

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

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2012



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INDEPENDENT SCHOOL DISTRICT NO. 656
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INTRODUCTORY SECTION



**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
BOARD OF EDUCATION AND ADMINISTRATION
FISCAL YEAR 2011 – 2012**

BOARD OF EDUCATION

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

ADMINISTRATION

Todd Sesker	Superintendent
Colleen Mertesdorf	Director of Finance and Operations
Joanne Ostrom	Director of Curriculum and Instruction
Cheryl Hall	Director of Special Services

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FINANCIAL SECTION

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CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 656 as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year partial comparative information has been derived from the Independent School District No. 656's 2011 financial statements and, in our report dated November 4, 2011, we expressed unqualified opinions on the respective financial statements of the governmental activities, each major fund, and the aggregate remaining fund information.

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

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 656 at June 30, 2012 and the respective changes in financial position thereof, and the budgetary comparison for the General Fund, Food Service Fund, and Community Service Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 14, 2012, on our consideration of Independent School District No. 656's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Schedule of Funding Progress for Postemployment Benefit Plan 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 inquires 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 evidence sufficient to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The Uniform Financial Accounting and Reporting Standards Compliance Table, as required by the Minnesota Department of Education, and the Schedule of Expenditures of Federal Awards as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Austin, Minnesota
November 14, 2012

REQUIRED SUPPLEMENTARY INFORMATION

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**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012**

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, 2012. Please read it in conjunction with the District's financial statements, which immediately follow this letter.

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

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2011-12 fiscal year include the following:

- Student enrollment – student enrollment increased from the previous year, going from 3,864 in 2010-11 to 3,900 in 2011-12.
- The General Fund Unassigned Fund Balance increased, going from \$4,499,730 at the end of 2010-11 to \$5,745,165 at the end of 2011-12.
- The District continues to work on deferred maintenance projects financed by the 2009 sale of bonds. This is reflected by the \$1,664,839 decrease in the Building Construction Fund.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

The **government-wide financial statements**, including the *Statement of Net Assets* and the *Statement of Activities*, provide both short-term and long-term information about the District's overall financial status. The government-wide statements (Statement of Net Assets and Statement of Activities) report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The two government-wide statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position.

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

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

The ***fund financial statements*** provide more detailed information about the District's funds, focusing on its most significant or "major" funds rather than the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

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

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

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

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net assets. The District's combined net assets were \$37.9 million on June 30, 2012. This represents an increase of 18.22% from the prior year. (See Figure A-1 below.)

**Figure A-1
Independent School District No. 656
Net Assets – Governmental Activities
As of June 30, 2012 and 2011**

	Governmental Activities		Percentage
	2012	2011	Change
Current and Other Assets	\$ 35,749,527	\$ 26,361,281	35.61%
Capital and Non-Current Assets	57,161,995	55,029,901	3.87%
Total Assets	92,911,522	81,391,182	14.15%
Current Liabilities	26,800,695	16,955,842	58.06%
Long Term Liabilities	28,196,262	32,365,180	-12.88%
Total Liabilities	54,996,957	49,321,022	11.51%
Net Assets			
Invested in Capital Assets			
Net of Related Debt	28,576,736	24,319,874	17.50%
Restricted	2,139,535	2,260,663	-5.36%
Unrestricted	7,198,294	5,489,623	31.13%
Total Net Assets	\$ 37,914,565	\$ 32,070,160	18.22%

Changes in net assets. The District's total revenues were \$50.5 million and total expenses were \$44.7 million for the year ended June 30, 2012. (See Figure A-2 on the next page.) Unallocated state aid and local property taxes accounted for 62% of the total revenue for the year. Operating and capital grants and charges for specific programs contributed 37%. (See Figure A-3 on page 8.) Student education and educational support accounted for 80% of the District's expenses. The District's administrative activities accounted for 4% of total costs. (See Figure A-4 on page 8.) Total revenues surpassed expenditures, increasing net assets by \$5,844,405.

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

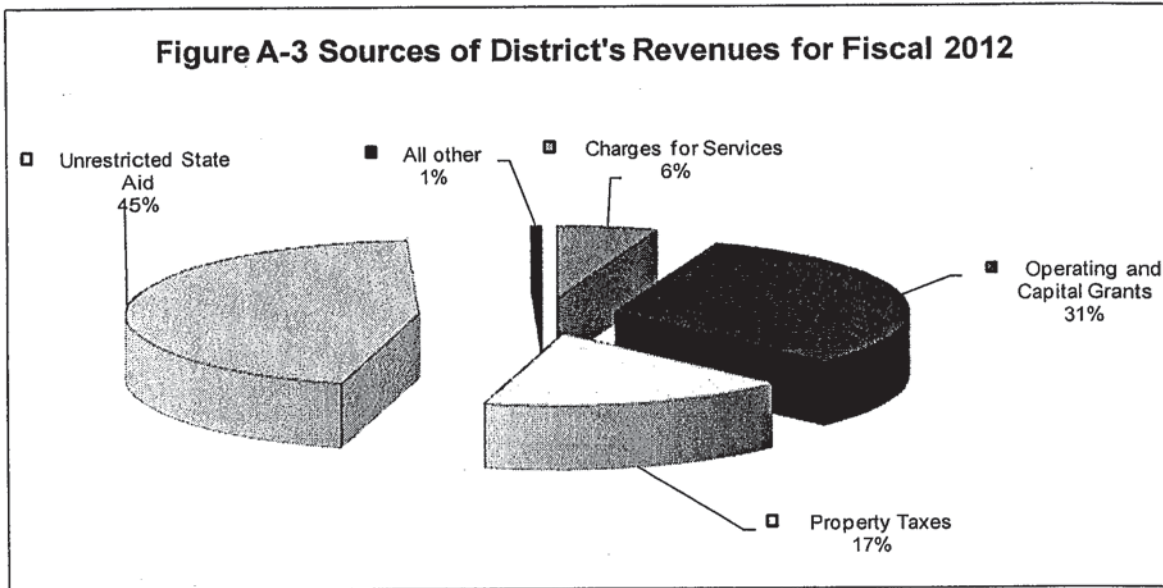
**Figure A-2
Independent School District No. 656
Change in Net Assets
For the Years Ended June 30, 2012 and 2011**

	Governmental Activities for the fiscal year ended June 30.		Total % Change
	2012	2011	
Revenues			
<u>Program Revenues</u>			
Charges for Services	\$ 2,858,486	\$ 2,545,978	12.27%
Operating Grants and Contributions	15,221,133	14,705,255	3.51%
Capital Grants and Contributions	817,702	338,073	141.87%
<u>General Revenues</u>			
Property Taxes	8,558,637	9,861,957	-13.22%
Unrestricted State Aid	22,751,495	20,671,147	10.06%
Investment Earnings	11,390	103,683	-89.01%
Other	312,232	267,671	16.65%
Total Revenues	<u>50,531,075</u>	<u>48,493,764</u>	4.20%
Expenses			
Administration	1,692,774	1,636,975	3.41%
District Support Services	2,006,151	1,989,132	0.86%
Regular Instruction	19,407,931	18,705,495	3.76%
Vocational Education Instruction	204,187	218,381	-6.50%
Special Education Instruction	8,497,184	8,398,873	1.17%
Instructional Support Services	2,294,561	2,134,403	7.50%
Pupil Support Services	3,595,847	3,569,537	0.74%
Sites and Buildings	1,847,406	4,021,518	-54.06%
Fiscal and Other Fixed Cost Programs	96,105	71,820	33.81%
Food Service	2,131,389	2,366,266	-9.93%
Community Service	1,698,076	1,632,604	4.01%
Interest and Fiscal Charges on Long-Term Liabilities	1,215,059	1,341,181	-9.40%
Total Expenses	<u>44,686,670</u>	<u>46,086,185</u>	-3.04%
Increase in Net Assets	5,844,405	2,407,579	142.75%
Beginning Net Assets	32,070,160	29,662,581	8.12%
Ending Net Assets	<u>\$ 37,914,565</u>	<u>\$ 32,070,160</u>	18.22%

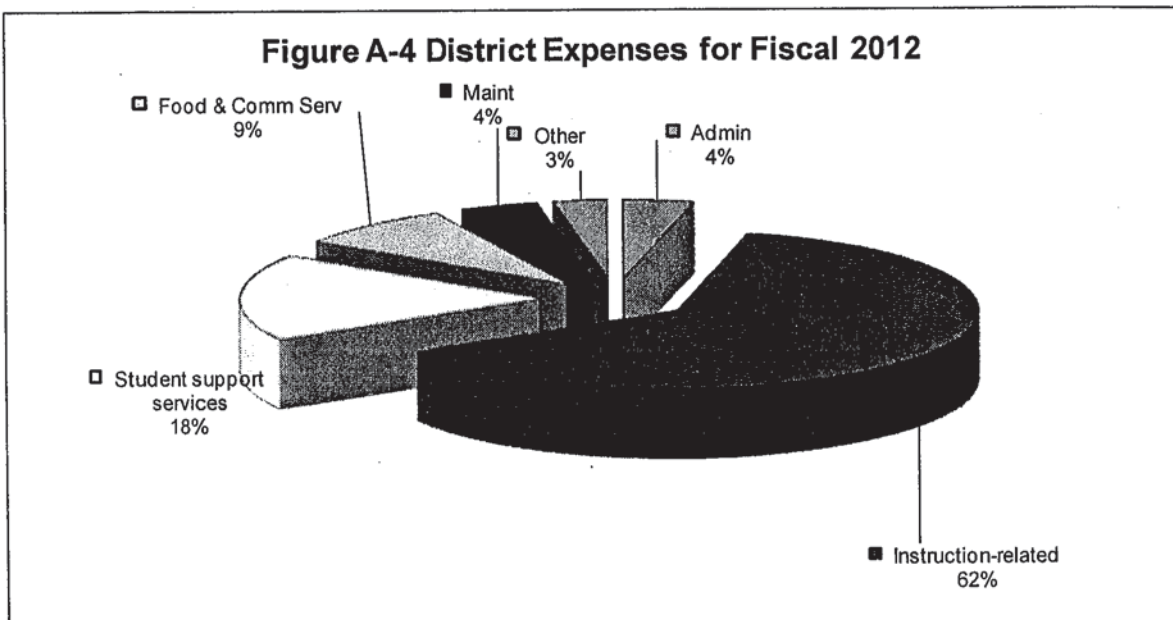
**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

**Figure A-3
Independent School District No. 656
Sources of Revenues
For Fiscal Year 2012**



**Figure A-4
Independent School District No. 656
Expenses
For Fiscal Year 2012**



**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012**

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 \$44.7 million. The net cost of all governmental activities this year was \$25.8 million.
- The users of the District's programs financed \$2.9 million of the cost of activities through various charges for services.
- The federal and state governments subsidized certain programs with grants and contributions of \$16.0 million.
- District property taxpayers financed \$8.6 million of governmental activities and state taxpayers financed \$22.7 million of unrestricted state aid based on the statewide education aid formula.

**Figure A-5
Independent School District No. 656
Net Cost of Governmental Activities
For the Years Ended June 30, 2012 and 2011**

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	2012	2011		2012	2011	
Administration	\$ 1,692,774	\$ 1,636,975	3.41%	\$ 1,691,508	\$ 1,632,403	3.62%
District Support Services	2,006,151	1,989,132	0.86%	1,859,195	1,839,405	1.08%
Regular Instruction	19,407,931	18,705,495	3.76%	10,735,019	10,674,261	0.57%
Vocational Education Instruction	204,187	218,381	-6.50%	193,335	202,406	-4.48%
Special Education Instruction	8,497,184	8,398,873	1.17%	3,320,416	3,125,190	6.25%
Instructional Support Services	2,294,561	2,134,403	7.50%	1,973,441	1,931,620	2.17%
Pupil Support Services	3,595,847	3,569,537	0.74%	3,414,158	3,399,946	0.42%
Sites and Buildings	1,847,406	4,021,518	-54.06%	1,001,495	3,620,398	-72.34%
Fiscal and Other Fixed Cost Programs	96,105	71,820	33.81%	96,105	71,820	33.81%
Food Service	2,131,389	2,366,266	-9.93%	724	290,261	-99.75%
Community Service	1,698,076	1,632,604	4.01%	288,894	367,988	-21.49%
Interest and Fiscal Charges on Long-Term Liabilities	1,215,059	1,341,181	-9.40%	1,215,059	1,341,181	-9.40%
Total	\$ 44,686,670	\$ 46,086,185	-3.04%	\$ 25,789,349	\$ 28,496,879	-9.50%

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012**

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

The Food Service Fund saw a slight increase of approximately \$47,000. The increase in the Food Service fund Balance during 2011-12 was due to the fact that expenses came in under budget.

During 2011-12 the District discovered that between 2005-06 & 2007-08 some of the Community Service Fund revenues and expenses were closing to the incorrect fund balance accounts. As a result, prior year fund balances for Early Childhood Family Education, Adult Basic Education, and Restricted for Other Purposes Community Service were overstated, while the Restricted for Community Education fund balance was understated. An adjustment has been posted to reflect the proper balances in the affected accounts. In the 2008-2009 school year, measures were taken to ensure the integrity of the District's reporting going forward, including using upgraded financial software. As a result of this adjustment and the current year operations, the Restricted for Community Education, School Readiness, and Adult Basic Education fund balances increased during the year. The Early Childhood Family Education and Other Purposes Community Service fund balances decreased during the year.

The Capital Projects – Building Construction Fund decreased due to the completion of deferred maintenance projects as planned using the proceeds of the \$15,000,000 bond issue that was approved during the 2008-09 year.

The Debt Service Fund increased approximately \$5,500,000 due to bond refunding proceeds received prior to year-end. These proceeds will be used in the 2012-2013 school year to pay off the bonds that were refinanced with this bond refunding.

At the end of the 2011-12 fiscal year, the District's governmental funds reported combined fund balances of \$18,644,313. This is a 40% increase from the prior year, mostly due to the bond refunding proceeds.

Revenues for the District's governmental funds were \$50,428,295, while total expenditures were \$50,761,754. As a result, the District completed the year with a deficiency of revenues under expenditures of \$333,459, prior to other financing sources of \$5,633,649.

General Fund

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

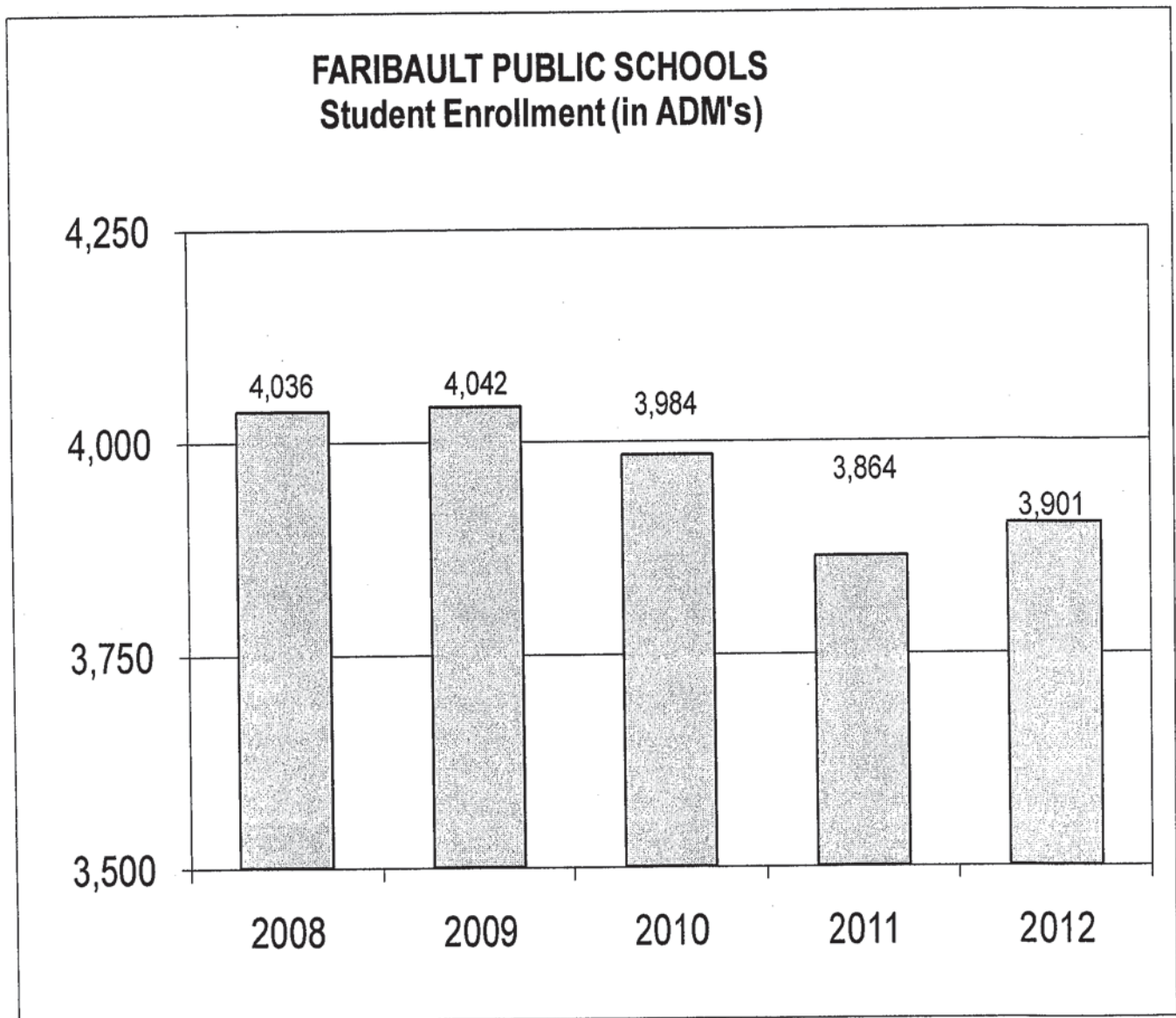
**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012**

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (CONTINUED)

Enrollment

Funding for Minnesota school districts is largely driven by enrollment. The majority of Minnesota school districts are facing declining enrollment. As seen in Figure A-6 below, there was an enrollment increase for the year of 37 students from the prior year. This increase was greater than anticipated and due to unforeseen factors; this increase will be factored into future enrollment projections.

**Figure A-6
Independent School District No. 656
Student Average Daily Membership
As of June 30, 2012**



**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012**

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, 2012 and 2011**

Description	Year Ended		Change	
	June 30, 2012	June 30, 2011	Increase (Decrease)	Percent
Revenues:				
Local Sources				
Property Taxes	\$ 3,583,440	\$ 4,939,278	\$ (1,355,838)	-27.5%
Earnings on Investments	2,966	2,650	316	11.9%
Other	2,064,403	1,607,516	456,887	28.4%
State Sources	32,993,005	30,925,617	2,067,388	6.7%
Federal Sources	2,787,180	2,341,583	445,597	19.0%
Total General Fund Revenue	<u>\$ 41,430,994</u>	<u>\$ 39,816,644</u>	<u>\$ 1,614,350</u>	4.1%
	Year Ended		Amount of Increase (Decrease)	Percent Increase (Decrease)
	June 30, 2012	June 30, 2011		
Expenditures:				
Salaries	\$ 23,444,606	\$ 23,153,666	\$ 290,940	1.3%
Employee Benefits	8,340,912	7,984,604	356,308	4.5%
Purchased Services	5,600,733	5,125,448	475,285	9.3%
Supplies and Materials	1,655,449	1,704,766	(49,317)	-2.9%
Capital Expenditures	1,133,837	1,004,399	129,438	12.9%
Other Expenditures	23,645	30,375	(6,730)	-22.2%
Total Expenditures	<u>\$ 40,199,182</u>	<u>\$ 39,003,258</u>	<u>\$ 1,195,924</u>	3.1%

Revenues

Fiscal year 2011-12 saw an increase in enrollment of 37 students. The formula allowance was at \$5,174 per adjusted marginal cost pupil unit for the 2011-12 year. Revenues totaled \$41,430,994 or an increase of \$1,614,350 over 2010-11. The 4.1% revenue increase is due to increased state and federal aid, offset by lower property tax revenue.

Expenditures

Expenditures totaled \$41,199,182 – an increase of \$1,195,924 over 2010-11. Most expenditure functions saw increases due to increased costs of labor contracts. There was an increase in purchased services and capital outlay, while supplies saw a decrease in the General Fund for 2011-12.

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012**

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (CONTINUED)
General Fund (Continued)

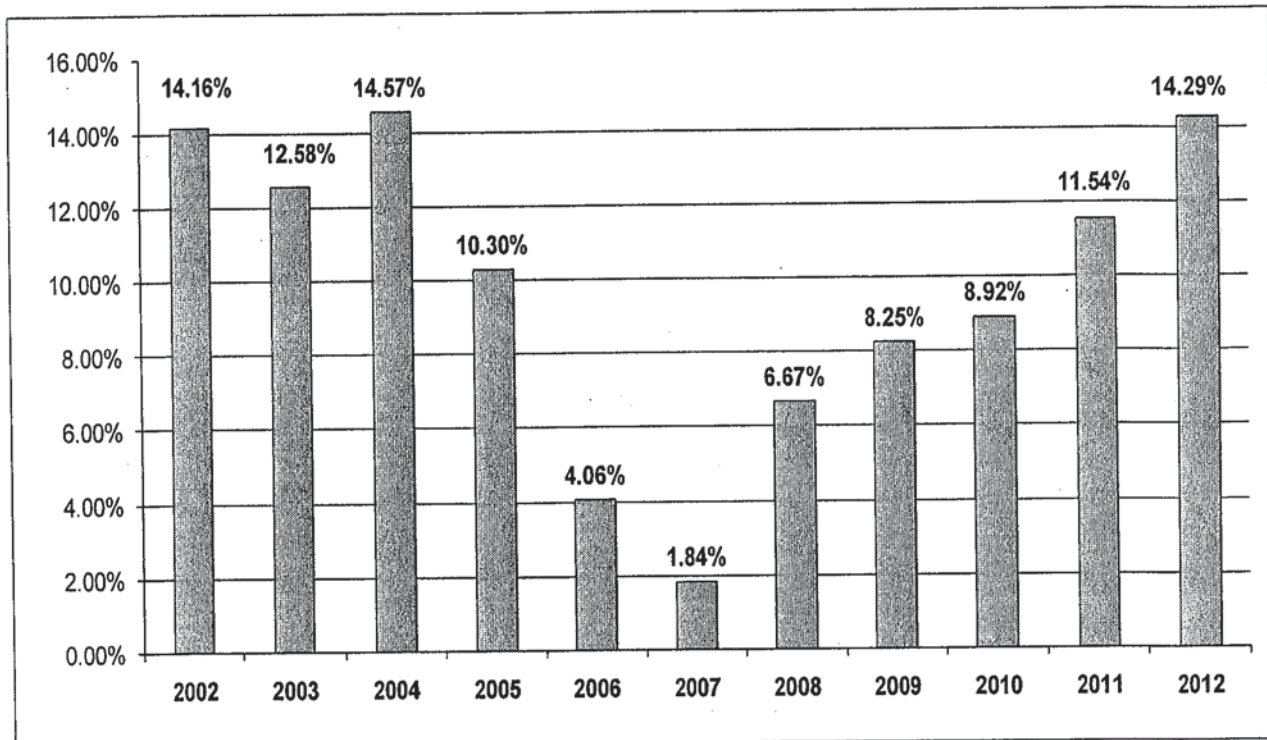
Fund Balance

The unassigned fund balance is \$5,745,165, committed fund balance for postemployment benefits is \$2,500,000, nonspendable fund balance is \$211,278 and the restricted fund balances for staff development, health and safety, operating capital, and area learning center total \$30,255. During 2011-12, the Faribault Booster Club began an initiative to raise funds to donate to the District for the purpose of constructing a new fitness center at the High School. During the year, the Faribault Booster Club donated \$486,778, of which the District spent \$80,476 on related construction costs, leaving a total of \$406,302 in the Assigned for Fitness Center fund balance.

The graph in Figure A-8, below, depicts the General Fund unassigned fund balance as a percentage of total expenditures for the 11 fiscal years ending June 30, 2002–2012. 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, 2012 represents 14.29% of annual expenditures.

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

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



**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012**

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (CONTINUED)

BUDGETARY HIGHLIGHTS

The District revised the annual operating budget from the preliminary budget approved in June 2011 to the final budget approved in June of 2012.

General Fund

The District's final budget for the general fund anticipated that expenditures would exceed revenues and other financing sources by \$1,061,809. The actual results for the year show revenues and other financing sources exceeding expenditures by \$1,365,461.

- Actual revenues were \$1,255,902 above budget, with most of the difference in the state aids category. This is mostly due to actual enrollment higher than budgeted. Other revenues also came in above budget, mostly due to the donations received from the Faribault Booster Club for the new fitness center at the High School.
- Actual expenditures were \$1,108,860 below budget with salaries, benefits, supplies, and capital outlay all under budget.

Food Service Fund

The Food Service Fund revenues for 2011-12 were slightly over \$2.1 million and expenditures were slightly under \$2.1 million. The June 30, 2012 fund balance is \$477,503, an increase of \$47,366 from fiscal year 2011. 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 2011-12 totaled \$1.8 million and expenditures were \$1.7 million. The June 30, 2012 fund balance is \$266,972, an increase of \$56,963 from fiscal year 2011. The individual restricted accounts of Community Education, School Readiness, and Adult Basic Education increased during the year, while the Early Childhood Family Education and the Restricted for Other Purposes accounts decreased during the year.

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 District refunded two bonds during 2011-12, which resulted in Other Financing Sources of \$5.5 million. These proceeds will remain in the fund balance until December 2012 and February 2013, when the refunded bonds will be called (paid off) using the proceeds from the refunding bonds. The Debt Service Fund revenues for 2011-12 totaled \$5.1 million and expenditures were \$5.1 million. The June 30, 2012 fund balance is \$6,429,387, an increase of \$5,495,239 from fiscal year 2011. Every year the Minnesota Department of Education calculates Debt Service excess fund balance amounts and uses those amounts to reduce future levies.

Capital Projects Fund

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

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2012, the District had invested \$57,161,995 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 \$29,236,504 as of June 30, 2012. More detailed information about capital assets can be found in Note 3 of the financial statements.

**Figure A-9
Independent School District No. 656
Capital Assets
June 30, 2012 and 2011**

	2012	2011	Percentage Change
Land	\$ 1,835,754	\$ 1,835,754	0.0%
Construction in Progress	2,177,623	2,276,889	-4.4%
Land Improvements	4,156,068	3,200,257	29.9%
Buildings and Improvements	73,841,569	70,912,416	4.1%
Equipment	4,387,485	4,163,638	5.4%
Less: Accumulated Depreciation	(29,236,504)	(27,359,053)	6.9%
Total	\$ 57,161,995	\$ 55,029,901	3.9%

Long-Term Liabilities

For the fiscal year ended June 30, 2012, the District had \$36.1 million in general obligation bonds outstanding. (See Figure A-10 below.) The District also had \$1.6 million in health benefits, separation and severance payable as of June 30, 2012. In 2011-12, the District's total outstanding long-term liabilities increased by 4.5%. More detailed information about the District's long-term liabilities is presented in Note 4 of the financial statements.

**Figure A-10
Independent School District No. 656
Outstanding Long-Term Liabilities
June 30, 2012 and 2011**

	2012	2011	Percentage Change
General Obligation Bonds	\$ 36,080,000	\$ 34,310,000	5.2%
Net Bond Premium and Discount	182,828	248,086	-26.3%
Other Postemployment Benefits Payable	460,097	290,777	58.2%
Compensated Absences Payable	1,162,572	1,409,534	-17.5%
Total	\$ 37,885,497	\$ 36,258,397	4.5%
 Long-Term Liabilities:			
Due Within One Year	\$ 9,689,235	\$ 3,893,217	
Due in More Than One Year	28,196,262	32,365,180	
	\$ 37,885,497	\$ 36,258,397	

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012**

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

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

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

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BASIC FINANCIAL STATEMENTS

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FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
STATEMENT OF NET ASSETS
JUNE 30, 2012
(WITH COMPARATIVE DATA AS OF JUNE 30, 2011)

	Governmental Activities	
	2012	2011
ASSETS		
Cash and Investments	\$ 12,039,305	\$ 10,111,400
Cash and Investments Held by Trustee	5,525,205	-
Receivables		
Property Taxes	4,306,842	4,866,030
Other Governments	13,389,536	10,924,141
Other	103,925	205,612
Prepaid Items	143,654	60,466
Inventories	72,464	78,449
Bond Issuance Costs, Net	168,596	115,183
Capital Assets		
Land and Construction in Progress	4,013,377	4,112,643
Other Capital Assets, Net of Depreciation	53,148,618	50,917,258
Total Assets	<u>92,911,522</u>	<u>81,391,182</u>
LIABILITIES		
Short-term borrowing	4,513,526	-
Salaries and Wages Payable	3,584,473	3,606,879
Accounts and Contracts Payable	1,529,025	1,481,213
Accrued Interest	315,646	324,328
Due to Other Governmental Units	124,581	404,562
Deferred Revenue		
Property Taxes	6,892,134	7,092,823
Local Sources	152,075	152,820
Long-Term Liabilities		
Portion Due Within One Year	9,689,235	3,893,217
Portion Due in More Than One Year	28,196,262	32,365,180
Total Liabilities	<u>54,996,957</u>	<u>49,321,022</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	28,576,736	24,319,874
Restricted for:		
Operating Capital Purposes	256,147	430,509
State-Mandated Reserves	33,794	83,716
Food Service	477,503	430,137
Community Service	277,392	219,480
Debt Service	694,817	702,590
Capital Projects - Building Construction	399,882	394,231
Unrestricted	7,198,294	5,489,623
Total Net Assets	<u>\$ 37,914,565</u>	<u>\$ 32,070,160</u>

See accompanying Notes to Basic Financial Statements.

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012
(WITH COMPARATIVE DATA FOR THE YEAR ENDED JUNE 30, 2011)**

2012			
Functions	Expenses	Charges for Services	Program Operating Grants and Contributions
Governmental Activities			
Administration	\$ 1,692,774	\$ -	\$ 1,266
District Support Services	2,006,151	552	-
Regular Instruction	19,407,931	358,598	8,259,012
Vocational Education Instruction	204,187	636	10,216
Special Education Instruction	8,497,184	754,299	4,422,469
Instructional Support Services	2,294,561	15,396	264,635
Pupil Support Services	3,595,847	20,679	161,010
Sites and Buildings	1,847,406	271,004	-
Fiscal and Other Fixed Cost Programs	96,105	-	-
Food Service	2,131,389	677,150	1,453,515
Community Service	1,698,076	760,172	649,010
Interest and Fiscal Charges on Long-Term Liabilities	1,215,059	-	-
Total School District	<u>\$ 44,686,670</u>	<u>\$ 2,858,486</u>	<u>\$ 15,221,133</u>

General Revenues

Property Taxes Levied for:

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

See accompanying Notes to Basic Financial Statements.

	2012	2011
	Net (Expense) Revenue and Changes in Net Assets	Net (Expense) Revenue and Changes in Net Assets
Revenues	Total	Total
Capital	Governmental	Governmental
Grants and Contributions	Activities	Activities
\$ -	\$ (1,691,508)	\$ (1,632,403)
146,404	(1,859,195)	(1,839,405)
55,302	(10,735,019)	(10,674,261)
-	(193,335)	(202,406)
-	(3,320,416)	(3,125,190)
41,089	(1,973,441)	(1,931,620)
-	(3,414,158)	(3,399,946)
574,907	(1,001,495)	(3,620,398)
-	(96,105)	(71,820)
-	(724)	(290,261)
-	(288,894)	(367,988)
-	(1,215,059)	(1,341,181)
<u>\$ 817,702</u>	<u>(25,789,349)</u>	<u>(28,496,879)</u>

3,573,481	4,950,347
331,605	434,475
4,653,551	4,477,135
22,751,495	20,671,147
11,390	103,683
460	2,994
311,772	264,677
<u>31,633,754</u>	<u>30,904,458</u>
5,844,405	2,407,579
32,070,160	29,662,581
<u>\$ 37,914,565</u>	<u>\$ 32,070,160</u>

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012
(WITH COMPARATIVE DATA AS OF JUNE 30, 2011)**

			Major
	General	Food Service	Community Service
ASSETS			
Cash and Investments	\$ 4,889,453	\$ 320,644	\$ -
Cash and Investments Held by Trustee	-	-	-
Receivables			
Current Property Taxes	1,566,752	-	175,975
Delinquent Property Taxes	54,735	-	4,993
Due from Other Minnesota School Districts	213,761	-	106,919
Due from Minnesota Department of Education	11,835,234	14,477	133,226
Due from Federal through Minnesota Department of Education	637,546	183,792	121,744
Other Receivables	49,004	1,516	53,405
Due from Other Funds	21,123	-	-
Prepaid Items	138,814	3,295	1,545
Inventory	72,464	-	-
Total Assets	\$ 19,478,886	\$ 523,724	\$ 597,807
LIABILITIES AND FUND BALANCE			
Liabilities			
Short-term Borrowing	\$ 4,513,526	\$ -	\$ -
Salaries and Wages Payable	1,734,202	1,272	64,079
Payroll Deductions and Employer Contributions Payable	1,784,920	-	-
Accounts and Contracts Payable	629,511	21,923	33,774
Due to Other Governmental Units	119,553	-	5,028
Due to Other Funds	-	-	21,123
Accrued Interest Payable	7,995	-	-
Deferred Revenue:			
Property Taxes Levied for Subsequent Year	1,625,093	-	189,140
Delinquent Property Taxes	54,735	-	4,993
Local Sources	116,351	23,026	12,698
Total Liabilities	10,585,886	46,221	330,835
Fund Balance			
Nonspendable			
Prepays Items	138,814	3,295	1,545
Inventory	72,464	-	-
Restricted for			
Staff Development	33,794	-	-
Area Learning Center	-	-	-
Health and Safety	(259,686)	-	-
Operating Capital	256,147	-	-
Community Education Programs	-	-	98,712
Early Childhood and Family Education Programs	-	-	(5,427)
School Readiness	-	-	45,126
Adult Basic Education	-	-	131,867
Bond Refundings	-	-	-
Other Purposes	-	474,208	-
Committed	2,500,000	-	-
Assigned			
Fitness Center	406,302	-	-
Unassigned	5,745,165	-	(4,851)
Total Fund Balance	8,893,000	477,503	266,972
Total Liabilities and Fund Balance	\$ 19,478,886	\$ 523,724	\$ 597,807

See accompanying Notes to Basic Financial Statements.

Funds		Total Governmental	
Capital Projects	Debt Service	Funds	
		2012	2011
\$ 3,420,493	\$ 3,408,715	\$ 12,039,305	\$ 10,111,400
-	5,525,205	5,525,205	-
-	2,431,306	4,174,033	4,702,352
-	73,081	132,809	163,678
-	-	320,680	107,264
-	142,837	12,125,774	10,058,781
-	-	943,082	758,096
-	-	103,925	205,612
-	-	21,123	-
-	-	143,654	60,466
-	-	72,464	78,449
<u>\$ 3,420,493</u>	<u>\$ 11,581,144</u>	<u>\$ 35,602,054</u>	<u>\$ 26,246,098</u>
\$ -	\$ -	\$ 4,513,526	\$ -
-	-	1,799,553	1,828,815
-	-	1,784,920	1,778,064
843,042	775	1,529,025	1,481,213
-	-	124,581	404,562
-	-	21,123	-
-	-	7,995	-
-	5,077,901	6,892,134	7,092,823
-	73,081	132,809	163,678
-	-	152,075	152,820
<u>843,042</u>	<u>5,151,757</u>	<u>16,957,741</u>	<u>12,901,975</u>
-	-	143,654	60,466
-	-	72,464	78,449
-	-	33,794	23,450
-	-	-	60,266
-	-	(259,686)	(121,567)
-	-	256,147	430,509
-	-	98,712	(3,257)
-	-	(5,427)	8,265
-	-	45,126	38,469
-	-	131,867	96,819
-	5,525,205	5,525,205	-
2,577,451	904,182	3,955,841	5,672,524
-	-	2,500,000	2,500,000
-	-	406,302	-
-	-	5,740,314	4,499,730
<u>2,577,451</u>	<u>6,429,387</u>	<u>18,644,313</u>	<u>13,344,123</u>
<u>\$ 3,420,493</u>	<u>\$ 11,581,144</u>	<u>\$ 35,602,054</u>	<u>\$ 26,246,098</u>

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**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2012
(WITH COMPARATIVE DATA AS OF JUNE 30, 2011)**

	<u>2012</u>	<u>2011</u>
Total Fund Balance for Governmental Funds	\$ 18,644,313	\$ 13,344,123
Total net assets reported for governmental activities in the statement of net assets is different because:		
Capital assets used in governmental funds are not financial resources and therefore are not reported in the funds. Those assets consist of:		
Land	1,835,754	1,835,754
Construction in Progress	2,177,623	2,276,889
Land Improvements, Net of Accumulated Depreciation	2,524,996	1,703,137
Buildings and Improvements, Net of Accumulated Depreciation	49,528,813	48,208,525
Equipment, Net of Accumulated Depreciation	1,094,809	1,005,596
Some of the District's property taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are reported as deferred revenue in the funds.		
	132,809	163,678
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.		
	(307,651)	(324,328)
Bond issuance costs are reported as expenditures in the governmental funds.		
	168,596	115,183
Long-term liabilities that pertain to governmental funds, including bonds payable, are not due and payable in the current period and therefore are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net assets. Balances at year-end are:		
Bonds Payable	(36,080,000)	(34,310,000)
Unamortized Premiums and Discounts	(182,828)	(248,086)
Compensated Absences Payable	(1,162,572)	(1,409,534)
Other Postemployment Benefits Payable	(460,097)	(290,777)
Total Net Assets of Governmental Activities	<u>\$ 37,914,565</u>	<u>\$ 32,070,160</u>

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2012
(WITH COMPARATIVE DATA FOR THE YEAR ENDED JUNE 30, 2011)**

	Major		
	General	Food Service	Community Service
REVENUES			
Local Sources			
Property Taxes	\$ 3,583,440	\$ -	\$ 332,826
Earnings on Investments	2,966	352	115
Other	2,064,403	677,151	782,293
State Sources	32,993,005	118,564	404,583
Federal Sources	2,787,180	1,334,950	265,169
Total Revenues	<u>41,430,994</u>	<u>2,131,017</u>	<u>1,784,986</u>
EXPENDITURES			
Current			
Administration	1,687,632	-	-
District Support Services	1,433,114	-	-
Regular Instruction	17,689,413	-	-
Vocational Education Instruction	187,650	-	-
Special Education Instruction	8,458,014	-	-
Instructional Support Services	2,284,296	-	-
Pupil Support Services	3,607,955	-	-
Sites and Buildings	3,621,166	-	-
Fiscal and Other Fixed Cost Programs	96,105	-	-
Food Service	-	2,062,022	-
Community Service	-	-	1,719,968
Capital Outlay	1,133,837	21,629	8,055
Debt Service			
Principal	-	-	-
Interest and Fiscal Charges	-	-	-
Total Expenditures	<u>40,199,182</u>	<u>2,083,651</u>	<u>1,728,023</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,231,812	47,366	56,963
OTHER FINANCING SOURCES			
Sale of Equipment Proceeds	460	-	-
Insurance Recovery Proceeds	44,152	-	-
Judgments for Districts	89,037	-	-
Sale of Bonds Proceeds	-	-	-
Total Other Financing Sources	<u>133,649</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	1,365,461	47,366	56,963
Fund Balances - Beginning	7,527,539	430,137	210,009
Fund Balances - Ending	<u>\$ 8,893,000</u>	<u>\$ 477,503</u>	<u>\$ 266,972</u>

See accompanying Notes to Basic Financial Statements

Funds		Total Governmental Funds	
Capital Projects - Building Construction	Debt Service	2012	2011
\$ -	\$ 4,673,240	\$ 8,589,506	\$ 9,835,053
5,652	2,305	11,390	103,683
-	-	3,523,847	2,787,885
-	400,101	33,916,253	31,926,975
-	-	4,387,299	3,773,482
5,652	5,075,646	50,428,295	48,427,078
-	-	1,687,632	1,641,429
-	-	1,433,114	1,557,551
-	-	17,689,413	16,933,277
-	-	187,650	204,093
-	-	8,458,014	8,348,578
-	-	2,284,296	2,110,179
-	-	3,607,955	3,645,483
-	-	3,621,166	3,486,449
-	-	96,105	71,820
-	-	2,062,022	2,236,711
-	-	1,719,968	1,625,401
1,670,491	-	2,834,012	6,272,272
-	3,730,000	3,730,000	3,520,000
-	1,350,407	1,350,407	1,400,012
1,670,491	5,080,407	50,761,754	53,053,255
(1,664,839)	(4,761)	(333,459)	(4,626,177)
-	-	460	4,089
-	-	44,152	-
-	-	89,037	36,788
-	5,500,000	5,500,000	-
-	5,500,000	5,633,649	40,877
(1,664,839)	5,495,239	5,300,190	(4,585,300)
4,242,290	934,148	13,344,123	17,929,423
\$ 2,577,451	\$ 6,429,387	\$ 18,644,313	\$ 13,344,123

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012
(WITH COMPARATIVE DATA FOR THE YEAR ENDED JUNE 30, 2011)**

	<u>2012</u>	<u>2011</u>
Net Change in Fund Balance-Total Governmental Funds	\$ 5,300,190	\$ (4,585,300)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$2,500 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. Also, governmental funds report proceeds from sales of capital assets while, in the statement of activities, only the gain or loss is included.		
Capital Outlays	4,048,117	5,171,162
Gain on Disposal of Capital Assets	460	2,994
Proceeds from Sales of Capital Assets	(460)	(4,089)
Depreciation Expense	(1,916,023)	(1,721,329)
The governmental funds report bond proceeds as financing sources, while repayment of bond principal is reported as an expenditure. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability. Also, governmental funds report the effect of issuance costs and premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of general obligation bonds and related items is as follows:		
General Obligation Bond Proceeds	(5,500,000)	-
Bond Issuance Costs	71,448	-
Repayment of Bond Principal	3,730,000	3,520,000
Change in Accrued Interest Expense - General Obligation Bonds	16,677	11,296
Amortization of Bond Issuance Costs	(18,035)	(17,723)
Amortization of Bond Premium and Discount	65,258	65,258
Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.	(30,869)	26,904
In the statement of activities, certain operating expenses - compensated absences - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).	77,642	(61,594)
Change in Net Assets of Governmental Activities	<u>\$ 5,844,405</u>	<u>\$ 2,407,579</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
GENERAL FUND**

YEAR ENDED JUNE 30, 2012

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2011)

	2012				2011
	Budgeted Amounts		Actual	Over (Under) Final	Actual
	Original	Final	Amounts	Budget	Amounts
REVENUES					
Local Sources					
Property Taxes	\$ 3,764,833	\$ 3,789,242	\$ 3,583,440	\$ (205,802)	\$ 4,939,278
Earnings on Investments	10,000	3,000	2,966	(34)	2,650
Other	1,341,932	1,429,063	2,064,403	635,340	1,621,530
State Sources	30,855,016	32,164,972	32,993,005	828,033	30,925,617
Federal Sources	2,923,416	2,788,815	2,787,180	(1,635)	2,327,569
Total Revenues	38,895,197	40,175,092	41,430,994	1,255,902	39,816,644
EXPENDITURES					
Current:					
Administration	1,614,738	1,633,214	1,687,632	54,418	1,641,429
District Support Services	1,608,622	1,563,636	1,433,114	(130,522)	1,557,551
Regular Instruction	16,766,333	18,583,745	17,689,413	(894,332)	16,933,277
Vocational Education Instruction	198,071	184,250	187,650	3,400	204,093
Special Education Instruction	8,423,995	8,315,295	8,458,014	142,719	8,348,578
Instructional Support Services	1,752,954	2,425,117	2,284,296	(140,821)	2,110,179
Pupil Support Services	3,516,246	3,565,561	3,607,955	42,394	3,645,483
Sites and Buildings	3,413,856	3,566,288	3,621,166	54,878	3,486,449
Fiscal and Other Fixed Cost Programs	86,000	86,000	96,105	10,105	71,820
Capital Outlay	631,129	1,384,936	1,133,837	(251,099)	1,004,399
Total Expenditures	38,011,944	41,308,042	40,199,182	(1,108,860)	39,003,258
Excess (Deficiency) of Revenues Over (Under) Expenditures	883,253	(1,132,950)	1,231,812	2,364,762	813,386
OTHER FINANCING SOURCES					
Sale of Equipment Proceeds	-	-	460	460	4,089
Insurance Recovery Proceeds	-	-	44,152	44,152	-
Judgments for Districts	-	71,141	89,037	17,896	36,788
Total Other Financing Sources	-	71,141	133,649	62,508	40,877
Net Change in Fund Balances	\$ 883,253	\$ (1,061,809)	1,365,461	\$ 2,427,270	854,263
FUND BALANCE					
Beginning of Year			7,527,539		6,673,276
End of Year			\$ 8,893,000		\$ 7,527,539

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, 2012
(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2011)**

	2012				2011
	Budgeted Amounts		Actual Amounts	Over (Under) Final Budget	Actual Amounts
	Original	Final			
REVENUES					
Local Sources					
Earnings on Investments	\$ 5,000	\$ 1,000	\$ 352	\$ (648)	\$ 653
Other - Primarily Meal Sales	829,100	829,100	677,151	(151,949)	732,882
State Sources	132,786	132,786	118,564	(14,222)	118,505
Federal Sources	1,182,332	1,182,332	1,334,950	152,618	1,224,618
Total Revenues	2,149,218	2,145,218	2,131,017	(14,201)	2,076,658
EXPENDITURES					
Current					
Food Service	2,297,708	2,305,738	2,062,022	(243,716)	2,236,711
Capital Outlay	30,000	30,000	21,629	(8,371)	84,671
Total Expenditures	2,327,708	2,335,738	2,083,651	(252,087)	2,321,382
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ (178,490)</u>	<u>\$ (190,520)</u>	47,366	<u>\$ 237,886</u>	(244,724)
FUND BALANCE					
Beginning of Year			430,137		674,861
End of Year			<u>\$ 477,503</u>		<u>\$ 430,137</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
COMMUNITY SERVICE FUND
YEAR ENDED JUNE 30, 2012
(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2011)**

	2012				2011
	Budgeted Amounts		Actual	Over (Under)	Actual
	Original	Final	Amounts	Final Budget	Amounts
REVENUES					
Local Sources					
Property Taxes	\$ 351,983	\$ 351,983	\$ 332,826	\$ (19,157)	\$ 434,192
Earnings on Investments	1,500	500	115	(385)	200
Other - Primarily Tuition and Fees	400,000	406,910	782,293	375,383	433,473
State Sources	658,398	666,792	404,583	(262,209)	508,125
Federal Sources	11,262	356,262	265,169	(91,093)	221,295
Total Revenues	1,423,143	1,782,447	1,784,986	2,539	1,597,285
EXPENDITURES					
Current					
Community Service	1,421,459	1,801,003	1,719,968	(81,035)	1,625,401
Capital Outlay	2,208	16,208	8,055	(8,153)	-
Total Expenditures	1,423,667	1,817,211	1,728,023	(89,188)	1,625,401
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ (524)</u>	<u>\$ (34,764)</u>	56,963	<u>\$ 91,727</u>	(28,116)
FUND BALANCE					
Beginning of Year			210,009		238,125
End of Year			\$ 266,972		\$ 210,009

See accompanying Notes to Basic Financial Statements.

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2012**

	<u>Private- Purpose Trust</u>
ASSETS	
Cash and Investments	\$ 3,000
Total Assets	<u>\$ 3,000</u>
NET ASSETS	
Unrestricted	\$ 3,000
Total Net Assets	<u>\$ 3,000</u>

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
YEAR ENDED JUNE 30, 2012**

	<u>Private- Purpose Trust</u>
ADDITIONS	
Gifts and Donations	\$ 3,000
Total Additions	<u>3,000</u>
DEDUCTIONS	
Scholarships Awarded	<u>2,500</u>
Total Deductions	<u>2,500</u>
Change in Net Assets	500
Net Assets - Beginning of Year	2,500
Net Assets - End of Year	<u>\$ 3,000</u>

See accompanying Notes to Basic Financial Statements.

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

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

B. Financial Reporting Entity

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

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

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

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

C. Basic Financial Statement Presentation

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

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basic Financial Statement Presentation (Continued)

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

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

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

Fiduciary funds are presented in the fiduciary fund financial statements by type: private purpose trust fund. Since by definition, fiduciary fund assets are being held for the benefit of a third party and cannot be used for activities or obligations of the District, these funds are excluded from the government-wide statements.

D. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are generally recognized as revenues in the fiscal year for which they are levied, except for amounts advance recognized in accordance with a statutory "tax shift" described later in these notes. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

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

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

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

Description of Funds

The existence of the various District funds has been established by the State of Minnesota, Department of Education. The accounts of the district are organized on the basis of funds, each of which is considered a separate accounting entity. Descriptions of the funds included in this report are as follows:

Major Governmental Funds

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

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

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

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

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

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

Fiduciary Funds

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

E. Budgeting

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

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

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

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Budgeting (Continued)

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

F. Cash and Investments

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

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

G. Cash and Investments Held by Trustee

Cash and investments held by trustee consist of U.S. Treasuries and cash held by an escrow agent. The U.S. Treasuries are held in the debt service fund for the purpose of refunding the General Obligation Alternative Facilities Bonds of 2003A and 2005A, maturing on December 1, 2012 and February 1, 2013. The assets in the escrow account are sufficient to meet the debt service requirements of the Series 2012 bonds through the applicable crossover refunding dates.

H. 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.

I. Inventories

Inventories are recorded using the consumption method of accounting and consist of supplies on hand at June 30, 2012. Purchases are recorded at invoice cost, computed on a first-in, first-out method, and surplus commodities are stated at standardized cost, as determined by the Department of Agriculture. The District had no food or commodity inventory on hand at June 30, 2012.

J. 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.

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Property Taxes

Property tax levies are established by the Board of Education in December each year and are certified to the County for collection the following calendar year. In Minnesota, counties act as collection agents for all property taxes. The County spreads all levies over taxable property. Such taxes become a lien on January 1. Taxes are due on May 15 and October 15. The County generally remits taxes to the District at periodic intervals as they are collected. A portion of property taxes levied is paid through various state tax credits which are included in revenue from state sources in the financial statements.

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

In accordance with State law, the current tax shift consists of an amount equal to 31% of the District's 2000 Pay 2001 operating referendum levy (frozen at \$329,972) for the District. Starting in fiscal year 2011, the shift was expanded to include all other general and community service fund levies. State aids are then reduced by this expanded shift amount, making this portion of the tax shift revenue neutral to school districts. For 2012 this resulted in a decrease in advance recognition of tax revenue in the District's General Fund (and corresponding increase in state aid totaling \$224,723) and an increase in the District's Community Service Fund (and corresponding decrease in state aid totaling \$7,677). Certain other portions of the District's 2011 pay 2012 levy, normally revenue for the 2012-13 fiscal year, are also advance recognized at June 30, 2012, as required by state statute to match revenue with the same fiscal year as the related expenditures.

Taxes that remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is deferred because it is not known to be available to finance the operations of the District in the current year. No allowance for uncollectible taxes has been provided as such amounts are not expected to be material. Current levies of local taxes, less the amount recognized as revenue in the current period, including portions assumed by the State which will be recognized as revenue in the next fiscal year beginning July 1, 2012, 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.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Capital Assets

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The District maintains a threshold level of \$2,500 for capitalizing capital assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

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

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

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

M. Long-Term Liabilities

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs, if material, are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

N. 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, 2012, unpaid vacation pay totaling \$113,977 is recorded in the financial statements.

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Accrued Employee Benefits (Continued)

Compensated Absences Payable (Continued)

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.

1. Faribault Principals Association

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

2. Administrators

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

3. Teachers

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

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

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. 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, 2012 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 2012, total expenditures for early retirement incentive payments and convertible sick leave were \$455,543. At June 30, 2012, a liability for early retirement incentive payments and convertible sick leave totaling \$1,048,595 is recorded on the Statement of Net Assets.

Other Postemployment Health Care Benefits

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

O. Deferred Revenues

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

P. Fund Balance

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

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Fund Balance (Continued)

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 fund balance in the General Fund of 9.5% of the annual expenditure budget.

Q. Risk Management

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

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

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

R. Net Assets

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

S. Comparative Data

Comparative data for the prior year has been presented only for certain sections of the accompanying financial statements in order to provide an understanding of the changes in the District's financial position and operations. 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, 2012**

NOTE 2 STEWARDSHIP AND ACCOUNTABILITY

A. Interfund Receivables and Payables

The District had the following interfund receivables and payables at June 30, 2012.

	Due from Other Funds	Due to Other Funds
General Fund	\$ 21,123	\$ -
Community Service Fund	-	21,123
	<u>\$ 21,123</u>	<u>\$ 21,123</u>

The purpose of the interfund balance is to eliminate negative cash in the Community Service Fund. The balance is expected to be repaid within one year.

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 School District's deposits may not be returned to it. The School District's deposit policy for custodial credit risk follows Minnesota Statutes for deposits.

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

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

The District's deposits in banks at June 30, 2012 were entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota statutes.

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

B. Investments

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

- direct obligations or obligations guaranteed by the United States or its agencies
- shares of investment companies registered under the Federal Investment Company Act of 1940 and receives the highest credit rating, is rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of thirteen months or less

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

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

At June 30, 2012, the District had the following investments:

Investments Held by Broker -

	At Amortized Cost
Minnesota School District Liquid Asset Fund Plus (MDSLAF+)	\$ 1,939,279
Minnesota School District LAF MAX Series (MSDMAX)	6,982,253
	<u>\$ 8,921,532</u>

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

	Fair Value
FHLB Bonds	\$ 1,045,590
FFCB Bonds	430,945
US Treasury State & Local	5,524,503
FNMA Global Benchmark Notes	166,413
	<u>\$ 7,167,451</u>

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

Investments Held by Broker (Continued) -

Interest Rate Risk

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

The following summarizes maturities of the District's investments:

Type	Fair Value	12 Months or Less
Minnesota School District Liquid Asset Fund Max Series (MSDMAX)	\$ 6,982,253	\$ 6,982,253
Minnesota School District Liquid Asset Fund Plus (MDSLAF+)	1,939,279	1,939,279
FHLB Bonds	1,045,590	1,045,590
FFCB Bonds	430,945	430,945
US Treasury State & Local	5,524,503	5,524,503
FNMA Global Benchmark Notes	166,413	166,413
	<u>\$16,088,983</u>	<u>\$ 16,088,983</u>

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At June 30, 2012 all investments and collateral were listed in the name of the District.

Credit Risk

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

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

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

Concentration of Credit Risk

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

Type	Amount	Percentage
Minnesota School District Liquid Asset Fund Plus (MDSLAF+)	\$ 1,939,279	12.05%
Minnesota School District Liquid Asset Fund Max Series (MSDMAX)	6,982,253	43.40%
FHLB Bonds	1,045,590	6.50%
US Treasury State & Local	5,524,503	34.34%

C. Balance Sheet Presentation

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

Cash and Investments - Statement of Net Assets	\$ 12,039,305
Cash and Investments Held by Trustee - Statement of Net Assets	5,525,205
Cash and Investments - Statement of Fiduciary Net Assets	3,000
Total Cash and Investments	<u>\$ 17,567,510</u>

Total cash and investments at June 30, 2012 consisted of the following:

Deposits	\$ 1,476,282
Cash on hand	2,245
Minnesota School District Liquid Asset Funds	8,921,532
Government bonds and notes	7,167,451
	<u>\$ 17,567,510</u>

**FARIBAUT PUBLIC SCHOOLS
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NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 4 CAPITAL ASSETS

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

	Beginning Balance	Increases	Transfers and Decreases	Ending Balance
Governmental Activities				
Capital Assets, Not Being Depreciated				
Land	\$ 1,835,754	\$ -	\$ -	\$ 1,835,754
Construction in Progress	2,276,889	1,520,503	(1,619,769)	2,177,623
Total Capital Assets, Not Being Depreciated	4,112,643	1,520,503	(1,619,769)	4,013,377
Capital Assets, Being Depreciated				
Land Improvements	3,200,257	955,811	-	4,156,068
Buildings and Improvements	70,912,416	2,929,153	-	73,841,569
Equipment	4,163,638	262,419	(38,572)	4,387,485
Total Capital Assets, Being Depreciated	78,276,311	4,147,383	(38,572)	82,385,122
Accumulated Depreciation for				
Land Improvements	(1,497,120)	(133,952)	-	(1,631,072)
Buildings and Improvements	(22,703,891)	(1,608,865)	-	(24,312,756)
Equipment	(3,158,042)	(173,206)	38,572	(3,292,676)
Total Accumulated Depreciation	(27,359,053)	(1,916,023)	38,572	(29,236,504)
Total Capital Assets, Being Depreciated, Net	50,917,258	2,231,360	-	53,148,618
Governmental Activities Capital Assets, Net	<u>\$ 55,029,901</u>	<u>\$ 3,751,863</u>	<u>\$ (1,619,769)</u>	<u>\$ 57,161,995</u>

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

Governmental Activities	
Administration	\$ 200
District Support Services	6,078
Regular Instruction	1,815,683
Vocational Education Instruction	8,276
Special Education Instruction	2,198
Pupil Support Services	2,200
Sites and Buildings	33,517
Food Service	47,738
Community Service	133
Total Depreciation Expense, Governmental Activities	<u>\$ 1,916,023</u>

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

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
12/1/2003	3.00% - 4.00%	\$ 8,140,000	12/1/2017	\$ 4,725,000	\$ 4,725,000
12/1/2003	2.50% - 4.00%	2,605,000	12/1/2013	305,000	630,000
3/1/2005	3.00% - 4.00%	2,375,000	2/1/2020	1,595,000	1,595,000
3/5/2008	3.25% - 3.50%	18,965,000	6/1/2015	2,760,000	8,670,000
4/15/2009	3.00% - 4.125%	15,000,000	2/1/2024	125,000	14,960,000
6/19/2012	0.40% - 1.40%	5,500,000	12/1/2019	-	5,500,000
Total General Obligation Bonds				9,510,000	36,080,000
Bond Premium - Net				67,804	212,847
Bond Discounts - Net				(2,546)	(30,019)
Other Postemployment Benefits Payable				-	460,097
Compensated Absences Payable				113,977	1,162,572
				<u>\$ 9,689,235</u>	<u>\$ 37,885,497</u>

B. Minimum Debt Payments

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

Year Ending June 30	General Obligation Bonds Payable	
	Principal	Interest
2013	\$ 9,510,000	\$ 1,098,649
2014	4,275,000	830,924
2015	4,065,000	715,618
2016	2,295,000	602,076
2017	2,335,000	549,936
2018 - 2022	9,515,000	1,889,476
2023 - 2024	4,085,000	254,513
	<u>\$ 36,080,000</u>	<u>\$ 5,941,192</u>

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 5 LONG-TERM LIABILITIES (CONTINUED)

C. Description of Long-Term Liabilities

General Obligation Bonds

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

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

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

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

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

On June 19, 2012, the District issued \$5,500,000 of General Obligation Refunding Bonds, Series 2012B to refund the General Obligation School Building Refunding Bonds, Series 2003A and 2005A, which were scheduled to mature in 2013 through 2020, respectively. This type of refunding is considered an advance crossover refunding. The proceeds of the refunding bonds were placed into an escrow account pending the call date of the old bonds (December 1, 2012 and February 1, 2013). The refunding resulted in an economic savings of \$513,312 for the District, with a present value of \$587,099.

Compensated Absences Payable

At June 30, 2012, compensated absences payable consists of unused vacation and severance and convertible sick leave payable to employees upon retirement. In the past, compensated absences payable has been liquidated by the General Fund, the Food Service Fund, and the Community Service Fund.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 5 LONG-TERM LIABILITIES (CONTINUED)

D. Changes in Long-Term Liabilities

	June 30, 2011	Additions	Retirements	June 30, 2012
Bonds Payable	\$ 34,310,000	\$ 5,500,000	\$ 3,730,000	\$ 36,080,000
Bond Premium	280,651	-	67,804	212,847
Bond Discounts	(32,565)	-	(2,546)	(30,019)
Other Postemployment Benefits Payable	290,777	876,226	706,906	460,097
Compensated Absences Payable	1,409,534	383,224	630,186	1,162,572
	<u>\$ 36,258,397</u>	<u>\$ 6,759,450</u>	<u>\$ 5,132,350</u>	<u>\$ 37,885,497</u>

NOTE 6 SHORT-TERM DEBT

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

	2011	Additions	Retirements	2012
2012 Aid Anticipation Certificate	\$ -	\$ 4,500,000	\$ -	\$ 4,500,000
Plus: Unamortized Premium	-	13,526	-	13,526
	<u>\$ -</u>	<u>\$ 4,513,526</u>	<u>\$ -</u>	<u>\$ 4,513,526</u>

The District issued General Obligation Tax and Aid Anticipation Certificates of Indebtedness in the aggregate principal amount of \$4,500,000. The Certificates were issued on April 26, 2012 bearing interest at an annual rate of 1.0%, and mature on September 28, 2012 and March 28, 2013. The District budgeted certain aid receipts for payments of the principal on the certificates in the General Fund.

NOTE 7 RESTRICTED AND COMMITTED FUND BALANCES

Fund Equity

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

A. Restricted for Staff Development

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

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 7 RESTRICTED AND COMMITTED FUND BALANCES (CONTINUED)

B. Restricted for Area Learning Center

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

C. Restricted for Health and Safety

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

D. Restricted for Operating Capital

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

E. Restricted for Community Education Programs

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

F. Restricted for Early Childhood and Family Education Programs

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

G. Restricted for School Readiness

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

H. Restricted for Adult Basic Education

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

I. Restricted for Bond Refunding

Represents resources from the 2012 bond refunding issue held in escrow available for a planned crossover refunding.

J. 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.

K. Committed for Separation/Retirement Benefits

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

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 8 PENSION PLANS

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

A. Teachers Retirement Association (TRA)

1. Plan Description

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

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

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

2. Funding Policy

Minnesota Statutes Chapter 354 sets the rates for the employee and employer contributions. These statutes are established and amended by the state legislature. Coordinated and Basic Plan members are required to contribute 5.5% and 9.0%, respectively, of their annual covered salary while the District is required to contribute at an actuarially determined rate.

The District is required to contribute the following percentages of annual covered payroll: 6.0% for Coordinated Plan members and 10.0% for Basic plan members. The contribution requirements of plan members and the District are established and may be amended by State Statute. The District contributions for the years ended June 30, 2012, 2011, and 2010 were \$1,077,555, \$965,049, and \$949,737, respectively, equal to the required contributions for each year as set by state statute.

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

**FARIBAULT PUBLIC SCHOOLS
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NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 8 PENSION PLANS (CONTINUED)

B. Public Employees' Retirement Association (PERA)

1. Plan Description

All full-time and certain part-time employees of the District (other than teachers) are covered by a defined benefit plan administered by the Public Employees' Retirement Association of Minnesota (PERA). PERA administers the General Employees' Retirement Fund (GERF) which is a cost-sharing, multiple-employer retirement plan. This plan is established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan. PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by State Statute, and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF. That report may be obtained by writing to PERA, 60 Empire Drive #200, St. Paul, MN 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

2. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The District makes annual contributions to the pension plans equal to the amount required by State Statutes. GERF Basic Plan members and Coordinated Plan members are required to contribute 9.10% and 6.25%, respectively, of their annual covered salary in 2012.

The District is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan GERF members, 7.25% for Coordinated Plan GERF members. The contribution requirements of plan members and the District are established by and may be amended by State Statute. The District's contributions for the years ending June 30, 2012, 2011 and 2010 were \$409,055, \$392,403, and \$370,818, respectively, equal to the contractually required contributions for each year as set by state statute.

C. Defined Contribution Plan

The District provides eligible employees future retirement benefits through the District's 403(b) Plan (the "Plan"). Employees of the District are eligible to participate in the Plan commencing on the date of their employment. Eligible employees may elect to have a percentage of their pay contributed to the Plan. Some employees are eligible to receive a District match of employee contributions up to the qualifying amounts set forth in their respective collective bargaining agreements. Contributions are invested in tax deferred annuities selected and owned by Plan participants. The District contributions for the years ended June 30, 2012, 2011, and 2010 are \$216,975, \$197,933, and \$184,484, respectively. The related employee contributions were \$509,183, \$524,957, and \$551,585, for the years ended June 30, 2012, 2011, and 2010, respectively.

**FARIBAULT PUBLIC SCHOOLS
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JUNE 30, 2012**

NOTE 9 OTHER POSTEMPLOYMENT BENEFIT PLAN

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

A. Plan Description

The District operates a single-employer retiree benefit plan ("the Plan") that provides health insurance to eligible employees and their spouses through the District's self-insured health insurance plan. There are 516 active participants, 67 retired participants, and 5 spouses of retirees receiving payments. Benefit and eligibility provisions are established through negotiations between the District and various unions representing District employees and are renegotiated each two-year bargaining period. The Plan does not issue a publicly available financial report.

B. Funding Policy

Contribution requirements are also negotiated between the District and union representatives. The District contributes up to \$400 per month of the cost of current-year premiums for eligible retired plan members and their spouses. For fiscal year 2012, the District contributed \$706,906 to the plan.

C. Annual OPEB Cost and Net OPEB Obligation

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

Annual Required Contribution	\$ 880,919
Interest on Net OPEB Obligation	13,085
Adjustment to Annual Required Contribution	<u>(17,778)</u>
Annual OPEB Cost (Expense)	876,226
Contributions Made	<u>(706,906)</u>
Increase in Net OPEB Obligation	169,320
Net OPEB Obligation - Beginning of Year	290,777
Net OPEB Obligation - End of Year	<u><u>\$ 460,097</u></u>

The District's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012, 2011 and 2010:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2012	\$ 876,226	80.7%	\$ 460,097
6/30/2011	\$ 797,420	93.1%	\$ 290,777
6/30/2010	\$ 799,838	80.6%	\$ 235,523

**FARIBAUT PUBLIC SCHOOLS
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NOTE 9 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

D. Funded Status and Funding Progress

As of July 1, 2011, the most recent actuarial valuation date, the District's unfunded actuarial accrued liability (UAAL) was \$7,998,988. The annual payroll for active employees covered by the plan in the actuarial valuation was \$21,703,390 for a ratio of UAAL to covered payroll of 36.9%.

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

E. Actuarial Methods and Assumptions

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

In the July 1, 2011 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.5% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date. The initial healthcare trend rate was 8.0%, reduced by decrements to an ultimate rate of 5% after six years. The UAAL is being amortized as a level dollar amount on a closed basis. The remaining amortization period at June 30, 2012 doesn't exceed 30 years.

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.

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INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 10 FLEXIBLE BENEFIT PLAN (CONTINUED)

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

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

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

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

NOTE 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, 2012 was \$599,070.

Minimum rental commitments on leases in effect at June 30, 2012 are as follows:

<u>Year Ending June 30,</u>	<u>Annual Lease Payments</u>
2013	\$ 164,412
2014	161,932
2015	161,932
2016	134,943
Total	<u>\$ 623,219</u>

B. As Lessor

The District entered into an agreement with Nerstrand Elementary School to lease a 17,700 square foot building located at 205 South Second Street, Nerstrand, Minnesota. The lease is renewed on an annual basis. The District received \$158,094 of rent for this building during the year ended June 30, 2012, 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.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 12 COMMITMENTS AND CONTINGENCIES

A. Federal and State Programs

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

B. Construction Commitments

As of June 30, 2012 the District had entered into various construction contracts for school building projects. Total remaining commitments under these contracts were \$2,734,844 at June 30, 2012.

NOTE 13 JOINT POWERS AGREEMENTS

Community Education

The District and the City of Faribault have entered into a Joint Powers agreement to collaborate and coordinate in the provision of social, educational, vocational, and recreational services to members of the community. The Joint Powers Entity is governed by the Joint Powers Board, which includes two City Council members, two Board of Education members, and a resident of the District jointly appointed by the City Council and the Board of Education. The City is responsible for provision of adult community education and youth enrichment programs. The School District is responsible for provision of early childhood, adult disabled and adult basic education programs. Under the terms of the agreement, the School District paid the City for its provision of services \$161,943 for the period ending June 30, 2012. An amount necessary to pay costs for future years will be determined by the parties beginning on July 1 of each fiscal year. The agreement is perpetual but may be canceled upon six months' written notice by either party.

Wind Energy

The District and 13 other school districts in Minnesota have entered into a Joint Powers Agreement to form the Minnesota Schools Wind Energy Cooperative (the Cooperative). The purpose of the Cooperative is to acquire, develop, construct, finance, operate, and maintain a wind energy project to be located in Minnesota. The Cooperative is governed by a Joint Powers Board, which consists of two members (a Board of Education member, and the superintendent or another district employee) from each of the participating district. Any district may withdraw from the Cooperative prior to the issuance of any project financing instruments, provided that the withdrawing district reimburses the Cooperative for its pro rata portion of the total development or other project costs or other obligations incurred by the Cooperative. Once financing instruments, other than Clean Renewable Energy Bonds (CREBs), have been issued, a district may withdraw provided it prepays the outstanding balance of its pro rata portion of any outstanding financing instruments. Upon issuance of the CREBs, no district may withdraw membership until the CREBs have been repaid in full. The District has not committed any financial resources to the Cooperative as of June 30, 2012.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

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 \$25,000 to reimburse it for certain salaries and benefits expenditures that the District may not otherwise have incurred.

REQUIRED SUPPLEMENTARY INFORMATION

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**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR OTHER POSTEMPLOYMENT BENEFIT PLAN
JUNE 30, 2012**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/2007	\$ -	\$ 6,400,766	\$ 6,400,766	0.0%	\$ 18,380,763	34.8%
7/1/2009	\$ -	\$ 7,598,658	\$ 7,598,658	0.0%	\$ 20,773,506	36.6%
7/1/2011	\$ -	\$ 7,998,988	\$ 7,998,988	0.0%	\$ 21,703,390	36.9%

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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, 2012**

Grantor/Program	CFDA Number	Agency or Pass-Through Number	Federal Expenditures
US Department of Agriculture			
Pass-Through Minnesota Department of Education			
Non-Cash Assistance (Commodities):			
National School Lunch Program	a	10.555	1-656-000 \$ 42,560
Total Non-Cash Assistance			\$ 42,560
Cash Assistance:			
School Breakfast Program	a	10.553	1-656-000 347,144
National School Lunch Program - Commodities Rebate	a	10.555	1-656-000 47,532
National School Lunch Program	a	10.555	1-656-000 838,070
After School Snack	a	10.555	1-656-000 11,909
Summer Food	a	10.559	1-656-000 47,735
Total Cash Assistance			1,292,390
Total US Department of Agriculture			1,334,950
US. Department of Education			
Pass-Through Minnesota Department of Education			
Cash Assistance:			
Title I, Part A - Grants to Local Education Agencies	c	84.010	** 772,445
Special Education - Grants to States	b	84.027	** 921,875
Special Education - Preschool Incentive	b	84.173	** 17,683
Special Education - Preschool Incentive - Personal Dev.	b	84.173	** 1,265
Special Education - Grants for Infants and Families with Disabilities		84.181	** 17,214
Special Education - Discretionary Low Incidence	b	84.027	** 4,489
Title IV, Part B - 21st Century Community Learning Centers		84.287	** 250,713
Title III - English Language Acquisition Grants		84.365A	** 69,102
Title II, Part A - Improving Teacher Quality		84.367	** 122,560
ARRA Education Jobs Fund		84.410	** 850,330
Total Pass-Through Minnesota Department of Education			3,027,676
Pass-Through Southern MN ABE Consortium			
Adult Basic Education		84.002	** 14,456
Total Pass-Through Southern MN ABE Consortium			14,456
Pass-Through South Central Cooperative			
Carl Perkins		84.048A	10,216
Total Pass-Through South Central Cooperative			10,216
Total US Department of Education - Cash Assistance			3,052,348
TOTAL FEDERAL FINANCIAL ASSISTANCE EXPENDED			\$ 4,387,298

- a Child Nutrition Cluster
b Special Education Cluster
c Title I Cluster
** Not Available

See accompanying Notes to Schedule of Expenditures of Federal Awards.

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2012**

NOTE 1 GENERAL

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

NOTE 2 BASIS OF ACCOUNTING

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



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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 656 as of and for the year ended June 30, 2012, which collectively comprise Independent School District No. 656's basic financial statements and have issued our report thereon dated November 14, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2012-1 and 2012-2 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Independent School District No. 656's financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We have also issued a separate letter to management dated November 14, 2012, regarding business and other matters not deemed to be reportable conditions and nonmaterial compliance matters.

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

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


CliftonLarsonAllen LLP

Austin, Minnesota
November 14, 2012



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

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

Compliance

We have audited the compliance of Independent School District No. 656 with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. Independent School District No. 656's major federal programs are identified in the summary of auditors' results sections of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Independent School District No. 656's management. Our responsibility is to express an opinion on Independent School District No. 656's compliance based on our audit.

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

In our opinion, Independent School District No. 656 complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with Circular A-133, which are described in the accompanying Schedule of Findings and Questioned Costs as items 2012-3 and 2012-4.

Internal Control Over Compliance

The management of Independent School District No. 656 is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Independent School District No. 656's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Independent School District No. 656's internal control over compliance.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings and questioned costs, we identified deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies listed as items 2012-3 and 2012-4 in the accompanying schedule of findings and questioned costs to be material weaknesses.

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

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

CliftonLarsonAllen LLP
CliftonLarsonAllen LLP

Austin, Minnesota
November 14, 2012



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REPORT ON MINNESOTA LEGAL COMPLIANCE

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

We have audited the financial statements of Independent School District No. 656 as of and for the year ended June 30, 2012, and have issued our report thereon dated November 14, 2012.

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

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

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

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Austin, Minnesota
November 14, 2012

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**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012**

PART I: SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the basic financial statements of Independent School District No. 656.
2. Deficiencies in internal control were disclosed during the audit of the financial statements and are listed as Findings 2012-1 and 2012-2. These deficiencies are considered to be material weaknesses.
3. No instances of noncompliance material to the basic financial statements of Independent School District No. 656 were disclosed during the audit.
4. Two deficiencies in internal control over compliance were disclosed during the audit of the major federal award programs. These deficiencies are considered to be material weaknesses. These are listed as Findings 2012-3 and 2012-4.
5. The auditors' report on compliance for the major federal award programs for Independent School District No. 656 expresses an unqualified opinion.
6. Two audit findings relative to the major federal award programs for Independent School District No. 656 were disclosed during the audit. These are listed as Findings 2012-3 and 2012-4.
7. The programs tested as major programs included:

U.S. Department of Education

Special Education Cluster:

Special Education – Grants to States	CFDA #84.027
Special Education – Preschool Incentive	CFDA #84.173
Special Education – Discretionary Low Incidence	CFDA #84.027
Special Education – Preschool Incentive – Personnel Dev.	CFDA #84.173

Title I, Part A – Grants to Local Education Agencies	CFDA #84.010
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ARRA Education Jobs	CFDA #84.410
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8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Independent School District No. 656 was not determined to be a low-risk auditee.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012**

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

FINDING: 2012-01 MATERIAL AUDIT ADJUSTMENTS

Condition: The audit firm proposed and the District posted to its general ledger accounts certain misstatements.

Criteria: The District should have controls in place to prevent or detect a material misstatement in the financial statements in a timely manner.

Questioned Costs: None

Context: The District has informed us that they will continue to rely upon the audit firm to propose such audit adjustments as are necessary to adjust accounts in accordance with GAAP. Management will review and approve those entries prior to recording them.

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

Cause: The District has not established controls to ensure that all accounts are adjusted to their appropriate year end balances in accordance with Generally Accepted Accounting Principles (GAAP).

Recommendation: The District should continue to evaluate its internal control processes to determine if additional internal control procedures should be implemented to ensure that accounts are adjusted to their appropriate year end balances in accordance with GAAP.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The Controller will review the 2012 audit adjustments and work papers prior to start of the 2013 audit in order to identify areas which may require adjustment.

Official Responsible for Ensuring CAP:

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

Planned Completion Date for CAP:

The planned completion date is June 30, 2013.

Plan to Monitor Completion of CAP:

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

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012**

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

**FINDING: 2012-2 ANNUAL FINANCIAL REPORTING UNDER GENERALLY ACCEPTED
ACCOUNTING PRINCIPLES (GAAP)**

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

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

Questioned Costs: None

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

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

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

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

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings:

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

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

Official Responsible for Ensuring CAP:

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

Planned Completion Date for CAP:

June 30, 2013

Plan to Monitor Completion of CAP:

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

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012**

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

FINDING: 2012-3 **TITLE I, PART A, CLUSTER - CFDA # 84.010 AND EDUCATION JOBS PROGRAM – CFDA # 84.410, ALL GRANT YEARS, PASS THROUGH MINNESOTA DEPARTMENT OF EDUCATION - INAPPROPRIATE TIME AND EFFORT DISTRIBUTION RECORD COMPLETION**

Condition: Two Title I employees did not complete the required Time Certifications or PARs in a timely manner as required by OMB Circular A-87. In addition, no Education Jobs employees completed the required Time Certifications or PARs as required by OMB Circular A-87.

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

Questioned Costs: None

Context: None.

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

Cause: Not known.

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

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The District will immediately implement the recommendation.

Official Responsible for Ensuring CAP:

Colleen Mertesdorf, Director of Finance and Operations, and Colleen Cardenuto, Director of Teaching & Learning, are the officials responsible for ensuring corrective action of the deficiency.

Planned Completion Date for CAP:

December 31, 2012.

Plan to Monitor Completion of CAP:

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

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012**

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

**FINDING: 2012-4 SPECIAL EDUCATION CLUSTER – CFDA # 84.027 AND 84.173, ALL GRANT
YEARS, PASS THROUGH MINNESOTA DEPARTMENT OF EDUCATION -
CHILD COUNT**

Condition: Out of 40 students tested, one student was included on the December 1, 2011 Child Count Sheet that did not have an IEP completed within the previous 12 months.

Criteria: Minnesota Department of Education regulations require that a student listed as a special education student on the December 1, 2011 child count report to have an Individualized Education Plan (IEP) developed or approved within the past 12 months.

Questioned Costs: None

Context: Not applicable.

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

Cause: Not known.

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

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The District will immediately implement the recommendation.

Official Responsible for Ensuring CAP:

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

Planned Completion Date for CAP:

December 31, 2012.

Plan to Monitor Completion of CAP:

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

PART IV: FINDINGS AND QUESTIONED COSTS – MINNESOTA LEGAL COMPLIANCE

NONE

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
SUMMARY SCHEDULE OF PRIOR FEDERAL AUDIT FINDINGS
YEAR ENDED JUNE 30, 2012**

<u>Comment Reference</u>	<u>Comment Title</u>	<u>Status</u>	<u>If not Corrected, Provide Planned Corrective Action or Other Explanation</u>
2011-3	Improper Time Reporting Documentation	Not Corrected	See current year Finding 2012-3
2011-4	Improperly Including a Student on the December 1 st Child Count Report	Not Corrected	See current year Finding 2012-4
2011-5	Internal Control Over Cash Management and Reporting	Corrected	

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS
COMPLIANCE TABLE
JUNE 30, 2012**

	Audit	UFARS	Audit - UFARS		Audit	UFARS	Audit - UFARS
01 GENERAL FUND				06 BUILDING CONSTRUCTION			
Total Revenue	\$ 41,564,183	\$ 41,564,152	\$ 31	Total Revenue	\$ 5,652	\$ 5,651	\$ 1
Total Expenditures	\$ 40,199,182	\$ 40,199,151	\$ 31	Total Expenditures	\$ 1,870,491	\$ 1,870,490	\$ 1
Nonspendable:				Nonspendable:			
460 Nonspendable	\$ 211,278	\$ 211,278	\$ -	460 Nonspendable	\$ -	\$ -	\$ -
Restricted:				Restricted:			
403 Staff Development	\$ 33,794	\$ 33,794	\$ -	407 Capital Projects Levy	\$ -	\$ -	\$ -
405 Deferred Maintenance	\$ -	\$ -	\$ -	409 Alternative Facility Program	\$ -	\$ -	\$ -
406 Health & Safety	\$ (259,686)	\$ (259,686)	\$ -	413 Project Funded by COP	\$ -	\$ -	\$ -
407 Capital Project Levy	\$ -	\$ -	\$ -	419 Encumbrances	\$ -	\$ -	\$ -
408 Cooperative Programs	\$ -	\$ -	\$ -	464 Other Purposes	\$ 2,577,451	\$ 2,577,451	\$ -
409 Deferred Maintenance	\$ -	\$ -	\$ -	Unreserved:			
411 Severance	\$ -	\$ -	\$ -	463 Unassigned	\$ -	\$ -	\$ -
414 Operating Debt	\$ -	\$ -	\$ -				
416 Levy Reduction	\$ -	\$ -	\$ -	07 DEBT SERVICE			
423 Certain Teacher Programs	\$ -	\$ -	\$ -	Total Revenue	\$ 5,075,646	\$ 5,075,646	\$ -
424 Operating Capital	\$ 256,147	\$ 256,147	\$ -	Total Expenditures	\$ 5,080,407	\$ 5,080,407	\$ -
426 \$25 Taconite	\$ -	\$ -	\$ -	Restricted:			
427 Disabled Accessibility	\$ -	\$ -	\$ -	425 Bond Refundings	\$ 5,525,205	\$ 5,525,205	\$ -
428 Learning & Development	\$ -	\$ -	\$ -	451 QZAB Payments	\$ -	\$ -	\$ -
434 Area Learning Center	\$ -	\$ -	\$ -	464 Other Purposes	\$ 904,182	\$ 904,182	\$ -
435 Contracted Alt. Programs	\$ -	\$ -	\$ -	Unassigned:			
436 State Approved Alt. Program	\$ -	\$ -	\$ -	463 Unassigned	\$ -	\$ -	\$ -
438 Gifted & Talented	\$ -	\$ -	\$ -				
441 Basic Skills Programs	\$ -	\$ -	\$ -	08 TRUST			
446 First Grade Preparedness	\$ -	\$ -	\$ -	Total Revenue	\$ 3,000	\$ 3,000	\$ -
449 Safe Schools Levy	\$ -	\$ -	\$ -	Total Expenditures	\$ 2,500	\$ 2,500	\$ -
450 Prekindergarten	\$ -	\$ -	\$ -	Unassigned:			
451 QZAB Payments	\$ -	\$ -	\$ -	422 Unassigned	\$ 3,000	\$ 3,000	\$ -
452 OPEB Liab Not In Trust	\$ -	\$ -	\$ -				
453 Unfunded Sev & Retirement Levy	\$ -	\$ -	\$ -	09 AGENCY			
464 Other Purposes	\$ -	\$ -	\$ -	Unreserved: Should Always Be -0-			
Committed:				422 Unassigned	\$ -	\$ -	\$ -
418 Severance - Ins. Premium	\$ 2,500,000	\$ 2,500,000	\$ -				
461 Committed	\$ -	\$ -	\$ -	20 INTERNAL SERVICE			
Assigned:				Total Revenue	\$ -	\$ -	\$ -
462 Assigned	\$ 406,302	\$ 406,302	\$ -	Total Expenditures	\$ -	\$ -	\$ -
Unassigned:				Unassigned:			
422 Unassigned	\$ 5,745,165	\$ 5,745,167	\$ (2)	422 Unassigned	\$ -	\$ -	\$ -
02 FOOD SERVICE				25 OPEB REVOCABLE TRUST			
Total Revenue	\$ 2,131,017	\$ 2,131,015	\$ 2	Total Revenue	\$ -	\$ -	\$ -
Total Expenditures	\$ 2,083,651	\$ 2,083,651	\$ -	Total Expenditures	\$ -	\$ -	\$ -
Nonspendable:				Unassigned:			
460 Nonspendable	\$ 3,295	\$ 3,295	\$ -	422 Unassigned	\$ -	\$ -	\$ -
Restricted:				45 OPEB IRREVOCABLE TRUST			
452 OPEB Liab Not In Trust	\$ -	\$ -	\$ -	Total Revenue	\$ -	\$ -	\$ -
464 Other Purposes	\$ 474,208	\$ 474,207	\$ 1	Total Expenditures	\$ -	\$ -	\$ -
Unassigned:				Unassigned:			
463 Unassigned	\$ -	\$ -	\$ -	422 Unassigned	\$ -	\$ -	\$ -
04 COMMUNITY SERVICE				47 OPEB DEBT SERVICE			
Total Revenue	\$ 1,784,986	\$ 1,784,984	\$ 2	Total Revenue	\$ -	\$ -	\$ -
Total Expenditures	\$ 1,728,023	\$ 1,728,021	\$ 2	Total Expenditures	\$ -	\$ -	\$ -
Nonspendable:				Restricted:			
460 Nonspendable	\$ 1,545	\$ 1,545	\$ -	464 Other Purposes	\$ -	\$ -	\$ -
Restricted:				Unassigned:			
426 \$25 Taconite	\$ -	\$ -	\$ -	463 Unassigned	\$ -	\$ -	\$ -
431 Community Education	\$ 98,712	\$ 98,712	\$ -				
432 E.C.F.E.	\$ (5,427)	\$ (5,427)	\$ -				
444 School Readiness	\$ 45,126	\$ 45,125	\$ 1				
447 Adult Basic Education	\$ 131,867	\$ 131,867	\$ -				
452 OPEB Liab Not In Trust	\$ -	\$ -	\$ -				
464 Other Purposes	\$ -	\$ -	\$ -				
Unassigned:							
463 Unassigned	\$ (4,851)	\$ (4,849)	\$ (2)				

