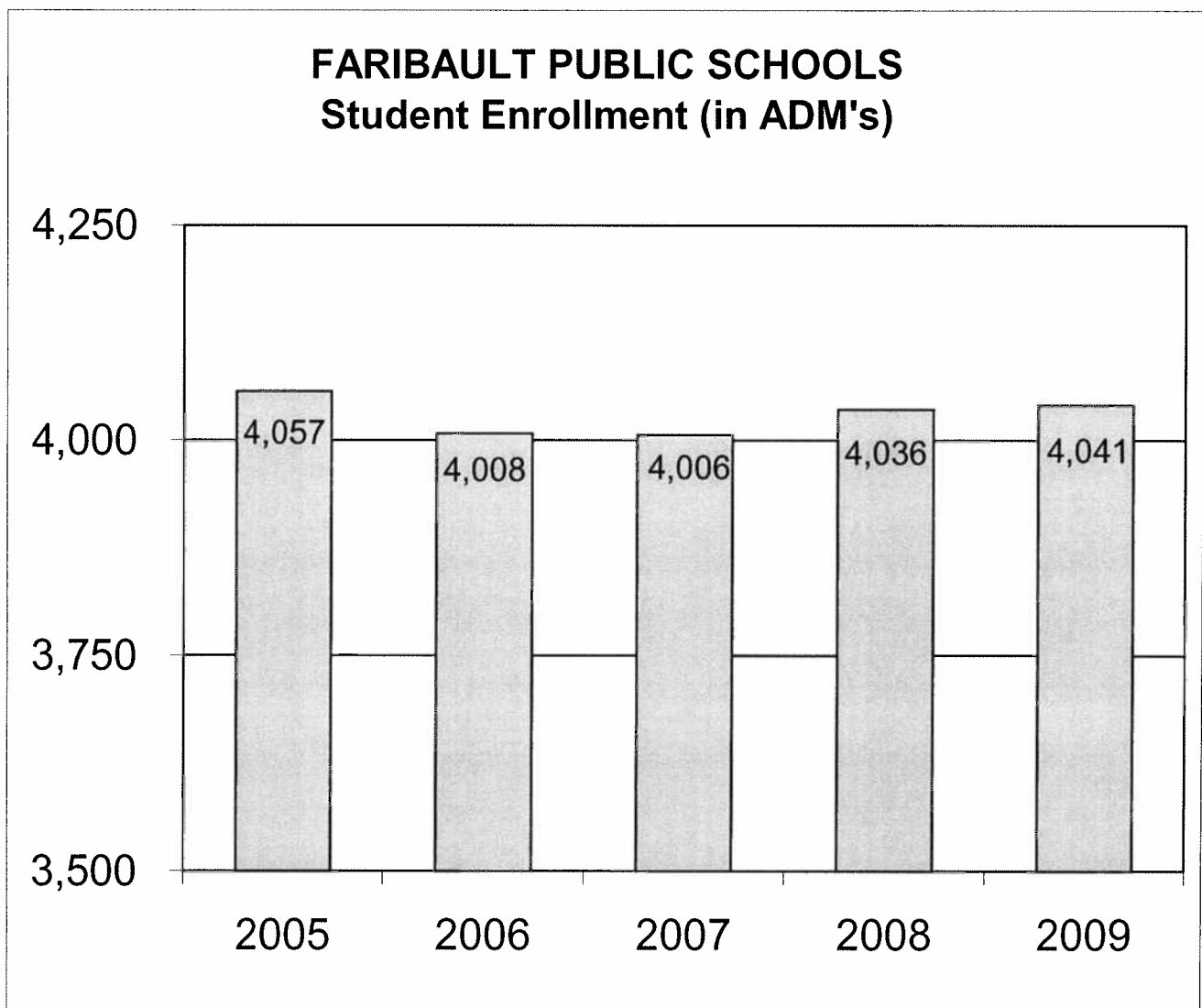
**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2009**

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 a slight enrollment increase for the year of five students from the prior year.

**Figure A-6
Independent School District No. 656
Student Average Daily Membership
As of June 30, 2009**



**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2009**

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, 2009 and 2008**

<u>Description</u>	<u>Year Ended</u>		<u>Change</u>	
	<u>June 30, 2009</u>	<u>June 30, 2008</u>	<u>Increase (Decrease)</u>	<u>Percent</u>
Revenues:				
Local Sources				
Property Taxes	\$ 3,402,274	\$ 3,228,936	\$ 173,338	5.4%
Earnings on Investments	128,690	124,377	4,313	3.5%
Other	1,287,971	1,251,715	36,256	2.9%
State Sources	32,221,064	31,692,701	528,363	1.7%
Federal Sources	1,965,087	1,818,373	146,714	8.1%
Total General Fund Revenue	<u>\$ 39,005,086</u>	<u>\$ 38,116,102</u>	<u>\$ 888,984</u>	<u>2.3%</u>

	<u>Year Ended</u>		<u>Amount of Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>
	<u>June 30, 2009</u>	<u>June 30, 2008</u>		
Expenditures:				
Salaries	\$ 22,191,410	\$ 21,776,414	\$ 414,996	1.9%
Employee Benefits	7,115,835	6,660,156	455,679	6.8%
Purchased Services	5,042,444	4,629,469	412,975	8.9%
Supplies and Materials	1,774,361	1,832,636	(58,275)	-3.2%
Capital Expenditures	1,434,419	1,319,883	114,536	8.7%
Other Expenditures	33,124	41,836	(8,712)	-20.8%
Total Expenditures	<u>\$ 37,591,593</u>	<u>\$ 36,260,394</u>	<u>\$ 1,331,199</u>	<u>3.7%</u>

Revenues

Fiscal year 2009 saw an increase in enrollment of 5 students. The formula allowance was at \$5,124 per adjusted marginal cost pupil unit for the 2008-09 year. Revenues totaled \$39,005,086 or an increase of \$888,984 over fiscal year 2008. The 2.3% revenue increase is due to the increase in the state aid formula, federal revenues and property tax revenue.

Expenditures

Expenditures totaled \$37,591,593 – an increase of \$1,331,199 over fiscal year 2008. Most expenditure functions saw increases due to increased costs of labor contracts, supplies and utilities. Capital outlay also saw an increase as deferred maintenance projects were completed.

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2009**

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (CONTINUED)

General Fund (Continued)

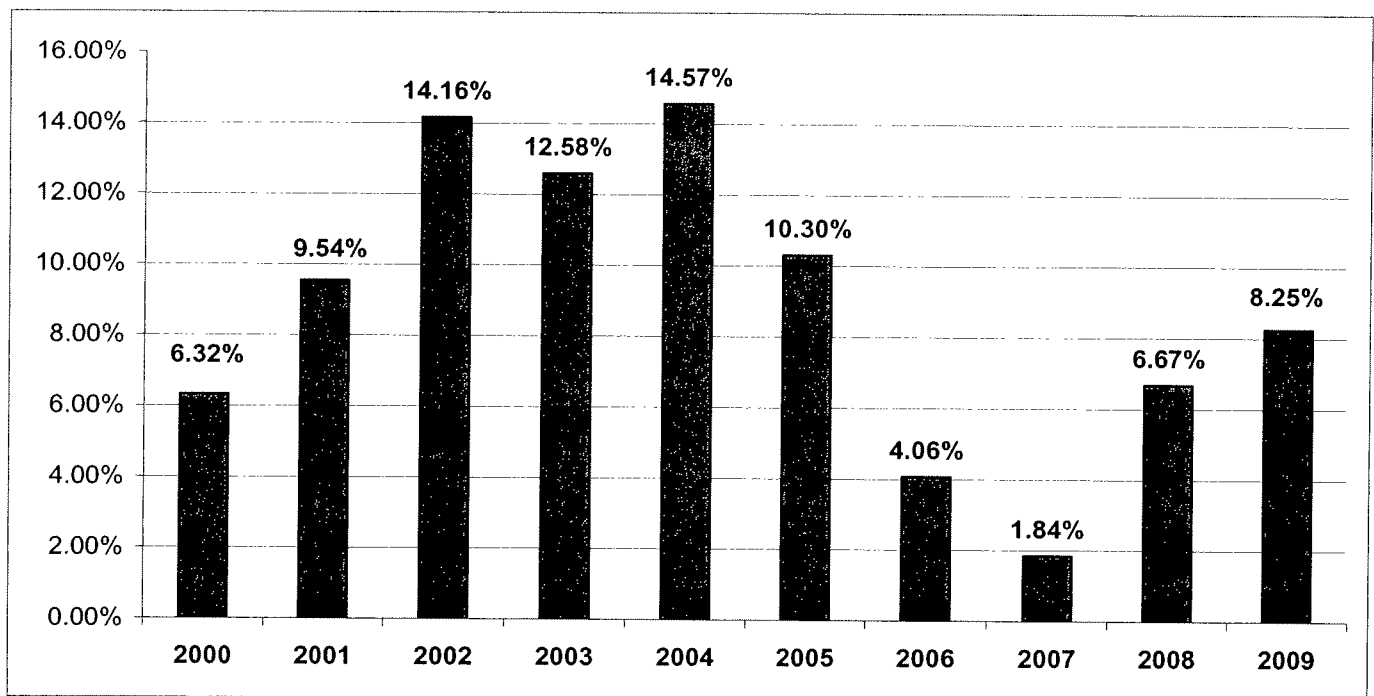
Fund Balance

The unreserved, undesignated fund balance is \$3,100,580, designated fund balance for postemployment benefits is \$1,400,000, and the reserved fund balances for staff development, health and safety, operating capital, and area learning center is \$941,520.

The graph in Figure A-8, below, depicts the General Fund unreserved undesignated fund balance as a percentage of total expenditures for the ten fiscal years ending June 30, 2000–2009. The District's unreserved undesignated fund balance offers the single best measure of the District's overall financial health. The unreserved undesignated fund balance on June 30, 2009 represents 8.25% of annual expenditures and 9.98% of unreserved undesignated expenditures.

The District closely monitors the General Fund unreserved undesignated 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 5 to 8 percent fund balance in the unreserved undesignated General Fund.

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



**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2009**

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (CONTINUED)

BUDGETARY HIGHLIGHTS

The District revised the annual operating budget from the preliminary budget approved in June 2008 to the final budget approved in June of 2009.

General Fund

The District's final budget for the general fund anticipated that expenditures would exceed revenues by \$340,427. The actual results for the year show revenues exceeding expenditures by \$1,448,798.

- Actual revenues were \$546,386 above budget, with most of the difference in the state sources category. This is mostly due to year end pupil units coming in higher than projected.
- Actual expenditures were \$1,255,034 below budget with most of the difference in salaries and benefits (approximately \$500,000) and purchased services and supplies (approximately \$490,000).

Food Service Fund

The Food Service Fund revenues for 2008-09 totaled \$2.1 million and expenditures were \$1.9 million. The June 30, 2009 fund balance is \$772,282, an increase of \$177,034 from fiscal year 2008. The increase in the fund balance is due to revenues exceeding budget and expenditures coming in under budget. 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 revenue for 2008-09 totaled \$1.41 million and expenditures were \$1.42 million. The June 30, 2009 fund balances are \$164,068, a decrease of \$9,250 from fiscal year 2008. The individual reserve accounts of Community Education, Early Childhood Family Education and School Readiness are deficit spending and will need to reverse that trend; the Reserve for Adult Basic Education and the Unreserved Undesignated 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 revenue for 2008-09 totaled \$4.94 million, before transfers from other funds of \$463,869 and expenditures were \$4.63 million. The June 30, 2009 unreserved fund balance is \$1,245,902, an increase of \$778,906 from fiscal year 2008. The increase is due to two factors: 1) debt service levy revenues are calculated at 5% over payments to allow for tax payment delinquencies; 2) the sale of the \$15,000,000 bonds resulted in capitalized interest and unused discount of approximately \$464,000 that is allowed to be transferred to the Debt Service Fund to be used for bond payments. Every year the Minnesota Department of Education calculates Debt Service excess fund balance amounts and uses those amounts to reduce future levies.

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2009**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2009, the District had invested \$49,828,392 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 \$24,047,368 as of June 30, 2009. 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, 2009 and 2008**

	<u>2009</u>	<u>2008</u>	<u>Percentage Change</u>
Land	\$ 1,835,754	\$ 1,835,754	0.0%
Construction in Progress	1,684,251	-	N/A
Land Improvements	1,970,403	1,970,403	0.0%
Buildings and Improvements	64,531,243	63,874,738	1.0%
Equipment	3,854,109	3,842,750	0.3%
Less: Accumulated Depreciation	<u>(24,047,368)</u>	<u>(22,634,638)</u>	<u>6.2%</u>
Total	<u><u>\$ 49,828,392</u></u>	<u><u>\$ 48,889,007</u></u>	<u><u>1.9%</u></u>

Long-Term Liabilities

For the fiscal year ended June 30, 2009, the District had \$41.19 million in general obligation bonds outstanding. (See Figure A-10 below.) The District also had \$1.59 million in health benefits, separation and severance payable as of June 30, 2009. In fiscal year 2009, the District's total outstanding long-term liabilities increased by 30.7 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, 2009 and 2008**

	<u>2009</u>	<u>2008</u>	<u>Percentage Change</u>
General Obligation Bonds	\$ 41,185,000	\$ 29,620,000	39.0%
Net Bond Premium and Discount	378,602	484,062	-21.8%
Other Postemployment Benefits Payable	80,114	-	N/A
Compensated Absences Payable	<u>1,512,237</u>	<u>2,919,233</u>	<u>-48.2%</u>
Total	<u><u>\$ 43,155,953</u></u>	<u><u>\$ 33,023,295</u></u>	<u><u>30.7%</u></u>
Long-Term Liabilities:			
Due Within One Year	\$ 3,602,036	\$ 4,007,085	
Due in More Than One Year	<u>39,553,917</u>	<u>29,016,210</u>	
	<u><u>\$ 43,155,953</u></u>	<u><u>\$ 33,023,295</u></u>	

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2009**

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 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.

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 Business Office, ISD No. 656, 2800 1st Avenue NW, P.O. Box 618, Faribault, MN 55021 or visit the District's website at www.faribault.k12.mn.us.

(This page intentionally left blank)

BASIC FINANCIAL STATEMENTS

(This page intentionally left blank)

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
STATEMENT OF NET ASSETS
JUNE 30, 2009
(WITH COMPARATIVE DATA AS OF JUNE 30, 2008)**

	Governmental Activities	
	2009	2008
ASSETS		
Cash and Investments	\$ 25,704,275	\$ 9,854,962
Receivables		
Property Taxes	4,316,496	4,568,530
Other Governments	4,327,606	4,264,348
Other	330,564	188,253
Prepaid Items	58,416	48,489
Inventories	81,148	113,318
Bond Issuance Costs, Net	150,629	111,436
Capital Assets		
Land	3,520,005	1,835,754
Other Capital Assets, Net of Depreciation	46,308,387	47,053,253
Total Assets	<u>84,797,526</u>	<u>68,038,343</u>
LIABILITIES		
Salaries and Wages Payable	3,499,633	4,107,937
Accounts and Contracts Payable	2,154,773	624,063
Accrued Interest	225,797	274,179
Due to Other Governmental Units	176,197	100,706
Deferred Revenue		
Property Taxes	7,840,794	8,097,768
Local Sources	640,182	668,496
Long-Term Liabilities		
Portion Due Within One Year	3,602,036	4,007,085
Portion Due in More Than One Year	39,553,917	29,016,210
Total Liabilities	<u>57,693,329</u>	<u>46,896,444</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	21,059,000	18,900,387
Restricted for:		
Operating Capital Purposes	597,568	813,481
State-Mandated Reserves	349,146	539,417
Food Service	772,282	595,248
Community Service	174,861	173,318
Debt Service	1,020,105	192,817
Unrestricted	3,131,235	(72,769)
Total Net Assets	<u>\$ 27,104,197</u>	<u>\$ 21,141,899</u>

See accompanying Notes to Basic Financial Statements.

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2009
(WITH COMPARATIVE DATA FOR THE YEAR ENDED JUNE 30, 2008)**

2009			
Functions	Expenses	Charges for Services	Program Operating Grants and Contributions
Governmental Activities			
Administration	\$ 1,554,438	\$ -	\$ -
District Support Services	1,809,208	-	-
Regular Instruction	16,782,379	397,303	5,869,487
Vocational Education Instruction	236,359	-	13,279
Special Education Instruction	7,857,810	505,439	4,869,483
Instructional Support Services	1,838,280	20,287	-
Pupil Support Services	3,216,738	1,617	190,195
Sites and Buildings	3,787,835	190,636	-
Fiscal and Other Fixed Cost Programs	89,903	-	-
Food Service	1,914,406	866,064	1,208,953
Community Service	1,370,755	393,507	719,866
Interest and Fiscal Charges on Long-Term Liabilities	1,039,927	-	-
Total School District	<u>\$ 41,498,038</u>	<u>\$ 2,374,853</u>	<u>\$ 12,871,263</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.

	2009	2008
	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
\$ -	\$ (1,554,438)	\$ (1,462,740)
220,290	(1,588,918)	(1,427,631)
97,469	(10,418,120)	(11,534,167)
-	(223,080)	(258,268)
-	(2,482,888)	(1,616,562)
40,032	(1,777,961)	(1,575,695)
-	(3,024,926)	(2,626,005)
283,964	(3,313,235)	(2,888,809)
-	(89,903)	(89,981)
-	160,611	(133,578)
-	(257,382)	(740,776)
-	(1,039,927)	(1,579,123)
<u>\$ 641,755</u>	<u>(25,610,167)</u>	<u>(25,933,335)</u>

3,400,937	3,237,416
227,986	328,057
4,477,651	4,291,095
23,029,807	22,375,608
190,247	421,481
-	220,839
245,837	23,410
<u>31,572,465</u>	<u>30,897,906</u>
5,962,298	4,964,571
21,141,899	16,177,328
<u>\$ 27,104,197</u>	<u>\$ 21,141,899</u>

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2009
(WITH COMPARATIVE DATA AS OF JUNE 30, 2008)**

			Major
	General	Food Service	Community Service
ASSETS			
Cash and Investments	\$ 6,648,831	\$ 795,736	\$ 438,610
Receivables			
Current Property Taxes	1,736,721	-	189,270
Delinquent Property Taxes	33,314	-	3,571
Due from Other Minnesota School Districts	92,080	-	-
Due from Minnesota Department of Education	3,544,210	-	59,357
Due from Federal through Minnesota Department of Education	520,034	22,396	29,507
Due from Other Governmental Units	19,756	-	-
Other Receivables	282,031	7,100	31,229
Prepaid Items	52,856	3,295	2,265
Inventory	81,148	-	-
Total Assets	<u>\$ 13,010,981</u>	<u>\$ 828,527</u>	<u>\$ 753,809</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Salaries and Wages Payable	\$ 1,832,735	\$ -	\$ 47,690
Payroll Deductions and Employer Contributions Payable	1,619,208	-	-
Accounts and Contracts Payable	379,369	35,091	102,132
Due to Other Governmental Units	176,197	-	-
Deferred Revenue:			
Property Taxes Levied for Subsequent Year	2,975,788	-	369,590
Delinquent Property Taxes	33,314	-	3,571
Local Sources	552,270	21,154	66,758
Total Liabilities	<u>7,568,881</u>	<u>56,245</u>	<u>589,741</u>
Fund Balance			
Reserved for			
Staff Development	115,892	-	-
Severance and Health Benefits	-	-	-
Area Learning Center	233,254	-	-
Health and Safety	(5,194)	-	-
Operating Capital	597,568	-	-
Community Education Programs	-	-	42,714
Early Childhood and Family Education Programs	-	-	1,554
School Readiness	-	-	(10,793)
Adult Basic Education	-	-	73,895
Unreserved			
Designated for			
Separation/Retirement Benefits	1,400,000	-	-
Undesignated, Reported In			
General Fund	3,100,580	-	-
Debt Service Fund	-	-	-
Special Revenue Funds	-	772,282	56,698
Building Construction	-	-	-
Total Fund Balance	<u>5,442,100</u>	<u>772,282</u>	<u>164,068</u>
Total Liabilities and Fund Balance	<u>\$ 13,010,981</u>	<u>\$ 828,527</u>	<u>\$ 753,809</u>

See accompanying Notes to Basic Financial Statements.

Funds		Total Governmental	
Capital Projects	Debt Service	Funds	
		2009	2008
\$ 14,421,912	\$ 3,399,186	\$ 25,704,275	\$ 9,854,962
-	2,302,141	4,228,132	4,473,906
-	51,479	88,364	94,624
-	-	92,080	246,159
-	40,266	3,643,833	3,417,927
-	-	571,937	563,372
-	-	19,756	36,890
10,204	-	330,564	188,253
-	-	58,416	48,489
-	-	81,148	113,318
<u>\$ 14,432,116</u>	<u>\$ 5,793,072</u>	<u>\$ 34,818,505</u>	<u>\$ 19,037,900</u>
\$ -	\$ -	\$ 1,880,425	\$ 3,153,307
-	-	1,619,208	954,630
1,637,906	275	2,154,773	624,063
-	-	176,197	100,706
-	4,495,416	7,840,794	8,097,768
-	51,479	88,364	94,624
-	-	640,182	668,496
<u>1,637,906</u>	<u>4,547,170</u>	<u>14,399,943</u>	<u>13,693,594</u>
-	-	115,892	107,122
-	-	-	250,000
-	-	233,254	432,295
-	-	(5,194)	(27,886)
-	-	597,568	813,481
-	-	42,714	65,236
-	-	1,554	3,643
-	-	(10,793)	(1,481)
-	-	73,895	59,261
-	-	1,400,000	-
-	-	3,100,580	2,418,290
-	1,245,902	1,245,902	466,996
-	-	828,980	641,907
12,794,210	-	12,794,210	115,442
<u>12,794,210</u>	<u>1,245,902</u>	<u>20,418,562</u>	<u>5,344,306</u>
<u>\$ 14,432,116</u>	<u>\$ 5,793,072</u>	<u>\$ 34,818,505</u>	<u>\$ 19,037,900</u>

(This page intentionally left blank)

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2009
(WITH COMPARATIVE DATA AS OF JUNE 30, 2008)**

	<u>2009</u>	<u>2008</u>
Total Fund Balance for Governmental Funds	\$ 20,418,562	\$ 5,344,306
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	1,684,251	-
Land Improvements, Net of Accumulated Depreciation	789,094	802,020
Buildings and Improvements, Net of Accumulated Depreciation	44,545,532	45,114,203
Equipment, Net of Accumulated Depreciation	973,761	1,137,030
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.		
	88,364	94,624
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.		
	(225,797)	(274,179)
Bond issuance costs are reported as expenditures in the governmental funds.		
	150,629	111,436
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	(41,185,000)	(29,620,000)
Unamortized Premiums and Discounts	(378,602)	(484,062)
Compensated Absences Payable	(1,512,237)	(2,919,233)
Other Postemployment Benefits Payable	(80,114)	-
Total Net Assets of Governmental Activities	<u><u>\$ 27,104,197</u></u>	<u><u>\$ 21,141,899</u></u>

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2009
(WITH COMPARATIVE DATA FOR THE YEAR ENDED JUNE 30, 2008)**

	Major		
	General	Food Service	Community Service
REVENUES			
Local Sources			
Property Taxes	\$ 3,402,274	\$ -	\$ 228,612
Earnings on Investments	128,690	16,423	9,831
Other	1,287,971	867,005	430,409
State Sources	32,221,064	137,936	716,476
Federal Sources	1,965,087	1,070,076	29,507
Total Revenues	<u>39,005,086</u>	<u>2,091,440</u>	<u>1,414,835</u>
EXPENDITURES			
Current			
Administration	1,560,396	-	-
District Support Services	1,228,929	-	-
Regular Instruction	16,389,333	-	-
Vocational Education Instruction	226,191	-	-
Special Education Instruction	8,029,875	-	-
Instructional Support Services	1,899,851	-	-
Pupil Support Services	3,175,352	-	-
Sites and Buildings	3,557,344	-	-
Fiscal and Other Fixed Cost Programs	89,903	-	-
Food Service	-	1,908,869	-
Community Service	-	-	1,420,571
Capital Outlay	1,434,419	5,537	3,514
Debt Service			
Principal	-	-	-
Interest and Fiscal Charges	-	-	-
Total Expenditures	<u>37,591,593</u>	<u>1,914,406</u>	<u>1,424,085</u>
Excess (Deficiency) of Revenues			
Over (Under) Expenditures	1,413,493	177,034	(9,250)
OTHER FINANCING SOURCES (USES)			
Sale of Equipment Proceeds	-	-	-
Sale of Real Property Proceeds	-	-	-
Judgments for Districts	35,305	-	-
Sale of Bonds Proceeds	-	-	-
Bond Premium	-	-	-
Bond Discount	-	-	-
Payment to Refunded Bond Escrow Agent	-	-	-
Transfers In	-	-	-
Transfers Out	-	-	-
Total Other Financing Sources (Uses)	<u>35,305</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	1,448,798	177,034	(9,250)
Fund Balances - Beginning	<u>3,993,302</u>	<u>595,248</u>	<u>173,318</u>
Fund Balances - Ending	<u>\$ 5,442,100</u>	<u>\$ 772,282</u>	<u>\$ 164,068</u>

See accompanying Notes to Basic Financial Statements

Funds			
Capital		Total Governmental	
Projects -		Funds	
Building	Debt		
Construction	Service	2009	2008
\$ -	\$ 4,481,948	\$ 8,112,834	\$ 7,836,028
(24,882)	60,185	190,247	421,481
-	-	2,585,385	2,635,508
-	402,679	33,478,155	32,907,880
-	-	3,064,670	2,730,528
(24,882)	4,944,812	47,431,291	46,531,425
-	-	1,560,396	1,520,533
-	-	1,228,929	1,260,883
-	-	16,389,333	15,795,528
-	-	226,191	244,970
-	-	8,029,875	7,618,983
-	-	1,899,851	2,014,212
-	-	3,175,352	3,109,287
-	-	3,557,344	3,286,134
-	-	89,903	89,981
-	-	1,908,869	1,940,833
-	-	1,420,571	1,562,141
1,794,294	-	3,237,764	1,481,764
-	3,435,000	3,435,000	4,075,000
-	1,194,775	1,194,775	1,532,401
1,794,294	4,629,775	47,354,153	45,532,650
(1,819,176)	315,037	77,138	998,775
-	-	-	7,841
-	-	-	298,799
-	-	35,305	40,067
15,000,000	-	15,000,000	19,398,348
-	-	-	(433,348)
(38,187)	-	(38,187)	-
-	-	-	(19,440,000)
-	463,869	463,869	-
(463,869)	-	(463,869)	-
14,497,944	463,869	14,997,118	(128,293)
12,678,768	778,906	15,074,256	870,482
115,442	466,996	5,344,306	4,040,476
\$ 12,794,210	\$ 1,245,902	\$ 20,418,562	\$ 4,910,958

**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, 2009
(WITH COMPARATIVE DATA FOR THE YEAR ENDED JUNE 30, 2008)**

	<u>2009</u>	<u>2008</u>
Net Change in Fund Balance-Total Governmental Funds	\$ 15,074,256	\$ 870,482

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	2,382,141	817,587
Gain (Loss) on Disposal of Capital Assets	-	220,839
Proceeds from Sales of Capital Assets	-	(306,640)
Depreciation Expense	(1,442,756)	(1,458,325)

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:

General Obligation Bond Proceeds	(15,000,000)	(18,965,000)
Payment to Refunded Bond Escrow Agent	-	19,440,000
Bond Discount	38,187	(433,348)
Bond Issuance Costs	54,062	58,305
Repayment of Bond Principal	3,435,000	4,075,000
Change in Accrued Interest Expense - General Obligation Bonds	48,382	(124,226)
Amortization of Bond Issuance Costs	(14,869)	(8,757)
Amortization of Bond Premium and Discount	67,273	27,956

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.	(6,260)	20,540
--	---------	--------

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).

	<u>1,326,882</u>	<u>296,810</u>
Change in Net Assets of Governmental Activities	<u><u>\$ 5,962,298</u></u>	<u><u>\$ 4,531,223</u></u>

**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, 2009

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2008)

	2009				2008
	Budgeted Amounts		Actual	Over (Under) Final Budget	Actual
	Original	Final	Amounts		Amounts
REVENUES					
Local Sources					
Property Taxes	\$ 3,416,341	\$ 3,401,342	\$ 3,402,274	\$ 932	\$ 3,228,936
Earnings on Investments	100,000	100,000	128,690	28,690	124,377
Other	1,225,618	1,273,188	1,287,971	14,783	1,251,715
State Sources	31,236,728	31,578,944	32,221,064	642,120	31,692,701
Federal Sources	2,045,093	2,105,226	1,965,087	(140,139)	1,818,373
Total Revenues	38,023,780	38,458,700	39,005,086	546,386	38,116,102
EXPENDITURES					
Current:					
Administration	1,705,314	1,552,666	1,560,396	7,730	1,520,533
District Support Services	1,276,003	1,162,321	1,228,929	66,608	1,260,883
Regular Instruction	16,887,003	16,913,310	16,389,333	(523,977)	15,795,528
Vocational Education Instruction	264,983	268,491	226,191	(42,300)	244,970
Special Education Instruction	7,917,724	8,530,094	8,029,875	(500,219)	7,618,983
Instructional Support Services	2,220,500	2,047,009	1,899,851	(147,158)	2,014,212
Pupil Support Services	3,338,364	3,153,771	3,175,352	21,581	3,109,287
Sites and Buildings	3,561,282	3,354,090	3,557,344	203,254	3,286,134
Fiscal and Other Fixed Cost Programs	225,000	225,000	89,903	(135,097)	89,981
Capital Outlay	1,138,987	1,639,875	1,434,419	(205,456)	1,319,883
Total Expenditures	38,535,160	38,846,627	37,591,593	(1,255,034)	36,260,394
Excess (Deficiency) of Revenues Over (Under) Expenditures	(511,380)	(387,927)	1,413,493	1,801,420	1,855,708
OTHER FINANCING SOURCES (USES)					
Sale of Equipment Proceeds	5,000	5,000	-	(5,000)	7,841
Sale of Real Property Proceeds	-	-	-	-	298,799
Judgments for Districts	-	42,500	35,305	(7,195)	40,067
Total Other Financing Sources (Uses)	5,000	47,500	35,305	(12,195)	346,707
Net Change in Fund Balances	\$ (506,380)	\$ (340,427)	1,448,798	\$ 1,789,225	2,202,415
FUND BALANCE					
Beginning of Year			3,993,302		1,790,887
End of Year			\$ 5,442,100		\$ 3,993,302

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
FOOD SERVICE FUND
YEAR ENDED JUNE 30, 2009
(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2008)**

	2009				2008
	Budgeted Amounts		Actual	Over (Under)	Actual
	Original	Final	Amounts	Final Budget	Amounts
REVENUES					
Local Sources					
Earnings on Investments	\$ -	\$ -	\$ 16,423	\$ 16,423	\$ 27,275
Other - Primarily Meal Sales	922,650	922,650	867,005	(55,645)	881,392
State Sources	137,225	137,225	137,936	711	134,613
Federal Sources	896,000	896,000	1,070,076	174,076	950,879
Total Revenues	1,955,875	1,955,875	2,091,440	135,565	1,994,159
EXPENDITURES					
Current					
Food Service	1,922,803	1,978,257	1,908,869	(69,388)	1,940,833
Capital Outlay	11,000	7,000	5,537	(1,463)	159,629
Total Expenditures	1,933,803	1,985,257	1,914,406	(70,851)	2,100,462
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ 22,072	\$ (29,382)	177,034	\$ 206,416	(106,303)
FUND BALANCE					
Beginning of Year			595,248		701,551
End of Year			\$ 772,282		\$ 595,248

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
COMMUNITY SERVICE FUND
YEAR ENDED JUNE 30, 2009
(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2008)**

	2009				2008
	Budgeted Amounts		Actual	Over (Under) Final Budget	Actual
	Original	Final	Amounts		Amounts
REVENUES					
Local Sources					
Property Taxes	\$ 306,891	\$ 306,891	\$ 228,612	\$ (78,279)	\$ 327,084
Earnings on Investments	20,000	20,000	9,831	(10,169)	17,516
Other - Primarily Tuition and Fees	364,000	459,890	430,409	(29,481)	502,401
State Sources	683,583	693,193	716,476	23,283	635,340
Federal Sources	36,000	25,000	29,507	4,507	(38,724)
Total Revenues	1,410,474	1,504,974	1,414,835	(90,139)	1,443,617
EXPENDITURES					
Current					
Community Service	1,516,880	1,548,441	1,420,571	(127,870)	1,562,141
Capital Outlay	10,250	7,124	3,514	(3,610)	2,252
Total Expenditures	1,527,130	1,555,565	1,424,085	(131,480)	1,564,393
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ (116,656)	\$ (50,591)	(9,250)	\$ 41,341	(120,776)
FUND BALANCE					
Beginning of Year			173,318		294,094
End of Year			\$ 164,068		\$ 173,318

See accompanying Notes to Basic Financial Statements.

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2009**

	<u>Private- Purpose Trust</u>	<u>Agency Funds</u>
ASSETS		
Cash and Investments	\$ -	\$ 26,391
Total Assets	<u>\$ -</u>	<u>\$ 26,391</u>
LIABILITIES		
Due to Other Governments	\$ -	\$ 26,391
Total Liabilities	<u>\$ -</u>	<u>\$ 26,391</u>
NET ASSETS		
Total Net Assets	<u>\$ -</u>	

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
YEAR ENDED JUNE 30, 2009**

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

See accompanying Notes to Basic Financial Statements.

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009**

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.

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 and agency 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, 2009**

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, 2009**

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.

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.

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.

Agency Fund - The Agency Fund is used to account for resources held for others in a custodial capacity. The District's Agency fund is used to account for the resources of the So How Are the Children grant coordinated by the Rice County Family Services Collaborative.

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.

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

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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), deposits in the Minnesota Trust Investment Shares Portfolio, 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, 2009. 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, 2009.

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, 2009**

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. The tax shift also includes certain other levies that are recognized early based on statutory requirements.

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, 2009, 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.

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.

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2009, unpaid vacation pay totaling \$101,664 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.

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.

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Accrued Employee Benefits (Continued)

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, 2009 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.

During fiscal year 2009, total expenditures for early retirement incentive payments and convertible sick leave were \$407,922. At June 30, 2009, a liability for early retirement incentive payments and convertible sick leave totaling \$1,410,573 is recorded on the Statement of Net Assets.

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Accrued Employee Benefits (Continued)

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, at June 30, 2009.

GASB 45 was implemented prospectively, meaning that the net OPEB obligation was zero at transition. Prior to the implementation of GASB 45, the District estimated its obligation for future health care costs for retired persons who had met the age and minimum years of service requirements. The estimated liability was \$1,007,969 prior to implementation of the standard.

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 the current fiscal year. 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. The District has reported deferred revenues for 2008-2009 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 and fund balance penalties.

O. Fund Balance

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

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.

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 \$2,913,962 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.

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, 2009 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.

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

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.

At June 30, 2009, the District had the following investments:

Investments Held by Broker -

	At Amortized Cost
Minnesota School District Liquid Asset Fund Plus (MDSLAF+)	\$ 6,914,737
Minnesota School District LAF MAX Series (MSDMAX)	292,256
MN Trust Investment Shares Portfolio	5,646,124
	<u>\$ 12,853,117</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.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

The Minnesota Municipal Money Market Fund Trust (MN Trust) is a common law trust organized in accordance with the Minnesota Joint Powers Act, which invests only in investment instruments allowable under Minnesota statutes as described on the previous page. Its 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	\$ 2,969,228
FFCB Bonds	454,859
FHLMC Global Notes	1,244,766
FNMA Global Benchmark Notes	544,688
FHLMC MTN	216,427
	<u>\$ 5,429,968</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	More than 60 Months
Minnesota School District Liquid Asset Fund Max Series (MSDMAX)	\$ 292,256	\$ 292,256	\$ -	\$ -	\$ -
Minnesota School District Liquid Asset Fund Plus (MDSLAF+)	6,914,737	6,914,737	-	-	-
MN Trust Investment Shares Portfolio	5,646,124	5,646,124	-	-	-
FHLB Bonds	2,969,228	-	768,281	2,200,947	-
FFCB Bonds	454,859	-	-	454,859	-
FHLMC Global Notes	1,244,766	-	1,244,766	-	-
FNMA Global Benchmark Notes	544,688	167,578	200,302	176,808	-
FNMA Discount Note	216,427	216,427	-	-	-
	<u>\$ 18,283,085</u>	<u>\$ 13,237,122</u>	<u>\$ 2,213,349</u>	<u>\$ 2,832,614</u>	<u>\$ -</u>

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009**

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, 2009 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 & Poors:

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
MN Trust Investment Shares Portfolio	Moody's	Aaa
FHLB Bonds	Moody's	Aaa
FFCB Bonds	Moody's	Aaa
FHLMC Global Notes	Moody's	Aaa
FNMA Global Benchmark Notes	Moody's	Aaa
FNMA Discount Note	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+)	\$ 6,914,737	27.49%
MN Trust Investment Shares Portfolio	5,646,124	22.45%
FHLB Bonds	2,969,228	11.80%
FHLMC Global Notes	1,244,766	6.81%

C. Balance Sheet Presentation

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

Cash and Investments - Statement of Net Assets	\$ 25,704,275
Cash and Investments - Statement of Fiduciary Net Assets	26,391
Total Cash and Investments	<u>\$ 25,730,666</u>

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

C. Balance Sheet Presentation (Continued)

Total cash and investments at June 30, 2009 consisted of the following:

Deposits	\$ 567,001
Cash on hand	9,080
Certificates of deposit	6,871,500
Minnesota School District Liquid Asset Funds	7,206,993
MN Trust Investment Shares Portfolio	5,646,124
Government bonds and notes	5,429,968
	<u>\$ 25,730,666</u>

NOTE 3 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2009 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets, Not Being Depreciated				
Land	\$ 1,835,754	\$ -	\$ -	\$ 1,835,754
Construction in Progress	-	1,684,251	-	1,684,251
Total Capital Assets, Not Being Depreciated	1,835,754	1,684,251	-	3,520,005
Capital Assets, Being Depreciated				
Land Improvements	1,970,403	-	-	1,970,403
Buildings and Improvements	63,874,738	629,041	27,464	64,531,243
Equipment	3,842,750	68,849	(57,490)	3,854,109
Total Capital Assets, Being Depreciated	69,687,891	697,890	(30,026)	70,355,755
Accumulated Depreciation for				
Land Improvements	(1,168,383)	(39,022)	26,096	(1,181,309)
Buildings and Improvements	(18,760,535)	(1,225,186)	10	(19,985,711)
Equipment	(2,705,720)	(178,548)	3,920	(2,880,348)
Total Accumulated Depreciation	(22,634,638)	(1,442,756)	30,026	(24,047,368)
Total Capital Assets, Being Depreciated, Net	47,053,253	(744,866)	-	46,308,387
Governmental Activities Capital Assets, Net	<u>\$ 48,889,007</u>	<u>\$ 939,385</u>	<u>\$ -</u>	<u>\$ 49,828,392</u>

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

Governmental Activities	
District Support Services	\$ 65,470
Regular Instruction	1,260,844
Vocational Education Instruction	9,850
Special Education Instruction	1,381
Pupil Support Services	44,866
Sites and Buildings	60,212
Community Service	133
Total Depreciation Expense, Governmental Activities	<u>\$ 1,442,756</u>

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009**

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	\$ 525,000	\$ 6,420,000
12/1/2003	2.50% - 4.00%	2,605,000	12/1/2013	255,000	1,440,000
3/1/2005	3.00% - 4.00%	2,375,000	2/1/2020	125,000	2,000,000
3/5/2008	3.25% - 3.50%	18,965,000	6/1/2015	2,450,000	16,325,000
4/15/2009	3.00% - 4.125%	15,000,000	2/1/2024	-	15,000,000
Total General Obligation Bonds				3,355,000	41,185,000
Bond Premium - Net				67,804	416,259
Bond Discounts - Net				(2,546)	(37,657)
Other Postemployment Benefits Payable				80,114	80,114
Compensated Absences Payable				101,664	1,512,237
				<u>\$ 3,602,036</u>	<u>\$ 43,155,953</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
2010	\$ 3,355,000	\$ 1,388,877
2011	3,520,000	1,395,174
2012	3,730,000	1,273,571
2013	4,000,000	1,141,524
2014	4,185,000	997,841
2015 - 2019	12,765,000	3,171,431
2020 - 2024	9,630,000	1,212,111
	<u>\$ 41,185,000</u>	<u>\$ 10,580,529</u>

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009**

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 will be 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, 2009, 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
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 4 LONG-TERM LIABILITIES (CONTINUED)

D. Changes in Long-Term Liabilities

	June 30, 2008	Additions	Retirements	June 30, 2009
Bonds Payable	\$ 29,620,000	\$ 15,000,000	\$ 3,435,000	\$ 41,185,000
Bond Premium	484,062	-	67,803	416,259
Bond Discounts	-	(38,187)	(530)	(37,657)
Other Postemployment Benefits Payable	-	80,114	-	80,114
Compensated Absences Payable	2,919,233	181,029	1,588,025	1,512,237
	<u>\$ 33,023,295</u>	<u>\$ 15,222,956</u>	<u>\$ 5,090,298</u>	<u>\$ 43,155,953</u>

NOTE 5 RESERVED AND DESIGNATED FUND BALANCES

Fund Equity

Certain portions of fund balance are reserved 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 reserved fund balances for the governmental funds:

A. Reserved 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 reservation of fund balance in the General Fund.

B. Reserved for Severance and Health Benefits

In accordance with state accounting regulations, a reserved fund balance was established for vested severance benefits. Due to the change in accounting for other postemployment benefits, the reserve is no longer applicable.

C. Reserved for Area Learning Center

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

D. Reserved for Health and Safety

Reserved 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 reserve generates specific future levy authority.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 5 RESERVED AND DESIGNATED FUND BALANCES (CONTINUED)

E. Reserved 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 reservation of fund balance in the General Fund.

F. Reserved for Community Education Programs

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

G. Reserved for Early Childhood and Family Education Programs

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

H. Reserved for School Readiness

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

I. Reserved for Adult Basic Education

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

J. Designated for Separation/Retirement Benefits

This designation represents resources segregated by the District for the payment of retirement benefits. In accordance with Minnesota *Uniform Financial Accounting and Reporting Standards*, designation may be made for benefits including compensated absences, pensions, other Postemployment benefits and termination benefits.

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009**

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.

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, 2009, 2008, and 2007 were \$932,622, \$923,035, and \$884,965, respectively, equal to the required contributions for each year as set by state statute.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 6 PENSION PLANS (CONTINUED)

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 Public Employees' Retirement Fund (PERF) which is a cost-sharing, multiple-employer retirement plan. This plan is established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. PERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by State Statute, and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. PERA issues a publicly available financial report that includes financial statements and required supplementary information for PERF. 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. PERF Basic Plan members and Coordinated Plan members are required to contribute 9.10% and 6.00%, respectively, of their annual covered salary in 2009.

The District is required to contribute the following percentages of annual covered payroll in 2009: 11.78% for Basic Plan PERF members, 6.5% for Coordinated Plan PERF members. Employer contribution rates for the Coordinated Plan increased to 6.75% effective January 1, 2009. 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, 2009, 2008 and 2007 were \$339,560, \$306,906, and \$296,660, respectively, equal to the contractually required contributions for each year as set by state statute.

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 7 OTHER POSTEMPLOYMENT BENEFIT PLAN

At June 30, 2009, the District adopted Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. The District engaged an actuary to determine the District's liability for postemployment healthcare benefits other than pensions as of January 1, 2007.

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 424 active participants and 147 retired participants. 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 2009, the District contributed \$572,139 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	\$ 652,253
Interest on Net OPEB Obligation	-
Adjustment to Annual Required Contribution	-
Annual OPEB Cost (Expense)	<u>652,253</u>
Contributions Made	<u>(572,139)</u>
Increase in Net OPEB Obligation	80,114
Net OPEB Obligation - Beginning of Year	-
Net OPEB Obligation - End of Year	<u><u>\$ 80,114</u></u>

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 7 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

C. Annual OPEB Cost and Net OPEB Obligation (Continued)

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

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2009	\$ 652,253	87.7%	\$ 80,114

D. Funded Status and Funding Progress

As of July 1, 2007, the most recent actuarial valuation date, the District's unfunded actuarial accrued liability (UAAL) was \$6,400,766. The annual payroll for active employees covered by the plan in the actuarial valuation was \$18,380,763 for a ratio of UAAL to covered payroll of 34.8%.

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, 2007 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 nine years. The UAAL is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at June 30, 2009 was 29 years.

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009**

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.

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, 2009 was \$491,763.

Minimum rental commitments on leases in effect at June 30, 2009 are as follows:

<u>Year Ending June 30,</u>	<u>Annual Lease Payments</u>
2010	\$ 263,439
2011	200,512
2012	3,720
2013	<u>2,480</u>
Total	<u>\$ 470,151</u>

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 9 LEASE COMMITMENTS (CONTINUED)

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 District received \$220,524 of rent for this building during the year ended June 30, 2009, 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.

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, 2009 the District had entered into various construction contracts for school building projects. Total remaining commitments under these contracts were \$1,878,911 at June 30, 2009.

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 \$154,174 for the period ending June 30, 2009. 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.

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 11 JOINT POWERS AGREEMENTS (CONTINUED)

Wind Energy

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, 2009.

(This page intentionally left blank)

REQUIRED SUPPLEMENTARY INFORMATION

(This page intentionally left blank)

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR OTHER POSTEMPLOYMENT BENEFIT PLAN
JUNE 30, 2009**

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%

(This page intentionally left blank)

SINGLE AUDIT AND OTHER REQUIRED REPORTS

(This page intentionally left blank)

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2009**

Grantor/Program	CFDA Number	Agency or Pass-Through Number	Expenditures
US Department of Agriculture			
Pass-Through Minnesota Department of Education			
Food Distribution (Commodities)	10.550	1-656-000	\$ 57,195
Commodities Rebate	10.550	1-656-000	26,284
School Breakfast Program	# 10.553	1-656-000	266,916
Type A Lunch	# 10.555	1-656-000	663,403
After School Snack	# 10.559	1-656-000	7,577
Summer Food	# 10.559	1-656-000	24,359
Total US Department of Agriculture			<u>1,045,734</u>
US. Department of Education			
Pass-Through Minnesota Department of Education			
Adult Basic Education	84.002		29,507
Title I, Part A - Grants to Local Education Agencies	84.010		384,072
Special Education - Grants to States	& 84.027		981,755
Special Education - Preschool Grants	& 84.173		24,727
Special Education - Grants for Infants and Families with Disabilities	84.181		69,593
Title IV, Part A - Safe and Drug Free Schools	84.186		12,563
Title IV, Part B - 21st Century Community Learning Centers	84.287		205,842
Title III - English Language Acquisition Grants	84.365		92,866
Title II, Part A - Improving Teacher Quality	84.367		165,857
Total US Department of Education			<u>1,966,782</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE EXPENDED			<u><u>\$ 3,012,516</u></u>

& Special Education Cluster

Child Nutrition Cluster

See accompanying Notes to Schedule of Expenditures of Federal Awards.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2009**

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.

NOTE 3 FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. At June 30, 2009, the District had no food commodities in inventory.

**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 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, 2009, which collectively comprise Independent School District No. 656's basic financial statements and have issued our report thereon dated December 07, 2009. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accounting principles such there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs listed as items 2009-1 through 2009-3 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies described in the accompanying Schedule of Findings and Questioned Costs listed as items 2009-1 through 2009-3 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 misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We have also issued a separate letter to management dated December 07, 2009, 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 responses. We did not audit the District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, 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
December 7, 2009

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND 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 are applicable to each of its major federal programs for the year ended June 30, 2009. Independent School District No. 656's major federal programs are identified in the summary of the auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements and 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 audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Independent School District No. 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, 2009. 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 2009-4 through 2009-6.

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, 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.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Independent School District No. 656's responses to the findings identified in our audit are described in the accompanying schedules of findings and responses. 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
LarsonAllen LLP

Austin, Minnesota
December 7, 2009

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, 2009, and have issued our report thereon dated December 7, 2009.

We conducted our audit in accordance with auditing standards generally accepted in the United States of American and the provisions of the Minnesota Legal Compliance Audit Guide for Local Government, 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 Local Government 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
LarsonAllen LLP

Austin, Minnesota
December 7, 2009

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2009**

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. Significant deficiencies in internal control were disclosed during the audit of the financial statements and are listed as Findings 2009-1 through 2009-3. These significant 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. No significant deficiencies were disclosed during the audit of the major federal award programs.
5. The auditors' report on compliance for the major federal award programs for Independent School District No. 656 expresses an unqualified opinion.
6. Three 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 2009-4 through 2009-6.
7. The programs tested as major programs included:
 - U.S. Department of Education:
 - Title I, Part A – Grants to Local Education Agencies CFDA #84.010
 - Title II, Part A – Improving Teacher Quality CFDA #84.367
 - Special Education Cluster:
 - Special Education - Grants to States CFDA #84.027
 - Special Education – Preschool Incentive CFDA #84.173
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, 2009**

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

FINDING: 2009-01 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 Senior Accountant will review the 2009 audit adjustments and work papers prior to start of the 2010 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, 2010.

Plan to Monitor Completion of CAP:

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

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2009**

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

**FINDING: 2009-2 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. This control includes review of a draft copy of the financial statements by the business manager and superintendent, along with comparing UFARS guidelines and additional financial reports to the draft prepared by auditors. However, the District has not adopted a control over disclosures included in the annual financial report.

Criteria: The District must be able to prevent or detect a material misstatement in the annual financial statements including footnote disclosures.

Questioned Costs: None

Context: The District has informed us that they will continue to rely upon the audit firm to prepare the financial statements and related footnote disclosures, and will review and approve these prior to the issuance of the annual financial statements.

Effect: 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.

Cause: The District relies on the audit firm to prepare the annual financial statements and related footnote disclosures. However, they have reviewed and approved the annual financial statements and the related footnote disclosures.

Recommendation: The District should continue to train staff to enhance financial statement reporting abilities.

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 Director of Finance and Operations and Senior Accountant will attend financial statement training offered by MASBO or other sources, as they become available.

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 October 31, 2010.

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, 2009**

FINDING: 2009-03 TIMELY RECONCILIATION OF BANK ACCOUNTS

Condition: The District's bank reconciliations as of June 30, 2009 were not finalized until November 2009.

Criteria: General internal control practices dictate that the District should have procedures in place to ensure timely and accurate reconciliation of its bank accounts to its financial records.

Questioned Costs: None

Context: The District experienced a turnover in personnel.

Effect: The financial statements could have a material misstatement that would not be prevented or detected by the District's controls in a timely manner.

Cause: The District was unable to complete all of its procedures in a timely manner.

Recommendation: The District should continue to evaluate its procedures to determine if staffing is adequate and to ensure that important internal control procedures are completed timely and effectively.

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 Accounting Clerk will prepare timely and accurate bank reconciliations on a monthly basis. The Senior Accountant will review and initial those reconciliations, indicating approval.

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, 2009.

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, 2009**

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

**FINDING: 2009-4 SPECIAL EDUCATION CLUSTER – CFDA #84.027 AND #84.173
PASS THROUGH MINNESOTA DEPARTMENT OF EDUCATION
TIME REPORTING – PERSONAL ACTIVITY REPORT (PAR)**

Condition: During our testing, we noted one employee that improperly completed time certifications, rather than personal activity reports, for the fiscal year ended June 30, 2009. Although the employee worked only in federal programs, their time was coded to three different programs. The employee maintained timesheets for total hours worked throughout the year. The employee did not complete the required PAR report, nor did their timesheets contain enough detail to determine that actual hours worked on each program were in accordance with their pay distribution.

Criteria: OMB Circular A-87, Attachment B, paragraph 8.h.(4) requires that employees who work in part on a single Federal program must maintain time and effort distribution records, documenting the portion of time and effort dedicated to the single Federal program.

Questioned Costs: None

Context: The employee worked 100% in federal programs.

Effect: The potential exists that the split of time between federal programs could be inaccurate.

Cause: Misunderstanding of federal requirements.

Recommendation: Appropriate time reporting detail (personal activity reports) should be maintained for all employees that do not work 100% of their time in a single federal program.

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 finding.

Official Responsible for Ensuring CAP:

Lora Arnott, Director of Special Services, is the official responsible for ensuring corrective action of the deficiency.

Planned Completion Date for CAP:

The planned completion date for the CAP is December 31, 2009.

Plan to Monitor Completion of CAP:

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

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2009**

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

FINDING: 2009-5 **TITLE I, PART A – GRANTS TO LOCAL EDUCATION AGENCIES –
CFDA #84.010
PASS THROUGH MINNESOTA DEPARTMENT OF EDUCATION
TIME REPORTING – PERSONAL ACTIVITY REPORT (PAR)**

Condition: During our Single Audit student testing, the District was unable to locate the supporting timesheet or personal activity report for one employee selected for testing. All other supporting documentation was available.

Criteria: OMB Circular A-87, Attachment B, paragraph 8.h.(4) requires that employees who work in part on a single Federal program must maintain time and effort distribution records, documenting the portion of time and effort dedicated to the single Federal program.

Questioned Costs: None

Context: The District believes this is an isolated instance.

Effect: The potential exists for undocumented time to be charged to federal programs.

Cause: Unknown.

Recommendation: Semi-annual time certifications should be completed for all employees working 100% in any one federal program.

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 finding.

Official Responsible for Ensuring CAP:

Elizabeth Keenan, Director of Curriculum and Instruction, is the official responsible for ensuring corrective action of the deficiency.

Planned Completion Date for CAP:

The planned completion date for the CAP is December 31, 2009.

Plan to Monitor Completion of CAP:

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

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2009**

**FINDING: 2009-6 TITLE II, PART A – IMPROVING TEACHER QUALITY – CFDA #84.367
PASS THROUGH MINNESOTA DEPARTMENT OF EDUCATION
TIME CERTIFICATIONS**

Condition: Title II employees whose time is coded 100% to this federal program do not complete the necessary time certifications.

Criteria: OMB Circular No. A-87 requires “where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries or wages will be supported by periodic certifications that the employee worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.” B,13d. Employees that are not 100% Federal need to prepare a “personal activity report” (or an 100% Federal Employee that does not complete a time cert) timesheets must be signed by the manager and the employee and the amount recorded on the G/L must equal or not have a 10% variance from actual to what has been recorded.

Questioned Costs: None

Context: The District was unaware of the need to complete time certifications for the Title II program.

Effect: The potential exists for undocumented time to be charged to federal programs.

Cause: Unaware of requirement.

Recommendation: Semi-annual time certifications should be completed for all employees working 100% in any one federal program.

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 semi-annually review a list of all employees paid from all federal program funds to ensure that the applicable time reporting requirements are met.

Official Responsible for Ensuring CAP:

Elizabeth Keenan, Director of Curriculum and Instruction, is the official responsible for ensuring corrective action of the deficiency.

Planned Completion Date for CAP:

The planned completion date for the CAP is December 31, 2009.

Plan to Monitor Completion of CAP:

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

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2009**

PART IV: FINDINGS AND QUESTIONED COSTS – MINNESOTA LEGAL COMPLIANCE

None

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
SUMMARY SCHEDULE OF PRIOR FEDERAL AUDIT FINDINGS
YEAR ENDED JUNE 30, 2009**

<u>Comment Reference</u>	<u>Comment Title</u>	<u>Status</u>	<u>It not Corrected, Provide Planned Corrective Action or Other Explanation</u>
2008-1	Material Audit Adjustments	Not Corrected	See current year Finding 2009-1.
2008-2	Annual Financial Reporting Under Generally Accepted Accounting Principles (GAAP	Not Corrected	See current year Finding 2009-2.
2008-3	Revenues and Receipts Control	Corrected	
2008-4	Journal Entry Review	Corrected	
2008-5	Title I, Part A – Internal Control Over Students Served	Corrected	
2008-6	Special Education – Time Certifications	Corrected	
2008-7	Special Education – Missing Parental Permissions	Corrected	
2008-8	Minnesota Legal Compliance – Broker Acknowledgement Statement	Corrected	
2008-9	Minnesota Legal Compliance – Timely Payment of Invoices	Corrected	

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS
COMPLIANCE TABLE (UNAUDITED)
JUNE 30, 2009**

01 GENERAL FUND

Total Revenue	\$ 39,040,391
Total Expenditures	\$ 37,591,593
Reserved:	
403 Staff Development	\$ 115,892
405 Deferred Maintenance	\$ -
406 Health & Safety	\$ (5,194)
407 Capital Project Levy	\$ -
408 Cooperative Programs	\$ -
411 Severance	\$ -
414 Operating Debt	\$ -
416 Levy Reduction	\$ -
417 Taconite Building Maint	\$ -
419 Encumbrances	\$ -
423 Certain Teacher Programs	\$ -
424 Operating Capital	\$ 597,568
426 \$25 Taconite	\$ -
427 Disabled Accessibility	\$ -
428 Learning & Development	\$ -
434 Area Learning Center	\$ 233,254
435 Contracted Alt. Programs	\$ -
436 State Approved Alt. Program	\$ -
438 Gifted & Talented	\$ -
441 Basic Skills Programs	\$ -
445 Career and Technical Programs	\$ -
446 First Grade Preparedness	\$ -
449 Safe Schools Levy	\$ -
450 Prekindergarten	\$ -
451 QZAB Payments	\$ -
452 OPEB Liab Not In Trust	\$ -
453 Unfunded Sev & Retiremt Levy	\$ -
Unreserved:	
418 Severance - Ins. Premium	\$ 1,400,000
422 Unreserved/Undesignated	\$ 3,100,580

02 FOOD SERVICE

Total Revenue	\$ 2,091,440
Total Expenditures	\$ 1,914,406
Reserved:	
411 Severance	\$ -
419 Encumbrances	\$ -
452 OPEB Liab Not In Trust	\$ -
Unreserved:	
418 Severance - Ins. Premium	\$ -
422 Unreserved/Undesignated	\$ 772,282

04 COMMUNITY SERVICE

Total Revenue	\$ 1,414,835
Total Expenditures	\$ 1,424,085
Reserved:	
411 Severance	\$ -
419 Encumbrances	\$ -
426 \$25 Taconite	\$ -
431 Community Education	\$ 42,714
432 E.C.F.E.	\$ 1,554
444 School Readiness	\$ (10,793)
447 Adult Basic Education	\$ 73,895
452 OPEB Liab Not In Trust	\$ -
Unreserved:	
418 Severance Premium	\$ -
422 Unreserved/Undesignated	\$ 56,698

06 BUILDING CONSTRUCTION

Total Revenue	\$ (24,882)
Total Expenditures	\$ 1,794,294
Reserved:	
407 Capital Projects Levy	\$ -
409 Alternative Facility Program	\$ -
413 Project Funded by COP	\$ -
419 Encumbrances	\$ -
Unreserved:	
422 Unreserved/Undesignated	\$ 12,794,210

07 DEBT SERVICE

Total Revenue	\$ 4,944,812
Total Expenditures	\$ 4,629,775
Reserved:	
425 Bond Refundings	\$ -
451 QZAB Payments	\$ -
Unreserved:	
422 Unreserved/Undesignated	\$ 1,245,902

08 TRUST

Total Revenue	\$ 4,000
Total Expenditures	\$ 4,000
Reserved:	
419 Encumbrances	\$ -
Unreserved:	
422 Unreserved/Undesignated	\$ -

09 AGENCY

Unreserved: Should Always Be -0-	
422 Unreserved/Undesignated	\$ -

20 INTERNAL SERVICE

Total Revenue	\$ -
Total Expenditures	\$ -
Reserved:	
419 Encumbrances	\$ -
Unreserved:	
422 Unreserved/Undesignated	\$ -

25 OPEB REVOCABLE TRUST

Total Revenue	\$ -
Total Expenditures	\$ -
Reserved:	
419 Encumbrances	\$ -
Unreserved:	
422 Unreserved/Undesignated	\$ -

45 OPEB IRREVOCABLE TRUST

Total Revenue	\$ -
Total Expenditures	\$ -
Reserved:	
419 Encumbrances	\$ -
Unreserved:	
422 Unreserved/Undesignated	\$ -

47 OPEB DEBT SERVICE

Total Revenue	\$ -
Total Expenditures	\$ -
Reserved:	
425 Bond Refundings	\$ -
Unreserved:	
422 Unreserved/Undesignated	\$ -

Unaudited Data Reporting Elements

FY09 SAFE SCHOOL MAINTENANCE OF EFFORT

MOE Base Year Expenditures	\$ 862,443
MOE FTE	14.81

FY09 OPERATING CAPITAL TRANSFER

Per Pupil Amount	\$ -
AMCPU	\$ -
Total Transfer	\$ -

