

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

**FINANCIAL STATEMENTS WITH
SUPPLEMENTARY INFORMATION**

YEAR ENDED JUNE 30, 2018

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INDEPENDENT SCHOOL DISTRICT NO. 656
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INTRODUCTORY SECTION

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**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
BOARD OF EDUCATION AND ADMINISTRATION
YEAR ENDED JUNE 30, 2018**

BOARD OF EDUCATION

	<u>Term on Board Expires December 31,</u>	<u>Position on Board During 2017-2018</u>
John Currie	2020	Chair
Jason Engbrecht	2020	Vice-Chair
Yvette Marthaler	2020	Treasurer
Richard Olson	2018	Clerk
Thomas Casper	2018	Director
Andrea Vogelsberg	2018	Director
Chad Wolff	2018	Director

ADMINISTRATION

Todd Sesker	Superintendent
Jennifer Walsh	Director of Finance and Operations

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Independent School District No. 656 (the District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the basic financial statements of the District, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of June 30, 2018, and the respective changes in financial position and budgetary comparison for the General Fund, Food Service Fund, and Community Service Fund thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

During the fiscal year ended June 30, 2018, the District adopted Governmental Accounting Standards Board (GASB) Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. As a result of the implementation of this standard, the District reported a restatement for the change in accounting principle (see Note 15). Our auditors' opinion was not modified with respect to the restatement.

Report on Summarized Comparative Information

We have previously audited Independent School District No. 656's 2017 financial statements of the governmental activities, and each major fund as of and for the year ended June 30, 2017, and we expressed unmodified opinions on those audited financial statements in our report dated December 8, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The Uniform Financial Accounting and Reporting Standards Compliance Table, as required by the Minnesota Department of Education, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is also presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Uniform Financial Accounting and Reporting Standards Compliance Table and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Uniform Financial Accounting and Reporting Standards Compliance Table and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Rochester, Minnesota
October 25, 2018

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REQUIRED SUPPLEMENTARY INFORMATION

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**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018**

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, 2018. 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.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2017-18 fiscal year include the following:

- Student enrollment – students served (enrolled) in the district decreased from the previous year, going from 3,710 in 2016-17 to 3,564 in 2017-18. The student number upon which funding is calculated (includes resident students tuitioned out to other districts) decreased from 3,798 in 2016-17 to 3,663 in 2017-18.
- The General Fund Unassigned Fund Balance decreased, going from \$8,318,795 at the end of 2016-17 to \$7,300,326, which is net of a negative (\$40,228) Restricted for Health/Safety Fund Balance. Any remaining health/safety fund balance will close to the Unassigned Fund Balance in 2018-19. This was an intentional decrease to minimize the necessity for more aggressive budget cuts.

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 Position* 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 Position 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 Position includes all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. 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 position and how they have changed. Net position – the difference between the District's assets and deferred outflows of resources and liabilities and deferred inflows of resources – are one way to measure the District's financial health or position.

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

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

- 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.

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 has the following fund financial statements:

- ***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.

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

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net position. The District's combined net position was \$(6.3) million on June 30, 2018, which is a reduction compared with the prior year. (See Figure A-1 below). See Note 1 of the financial statements for more information.

**Figure A-1
Independent School District No. 656
Net Position – Governmental Activities
As of June 30, 2018 and 2017**

	Governmental Activities as of June 30,		Percentage Change
	2018	2017	
Current and Other Assets	\$ 26,437,175	\$ 37,903,684	(30.25)%
Capital Assets	55,637,530	57,064,016	(2.50)
Total Assets	<u>82,074,705</u>	<u>94,967,700</u>	(13.58)
Deferred Outflows of Resources	48,042,701	66,058,931	(27.27)
Current Liabilities	7,861,306	19,768,215	(60.23)
Long-Term Liabilities	106,146,250	121,238,278	(12.45)
Total Liabilities	<u>114,007,556</u>	<u>141,006,493</u>	(19.15)
Deferred Inflows of Resources	<u>22,401,671</u>	<u>10,104,820</u>	121.69
Net Position:			
Net Investment in Capital Assets	40,395,122	39,563,289	2.10
Restricted	3,457,614	1,978,438	74.76
Unrestricted	(50,144,557)	(31,626,409)	58.55
Total Net Position	<u>\$ (6,291,821)</u>	<u>\$ 9,915,318</u>	(163.46)

Changes in net position. The District's total revenues from Government Activities were \$58.5 million and total expenses from Government Activities were \$70 million for the year ended June 30, 2018. (See Figure A-2 on the next page.) Unrestricted state aid and property taxes accounted for 61% of the total revenue for the year. Operating and capital grants and charges for services contributed 39%. (See Figure A-3 on page 9.) Student support services and instruction-related expenses accounted for 81% of the District's expenses. The District's administrative activities accounted for 4% of total costs. (See Figure A-4 on page 9.)

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

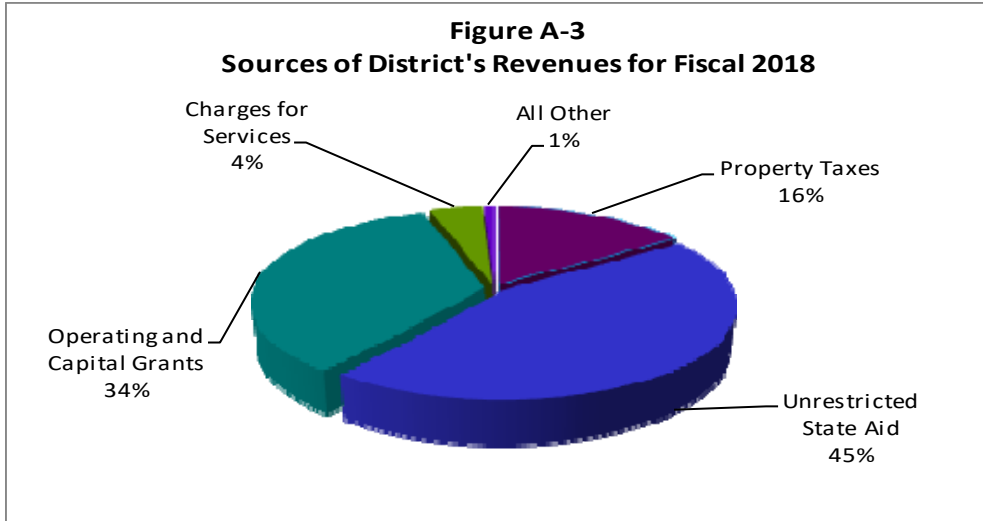
**Figure A-2
Independent School District No. 656
Change in Net Position
For the Years Ended June 30, 2018 and 2017**

	Governmental Activities for the Fiscal Year Ended June 30,		Percentage Change
	2018	2017	
Revenues			
<u>Program Revenues</u>			
Charges for Services	\$ 2,514,148	\$ 2,873,111	(12.49)%
Operating Grants and Contributions	19,534,086	21,505,434	(9.17)
Capital Grants and Contributions	640,376	569,619	12.42
<u>General Revenues</u>			
Property Taxes	9,137,596	8,791,794	3.93
Unrestricted State Aid	26,286,605	26,238,079	0.18
Investment Earnings	267,238	75,777	252.66
Other	168,339	234,064	(28.08)
Total Revenues	<u>58,548,388</u>	<u>60,287,878</u>	(2.89)
Expenses			
Administration	2,495,543	2,298,066	8.59
District Support Services	1,514,950	1,514,778	0.01
Regular Instruction	31,229,879	32,306,493	(3.33)
Vocational Education Instruction	562,057	483,431	16.26
Special Education Instruction	13,313,797	13,029,786	2.18
Instructional Support Services	5,037,332	5,571,653	(9.59)
Pupil Support Services	5,659,166	5,362,847	5.53
Sites and Buildings	4,543,664	4,583,935	(0.88)
Fiscal and Other Fixed Cost Programs	139,575	164,661	(15.23)
Food Service	2,306,739	2,396,456	(3.74)
Community Service	2,536,301	2,587,810	(1.99)
Interest and Fiscal Charges on Long-Term Liabilities	653,664	794,054	(17.68)
Total Expenses	<u>69,992,667</u>	<u>71,093,970</u>	(1.55)
Change in Net Position	(11,444,279)	(10,806,092)	
Beginning Net Position, as Previously Stated	9,915,318	20,721,410	
Restatement	(4,762,860)	-	
Beginning Net Position, as Restated	<u>5,152,458</u>	<u>20,721,410</u>	
Ending Net Position	<u>\$ (6,291,821)</u>	<u>\$ 9,915,318</u>	

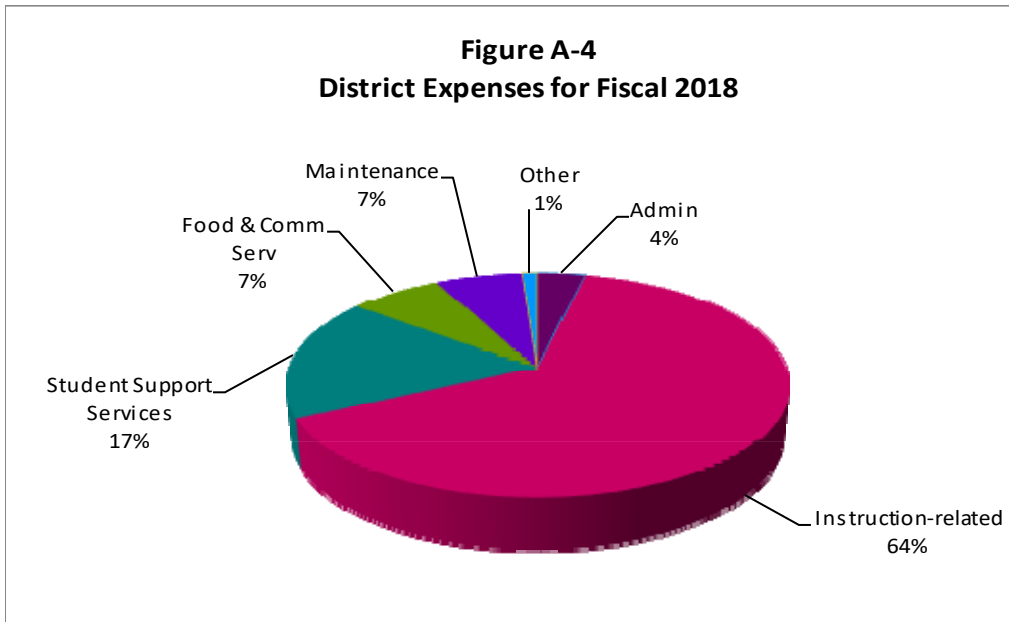
**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

**Figure A-3
Independent School District No. 656
Sources of Revenues
For Fiscal Year 2018**



**Figure A-4
Independent School District No. 656
Expenses
For Fiscal Year 2018**



**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018**

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 \$70 million. The net cost of all governmental activities this year was \$47.3 million.
- The users of the District's programs financed \$2.5 million of the cost of activities through various charges for services.
- The federal and state governments subsidized certain programs with grants and contributions of \$20.2 million.
- District property taxpayers financed \$9.1 million of governmental activities and state taxpayers financed \$26.3 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, 2018 and 2017**

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	2018	2017		2018	2017	
Administration	\$ 2,495,543	\$ 2,298,066	8.59%	\$ 2,489,907	\$ 2,250,590	10.63%
District Support Services	1,514,950	1,514,778	0.01%	1,502,062	1,481,130	1.41%
Regular Instruction	31,229,879	32,306,493	-3.33%	20,789,748	21,365,081	-2.69%
Vocational Education Instruction	562,057	483,431	16.26%	557,260	463,336	20.27%
Special Education Instruction	13,313,797	13,029,786	2.18%	6,868,185	4,814,915	42.64%
Instructional Support Services	5,037,332	5,571,653	-9.59%	4,361,097	4,923,938	-11.43%
Pupil Support Services	5,659,166	5,362,847	5.53%	5,471,727	5,152,334	6.20%
Sites and Buildings	4,543,664	4,583,935	-0.88%	3,979,705	3,962,696	0.43%
Fiscal and Other Fixed Cost Programs	139,575	164,661	-15.23%	139,575	164,661	-15.23%
Food Service	2,306,739	2,396,456	-3.74%	(22,312)	96,376	-123.15%
Community Service	2,536,301	2,587,810	-1.99%	513,439	676,695	-24.13%
Interest and Fiscal Charges on Long-Term Liabilities	653,664	794,054	-17.68%	653,664	794,054	-17.68%
	\$ 69,992,667	\$ 71,093,970	-1.55%	\$ 47,304,057	\$ 46,145,806	2.51%

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018**

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds.

The decrease in the General Fund was due to a planned spend down of the fund balance to preserve student programs.

The Food Service Fund increased by \$29,302. The increase in Food Service fund balance is attributed to a concerted effort by the District to identify all students who qualify for free and reduced meals.

The combined restricted fund balances for Community Education Programs, Restricted for Other Purposes and Adult Basic Education increased in the 2017-18 fiscal year. The Early Childhood/Family Education and School Readiness balances decreased in the 2017-18 fiscal year. All programs are closely monitored to maintain a continued balanced budget.

The Debt Service Fund decreased \$9,861,409. The proceeds for a bond refunding recognized in 2016-17 were used to pay off the existing debt.

At the end of the 2017-18 fiscal year, the District's governmental funds reported combined fund balances of \$13,611,197. This 43% decrease from the prior year is largely due to the proceeds from the bond refunding that were received in 2016-17 being used to pay existing debt in 2017-18. Revenues for the District's governmental funds were \$58,561,905 and total expenditures were \$58,992,033, and payment for the refunded bond was \$9,735,000, resulting in a fund balance decrease of \$10,155,851.

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.

Enrollment

Funding for Minnesota school districts is largely driven by enrollment. As seen in Figure A-6 below, there was a decrease in enrollment for the year of 122 students in comparison with the prior year.

**Figure A-6
Independent School District No. 656
Student Average Daily Membership**

Grade	2014	2015	2016	2017	2018
Kdgt.	323	321	316	295	309
1-3	807	805	799	787	745
4-6	840	807	803	799	776
7-12	1,823	1,916	1,922	1,904	1,834
Total K-12	3,793	3,849	3,840	3,785	3,664
ADM Change	32	57	(9)	(55)	(121)
Percent Change	0.8%	1.5%	-0.2%	-1.4%	-3.2%

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018**

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, 2018 and 2017**

	Year Ended		Change	
	June 30, 2018	June 30, 2017	Increase (Decrease)	Percent Change
Revenues:				
Local Sources:				
Property Taxes	\$ 6,475,192	\$ 5,996,424	\$ 478,768	8.0 %
Earnings on Investments	143,835	85,094	58,741	69.0
Other	1,473,120	1,772,757	(299,637)	(16.9)
State Sources	40,669,020	41,971,860	(1,302,840)	(3.1)
Federal Sources	2,166,811	1,939,904	226,907	11.7
Total General Fund Revenue	<u>\$ 50,927,978</u>	<u>\$ 51,766,039</u>	<u>\$ (838,061)</u>	(1.6)
	Year Ended		Change	
	June 30, 2018	June 30, 2017	Increase (Decrease)	Percent Change
Expenditures:				
Salaries	\$ 28,538,910	\$ 27,830,597	\$ 708,313	2.5 %
Employee Benefits	11,213,001	10,819,467	393,534	3.6
Purchased Services	7,061,246	6,557,504	503,742	7.7
Supplies and Materials	2,279,859	2,014,832	265,027	13.2
Capital Expenditures	2,033,032	2,132,987	(99,955)	(4.7)
Other Expenditures	225,268	298,160	(72,892)	(24.4)
Total General Fund Expenditures	<u>\$ 51,351,316</u>	<u>\$ 49,653,547</u>	<u>\$ 1,697,769</u>	3.4

Revenues

Fiscal year 2017-18 saw a decrease in enrollment of 122 students. The formula allowance was at \$6,188 per adjusted marginal cost pupil unit for the 2017-18 year. Revenues totaled \$50,927,978 or a decrease of \$838,061 as compared to 2016-17. The 1.6% increase is due to declining enrollment.

Expenditures

Expenditures totaled \$51,351,316 which is an increase of \$1,697,769 over 2016-17. The increase was due to a variety of factors including contract settlements, escalation of health insurance premiums, and 10% increase in transportation.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018**

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (CONTINUED)

General Fund (Continued)

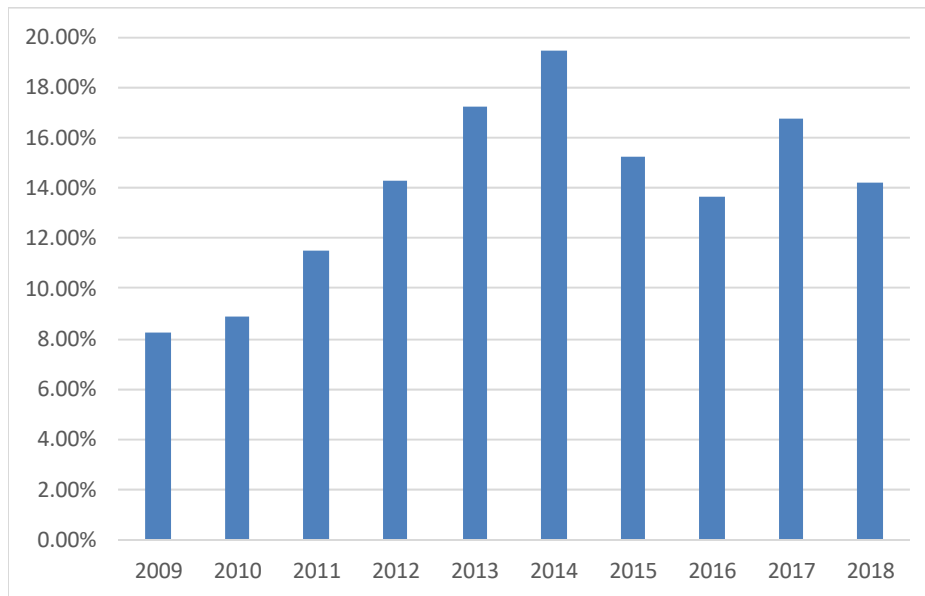
Fund Balance

The reported unassigned fund balance is \$7,300,326 which is net of a -\$40,228 restricted for health/safety fund balance. Any remaining health/safety fund balance at the end of 2018-19 will close to the unassigned fund balance. The committed fund balance for postemployment benefits is \$2,451,000, assigned fund balance as a result of a donation to the athletic department is \$112,186, non-spendable fund balance is \$209,741 and the restricted fund balances for staff development, gifted and talented, long-term facilities maintenance, achievement and integration, teacher growth and development and operating capital total \$2,007,631.

The graph in Figure A-8, below, depicts the General Fund unassigned fund balance as a percentage of total expenditures for the 10 fiscal years ending June 30, 2009–2018. The District's unassigned fund balance offers the single best measure of the District's overall financial health. The unassigned fund balance on June 30, 2018 represents 14.22% of annual expenditures.

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

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



**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018**

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (CONTINUED)

BUDGETARY HIGHLIGHTS

The District revised the annual operating budget from the preliminary budget approved in June 2017 to the final budget approved in June of 2018.

General Fund

The District's final budget for the general fund anticipated that expenditures would exceed revenues and other financing sources by \$167,846. The actual results for the year show expenditures exceeding revenues by \$412,989.

- Actual revenues were \$411,237 above budget, with most of the difference from interest earnings and gifts/bequests.
- Actual expenditures and other financing uses were \$612,729 over budget. Capital lease principal and interest payments were the majority of that difference.

Food Service Fund

The Food Service Fund revenues and transfers for 2017-18 were \$2.34 million and expenditures were \$2.3 million. The fund balance as of June 30, 2018 is \$263,585, an increase of \$29,302 from fiscal year 2016-17. The District contracts with Sodexo for management of the District food service program. Sodexo continues to provide exemplary management services.

Community Service Fund

The Community Service Fund revenues for 2017-18 totaled \$2.4 million and expenditures were \$2.3 million. The fund balance as of June 30, 2018 is \$616,059, an increase of \$89,245. The individual restricted accounts of Early Childhood/Family Education and School Readiness decreased during the year while Community Education, Adult Basic Education and Restricted for Other Purposes saw an increase.

Debt Service Fund

The Debt Service Fund is used to record revenues and expenditures for a school district's outstanding bonded indebtedness, whether for building construction, operating capital, or for initial or refunding bonds. The Debt Service Fund revenues for 2017-18 totaled \$2.9 million and expenditures and other financing uses were \$12.8 million. The fund balance as of June 30, 2018 is \$650,669, a decrease of \$9,861,409 due to a payment for refunded bonds in 2017-18. 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'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2018, the District had invested \$55,637,530 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 \$43,528,110 as of June 30, 2018. More detailed information about capital assets can be found in Note 4 of the financial statements.

**Figure A-9
Independent School District No. 656
Capital Assets
June 30, 2018 and 2017**

	2018	2017	Percentage Change
Land	\$ 1,913,554	\$ 1,913,554	-
Construction in Progress	51,442	-	N/A
Land Improvements	7,007,623	7,007,623	-
Buildings and Improvements	82,573,974	82,567,279	0.0
Equipment	7,619,047	6,525,000	16.8
Less: Accumulated Depreciation	(43,528,110)	(40,949,440)	6.3
Total District Capital Assets	<u>\$ 55,637,530</u>	<u>\$ 57,064,016</u>	(2.5)

Long-Term Liabilities

For the fiscal year ended June 30, 2018, the District had \$11.2 million in general obligation bonds outstanding. (See Figure A-10 below.) The District also had \$8.4 million in health benefits, separation, and severance payable as of June 30, 2018. More detailed information about the District's long-term liabilities is presented in Note 5 of the financial statements. More information about GASB No. 68 can be found in Note 1 and Note 7 of the financial statements.

**Figure A-10
Independent School District No. 656
Outstanding Long-Term Liabilities
June 30, 2018 and 2017**

	2018	2017	Percentage Change
General Obligation Bonds	\$ 11,260,000	\$ 23,380,000	(51.8)%
Net Bond Premium and Discount	113,780	116,307	(2.2)
Lease Purchase Payable	3,220,228	3,505,214	(8.1)
Capital Lease Payable	648,400	412,802	57.1
Compensated Absences Payable	1,260,993	1,119,506	12.6
Total Long-Term Liabilities	<u>\$ 16,503,401</u>	<u>\$ 28,533,829</u>	(42.2)
Long-Term Liabilities:			
Due Within One Year	\$ 2,360,919	\$ 14,130,133	
Due in More Than One Year	14,142,482	14,403,696	
Total	<u>\$ 16,503,401</u>	<u>\$ 28,533,829</u>	

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018**

FACTORS BEARING ON THE DISTRICT'S FUTURE

With the exception of a voter-approved operating referendum, the District is dependent on the State of Minnesota for its revenue authority. The most 2017 legislative session did offer some minimal financial increases. However, in the most recent prior years, legislative revenue increases have been minimal or non-existent and have not been sufficient to meet our instructional needs and increased costs due to inflation.

Enrollments will be closely monitored and projections will be done using several models. Faribault Public Schools anticipates a decline in the numbers of students served. Declining enrollments significantly impacts our state and federal revenue streams. In light of declining enrollment, budget adjustments will be necessary to return to a balanced budget.

The District is in a strong financial position. Through continued use of enrollment and financial projection models and careful monitoring, we will continue to make data-driven decisions to insure ongoing fiscal health.

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 Jennifer Walsh, Director of Finance and Operations, at the ISD 656 District Office, 710 17th St. SW, P.O. Box 618, Faribault, MN 55021, jwalsh@faribault.k12.mn.us or visit the District's website at www.faribault.k12.mn.us.

BASIC FINANCIAL STATEMENTS

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**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
STATEMENT OF NET POSITION
JUNE 30, 2018
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2017)**

	Governmental Activities	
	2018	2017
ASSETS		
Cash and Investments	\$ 17,680,709	\$ 17,780,697
Cash and Investments Held by Trustee	-	9,805,097
Receivables:		
Property Taxes	3,720,961	4,385,530
Other Governments	4,713,095	4,917,985
Other	102,042	159,072
Prepaid Items	161,535	788,821
Inventory	58,833	66,482
Capital Assets:		
Land and Construction in Progress	1,964,996	1,913,554
Other Capital Assets, Net of Depreciation	53,672,534	55,150,462
Total Assets	82,074,705	94,967,700
DEFERRED OUTFLOWS OF RESOURCES		
Pension Related	47,383,410	66,058,931
Other Postemployment Benefits Related	659,291	-
Total Deferred Outflows	48,042,701	66,058,931
LIABILITIES		
Salaries and Payroll Deductions Payable	4,665,919	4,603,961
Accounts and Contracts Payable	577,341	594,679
Accrued Interest	137,361	301,209
Due to Other Governmental Units	63,547	79,653
Unearned Revenue	56,219	58,580
Long-Term Liabilities:		
Portion Due Within One Year	2,360,919	14,130,133
Portion Due in More Than One Year	14,142,482	14,403,696
Net Pension Liability	84,899,034	105,181,906
Other Postemployment Benefits Liability	7,104,734	1,652,676
Total Liabilities	114,007,556	141,006,493
DEFERRED INFLOWS OF RESOURCES		
Property Taxes Levied for Subsequent Year	7,366,506	8,683,576
Gain on Bond Refunding	-	7,686
Pension Related	15,035,165	1,413,558
Total Deferred Inflows of Resources	22,401,671	10,104,820
NET POSITION		
Net Investment in Capital Assets	40,395,122	39,563,289
Restricted for:		
Operating Capital Purposes	359,812	396,823
State-Mandated Reserves	1,647,819	472,852
Food Service	282,917	234,283
Community Service	619,843	531,347
Debt Service	547,223	343,133
Unrestricted	(50,144,557)	(31,626,409)
Total Net Position	\$ (6,291,821)	\$ 9,915,318

See accompanying Notes to Basic Financial Statements.

**FARIBAUT PUBLIC SCHOOLS
 INDEPENDENT SCHOOL DISTRICT NO. 656
 STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2018
 (WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2017)**

2018			
Functions	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Governmental Activities			
Administration	\$ 2,495,543	\$ -	\$ 5,636
District Support Services	1,514,950	-	247
Regular Instruction	31,229,879	259,204	9,933,623
Vocational Education Instruction	562,057	-	4,797
Special Education Instruction	13,313,797	426,881	6,018,731
Instructional Support Services	5,037,332	26,405	511,345
Pupil Support Services	5,659,166	9,983	177,456
Sites and Buildings	4,543,664	271,098	50,915
Fiscal and Other Fixed Cost Programs	139,575	-	-
Food Service	2,306,739	487,400	1,841,651
Community Service	2,536,301	1,033,177	989,685
Interest and Fiscal Charges on Long-Term Liabilities	653,664	-	-
Total School District	\$ 69,992,667	\$ 2,514,148	\$ 19,534,086

General Revenues

Property Taxes Levied for:
 General Purposes
 Community Service
 Debt Service
 State Aid Not Restricted to Specific Purposes
 Earnings on Investments
 Miscellaneous
 Total General Revenues

Change in Net Position

Net Position - Beginning, as Previously Stated
 Restatement
 Net Position - Beginning, as Restated
 Net Position - Ending

See accompanying Notes to Basic Financial Statements.

<u>2017</u>		<u>2017</u>	
<u>Capital Grants and Contributions</u>	<u>Net (Expense) Revenue and Change in Net Position Total Governmental Activities</u>	<u>Net (Expense) Revenue and Change in Net Position Total Governmental Activities</u>	<u>Net (Expense) Revenue and Change in Net Position Total Governmental Activities</u>
\$ -	\$ (2,489,907)	\$ (2,250,590)	
12,641	(1,502,062)	(1,481,130)	
247,304	(20,789,748)	(21,365,081)	
-	(557,260)	(463,336)	
-	(6,868,185)	(4,814,915)	
138,485	(4,361,097)	(4,923,938)	
-	(5,471,727)	(5,152,334)	
241,946	(3,979,705)	(3,962,696)	
-	(139,575)	(164,661)	
-	22,312	(96,376)	
-	(513,439)	(676,695)	
-	(653,664)	(794,054)	
<u>\$ 640,376</u>	<u>(47,304,057)</u>	<u>(46,145,806)</u>	
	6,468,145	5,997,566	
	343,983	348,585	
	2,325,468	2,445,643	
	26,286,605	26,238,079	
	267,238	75,777	
	168,339	234,064	
	<u>35,859,778</u>	<u>35,339,714</u>	
	(11,444,279)	(10,806,092)	
	9,915,318	20,721,410	
	<u>(4,762,860)</u>	-	
	<u>5,152,458</u>	<u>20,721,410</u>	
	<u>\$ (6,291,821)</u>	<u>\$ 9,915,318</u>	

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2017)**

	Major		
	General	Food Service	Community Service
ASSETS			
Cash and Investments	\$ 15,182,391	\$ 264,509	\$ 683,823
Cash and Investments Held by Trustee	-	-	-
Receivables:			
Current Property Taxes	2,599,222	-	169,280
Delinquent Property Taxes	58,747	-	3,784
Due from Other Minnesota School Districts	371,488	-	66,636
Due from Minnesota Department of Education	3,212,329	3,301	70,217
Due from Federal through Minnesota Department of Education	810,882	68,810	52,472
Other Receivables	36,683	-	65,359
Due from Other Governmental Units	7,349	-	2,500
Prepaid Items	150,908	10,627	-
Inventory	58,833	-	-
Total Assets	<u>\$ 22,488,832</u>	<u>\$ 347,247</u>	<u>\$ 1,114,071</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE			
Liabilities:			
Salaries Payable	\$ 2,044,574	\$ 192	90,391
Payroll Deductions Payable	2,530,762	-	-
Accounts and Contracts Payable	513,302	39,579	24,460
Due to Other Governmental Units	63,547	-	-
Unearned Revenue	8,532	24,559	23,128
Total Liabilities	<u>5,160,717</u>	<u>64,330</u>	<u>137,979</u>
Deferred Inflows of Resources:			
Property Taxes Levied for Subsequent Year	5,207,816	-	356,249
Unavailable Revenue - Delinquent Property Taxes	58,747	-	3,784
Total Deferred Inflows of Resources	<u>5,266,563</u>	<u>-</u>	<u>360,033</u>
Fund Balance:			
Nonspendable:			
Prepaid Items	150,908	10,627	-
Inventory	58,833	-	-
Restricted for:			
Staff Development	28,545	-	-
Health and Safety	-	-	-
Operating Capital	359,812	-	-
Teacher Development and Evaluation	-	-	-
Achievement and Integration	-	-	-
LTFM	1,619,274	-	-
Community Education	-	-	325,819
Early Childhood and Family Education	-	-	5,251
School Readiness	-	-	76,868
Adult Basic Education	-	-	147,759
Bond Refundings	-	-	-
Restricted for Other Purposes	-	272,290	60,362
Committed for:			
Separation/Retirement Benefits	2,451,000	-	-
Assigned for:			
Athletic Equipment	112,186	-	-
Unassigned	7,280,994	-	-
Total Fund Balance	<u>12,061,552</u>	<u>282,917</u>	<u>616,059</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u>\$ 22,488,832</u>	<u>\$ 347,247</u>	<u>\$ 1,114,071</u>

See accompanying Notes to Basic Financial Statements.

Funds	Total Governmental	
	Funds	
Debt Service	2018	2017
\$ 1,549,986	\$ 17,680,709	\$ 17,780,697
-	-	9,805,097
856,013	3,624,515	4,269,343
33,915	96,446	116,187
-	438,124	306,461
47,111	3,332,958	3,673,190
-	932,164	938,334
-	102,042	159,072
-	9,849	-
-	161,535	788,821
-	58,833	66,482
<u>\$ 2,487,025</u>	<u>\$ 26,437,175</u>	<u>\$ 37,903,684</u>
\$ -	\$ 2,135,157	\$ 1,983,771
-	2,530,762	2,620,190
-	577,341	594,679
-	63,547	79,653
-	56,219	58,580
-	5,363,026	5,336,873
1,802,441	7,366,506	8,683,576
33,915	96,446	116,187
<u>1,836,356</u>	<u>7,462,952</u>	<u>8,799,763</u>
-	161,535	788,821
-	58,833	66,482
-	28,545	53,208
-	-	47,326
-	359,812	396,823
-	-	2,628
-	-	18,404
-	1,619,274	351,286
-	325,819	278,315
-	5,251	9,439
-	76,868	138,213
-	147,759	100,164
-	-	9,805,097
650,669	983,321	941,947
-	2,451,000	2,451,000
-	112,186	-
-	7,280,994	8,317,895
<u>650,669</u>	<u>13,611,197</u>	<u>23,767,048</u>
<u>\$ 2,487,025</u>	<u>\$ 26,437,175</u>	<u>\$ 37,903,684</u>

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**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2018
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2017)**

	2018	2017
Total Fund Balance for Governmental Funds	\$ 13,611,197	\$ 23,767,048
Total net position reported for governmental activities in the Statement of Net Position 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	1,913,554	1,913,554
Construction in Progress	51,442	-
Land Improvements, Net of Accumulated Depreciation	3,791,090	4,084,116
Buildings and Improvements, Net of Accumulated Depreciation	47,340,359	49,237,777
Equipment, Net of Accumulated Depreciation	2,541,085	2,606,868
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 inflows of resources in the funds.		
	96,446	116,187
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.		
	(137,361)	(301,209)
Gain on Bond Refunding is reported as a deferred inflow of resources in the Statement of Net Position		
	-	(7,686)
The District's Net Pension Liability and related Deferred Outflows and Inflows of Resources are recorded only on the Statement of Net Position. Balances at year-end are:		
Net Pension Liability	(84,899,034)	(105,181,906)
Deferred Outflows of Resources - Pension Related	47,383,410	66,058,931
Deferred Inflows of Resources - Pension Related	(15,035,165)	(1,413,558)
The District's Other Postemployment Benefits Liability and related deferred inflows and outflows are recorded only on the Statement of Net Position. Balances at year-end are:		
Other Postemployment Benefits Liability	(7,104,734)	(1,652,676)
Deferred Outflows of Resources - Other Postemployment Benefits	659,291	-
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 Position. Balances at year-end are:		
General Obligation Bonds Payable	(11,260,000)	(23,380,000)
Unamortized Bond Premiums	(128,523)	(133,596)
Unamortized Bond Discounts	14,743	17,289
Lease Purchase Payable	(3,220,228)	(3,505,214)
Capital Leases Payable	(648,400)	(1,191,101)
Compensated Absences Payable	(1,260,993)	(1,119,506)
Total Net Position of Governmental Activities	\$ (6,291,821)	\$ 9,915,318

See accompanying Notes to Basic Financial Statements

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2018
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2017)**

	General	Food Service	Major Community Service
REVENUES			
Local Sources:			
Property Taxes	\$ 6,475,192	\$ -	\$ 344,732
Earnings and Investments	143,835	3,938	4,616
Other	1,473,120	491,471	1,245,731
State Sources	40,669,020	116,999	644,762
Federal Sources	2,166,811	1,724,705	129,719
Total Revenues	<u>50,927,978</u>	<u>2,337,113</u>	<u>2,369,560</u>
EXPENDITURES			
Current:			
Administration	1,947,933	-	-
District Support Services	1,499,693	-	-
Elementary and Secondary Regular Instruction	21,350,396	-	-
Vocational Education Instruction	413,912	-	-
Special Education Instruction	10,519,688	-	-
Instructional Support Services	4,320,845	-	-
Pupil Support Services	5,130,340	-	-
Sites and Buildings	3,995,902	-	-
Fiscal and Other Fixed Cost Programs	139,575	-	-
Food Service	-	2,280,948	-
Community Service	-	-	2,257,229
Capital Outlay	1,046,283	25,791	23,086
Debt Service:			
Principal	827,687	-	-
Interest and Fiscal Charges	159,062	-	-
Total Expenditures	<u>51,351,316</u>	<u>2,306,739</u>	<u>2,280,315</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(423,338)	30,374	89,245
OTHER FINANCING SOURCES (USES)			
Insurance Recovery	9,277	-	-
Bond Proceeds	-	-	-
Payment to Refunded Bond Escrow Agent	-	-	-
Transfers In	-	18,260	-
Transfers Out	(18,260)	-	-
Total Other Financing Sources (Uses)	<u>(8,983)</u>	<u>18,260</u>	<u>-</u>
Net Change in Fund Balances	(432,321)	48,634	89,245
Fund Balances - Beginning	<u>12,493,873</u>	<u>234,283</u>	<u>526,814</u>
Fund Balances - Ending	<u>\$ 12,061,552</u>	<u>\$ 282,917</u>	<u>\$ 616,059</u>

See accompanying Notes to Basic Financial Statements

Funds Debt Service	Total Governmental Funds	
	2018	2017
\$ 2,337,413	\$ 9,157,337	\$ 8,800,980
114,849	267,238	75,777
-	3,210,322	3,561,783
474,992	41,905,773	42,992,984
-	4,021,235	3,627,877
<u>2,927,254</u>	<u>58,561,905</u>	<u>59,059,401</u>
-	1,947,933	1,706,434
-	1,499,693	1,448,853
-	21,350,396	20,895,377
-	413,912	319,676
-	10,519,688	9,857,267
-	4,320,845	4,422,045
-	5,130,340	4,738,334
-	3,995,902	3,967,913
-	139,575	164,661
-	2,280,948	2,372,529
-	2,257,229	2,171,797
-	1,095,160	1,331,635
2,385,000	3,212,687	3,090,864
668,663	827,725	757,868
<u>3,053,663</u>	<u>58,992,033</u>	<u>57,245,253</u>
(126,409)	(430,128)	1,814,148
-	9,277	-
-	-	9,918,669
(9,735,000)	(9,735,000)	-
-	18,260	25,529
-	(18,260)	(25,529)
<u>(9,735,000)</u>	<u>(9,725,723)</u>	<u>9,918,669</u>
(9,861,409)	(10,155,851)	11,732,817
<u>10,512,078</u>	<u>23,767,048</u>	<u>12,034,231</u>
<u>\$ 650,669</u>	<u>\$ 13,611,197</u>	<u>\$ 23,767,048</u>

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2017)**

	2018	2017
Net Change in Fund Balances - Total Governmental Funds	\$ (10,155,851)	\$ 11,732,817
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 \$5,000 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense.		
Capital Outlays	467,566	461,188
Depreciation Expense	(2,672,351)	(2,641,713)
Some capital asset additions are financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the Statement of Net Position, the lease obligation is reported as a liability. Repayment of capital lease principal is an expenditure in the governmental funds, but repayment reduces the lease obligation in the Statement of Net Position.		
Repayment of Capital Lease Principal	542,701	478,891
The governmental funds report bond proceeds as financing sources, while repayment of bond principal is reported as an expenditure. In the Statement of Net Position, 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 premiums, discounts and similar items 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	-	(9,780,000)
Bond Premium	-	(138,669)
Payment to Refunded Bond Escrow Agent	9,735,000	-
Repayment of General Obligation Bond Principal	2,385,000	2,335,000
Repayment of Lease Purchase Payable	284,986	276,972
Change in Accrued Interest Expense - General Obligation Bonds and Lease Purchase Payable	163,848	(44,139)
Changes in Compensated Absences Payable	(141,487)	(253,959)
Amortization of Bond Premium	5,073	5,073
Amortization of Bond Discount	(2,546)	(2,546)
Amortization of Gain on Bond Refunding	7,686	5,427
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 unearned in the governmental funds.		
	(19,741)	(9,186)
Pension expenditures in the governmental funds are measured by current year employee contributions. Pension expenses in the Statement of Activities are measured by the change in the Net Pension Liability and the related Deferred Outflows and Inflows of Resources.		
	(12,014,256)	(13,231,248)
In the Statement of Activities, certain operating expenses - other postemployment benefits payable and compensated absences payable - 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).		
	(29,907)	-
Change in Net Position of Governmental Activities	\$ (11,444,279)	\$ (10,806,092)

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
GENERAL FUND
YEAR ENDED JUNE 30, 2018**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Local Sources:				
Property Taxes	\$ 6,551,126	\$ 6,468,152	\$ 6,475,192	\$ 7,040
Earnings and Investments	50,000	100,000	143,835	43,835
Other	1,091,010	1,064,322	1,473,120	408,798
State Sources	40,910,891	40,609,410	40,669,020	59,610
Federal Sources	2,162,326	2,274,857	2,166,811	(108,046)
Total Revenues	<u>50,765,353</u>	<u>50,516,741</u>	<u>50,927,978</u>	<u>411,237</u>
EXPENDITURES				
Current:				
Administration	1,666,321	1,917,520	1,947,933	30,413
District Support Services	1,445,247	1,484,195	1,499,693	15,498
Elementary and Secondary				
Regular Instruction	22,021,932	21,381,680	21,350,396	(31,284)
Vocational Education Instruction	318,447	405,495	413,912	8,417
Special Education Instruction	9,707,553	10,444,294	10,519,688	75,394
Instructional Support Services	4,415,158	4,280,817	4,320,845	40,028
Pupil Support Services	4,809,635	4,917,615	5,130,340	212,725
Sites and Buildings	4,610,369	3,976,041	3,995,902	19,861
Fiscal and Other Fixed Cost Programs	156,736	156,735	139,575	(17,160)
Capital Outlay	1,441,899	1,387,657	1,046,283	(341,374)
Debt Service:				
Principal	170,327	281,382	827,687	546,305
Interest and Fiscal Charges	41,141	105,156	159,062	53,906
Total Expenditures	<u>50,804,765</u>	<u>50,738,587</u>	<u>51,351,316</u>	<u>612,729</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(39,412)	(221,846)	(423,338)	(201,492)
OTHER FINANCING USES				
Sale of Equipment	-	54,000	-	(54,000)
Insurance Recovery	-	-	9,277	9,277
Transfers Out	-	-	(18,260)	(18,260)
Total Other Financing Uses	<u>-</u>	<u>54,000</u>	<u>(8,983)</u>	<u>(62,983)</u>
NET CHANGES IN FUND BALANCES	<u>\$ (39,412)</u>	<u>\$ (167,846)</u>	<u>(432,321)</u>	<u>\$ (264,475)</u>
FUND BALANCE				
Beginning of Year			<u>12,493,873</u>	
End of Year			<u>\$ 12,061,552</u>	

See accompanying Notes to Basic Financial Statements.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOOD SERVICE FUND
YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Actual Amounts	Over (Under) Final Budget
	Original	Final		
REVENUES				
Local Sources:				
Earnings and Investments	\$ 1,000	\$ 1,000	\$ 3,938	\$ 2,938
Other - Primarily Meal Sales	509,434	521,571	491,471	(30,100)
State Sources	122,712	120,173	116,999	(3,174)
Federal Sources	1,608,135	1,688,828	1,724,705	35,877
Total Revenues	2,241,281	2,331,572	2,337,113	5,541
EXPENDITURES				
Current:				
Food Service	2,242,286	2,315,097	2,280,948	(34,149)
Capital Outlay	22,900	30,000	25,791	(4,209)
Total Expenditures	2,265,186	2,345,097	2,306,739	(38,358)
Excess (Deficiency) of Revenues Over (Under) Expenditures	(23,905)	(13,525)	30,374	43,899
OTHER FINANCING USES				
Transfers In	-	-	18,260	18,260
Total Other Financing Uses	-	-	18,260	18,260
NET CHANGES IN FUND BALANCE	\$ (23,905)	\$ (13,525)	48,634	\$ 62,159
FUND BALANCE				
Beginning of Year			234,283	
End of Year			\$ 282,917	

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, 2018**

	Budgeted Amounts		Actual Amounts	Over (Under) Final Budget
	Original	Final		
REVENUES				
Local Sources:				
Property Taxes	\$ 349,643	\$ 347,072	\$ 344,732	\$ (2,340)
Earnings and Investments	-	-	4,616	4,616
Other - Primarily Tuition and Fees	1,240,931	1,267,014	1,245,731	(21,283)
State Sources	608,832	638,326	644,762	6,436
Federal Sources	14,000	213,499	129,719	(83,780)
Total Revenues	<u>2,213,406</u>	<u>2,465,911</u>	<u>2,369,560</u>	<u>(96,351)</u>
EXPENDITURES				
Current:				
Community Service	2,203,836	2,531,929	2,257,229	(274,700)
Capital Outlay	13,600	25,209	23,086	(2,123)
Total Expenditures	<u>2,217,436</u>	<u>2,557,138</u>	<u>2,280,315</u>	<u>(276,823)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ (4,030)</u>	<u>\$ (91,227)</u>	89,245	<u>\$ 180,472</u>
FUND BALANCE				
Beginning of Year			<u>526,814</u>	
End of Year			<u>\$ 616,059</u>	

See accompanying Notes to Basic Financial Statements.

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**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

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 accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The GASB pronouncements are recognized as accounting principles generally accepted in the United States of America 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.

Accounting Principles generally accepted in the United States of America (GAAP) require that the District's financial statements include all funds, departments, agencies, boards, commissions, and other organizations which are not legally separate 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. In accordance with Minnesota Statutes, the District's Board of Education has not elected to control or exercise oversight responsibility with respect to the underlying student activities. Accordingly, the student activity accounts are not included in these financial statements.

C. Basic Financial Statement Presentation

The Government-Wide Financial Statements (i.e., the Statement of Net Position and the Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the District.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basic Financial Statement Presentation (Continued)

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

The District applies restricted resources first when an expense is incurred for purpose for which both restricted and unrestricted net position is available. Depreciation expenses that can be specifically identified by function are 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 Funds. Major individual Governmental Funds are reported as separate columns in the Fund Financial Statements.

D. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The Government-Wide Financial Statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of 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.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

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 accounting principles generally accepted in the United States of America. Minnesota Statutes include state aid funding formulas for specific fiscal years. Federal revenue is recorded in the year in which the related expenditure is made. 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.

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.

Food Service Special Revenue Fund – The Food Service Fund is used to account for food service revenues and expenditures. Revenues for the Food Service Special Revenue Fund are composed of user fees and reimbursements from the federal and state governments. These revenues are restricted for the Food Service Special Revenue Fund.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

Community Service Special Revenue Fund – The Community Service Special Revenue 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, K-6 extended day programs, or other similar services. Revenues for the Community Service Special Revenue Fund are composed of user fees, local levy dollars, state tax credits, and aid from the federal and state governments. These revenues are restricted for the Community Service Special Revenue Fund.

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.

E. Budgeting

Budgets presented in this report for comparison to actual amounts are presented in accordance with accounting principles generally accepted in the United States of America. 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 or within one week of the acceptance of the final audit by the Board of Education 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.

F. Cash and Investments

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

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. 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.

I. Inventory

Inventory is recorded using the consumption method of accounting and consists of supplies on hand at June 30, 2018. Supply purchases are recorded at invoice cost, computed on a first-in, first-out method. The District had no food or commodity inventory on hand at June 30, 2018.

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 and are responsible for spreading all levies over taxable property. Such taxes become a lien on January 1. Taxes are due on May 15 and October 15, and counties generally remit taxes to Districts 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.

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 a deferred inflow of resources (property taxes levied for subsequent year). The majority of District revenue in the General Fund and Debt Service 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."

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Property Taxes (Continued)

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. Certain other portions of the District's 2017 pay 2018 levy, normally revenue for the 2018-2018 fiscal year, are also advance recognized at June 30, 2018, as required by State Statute to match revenue with the same fiscal year as the related expenditures.

Taxes that remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is unavailable 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, 2018, 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 acquisition value at the date of donation. The District maintains a threshold level of \$5,000 for capitalizing capital assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded in the Government-Wide Financial Statements, but are not reported in the Fund Financial Statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school 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.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

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 are 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 are reported as an expense in the period they are incurred.

In the Fund Financial Statements, governmental fund types recognize bond premiums and discounts 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, 2018, unpaid vacation pay totaling \$145,528 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.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Accrued Employee Benefits (Continued)

Compensated Absences Payable (Continued)

The District has recorded a liability for accrued convertible sick leave based on the sick leave accumulated at June 30, 2018 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 2018, total expenditures for early retirement incentive payments and convertible sick leave were \$964,629. At June 30, 2018, a liability for early retirement incentive payments and convertible sick leave totaling \$1,115,465 is recorded in the financial statements.

Other Postemployment Benefits (OPEB)

Under the terms of certain collectively bargained employment contracts, including the teachers’ and administrators’ contracts, the District makes contributions toward the health insurance premiums of certain retired employees. All premiums are funded on a pay-as-you-go basis. The District also has an implicit rate subsidy for OPEB. This amount was actuarially determined, in accordance with GASB Statement No. 75.

N. Pension

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

O. Deferred Outflows of Resources

In addition to assets, the financial statements will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense) until that time. The District has two items, which relate to pensions and other postemployment benefits.

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Deferred Inflows of Resources

In addition to liabilities, the financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow or resources (revenue) until that time. The District has four types of items. The first occurs because property tax receivables are recorded in the current year, but the revenue will be recorded in the subsequent year. The second type of deferred inflows of resources occurs because governmental fund revenues are not recognized until available (collected not later than 60 days after the end of the District's year-end) under the modified accrual basis of accounting. The third type, *pension related*, is related to differences in expected and actual economic experience and changes in proportionate share. The fourth type is a gain on bond refunding, which is being amortized over the life of the bonds.

Q. Unearned Revenue

Unearned revenues are those in which resources are received by the District before it has a legal claim to them. The District has recorded unearned revenue in the General Fund for unspent grants. The District has reported unearned revenues for 2018-2019 school lunch deposits in the Food Service Fund. The District also recorded unearned revenue in the Community Service Fund in an amount equal to prepaid account balances and enrichment deposits.

R. Fund Balance

In the Fund Financial Statements, Governmental Funds report nonspendable, restricted, committed, assigned, or unassigned fund balances. Nonspendable portions of fund balance relate to prepaid items and inventory. Restricted funds are constrained by outside parties (statute, grantors, bond agreements, etc.). Committed fund balances are established and modified by a resolution approved by the Board of Education. The Board of Education passed a resolution authorizing the Superintendent and Director of Finance and Operations the ability to assign fund balances and their intended uses. In the current year, the District has an assigned fund balance in the General Fund. Unassigned fund balances are considered the remaining amounts.

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

The District has a minimum fund balance policy, which identifies a minimum Unassigned General Fund balance of 9.5% of the annual budgeted expenditures.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

S. 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 carry 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.

T. Net Position

Net position represents the difference between Assets and Deferred Outflows of Resources and Liabilities and Deferred Inflows of Resources in the Government-Wide Financial Statements. Net investment in capital assets 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 position is reported as restricted in the Government-Wide Financial Statements when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws, or regulations of other governments.

U. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of Assets and Deferred Outflows of Resources and Liabilities and Deferred Inflows of Resources and disclosure of contingent Assets and Liabilities at the date of the financial statements and the reported amounts of Revenues and Expenses during the reporting period. Actual results could vary from those estimates.

V. Summarized Comparative Information

The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the government's financial statements for the year ended June 30, 2017, from which the summarized information was derived. Certain comparative information has been reclassified to conform with the current year presentation.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 2 STEWARDSHIP AND ACCOUNTABILITY

A. Interfund Transfers

	Transfers In	Transfers Out
General Fund	\$ -	\$ 18,260
Special Revenue Fund:		
Food Service Fund	18,260	-
	\$ 18,260	\$ 18,260

The Food Service Fund wrote off uncollectible student accounts during the year ended June 30, 2018; to cover these write-offs, an operating transfer from the General Fund was made.

B. Expenditures in Excess of Budget

Expenditures exceeded budgeted amounts in the following funds:

	Budget	Expenditures	Excess
General Fund	\$ 50,738,587	\$ 51,351,316	\$ 612,729

These additional expenditures were paid for with available fund balances.

NOTE 3 CASH AND INVESTMENTS

A. Deposits

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk and follows Minnesota Statutes for deposits. The District’s deposits were not exposed to custodial credit risk at June 30, 2018.

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 Statement of Net Position and Balance Sheet as “Cash and Investments.” In accordance with Minnesota Statutes the District maintains deposits at financial institutions which are authorized by the School District’s Board of Education.

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

The District’s deposits in financial institutions at June 30, 2018 were entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota Statutes.

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

A. Deposits (Continued)

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. Government Agencies; general obligations rated "A" or better; revenue obligations rated "AA" or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota Statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. It is required that the District sign authorizations releasing collateral once it is pledged.

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 received 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 banks corporations or their Canadian subsidiaries, of highest quality category by a least two nationally recognized rating agencies, and maturing in 270 days or less.
- Guaranteed investment contracts guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is in the top two rating categories.
- Repurchase or reverse purchase agreement 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, 2018, the District had the following investments:

<u>Investment</u>	<u>Amortized Cost</u>
Minnesota School District Liquid Asset Fund Plus (MDSLAF+)	\$ 623,493
Minnesota School District LAF MAX Series (MSDMAX)	<u>15,890,066</u>
Total Investment Pools	<u><u>\$ 16,513,559</u></u>

The MSDLAF and MSDMAX are external investment pools not registered with the Securities Exchange Commission (SEC). The fair value of the position of the pools is the same as the value of the pool shares.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

The Liquid class has no redemption requirements. The Max Class may not be redeemed for at least 14 days, and a 24 hour hold is placed on redemption requests. Redemptions prior to 14 days may be subject to penalty.

Credit Risk

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 MSDLAF and MSDMAX pools are rated AAAM by Standard & Poor's.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

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.

C. Balance Sheet Presentation

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

Cash and Investments - Statement of Net Position	\$ 17,680,709
Total Cash and Investments	\$ 17,680,709

Total cash and investments at June 30, 2018 consisted of the following:

Deposits	\$ 1,164,440
Cash on Hand	2,710
Minnesota School District Liquid Asset Fund Max Series (MSDMAX)	15,890,066
Minnesota School District Liquid Asset Fund Plus (MSDLAF+)	623,493
	\$ 17,680,709

**FARIBAULT PUBLIC SCHOOLS
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NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 4 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018 was as follows:

	Beginning Balance (As Restated)	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets, Not Being Depreciated				
Land	\$ 1,913,554	\$ -	\$ -	\$ 1,913,554
Construction in Progress	-	51,442	-	51,442
Total Capital Assets, Not Being Depreciated	1,913,554	51,442	-	1,964,996
Capital Assets, Being Depreciated				
Land Improvements	7,007,623	-	-	7,007,623
Buildings and Improvements	82,567,279	6,695	-	82,573,974
Equipment	7,303,299	409,429	(93,681)	7,619,047
Total Capital Assets, Being Depreciated	96,878,201	416,124	(93,681)	97,200,644
Accumulated Depreciation for:				
Land Improvements	(2,923,507)	(293,026)	-	(3,216,533)
Buildings and Improvements	(33,329,502)	(1,904,113)	-	(35,233,615)
Equipment	(4,696,431)	(475,212)	93,681	(5,077,962)
Total Accumulated Depreciation	(40,949,440)	(2,672,351)	93,681	(43,528,110)
Total Capital Assets, Being Depreciated, Net	55,928,761	(2,256,227)	-	53,672,534
Governmental Activities Capital Assets, Net	<u>\$ 57,842,315</u>	<u>\$ (2,204,785)</u>	<u>\$ -</u>	<u>\$ 55,637,530</u>

The July 1, 2017 balance of capital assets was restated to include equipment assets of \$778,299 related to a capital lease that began in the fiscal year ended June 30, 2017.

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

Governmental Activities	
Administration	\$ 400
District Support Services	39,049
Regular Instruction	2,517,088
Vocational Education Instruction	13,395
Special Education Instruction	1,369
Instructional Support Services	3,116
Pupil Support Services	2,200
Sites and Buildings	40,513
Food Service	54,561
Community Service	660
Total Depreciation Expense, Governmental Activities	<u>\$ 2,672,351</u>

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 5 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
4/15/2009	3.00% - 4.125%	\$ 15,000,000	2/1/2024	\$ 1,145,000	\$ 1,145,000
6/19/2012	0.40% - 1.40%	5,500,000	12/1/2019	165,000	335,000
3/14/2017	2.00%	9,780,000	2/1/2024	415,000	9,780,000
Total General Obligation Bonds				1,725,000	11,260,000
Bond Premiums				23,112	128,523
Bond Discounts				(2,546)	(14,743)
Lease Purchase Payable				284,986	3,220,228
Capital Lease Payable				183,588	648,400
Compensated Absences Payable				146,779	1,260,993
				\$ 2,360,919	\$ 16,503,401

B. Minimum Debt Payments

Minimum annual principal and interest payments required to retire long-term liabilities, not including lease purchase payable, capital lease payable, other postemployment benefits payable, net pension liability, and compensated absences payable are as follows:

Year Ending June 30,	General Obligation Bonds Payable	
	Principal	Interest
2019	\$ 1,725,000	\$ 640,236
2020	1,775,000	188,490
2021	1,880,000	155,200
2022	1,920,000	117,600
2023	1,960,000	79,200
2024	2,000,000	40,000
Total	\$ 11,260,000	\$ 1,220,726

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 5 LONG-TERM LIABILITIES (CONTINUED)

C. Description of Long-Term Liabilities

General Obligation School Building Bonds, Series 2009A

On April 15, 2009, the District issued \$15,000,000 of General Obligation School Building Bonds, Series 2009A at interest rates of 3.00% to 4.125%. The bonds are due in varying annual installments each February 1 through February 1, 2024 with interest due semi-annually on February 1 and August 1.

The proceeds of this issue were used to finance the construction and betterment of various school sites and facilities. Assets of the Debt Service Fund, together with scheduled future ad valorem tax levies, are dedicated to retire these bonds.

The scheduled bond payments for this bond for the years 2020 through 2024 were refunded on February 1, 2018 with the proceeds from the issuance of the General Obligation School Building Refunding Bonds, Series 2017A.

General Obligation Alternative Facilities Refunding Bonds, Series 2012B

On June 19, 2012, the District issued \$5,500,000 of General Obligation Alternative Facilities Refunding Bonds, Series 2012B at interest rates of .40% to 1.40%. The bonds are due in varying annual installments each December 1 through December 1, 2019 with interest due semi-annually on June 1 and December 1.

The proceeds of this issue were used to refund in advance of their stated maturities, the remaining maturities of the District's General Obligation Alternative Facilities Bonds, Series 2003A and General Obligation Alternative Facilities Bonds, Series 2005A. The maturities of the General Obligation Alternative Facilities Bonds, Series 2003A and the General Obligation Alternative Facilities Bonds, Series 2005A were scheduled to mature in 2013 through 2020. Assets of the Debt Service Fund, together with future ad valorem tax levies, are dedicated to retire these bonds.

General Obligation School Building Refunding Bonds, Series 2017A

On March 14, 2017, the District issued \$9,780,000 of General Obligation School Building Refunding Bonds, Series 2017A at an interest rate of 2.00%. The bonds are due in varying annual installments each February 1 through February 1, 2024 with interest due semi-annually on February 1 and August 1.

The proceeds of this issue were used to refund in advance of their stated maturities, the 2019 through 2024 maturities of the District's General Obligation School Building Bonds, Series 2009A in the amount of \$9,735,000. This portion of the refunding is considered an advance crossover refunding. The proceeds of this portion of the refunding bonds were placed into an escrow account pending the call date of the old bonds which was February 1, 2018. The Series 2017A bonds were issued at a premium of \$138,669. The refunding resulted in a cash savings to the District of \$780,513, having a present value of \$728,669.

**FARIBAUT PUBLIC SCHOOLS
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NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 5 LONG-TERM LIABILITIES (CONTINUED)

C. Description of Long-Term Liabilities (Continued)

Lease Purchase Payable

On June 18, 2015, the District entered into \$2,062,000 Lease Purchase Financing 2015A and \$1,842,200 Lease Purchase Financing 2015B. The proceeds of this debt were used to help fund the construction of the new district office and adult basic education building project. This debt has interest rates ranging from 2.64% to 3.22% and is due in varying semi-annual installments each February 1 and August 1 through August 1, 2030. The District will use General Fund levies and operating capital revenues in future years to retire this debt.

Minimum annual principal and interest payments required to retire the Lease Purchase Payable are as follows:

<u>Year Ending June 30,</u>	Lease Purchase Payable	
	Principal	Interest
2019	\$ 293,234	\$ 93,303
2020	301,724	84,814
2021	310,461	76,077
2022	319,454	67,084
2023	328,710	57,828
2024-2028	1,249,341	154,678
2029-2031	417,304	20,370
Total	\$ 3,220,228	\$ 554,154

Capital Leases

The District has entered into a capital lease for copier machines. The capital assets related to the copier lease have been capitalized and are being depreciated.

The following is a schedule of the future minimum lease payments under the capital lease together with the present value of the net minimum lease payments as of June 30, 2018:

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 183,588
2020	183,588
2021	383,036
Total Minimum Lease Payments	750,212
Less Amounts Representing Interest	101,812
Present Value of Net Minimum Lease Payments	\$ 648,400

The copiers were capitalized and have a cost of \$778,299 and accumulated depreciation of \$38,915 at June 30, 2018.

**FARIBAUT PUBLIC SCHOOLS
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NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 5 LONG-TERM LIABILITIES (CONTINUED)

C. Description of Long-Term Liabilities (Continued)

Compensated Absences Payable

At June 30, 2018, compensated absences payable consists of unused vacation, severance, and convertible sick leave payable to employees upon retirement.

D. Changes in Long-Term Liabilities

	June 30, 2017 (As Restated)	Additions	Retirements	June 30, 2018
Bonds Payable	\$ 23,380,000	\$ -	\$ 12,120,000	\$ 11,260,000
Bond Premium	133,596	-	5,073	128,523
Bond Discount	(17,289)	-	(2,546)	(14,743)
Lease Purchase Payable	3,505,214	-	284,986	3,220,228
Capital Leases Payable	1,191,101	-	542,701	648,400
Compensated Absences Payable	1,119,506	1,106,116	964,629	1,260,993
Total	<u>\$ 29,312,128</u>	<u>\$ 1,106,116</u>	<u>\$ 13,914,843</u>	<u>\$ 16,503,401</u>

The July 1, 2017 balance of capital leases payable was restated to include a liability of \$778,299 for a capital lease of equipment that began in the fiscal year ended June 30, 2017.

NOTE 6 RESTRICTED AND COMMITTED FUND BALANCES

Certain portions of fund balance are restricted based on state requirements to track special program funding, to provide for funding on certain long-term liabilities, or as required by other outside parties. The following is a summary of the restricted fund balances for the governmental funds:

A. Restricted for Staff Development

In accordance with State Statute, restricted for staff development represents available resources dedicated exclusively for staff development.

B. Restricted for Health and Safety

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

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 6 RESTRICTED AND COMMITTED FUND BALANCES (CONTINUED)

C. Restricted for Operating Capital

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

D. Restricted for Teacher Development and Evaluation

This restricted fund balance represents resources available for teacher development and evaluation uses listed in Minnesota Statute, section 122A.40, Subd 8 or section 122A.41, Subd 5.

E. Restricted for Achievement and Integration

This restricted fund balance represents available resources dedicated exclusively for the District's Achievement and Integration program.

F. Restricted for Long Term Facility Maintenance (LTFM)

This restricted fund balance represents accumulated resources available to be used for LTFM projects in accordance with the District's ten-year plan.

G. Restricted for Community Education Programs

This restricted fund balance represents accumulated resources available to provide general community education programming.

H. Restricted for Early Childhood and Family Education Programs

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

I. Restricted for School Readiness

This restricted fund balance represents accumulated resources available to provide school readiness programming in accordance with funding made available for that purpose.

J. Restricted for Adult Basic Education

This restricted fund balance represents accumulated resources available to provide services for adult basic education programs.

**FARIBAUT PUBLIC SCHOOLS
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NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 6 RESTRICTED AND COMMITTED FUND BALANCES (CONTINUED)

K. Restricted for Other Purposes

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

L. Committed for Separation/Retirement Benefits

This committed fund balance represents resources segregated by the District for the payment of future separation/retirement benefits.

NOTE 7 DEFINED BENEFIT PENSION PLANS

A. Plan Description

The District participates in the following cost-sharing multiple employer defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA) and Teachers Retirement Fund (TRA). PERA and TRA's defined benefit pension plans are established and administered in accordance with *Minnesota Statutes*. PERA and TRA's defined benefit pension plans are tax-qualified plans under Section 401(a) of the Internal Revenue Code.

1. General Employees Retirement Plan (General Employees Plan, accounted for in the General Employees Fund)

PERA's defined benefit pension plans are established and administered in accordance with *Minnesota Statutes*, Chapters 353 and 356. All full-time and certain part-time employees of the District other than teachers are covered by the General Employees Plan. General Employees Plan 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. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

2. Teachers Retirement Fund (TRA)

TRA administers a Basic Plan (without Social Security coverage) and a Coordinated Plan (with Social Security coverage) in accordance with *Minnesota Statutes*, Chapters 354 and 356. TRA is a separate statutory entity and administered by a Board of Trustees. The Board consists of four active members, one retired member, and three statutory officials.

Teachers employed in Minnesota's public elementary and secondary schools, charter schools, and certain educational institutions maintained by the state (except those teachers employed by the City of St. Paul, and by the University of Minnesota system) are required to be TRA members. State university, community college, and technical college teachers first employed by Minnesota State may elect TRA coverage within one year of eligible employment. Alternatively, these teachers may elect coverage through the Defined Contribution Retirement Plan (DCR) administered by MnSCU.

**FARIBAUT PUBLIC SCHOOLS
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NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Benefits Provided

PERA and TRA provide retirement, disability, and death benefits. Benefit provisions are established by State Statute and can only be modified by the State Legislature.

PERA: Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1.0% increases.

TRA: Postretirement benefit increases are provided to eligible benefit recipients each January. The TRA increase is 2.0%. After the TRA funded ratio exceeds 90% for two consecutive years, the annual postretirement benefit will increase to 2.5%.

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

1. General Employees Plan Benefits

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. Disability benefits are available for vested members, and are based upon years of service and average high-five salary.

2. TRA Benefits

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

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

2. TRA Benefits (Continued)

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

Tier I Benefits

Tier 1	Step Rate Formula	Percentage
Basic	First Ten Years of Service	2.2% per Year
	All Years After	2.7% per Year
Coordinated	First Ten Years if Service Years are up to July 1, 2006	1.2% per Year
	First Ten Years if Service Years are July 1, 2006 or After	1.4% per Year
	All Other Years of Service if Service Years are up to July 1, 2006	1.7% per Year
	All Other Years of Service if Service Years are July 1, 2006 or After	1.9% per Year

With these provisions:

- a. Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.
- b. 3.0% per year early retirement reduction factor for all years under normal retirement age.
- c. Unreduced benefits for early retirement under a Rule-of-90 (age plus allowable service equals 90 or more).

or

Tier II Benefits

For years of service prior to July 1, 2006, a level formula of 1.7% per year for Coordinated members and 2.7% per year for Basic members is applied. For years of service July 1, 2006 and after, a level formula of 1.9% per year for Coordinated members and 2.7% for Basic members applies. Beginning July 1, 2015, the early retirement reduction factors are based on rates established under Minnesota Statute. Smaller reductions, more favorable to the member, will be applied to individuals who reach age 62 and have 30 years or more of service credit.

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

**FARIBAUT PUBLIC SCHOOLS
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NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

2. TRA Benefits (Continued)

Tier II Benefits (Continued)

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

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

C. Contributions

1. General Employees Plan Contributions

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the State Legislature. Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.5%, respectively, of their annual covered salary in the fiscal year ending June 30, 2017. In the fiscal year ending June 30, 2018, the District was required to contribute 11.78% of pay for Basic Plan members and 7.5% for Coordinated Plan members. The District's contributions to the General Employees Plan for the year ended June 30, 2018, were \$529,532. The District's contributions were equal to the required contributions for each year as set by State Statute.

2. TRA Contributions

Per *Minnesota Statutes*, Chapter 354 sets the contribution rates for employees and employers. Rates for each fiscal year were:

	2018		2017	
	Employee	Employer	Employee	Employer
Basic	11.0%	11.5%	11.0%	11.5%
Coordinated	7.5%	7.5%	7.5%	7.5%

The District's contributions to TRA for the plan's fiscal year ended June 30, 2018, were \$1,643,510. The District's contributions were equal to the required contributions for each year as set by State Statute.

**FARIBAULT PUBLIC SCHOOLS
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NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs

1. General Employees Plan Pension Costs

At June 30, 2018, the District reported a liability of \$6,888,265 for its proportionate share of the General Employees Plan's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in fiscal year 2017. The State of Minnesota is considered a nonemployer contributing entity and the State's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District was \$86,620. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At **June 30, 2017**, the District's proportion was .1079%, which was an decrease of .0057% from its proportion measured at June 30, 2016.

For the year ended June 30, 2018, the District recognized pension expense of \$745,520 for its proportionate share of the General Employees Plan's pension expense. In addition, the District recognized an additional \$2,502 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the General Employees Plan.

At June 30, 2018, the District reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 227,016	\$ 443,139
Changes in Actuarial Assumptions	1,143,601	690,549
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	297,894
Changes in Proportion and Differences Between District Contributions Made and the District's Proportionate Share of Contributions	91,317	366,169
District Contributions Subsequent to the Measurement Date	529,532	-
Total	<u>\$ 1,991,466</u>	<u>\$ 1,797,751</u>

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

1. General Employees Plan Pension Costs (Continued)

\$529,532 reported as deferred outflows related to pensions resulting from District contributions to the General Employees plan subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Pension Expense Amounts
2019	\$ (183,979)
2020	357,886
2021	(217,332)
2022	(292,392)

2. TRA Pension Costs

At June 30, 2018, the District reported a liability of \$78,010,769 for its proportionate share of TRA's net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis, and Minneapolis School District. The District's proportionate share was .3908% at the end of the measurement period and .4023% for the beginning of the period.

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

Description	Amount
District's Proportionate Share of the TRA Net Pension Liability	\$ 78,010,769
State's Proportionate Share of TRA's Net Pension Liability Associated with the District	7,541,449

A change in benefit provisions that affected the measurement of the total pension liability since the prior measurement date was an increase of the contribution rates for both the member and employer.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. TRA Pension Costs (Continued)

For the year ended June 30, 2018, the District recognized pension expense of \$13,447,787. It also recognized \$144,632 as an increase to pension expense for the support provided by direct aid.

At June 30, 2018, the District reported its proportionate share of the TRA's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 587,446	\$ 547,805
Changes in Actuarial Assumptions	42,424,056	10,928,077
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	611,293
Changes in Proportion and Differences Between District Contributions Made and the District's Proportionate Share of Contributions	736,932	1,150,239
District Contributions Subsequent to the Measurement Date	1,643,510	-
Total	<u>\$ 45,391,944</u>	<u>\$ 13,237,414</u>

\$1,643,510 reported as deferred outflows related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to TRA will be recognized in pension expense as follows:

Year Ending June 30,	Pension Expense Amounts
2019	\$ 8,065,221
2020	9,444,256
2021	8,512,623
2022	6,955,913
2023	(2,466,993)

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

3. Aggregate Pension Costs

At June 30, 2018, the District reported the following aggregate amounts related to pensions for all plans to which it participates.

	PERA	TRA	Total
Net Pension Liability	\$ 6,888,265	\$ 78,010,769	\$ 84,899,034
Deferred Outflows of Resources	1,991,466	45,391,944	47,383,410
Deferred Inflows of Resources	1,797,751	13,237,414	15,035,165
Pension Expense	748,022	13,592,419	14,340,441

E. Actuarial Assumptions

The total pension liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions:

Assumptions	General Employees Plan	TRA
Inflation	2.50% per Year	2.50%
Active Member Payroll Growth	3.25% per Year	2.85% for ten years and 3.25% thereafter
Investment Rate of Return	7.50%	5.12%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP-2014 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be 1.0% per year for General Employees Plan through 2044 and 2.5% per year thereafter. Cost of living benefit increases for retirees are assumed to be 2.0% per year for TRA through June 30, 2044, increasing to 2.50% per year on July 1, 2045.

Actuarial assumptions used in the June 30, 2017, valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015.

The following changes in actuarial assumptions for General Employees Plan occurred in 2017:

- The Combined Service Annuity (CSA) loads were changed from 0.8% for active members and 60.0% for vested and nonvested deferred members. The revised CSA loads are now 0% for active member liability, 15.0% for vested deferred member liability, and 3.0% for nonvested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5% per year thereafter.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

E. Actuarial Assumptions (Continued)

The following changes in actuarial assumptions for TRA occurred in 2017:

- The cost of living adjustment (COLA) was assumed to increase from 2.0% annually to 2.5% annually on July 1, 2045.
- The COLA was not assumed to increase to 2.5%, but remain at 2.0% for all future years.
- Adjustments were made to the combined service annuity loads. The active load was reduced from 1.4% to 0%, the vested inactive load increased from 4.0% to 7.0% and the nonvested inactive load increased from 4.0% to 9.0%.
- The investment return assumption was changed from 8.00% to 7.50%.
- The price inflation assumption was lowered from 2.75% to 2.50%.
- The payroll growth assumption was lowered from 3.50% to 3.00%.
- The general wage growth assumption was lowered from 3.50% to 2.85% for ten years followed by 3.25% thereafter.
- The salary increase assumption was adjusted to reflect changes in the general wage growth assumption.

The long-term expected rate of return on pension plan investments is 7.5% for General Employees Plan and 5.12% for TRA. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	39 %	5.10%
International Equity	19	5.30%
Bonds	20	0.75%
Alternative Assets	20	5.90%
Cash	2	0.00%
Totals	100 %	

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

F. Discount Rate

The discount rate used to measure the total General Employees Plan pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Plan was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The discount rate used to measure the total TRA pension liability was 5.12%. This is an increase from the discount rate at the prior measurement date of 4.66%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal 2017 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be depleted in 2053 and, as a result, the Municipal Bond Index was used in the determination of the Single Equivalent Interest Rate (SEIR). The long-term expected rate of return (7.50%) was applied to periods before 2053 and the Municipal Bond Index Rate of 3.56% was applied to periods on and after 2053, resulting in a SEIR of 5.12%. There was a change in the Municipal Bond Index Rate from the prior year measurement date (3.01%).

G. Pension Liability Sensitivity

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

GENERAL EMPLOYEES PLAN AND TRA PENSION LIABILITY

Description	1% Decrease in Discount Rate	Current Discount Rate	1% Increase in Discount Rate
<u>General Employees Plan Discount Rate</u>	6.50%	7.50%	8.50%
District's Proportionate Share of the General Employees Plan Net Pension Liability	\$ 10,684,211	\$ 6,888,265	\$ 3,780,594
<u>TRA Discount Rate</u>	4.12%	5.12%	6.12%
District's Proportionate Share of the TRA Net Pension Liability	\$ 102,959,183	\$ 78,010,769	\$ 56,976,221

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

I. Pension Plan Fiduciary Net Position

Detailed information about the General Employees Plan's fiduciary's net position is available in a separately issued PERA financial report. That report may be obtained on the Internet at www.mnpera.org; by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-7460 or 1-800-652-9026.

Detailed information about TRA's fiduciary net position is available in a separately issued TRA financial report. That report can be obtained at www.MinnesotaTRA.org; by writing to TRA at 60 Empire Drive #400, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-2409 or 1-800-652-9026.

NOTE 8 DEFINED CONTRIBUTION PLAN

The District provides eligible employees future retirement benefits through the District's 403(b) Plan (the "Plan"). Employees of the District are eligible to participate in the Plan commencing on the date of their employment. Eligible employees may elect to have a percentage of their pay contributed to the Plan. Some employees are eligible to receive a District match of employee contributions up to the qualifying amounts set forth in their respective collective bargaining agreements. Contributions are invested in tax-deferred annuities selected and owned by Plan participants. The District contributions for the years ended June 30, 2018, 2017, and 2016 were \$248,344, \$238,220, and \$229,809, respectively. The related employee contributions were \$409,719, \$426,764, and \$450,166, for the years ended June 30, 2018, 2017, and 2016, respectively.

NOTE 9 OTHER POSTEMPLOYMENT BENEFIT PLAN

A. Plan Description

The District operates a single-employer retiree defined benefit plan (the Plan) that provides health insurance and subsidized benefits to eligible employees and their spouses through the District's health insurance plan. There are 567 active participants and 50 retired participants. Benefit and eligibility provisions are established through negotiations between the District and various unions representing District employees and are renegotiated at various times. The Plan does not issue a publicly available financial report.

B. Contributions

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. The District also contributes an implicit rate subsidy for retired plan members. This is due to the actual cost for retirees being higher than the average per-person premium for the entire group. For fiscal year 2018, the District contributed \$659,291 to the Plan.

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 9 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

C. Net OPEB Liability

The District's net OPEB liability was measured as of July 1, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The total OPEB liability in the July 1, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Salary Increases	3.00%
Healthcare cost trend rates	6.50% decreasing to 5.00% over 6 years
Dental cost trend rates	4.00%

Mortality rates were based on the RP-2014 White Collar Mortality Tables with MP-2016 Generational Improvement Scale.

Discount Rate

The discount rate used to measure the total OPEB liability was 3.40%. The discount rate is based on the estimated yield of 20-Year AA-rated municipal bonds.

D. Changes in the OPEB Liability

	<u>Increase (Decrease)</u>
	Total OPEB Liability
	(a)
Balances at 6/30/2017	<u>\$ 6,986,506</u>
Changes for the Year:	
Service Cost	446,114
Interest	243,084
Benefit Payments	<u>(570,970)</u>
Net Changes	<u>118,228</u>
Balances at 6/30/2018	<u><u>\$ 7,104,734</u></u>

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 9 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

E. OPEB Liability Sensitivity

The following presents the OPEB liability of the District, as well as what the District's OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate:

	1% Decrease 2.40%	Discount Rate 3.40%	1% Increase 4.40%
Net OPEB liability	\$ 7,550,268	\$ 7,104,734	\$ 6,679,196

The following presents the OPEB liability of the District, as well as what the District's OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower or one percentage point higher than the current healthcare cost trend rate:

	1% Decrease (5.50% decreasing to 4.00%)	Healthcare Cost Trend Rates (6.50% decreasing to 5.00%)	1% Increase (7.50% decreasing to 6.00%)
Net OPEB liability	\$ 6,547,316	\$ 7,104,734	\$ 7,770,772

F. OPEB Expense

For the year ended June 30, 2018, the District recognized OPEB expense of \$29,907. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
District Contributions Subsequent to the Measurement Date	\$ 659,291	\$ -
Total	\$ 659,291	\$ -

District contributions subsequent to the measurement date and will be recognized as a reduction of the OPEB liability in the year ended June 30, 2019.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 10 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 11 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, 2018 was \$313,621.

Minimum rental commitments on leases in effect at June 30, 2018 are as follows:

<u>Year Ending June 30.</u>	<u>Amount</u>
2019	\$ 268,363
2020	210,613
2021	210,613
2022	210,613
Total Minimum Lease Payments	<u>\$ 900,202</u>

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 11 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 lease is renewed on an annual basis. The District received \$154,695 of rent for this building during the year ended June 30, 2018, 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 12 COMMITMENTS AND CONTINGENCIES

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 funds. The amount, if any, of funds which may be disallowed by the agencies cannot be determined at this time although the District expects such amounts, if any, to be immaterial. The financial assistance received is subject to audits by the grantor agency.

NOTE 13 JOINT POWERS AGREEMENTS

Wind Energy

The District and 13 other school districts in Minnesota have entered into a Joint Powers Agreement to form the Minnesota Schools Wind Energy Cooperative (the Cooperative). The purpose of the Cooperative is to acquire, develop, construct, finance, operate, and maintain a wind energy project to be located in Minnesota. The Cooperative is governed by a Joint Powers Board, which consists of two members (a Board of Education member, and the superintendent or another district employee) from each of the participating districts. 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, 2018.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 14 JOINTLY GOVERNED ORGANIZATION

The District is a member of the Rice County Family Services Collaborative (Collaborative). The Collaborative was established to provide comprehensive services to strengthen family functioning. As a result, the Collaborative members share certain costs related to social workers and split related time study revenues. The District received \$32,500 to reimburse it for certain salaries and benefits expenditures that the District may not otherwise have incurred.

The Cannon Valley Special Education Cooperative (CVSEC) was established by a joint powers agreements pursuant to Minnesota Statutes section 471.59. The purpose of the agreement was to optimize resources and increase efficiencies by creating a special education cooperative to serve children with low incidence disabilities. CVSEC is comprised of four member districts. Each member district shares in the costs of providing all off-site special education programs.

NOTE 15 RESTATEMENT FOR A CHANGE IN ACCOUNTING PRINCIPLE

During the fiscal year ended June 30, 2018, the District adopted the provisions of Governmental Accounting Standards Board Statement (GASB) Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions. Implementation of this standard required the restatement of the July 1, 2017 net position of the governmental activities as follows:

	Governmental Activities
Net Position, July 1, 2017, as Previously Stated	\$ 9,915,318
Cumulative Affect of Application of GASB 75	(4,762,860)
Net Position, July 1, 2017 as Restated	\$ 5,152,458

NOTE 16 SUBSEQUENT EVENT

The District created an irrevocable trust in September 2018 for the purpose of funding OPEB benefits.

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REQUIRED SUPPLEMENTARY INFORMATION

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**FARIBAULT PUBLIC SCHOOLS
 INDEPENDENT SCHOOL DISTRICT NO. 656
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF CHANGES IN THE DISTRICT'S TOTAL OPEB LIABILITY AND RELATED RATIOS
 JUNE 30, 2018**

	2018
Total OPEB Liability	
Service cost	\$ 446,114
Interest	243,084
Changes of benefit terms	-
Difference between expected and actual experience	-
Changes of assumptions	-
Benefit payments	(570,970)
Net Change in total OPEB Liability	118,228
Total OPEB liability - beginning	6,986,506
Total OPEB liability - ending	\$ 7,104,734
 Net OPEB Liability	 \$ 7,104,734
 Plan fiduciary net position as a percentage of the total OPEB liability	0.00%
 District's covered payroll	 \$ 27,364,944
 District's net OPEB liability as a percentage of the covered payroll	 25.96%

Note 1: Information is required to be presented for 10 years. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

Note 2: No assets are accumulated in a trust.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
LAST FOUR FISCAL YEARS**

Fiscal Year	2018	2017	2016	2015
Measurement Date	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
PERA - General Employees Plan				
District's Proportion of the Net Pension Liability	0.1079%	0.1136%	0.1103%	0.1181%
District's Proportionate Share of the Net Pension Liability	\$ 6,888,265	\$ 9,223,757	\$ 5,716,318	\$ 5,547,747
State's Proportionate Share of the Net Pension Liability Associated with the District	86,620	120,483	-	-
Total	<u>\$ 6,974,885</u>	<u>\$ 9,344,240</u>	<u>\$ 5,716,318</u>	<u>\$ 5,547,747</u>
District's Covered Payroll	\$ 6,968,559	\$ 7,066,457	\$ 6,470,650	\$ 6,210,057
District's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered Payroll	98.85%	130.53%	88.34%	89.33%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.90%	68.90%	78.20%	78.70%
TRA				
District's Proportion of the Net Pension Liability	0.3908%	0.4023%	0.3886%	0.3926%
District's Proportionate Share of the Net Pension Liability	\$ 78,010,769	\$ 95,958,149	\$ 24,038,753	\$ 18,090,723
State's Proportionate Share of the Net Pension Liability Associated with the District	7,541,449	9,632,120	2,948,815	1,272,601
Total	<u>\$ 85,552,218</u>	<u>\$ 105,590,269</u>	<u>\$ 26,987,568</u>	<u>\$ 19,363,324</u>
District's Covered Payroll	\$ 20,931,518	\$ 21,205,580	\$ 19,928,650	\$ 17,921,366
District's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered Payroll	372.70%	452.51%	120.62%	100.95%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	51.57%	44.88%	76.80%	81.50%

Information is required to be presented for 10 years. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT CONTRIBUTIONS
LAST FIVE FISCAL YEARS**

PERA - General Employees Plan	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$ 529,532	\$ 522,642	\$ 529,416	\$ 478,407	\$ 450,622
Contributions in Relation to the Contractually Required Contribution	<u>(529,532)</u>	<u>(522,642)</u>	<u>(529,416)</u>	<u>(478,407)</u>	<u>(450,622)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's Covered Payroll	\$ 7,060,835	\$ 6,968,559	\$ 7,066,457	\$ 6,470,650	\$ 6,210,057
Contributions as a Percentage of Covered Payroll	7.50%	7.50%	7.49%	7.39%	7.26%
	<u>2017</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
TRA					
Contractually Required Contribution	\$ 1,643,510	\$ 1,569,866	\$ 1,590,750	\$ 1,494,653	\$ 1,259,840
Contributions in Relation to the Contractually Required Contribution	<u>(1,643,510)</u>	<u>(1,569,866)</u>	<u>(1,590,750)</u>	<u>(1,494,653)</u>	<u>(1,259,840)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's Covered Payroll	\$ 21,832,346	\$ 20,931,518	\$ 21,205,580	\$ 19,928,650	\$ 17,921,366
Contributions as a Percentage of Covered Payroll	7.53%	7.50%	7.50%	7.50%	7.03%

Information is required to be presented for 10 years. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

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SINGLE AUDIT AND OTHER REQUIRED REPORTS

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**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2018**

Grantor/Program	CFDA Number	Agency or Pass-Through Number	Federal Expenditures
U.S. Department of Agriculture			
Pass-Through Minnesota Department of Education			
Noncash Assistance (Commodities):			
National School Lunch Program	10.555	1-0656-000	\$ 127,518
Total Noncash Assistance			<u>127,518</u>
Cash Assistance:			
Commodity Cash Rebate Program	10.555	1-0656-000	31,713
National School Lunch Program	10.555	1-0656-000	1,003,928
After School Snack	10.555	1-0656-000	<u>7,103</u>
Total CFDA 10.555			\$ 1,170,262
School Breakfast Program	10.553	1-0656-000	401,688
Summer Program	10.559	1-0656-000	55,713
Special Milk Program	10.556	1-0656-000	<u>1,898</u>
Total Child Nutrition Cluster			1,629,561
Child Care Food Program	10.558	1-0656-000	24,812
Fresh Fruit and Vegetable Program	10.582	1-0656-000	<u>70,332</u>
Total U.S. Department of Agriculture			1,724,705
U.S. Department of Education			
Pass-Through Minnesota Department of Education			
Special Education - Grants to States	84.027	1-0656-000	930,528
Special Education - Preschool Incentive	84.173	1-0656-000	<u>12,374</u>
Total Special Education Cluster			942,902
Title I, Part A - Grants to Local Educational Agencies	84.010	1-0656-000	919,017
Title II, Part A - Improving Teacher Quality State Grants	84.367	1-0656-000	139,727
Title III, Part A - English Language Acquisition Grants	84.365	1-0656-000	114,841
Title III, Part A - Immigrant Grants	84.365	1-0656-000	13,271
Special Education - Grants for Infants and Families	84.181	1-0656-000	34,039
Twenty-first Century Community Learning Centers	84.287	1-0656-000	<u>115,344</u>
Total Pass-Through Minnesota Department of Education			2,279,141
Pass-Through Southern MN ABE Consortium			
Adult Basic Education	84.002	1-0656-000	<u>14,374</u>
Total Pass-Through Southern MN ABE Consortium			<u>14,374</u>
Pass-Through South Central Service Cooperative			
Carl Perkins Vocational Education Basic Grants to States	84.048	1-0656-000	<u>3,015</u>
Total Pass-Through South Central Service Cooperative			<u>3,015</u>
Total U.S. Department of Education			<u>2,296,530</u>
Total Federal Awards Expended			<u>\$ 4,021,235</u>

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, 2018**

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Independent School District No. 656 under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of 2 CFR Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Independent School District No. 656, it is not intended to and does not present the financial position, and changes in net position of Independent School District No. 656.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Independent School District No. 656 has not elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.



**INDEPENDENT AUDITORS' 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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Independent School District No. 656 as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Independent School District No. 656's basic financial statements, and have issued our report thereon dated October 25, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Independent School District No. 656's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Independent School District No. 656's internal control. Accordingly, we do not express an opinion on the effectiveness of Independent School District No. 656's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2018-001 that we consider to be a material weakness.

Compliance and Other Matters

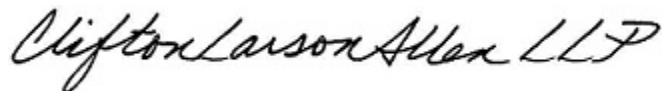
As part of obtaining reasonable assurance about whether Independent School District No. 656's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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*.

Independent School District No. 656's Response to Finding

Independent School District No. 656's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Independent School District No. 656's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

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



CliftonLarsonAllen LLP

Rochester, Minnesota
October 25, 2018

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

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

Report on Compliance for Each Major Federal Program

We have audited Independent School District No. 656's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Independent School District No. 656's major federal programs for the year ended June 30, 2018. Independent School District No. 656's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Independent School District No. 656's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Independent School District No. 656's compliance.

Opinion on Each Major Federal Program

In our opinion, Independent School District No. 656 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

Management of Independent School District No. 656 is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Independent School District No. 656's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of 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 deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2018-002 that we consider to be a significant deficiency.

Independent School District No. 656's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Independent School District No. 656's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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



CliftonLarsonAllen LLP

Rochester, Minnesota
October 25, 2018

INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE


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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Independent School District No. 656, as of and for the year ended June 30, 2018, and the related notes to the basic financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated October 25, 2018.

The *Minnesota Legal Compliance Audit Guide for School Districts* covers seven 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. Our study included all of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe that Independent School District No. 656 failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for School Districts*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding Independent School District No. 656's noncompliance with the above-referenced provisions.

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



CliftonLarsonAllen LLP

Rochester, Minnesota
October 25, 2018

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018**

PART I: SUMMARY OF AUDITORS' RESULTS

Financial Statements

1. Type of auditors' report issued: Unmodified
2. Internal control over financial reporting:
- Material weakness(es) identified? x yes no
 - Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes x none reported
3. Noncompliance material to financial statements noted? yes x no

Federal Awards

1. Internal control over major federal programs:
- Material weakness(es) identified? yes x no
 - Significant deficiency(ies) identified? x yes none reported
2. Type of auditors' report issued on compliance for major federal programs: Unmodified
3. Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance? x yes no

Identification of Major Federal Programs

CFDA Number(s)

10.553, 10.555, 10.556, and 10.559

Name of Federal Program or Cluster

Child Nutrition Cluster

Dollar threshold used to distinguish between Type A and Type B programs:

\$ 750,000

Auditee qualified as low-risk auditee?

 yes x no

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018**

PART II: FINDINGS RELATED TO THE FINANCIAL STATEMENTS:

FINDING: 2018-001 ANNUAL FINANCIAL REPORTING UNDER GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)

Condition: The District does have a control policy in place for the review of the drafted financial statements. However, the District does not have the expertise to ensure all disclosures required by generally accepted accounting principles are included in the annual financial statements.

Criteria: Management is responsible for establishing and maintaining internal controls and the fair presentation of the financial statements including the related disclosures, in conformity with accounting principles generally accepted in the United States of America (GAAP).

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

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

Cause: The District's personnel have not monitored recent accounting developments to the extent necessary to enable them to prepare the District's financial statements and related disclosures and to provide a high level of assurance that potential omissions or other errors that are material would be identified and corrected on a timely basis; however, they have reviewed and approved the annual financial statements as prepared by the audit firm.

Repeat Finding: The finding was not identified in the prior year.

Recommendation: We recommend that the District evaluate their internal staff and expertise to determine if further controls over annual financial reporting are beneficial.

Views of Responsible Officials:

There is no disagreement with the finding. Management will continue to engage the audit firm to draft the financial statements and the related notes to the financial statement, and will review, approve and accept responsibility for the annual financial statements prior to their issuance.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018**

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

Finding Number: 2018-002

Federal Agency: U.S. Department of Agriculture

Federal Program: Child Nutrition Cluster

CFDA Numbers: 10.553, 10.555, 10.556, and 10.559

Pass Through Agency: Minnesota Department of Agriculture

Pass Through Number: 1-0656-000

Award Periods: Year ended June 30, 2018

Type of Finding: Significant Deficiency in Internal Control over Compliance

Criteria: The District's internal control is that the Accountant signs the applications showing approval of free/reduced determination that was entered into the computer system by the Food Service Office Manager.

Condition: We noted that one of the 40 students selected for testing did not show approval of the eligibility determination on the application by the Accountant. The correct determination was made and entered into the computer system.

Questioned Costs: None noted.

Cause: The District noted that management did not show approval of the eligibility determination by signing the application to show approval.

Effect: The lack of controls being documented to indicate the correct eligibility determination was made and entered into the computer system.

Recommendation: The District should continue with current procedures of Food Service Office Manager entering information into computer system to determine eligibility and accountant showing approval of determination by signing application. This procedure should be followed with each application.

Views of Responsible Officials:

There is no disagreement with the finding. Management will continue with current procedures of Food Service Office Manager entering information into computer system to determine eligibility and accountant showing approval of determination by signing application.

PART IV: FINDINGS RELATED TO MINNESOTA LEGAL COMPLIANCE:

None

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS
COMPLIANCE TABLE
JUNE 30, 2018**

	Audit	UFARS	Audit-UFARS		Audit	UFARS	Audit-UFARS
01 GENERAL FUND				06 BUILDING CONSTRUCTION			
Total Revenue	\$ 50,937,255	\$ 50,937,228	\$ 27	Total Revenue	\$ -	\$ -	\$ -
Total Expenditures	51,351,316	51,351,296	20	Total Expenditures	-	-	-
460 Nonspendable Fund Balance	209,741	209,741	-	460 Nonspendable Fund Balance	-	-	-
<i>Restricted:</i>				<i>Restricted/Reserved:</i>			
403 Staff Development	28,545	28,545	-	407 Capital Projects Levy	-	-	-
406 Health and Safety	(40,228)	(40,228)	-	413 Project Funded by COP	-	-	-
407 Capital Projects Levy	-	-	-	467 LTFM	-	-	-
408 Cooperative Revenue	-	-	-	<i>Restricted:</i>			
413 Projects Funded by COP	-	-	-	464 Restricted Fund Balance	-	-	-
414 Operating Debt	-	-	-	<i>Unassigned:</i>			
416 Levy Reduction	-	-	-	463 Unassigned Fund Balance	-	-	-
417 Taconite Building Maint	-	-	-				
423 Certain Teacher Programs	-	-	-	07 DEBT SERVICE			
424 Operating Capital	359,812	359,812	-	Total Revenue	2,927,254	2,927,254	-
426 \$25 Taconite	-	-	-	Total Expenditures	3,053,663	3,053,663	-
427 Disabled Accessibility	-	-	-	460 Nonspendable Fund Balance	-	-	-
428 Learning & Development	-	-	-	<i>Restricted/Reserved:</i>			
434 Area Learning Center	-	-	-	425 Bond Refunding	-	-	-
435 Contracted Alt. Programs	-	-	-	451 QZAB Payments	-	-	-
436 St. Approved Alt. Program	-	-	-	<i>Restricted:</i>			
438 Gifted & Talented	-	-	-	464 Restricted Fund Balance	650,669	650,669	-
440 Teacher Development and Eval	-	-	-	<i>Unassigned:</i>			
441 Basic Skills Programs	-	-	-	463 Unassigned Fund Balance	-	-	-
445 Career & Tech Programs	-	-	-				
448 Achievement and Integration	-	-	-	08 TRUST			
449 Safe Schools Levy	-	-	-	Total Revenue	-	-	-
450 Pre-Kindergarten	-	-	-	Total Expenditures	-	-	-
451 QZAB Payments	-	-	-	422 Net Assets	-	-	-
452 OPEB Liab Not in Trust	-	-	-				
453 Unfunded Sev & Retirement Levy	-	-	-	20 INTERNAL SERVICE			
467 LTFM	1,619,274	1,619,274	-	Total Revenue	-	-	-
472 Medical Assistance	-	-	-	Total Expenditures	-	-	-
<i>Restricted:</i>				422 Net Assets	-	-	-
464 Restricted Fund Balance	-	-	-				
<i>Committed:</i>				25 OPEB REVOCABLE TRUST			
418 Committed for Separation	2,451,000	2,451,000	-	Total Revenue	-	-	-
461 Committed Fund Balance	-	-	-	Total Expenditures	-	-	-
<i>Assigned:</i>				422 Net Assets	-	-	-
462 Assigned Fund Balance	112,186	112,186	-				
<i>Unassigned:</i>				45 OPEB IRREVOCABLE TRUST			
422 Unassigned Fund Balance	7,321,222	7,321,220	2	Total Revenue	-	-	-
02 FOOD SERVICE				Total Expenditures	-	-	-
Total Revenue	2,337,113	2,337,115	(2)	422 Net Assets	-	-	-
Total Expenditures	2,306,739	2,306,740	(1)				
460 Nonspendable Fund Balance	10,627	10,627	-	47 OPEB DEBT SERVICE			
<i>Restricted/Reserved:</i>				Total Revenue	-	-	-
452 OPEB Liab Not in Trust	-	-	-	Total Expenditures	-	-	-
<i>Restricted:</i>				460 Nonspendable Fund Balance	-	-	-
464 Restricted Fund Balance	272,290	272,289	1	<i>Restricted:</i>			
<i>Unassigned:</i>				425 Bond Refundings	-	-	-
463 Unassigned Fund Balance	-	-	-	464 Restricted Fund Balance	-	-	-
				<i>Unassigned:</i>			
04 COMMUNITY SERVICE				463 Unassigned Fund Balance	-	-	-
Total Revenue	2,369,560	2,369,568	(8)				
Total Expenditures	2,280,315	2,280,322	(7)				
460 Nonspendable Fund Balance	-	-	-				
<i>Restricted/Reserved:</i>							
426 \$25 Taconite	-	-	-				
431 Community Education	325,819	325,819	-				
432 E.C.F.E.	5,251	5,251	-				
440 Teacher Development & Eval	-	-	-				
444 School Readiness	76,868	76,868	-				
447 Adult Basic Education	147,759	147,759	-				
452 OPEB Liability Not Held in Trust	-	-	-				
<i>Restricted:</i>							
464 Restricted Fund Balance	60,362	60,362	-				
<i>Unassigned:</i>							
463 Unassigned Fund Balance	-	-	-				

