

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

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2008

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
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INTRODUCTORY SECTION

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**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
BOARD OF EDUCATION AND ADMINISTRATION
FISCAL YEAR 2007 – 2008**

BOARD OF EDUCATION

	<u>Term on Board Expires December 31,</u>	<u>Position on Board During 2007-2008</u>
Sue Nelson	2008	Chair
Debra Davis	2010	Vice-Chair
David Korbel	2010	Clerk
Richard Olson	2008	Treasurer
Suzanne Berger	2010	Director
John Lorenz	2010	Director
Otto Luknic	2008	Director

ADMINISTRATION

Dr. Robert Stepaniak (1)	Superintendent
Colleen Mertesdorf (2)	Director of Finance and Operations
David Harwell	Director of Curriculum and Instruction
Elizabeth Keenan	Director of Special Services

(1) Mark Wergeland served as Interim Superintendent from July 1, 2007 through January 31, 2008.

(2) Daniel Parker served as Interim Business Manager from July 1, 2007 to September 15, 2007. Sandy Ihns served as Director of Finance and Operations from September 18, 2007 through January 31, 2008.

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities and each major fund of Independent School District No. 656 as of and for the year ended June 30, 2008, 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 ISD #656 Faribault's 2007 financial statements and, in our report dated December 15, 2007, we expressed unqualified opinions on the respective financial statements of the governmental activities and each major fund.

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

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of the governmental activities and each major fund of Independent School District No. 656 at June 30, 2008 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 December 15, 2008, on our consideration of Independent School District No. 656's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 4 through 16 is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the financial statements that collectively comprise Independent School District No. 656's basic financial statements. The accompanying schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the uniform financial accounting and reporting standards compliance table are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards as required by U.S. Office and Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the uniform financial accounting and reporting standards compliance table have been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.


LarsonAllen LLP

Austin, Minnesota
December 15, 2008

REQUIRED SUPPLEMENTARY INFORMATION

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**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2008**

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, 2008. 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 2007-08 fiscal year include the following:

- Student enrollment – student enrollment increased slightly over the previous year, going from 4006 in 2006-07 to 4035 in 2007-08.
- The General Fund Unreserved Fund Balance increased significantly, going from \$674,537 at the end of 2006-07 to \$2,418,290 at the end of 2007-08.

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 remaining statements are **fund financial statements** that focus on individual parts of the District, reporting the District's operations in more detail than the government-wide statements. The District maintains one group of fund financial statements. It is:
 - **Governmental funds statements** tell how basic services such as regular and special education were financed in the short term as well as what remains for future spending.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2008**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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

Government-wide Statements

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.

In the government-wide financial statements, the District's activities are shown in one category titled Governmental Activities:

- **Governmental Activities:** Includes most of the District's basic services, such as regular instruction and special education, transportation, and administration. Property taxes and state formula aids finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds 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 only has governmental funds:

- **Governmental Funds:** 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.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2008**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Fund Financial Statements (Continued)

Net assets. The District's combined net assets were \$21.1 million on June 30, 2008. This represents an increase of 30.69 percent from the prior year. (See Figure A-1 below.)

**Figure A-1
Independent School District No. 656
Net Assets – Governmental Activities
As of June 30, 2008 and 2007**

	Governmental Activities		Percentage Change
	2008	2007	
Current and Other Assets	\$ 19,149,336	\$ 16,817,917	13.86%
Capital and Non-Current Assets	48,889,007	49,615,546	-1.46%
Total Assets	68,038,343	66,433,463	2.42%
Current Liabilities	17,880,234	16,315,207	9.59%
Long Term Liabilities	29,016,210	33,940,928	-14.51%
Total Liabilities	46,896,444	50,256,135	-6.69%
Net Assets			
Invested in Capital Assets			
Net of Related Debt	18,900,387	15,538,240	21.64%
Restricted	2,314,281	2,834,584	-18.36%
Unrestricted	(72,769)	(2,195,496)	-96.69%
Total Net Assets	\$ 21,141,899	\$ 16,177,328	30.69%

Changes in net assets. The District's total revenues were \$46.8 million and total expenses were \$41.8 million for the year ended June 30, 2008. (See Figure A-2 on the next page.) Unallocated state and federal aid and local property taxes accounted for 65 percent of the total revenue for the year. Operating and capital grants and charges for specific programs contributed 34 percent. (See Figure A-3 on page 8.) Student education and educational support accounted for 75 percent of the District's expenses. The District's administrative activities accounted for 4 percent of total costs. (See Figure A-4 on page 8.) Total revenues surpassed expenditures, increasing net assets by \$4,964,571.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2008**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

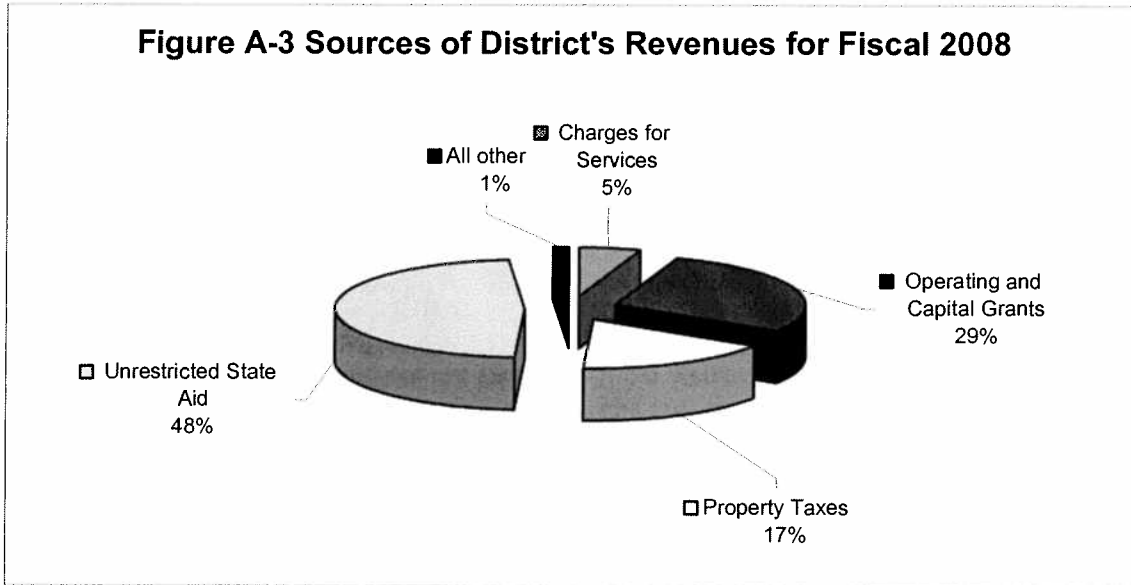
**Figure A-2
Independent School District No. 656
Change in Net Assets
For the Years Ended June 30, 2008 and 2007**

	Governmental Activities for the		Total % Change
	fiscal year ended June 30,		
	2008	2007	
Revenues			
<u>Program Revenues</u>			
Charges for Services	\$ 2,436,947	\$ 2,325,999	4.77%
Operating Grants and Contributions	12,818,641	12,750,482	0.53%
Capital Grants and Contributions	659,377	505,056	30.56%
<u>General Revenues</u>			
Property Taxes	7,856,568	7,056,522	11.34%
Unrestricted State Aid	22,375,608	22,196,918	0.81%
Investment Earnings	421,481	357,336	17.95%
Other	244,249	172,545	41.56%
Total Revenues	<u>46,812,871</u>	<u>45,364,858</u>	3.19%
Expenses			
Administration	1,462,740	1,645,940	-11.13%
District Support Services	1,611,774	1,564,657	3.01%
Regular Instruction	17,068,201	18,015,406	-5.26%
Vocational Education Instruction	258,268	220,038	17.37%
Special Education Instruction	7,483,123	7,274,329	2.87%
Instructional Support Services	2,061,365	1,907,675	8.06%
Pupil Support Services	2,856,940	3,453,059	-17.26%
Sites and Buildings	3,471,748	3,591,849	-3.34%
Fiscal and Other Fixed Cost Programs	89,981	147,420	-38.96%
Food Service	2,100,462	1,743,830	20.45%
Community Service	1,804,575	2,550,015	-29.23%
Interest and Fiscal Charges on Long-Term Liabilities	1,579,123	1,583,748	-0.29%
Total Expenses	<u>41,848,300</u>	<u>43,697,966</u>	-4.23%
Decrease in Net Assets	4,964,571	1,666,892	197.83%
Beginning Net Assets	16,177,328	14,510,436	11.49%
Ending Net Assets	<u>\$ 21,141,899</u>	<u>\$ 16,177,328</u>	30.69%

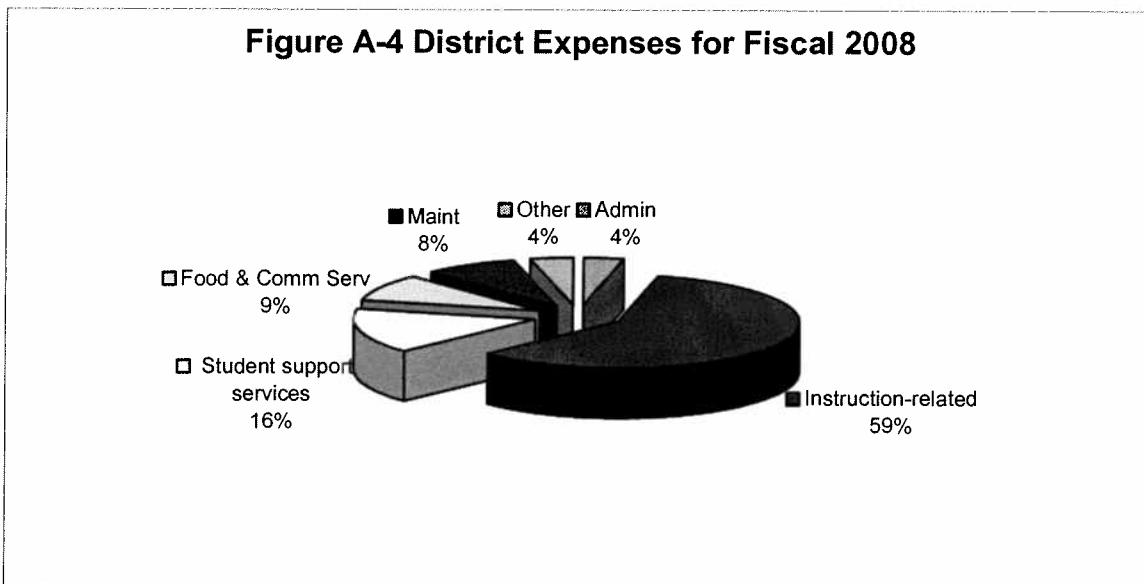
**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2008**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

**Figure A-3
Independent School District No. 656
Sources of Revenues
For Fiscal Year 2008**



**Figure A-4
Independent School District No. 656
Expenses
For Fiscal Year 2008**



**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2008**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Governmental Activities

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

- The cost of all governmental activities this year was \$41.85 million. The net cost of all governmental activities this year was \$25.93 million.
- The users of the District's programs financed \$2.4 million of the cost of activities.
- The federal and state governments, along with local donations, subsidized certain programs with grants and contributions of \$13.5 million.
- District property taxpayers financed \$7.9 million of governmental activities and state taxpayers financed \$22.4 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, 2008 and 2007**

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	2008	2007		2008	2007	
Administration	\$ 1,462,740	\$ 1,645,940	-11.13%	\$ 1,462,740	\$ 1,645,940	-11.13%
District Support Services	1,611,774	1,564,657	3.01%	1,427,631	1,419,775	0.55%
Regular Instruction	17,068,201	18,015,406	-5.26%	11,534,167	11,934,860	-3.36%
Vocational Education Instruction	258,268	220,038	17.37%	258,268	220,038	17.37%
Special Education Instruction	7,483,123	7,274,329	2.87%	1,616,562	2,661,966	-39.27%
Instructional Support Services	2,061,365	1,907,675	8.06%	1,575,695	1,857,707	-15.18%
Pupil Support Services	2,856,940	3,453,059	-17.26%	2,626,005	3,306,644	-20.58%
Sites and Buildings	3,471,748	3,591,849	-3.34%	2,888,809	3,132,107	-7.77%
Fiscal and Other Fixed Cost Programs	89,981	147,420	-38.96%	89,981	147,420	-38.96%
Food Service	2,100,462	1,743,830	20.45%	133,578	(184,415)	-172.43%
Community Service	1,804,575	2,550,015	-29.23%	740,776	390,639	89.63%
Interest and Fiscal Charges on Long-Term Liabilities	1,579,123	1,583,748	-0.29%	1,579,123	1,583,748	-0.29%
Total	\$ 41,848,300	\$ 43,697,966	-4.23%	\$ 25,933,335	\$ 28,116,429	-7.76%

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2008**

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 and Capital Projects – Building Construction Fund revenues exceeded expenditures thereby increasing the fund balance in these accounts. The Community Education Fund has 4 reserve components and one unreserved component; for three of these components expenditures exceeded revenues, thereby decreasing the fund balance in these funds.

The General Fund increased due to the fact that expenditures were less than what was budgeted.

The Capital Projects – Building Construction Fund increased slightly due to interest earned on the balance in this fund.

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

The Food Service Fund saw a decrease of approximately \$106,000. This was a planned decrease as several buildings received updated equipment. The Food Service Fund Balance still remains at a strong level at the end of 2007-08.

At the end of the 2007-08 fiscal year, the District's governmental funds reported combined reserved and unreserved fund balances of \$5,344,306. This is a 32% increase over the prior year. The increase is mostly due to expenditures coming in under budget and the timing of health and safety revenue.

Revenues for the District's governmental funds were \$46,531,425, while total expenditures were \$45,532,650. As a result, the District completed the year with an excess of revenues over expenditures of \$998,775, prior to other financing sources of \$305,055.

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.

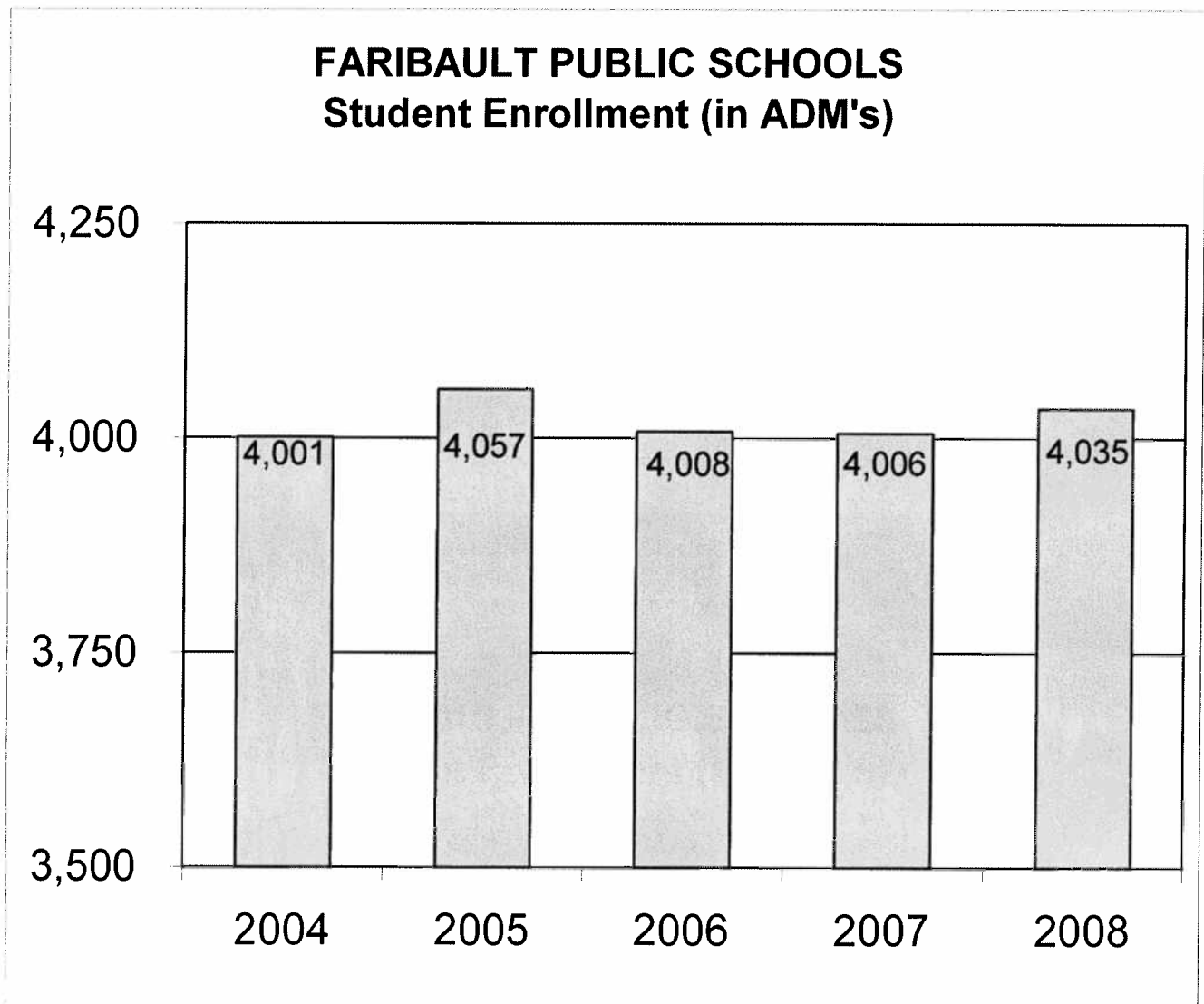
**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2008**

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (CONTINUED)

Enrollment

Funding for Minnesota school districts is largely driven by enrollment. The majority of Minnesota school districts are facing declining enrollment. As seen in Figure A-6 below, there was a slight enrollment increase for the year of 29 students from the prior year.

**Figure A-6
Independent School District No. 656
Student Average Daily Membership
As of June 30, 2008**



**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2008**

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, 2008 and 2007**

<u>Description</u>	<u>Year Ended</u>		<u>Change</u>	
	<u>June 30, 2008</u>	<u>June 30, 2007</u>	<u>Increase (Decrease)</u>	<u>Percent</u>
Revenues:				
Local Sources				
Property Taxes	\$ 3,228,936	\$ 2,724,651	\$ 504,285	18.5%
Earnings on Investments	124,377	132,118	(7,741)	-5.9%
Other	1,251,715	1,291,186	(39,471)	-3.1%
State Sources	31,692,701	29,843,390	1,849,311	6.2%
Federal Sources	1,818,373	2,072,172	(253,799)	-12.2%
Total General Fund Revenue	<u>\$ 38,116,102</u>	<u>\$ 36,063,517</u>	<u>\$ 2,052,585</u>	5.7%
	<u>Year Ended</u>		<u>Amount of</u>	<u>Percent</u>
	<u>June 30, 2008</u>	<u>June 30, 2007</u>	<u>Increase (Decrease)</u>	<u>Increase (Decrease)</u>
Expenditures:				
Salaries	\$ 21,776,414	\$ 22,372,133	\$ (595,719)	-2.7%
Employee Benefits	6,660,156	6,664,358	(4,202)	-0.1%
Purchased Services	4,629,469	4,957,288	(327,819)	-6.6%
Supplies and Materials	1,832,636	1,888,237	(55,601)	-2.9%
Capital Expenditures	1,319,883	796,371	523,512	65.7%
Other Expenditures	41,836	29,626	12,210	41.2%
Total Expenditures	<u>\$ 36,260,394</u>	<u>\$ 36,708,013</u>	<u>\$ (447,619)</u>	-1.2%

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2008**

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (CONTINUED)

General Fund (Continued)

Revenues

Fiscal year 2008 saw an increase in enrollment of 29 students. The formula allowance was at \$5,074 per adjusted marginal cost pupil unit for the 2007-08 year. Revenues totaled \$38,116,102 or an increase of \$2,052,585 over fiscal year 2007. The 5.7% revenue increase is due to the increase in the state aid formula and property tax revenue.

Expenditures

Expenditures totaled \$36,260,394 – a decrease of \$447,619 over fiscal year 2007. Most expenditure functions saw decreases due to budget cuts. Capital Outlay however, saw an increase in expenditures.

Fund Balance

The unreserved, undesignated fund balance is \$2,418,290 and the reserved fund balance for staff development, health and safety, severance, operating capital, and area learning center is \$ 1,575,012.

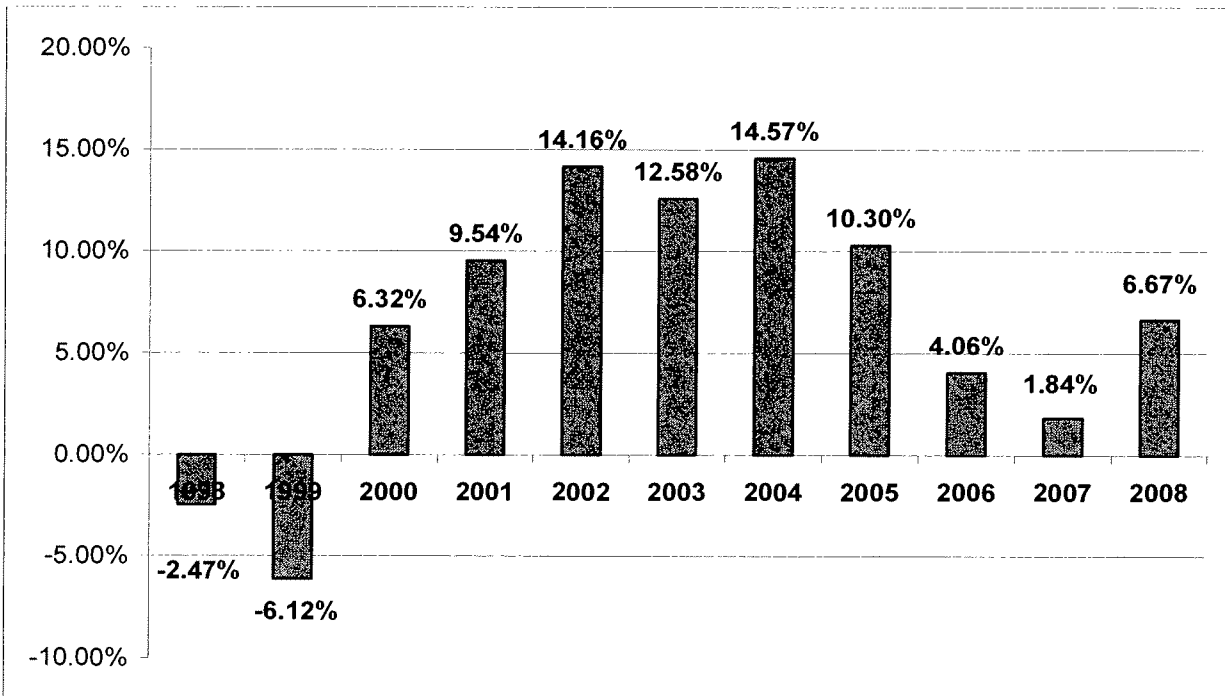
The graph in Figure A-8, on the next page, depicts the General Fund unreserved fund balance as a percentage of total expenditures for fiscal years 1998–2008. The District's unreserved fund balance offers the single best measure of the District's overall financial health. The unreserved fund balance on June 30, 2008 represents 6.67% of annual expenditures and 8.03% of undesignated expenditures.

The District closely monitors the General Fund unreserved fund balance through use of a detailed financial planning model, by initiating two budget revisions during the year, and with monthly budget analysis. The Board of Education has adopted a fund balance policy to maintain a 5 to 8 percent fund balance in the unreserved General Fund.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2008**

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (CONTINUED)

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



BUDGETARY HIGHLIGHTS

The District revised the annual operating budget from the preliminary budget approved in June 2007 to the final budget approved in December of 2007.

General Fund

The District's final budget for the general fund anticipated that revenues would exceed expenditures by \$270,804, prior to the sale of property. The actual results for the year show revenues exceeding expenditures by \$1,855,708.

- Actual revenues were \$795,365 below budget, with most of the difference in the "other" category. This is at least partially due to state mandated changes in how special education tuition bills are calculated.
- Actual expenditures were \$2,380,269 below budget. The largest fluctuations were \$1,197,126 in budgeted regular education costs below budget and \$533,976 in special education costs below budget (due to changes in how these amounts are accounted for).

Food Service Fund

The Food Service Fund revenue for 2007-08 totaled \$2 million and expenditures were \$2.1 million. The June 30, 2008 fund balance is \$595,248, a decrease of \$106,303 from fiscal year 2007. The decrease in the fund balance is due to planned equipment upgrades. The District contracts with Sodexo for District food services.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2008**

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (CONTINUED)

Community Service Fund

The Community Service Fund revenue for 2007-08 totaled \$1.44 million and expenditures were \$1.56 million. The June 30, 2008 fund balance is \$173,318, a decrease of \$120,776 from fiscal year 2007.

Debt Service Fund

The Debt Service Fund is used to record revenues and expenditures for a school district's outstanding bonded indebtedness, whether for building construction, operating capital, or for initial or refunding bonds. The Debt Service Fund revenue for 2007-08 totaled \$4.97 million and expenditures were \$5.61 million. The June 30, 2008 unreserved fund balance is \$466,996, or a decrease of \$677,472 from fiscal year 2007. The unreserved fund balance decrease is due to the District using a portion of the fund balance to payoff an existing bond issue during a refunding (refinancing to get a lower interest rate) of that same bond issue

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2008, the District had invested \$48,889,007 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 \$22,634,638 as of June 30, 2008. More detailed information about capital assets can be found in Note 4 of the financial statements.

**Figure A-9
Independent School District No. 656
Capital Assets
June 30, 2008 and 2007**

	<u>2008</u>	<u>2007</u>	<u>Percentage Change</u>
Land	\$ 1,835,754	\$ 1,490,446	23.2%
Land Improvements	1,970,403	1,970,403	0.0%
Buildings and Improvements	63,874,738	63,768,848	0.2%
Equipment	3,842,750	3,644,619	5.4%
Less: Accumulated Depreciation	<u>(22,634,638)</u>	<u>(21,258,770)</u>	<u>6.5%</u>
Total	<u><u>\$ 48,889,007</u></u>	<u><u>\$ 49,615,546</u></u>	<u><u>-1.5%</u></u>

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2008**

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

Long-Term Liabilities

For the fiscal year ended June 30, 2008, the District had \$29.62 million in general obligation bonds outstanding. (See Figure A-10 below.) The District also had \$2.92 million in separation and severance payable as of June 30, 2008. In fiscal year 2008, the District's total outstanding long-term liabilities decreased by 11.9 percent. More detailed information about the District's long-term liabilities is presented in Note 5 of the financial statements.

**Figure A-10
Independent School District No. 656
Outstanding Long-Term Liabilities
June 30, 2008 and 2007**

	<u>2008</u>	<u>2007</u>	<u>Percentage Change</u>
General Obligation Bonds	\$ 29,620,000	\$ 34,170,000	-13.3%
Net Bond Premium and Discount	484,062	78,670	515.3%
Severance Benefits Payable	2,826,464	3,121,145	-9.4%
Compensated Absences Payable	92,769	94,898	-2.2%
Total	\$ 33,023,295	\$ 37,464,713	-11.9%
Long-term liabilities:			
Due within one year	\$ 4,007,085	\$ 3,523,785	
Due in more than one year	29,016,210	33,940,928	
	<u>\$ 33,023,295</u>	<u>\$ 37,464,713</u>	

FACTORS BEARING ON THE DISTRICT'S FUTURE

With the exception of a voter-approved excess operating referendum, the District is dependent on the State of Minnesota for its revenue authority. Recent experience demonstrates that legislated revenue increases have not been sufficient to meet instructional needs and increased costs due to inflation. The current economic conditions will have a significant negative impact on the funding for school districts.

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

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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, 2008
(WITH COMPARATIVE DATA AS OF JUNE 30, 2007)**

	<u>Governmental Activities</u>	
	<u>2008</u>	<u>2007</u>
ASSETS		
Cash and Investments	\$ 9,854,962	\$ 7,411,654
Receivables		
Property Taxes	4,568,530	4,527,923
Other Governments	4,264,348	4,345,993
Other	188,253	206,344
Prepaid Items	48,489	166,182
Inventories	113,318	97,933
Bond Issuance Costs, Net	111,436	61,888
Capital Assets		
Land	1,835,754	1,490,446
Other Capital Assets, Net of Depreciation	47,053,253	48,125,100
Total Assets	<u>68,038,343</u>	<u>66,433,463</u>
LIABILITIES		
Salaries and Wages Payable	4,107,937	3,710,664
Accounts and Contracts Payable	624,063	598,649
Accrued Interest	274,179	149,953
Due to Other Governmental Units	100,706	240,863
Deferred Revenue		
Property Taxes	8,097,768	7,961,718
Local Sources	668,496	129,575
Long-Term Liabilities		
Portion Due Within One Year	4,007,085	3,523,785
Portion Due in More Than One Year	29,016,210	33,940,928
Total Liabilities	<u>46,896,444</u>	<u>50,256,135</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	18,900,387	15,538,240
Restricted for:		
Operating Capital Purposes	813,481	281,729
State-Mandated Reserves	539,417	562,695
Food Service	595,248	701,551
Community Service	173,318	294,094
Debt Service	192,817	994,515
Unrestricted	(72,769)	(2,195,496)
Total Net Assets	<u>\$ 21,141,899</u>	<u>\$ 16,177,328</u>

See accompanying Notes to Basic Financial Statements.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2008
(WITH COMPARATIVE DATA FOR THE YEAR ENDED JUNE 30, 2007)**

	2008		
Functions	Expenses	Charges for Services	Program Operating Grants and Contributions
Governmental Activities			
Administration	\$ 1,462,740	\$ -	\$ -
District Support Services	1,611,774	-	66
Regular Instruction	17,068,201	367,779	5,067,603
Vocational Education Instruction	258,268	-	-
Special Education Instruction	7,483,123	551,027	5,280,406
Instructional Support Services	2,061,365	-	485,670
Pupil Support Services	2,856,940	-	230,935
Sites and Buildings	3,471,748	241,419	-
Fiscal and Other Fixed Cost Programs	89,981	-	-
Food Service	2,100,462	881,392	1,085,492
Community Service	1,804,575	395,330	668,469
Interest and Fiscal Charges on Long-Term Liabilities	1,579,123	-	-
Total School District	\$ 41,848,300	\$ 2,436,947	\$ 12,818,641

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.

	<u>2008</u>	<u>2007</u>
<u>Revenues</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
<u>Capital</u>	<u>Total</u>	<u>Total</u>
<u>Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Governmental Activities</u>
\$ -	\$ (1,462,740)	\$ (1,645,940)
184,077	(1,427,631)	(1,419,775)
98,652	(11,534,167)	(11,934,860)
-	(258,268)	(220,038)
35,128	(1,616,562)	(2,661,966)
-	(1,575,695)	(1,857,707)
-	(2,626,005)	(3,306,644)
341,520	(2,888,809)	(3,132,107)
-	(89,981)	(147,420)
-	(133,578)	184,415
-	(740,776)	(390,639)
-	(1,579,123)	(1,583,748)
<u>\$ 659,377</u>	<u>(25,933,335)</u>	<u>(28,116,429)</u>
	3,237,416	2,733,469
	328,057	303,230
	4,291,095	4,019,823
	22,375,608	22,196,918
	421,481	357,336
	220,839	-
	23,410	172,545
	<u>30,897,906</u>	<u>29,783,321</u>
	4,964,571	1,666,892
	<u>16,177,328</u>	<u>14,510,436</u>
	<u>\$ 21,141,899</u>	<u>\$ 16,177,328</u>

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008
(WITH COMPARATIVE DATA AS OF JUNE 30, 2007)**

	Major		
	General	Food Service	Community Service
ASSETS			
Cash and Investments	\$ 5,648,997	\$ 513,813	\$ 468,877
Receivables			
Current Property Taxes	1,698,927	-	164,748
Delinquent Property Taxes	34,651	-	4,197
Due from Other Minnesota School Districts	246,159	-	-
Due from Minnesota Department of Education	3,368,959	-	4,447
Due from Federal through Minnesota Department of Education	538,234	-	25,138
Due from Federal Government Received Directly	-	-	-
Due from Other Governmental Units	36,890	-	-
Other Receivables	89,377	77,299	21,577
Prepaid Items	48,489	-	-
Inventory	75,032	38,286	-
Total Assets	<u>\$ 11,785,715</u>	<u>\$ 629,398</u>	<u>\$ 688,984</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Salaries and Wages Payable	\$ 3,087,400	\$ -	\$ 65,907
Payroll Deductions and Employer Contributions Payable	940,128	-	14,502
Accounts and Contracts Payable	598,605	4,690	20,493
Due to Other Governmental Units	96,086	-	4,620
Deferred Revenue:			
Property Taxes Levied for Subsequent Year	2,919,916	-	307,755
Delinquent Property Taxes	34,651	-	4,197
Local Sources	115,627	29,460	98,192
Total Liabilities	<u>7,792,413</u>	<u>34,150</u>	<u>515,666</u>
Fund Balance			
Reserved for			
Staff Development	107,122	-	-
Severance and Health Benefits	250,000	-	-
Area Learning Center	432,295	-	-
Gifted and Talented	-	-	-
Basic Skills Programs	-	-	-
Health and Safety	(27,886)	-	-
Operating Capital	813,481	-	-
Safe Schools	-	-	-
Community Education Programs	-	-	65,236
Early Childhood and Family Education Programs	-	-	3,643
School Readiness	-	-	(1,481)
Adult Basic Education	-	-	59,261
Building Construction	-	-	-
Unreserved			
Undesignated, Reported In			
General Fund	2,418,290	-	-
Debt Service Fund	-	-	-
Special Revenue Funds	-	595,248	46,659
Total Fund Balance	<u>3,993,302</u>	<u>595,248</u>	<u>173,318</u>
Total Liabilities and Fund Balance	<u>\$ 11,785,715</u>	<u>\$ 629,398</u>	<u>\$ 688,984</u>

See accompanying Notes to Basic Financial Statements.

Funds		Total Governmental	
Capital Projects	Debt Service	Funds	
		2008	2007
\$ 115,442	\$ 3,107,833	\$ 9,854,962	\$ 7,411,654
-	2,610,231	4,473,906	4,453,839
-	55,776	94,624	74,084
-	-	246,159	368,081
-	44,521	3,417,927	3,339,255
-	-	563,372	546,846
-	-	-	75,297
-	-	36,890	16,514
-	-	188,253	206,344
-	-	48,489	166,182
-	-	113,318	97,933
<u>\$ 115,442</u>	<u>\$ 5,818,361</u>	<u>\$ 19,037,900</u>	<u>\$ 16,756,029</u>
\$ -	\$ -	\$ 3,153,307	\$ 2,828,934
-	-	954,630	881,730
-	275	624,063	598,649
-	-	100,706	240,863
-	4,870,097	8,097,768	7,961,718
-	55,776	94,624	74,084
-	425,217	668,496	129,575
-	5,351,365	13,693,594	12,715,553
-	-	107,122	55,566
-	-	250,000	506,828
-	-	432,295	403,633
-	-	-	6,691
-	-	-	40,844
-	-	(27,886)	(234,902)
-	-	813,481	281,729
-	-	-	55,961
-	-	65,236	207,087
-	-	3,643	171
-	-	(1,481)	4,727
-	-	59,261	16,483
115,442	-	115,442	109,476
-	-	2,418,290	674,537
-	466,996	466,996	1,144,468
-	-	641,907	767,177
<u>115,442</u>	<u>466,996</u>	<u>5,344,306</u>	<u>4,040,476</u>
<u>\$ 115,442</u>	<u>\$ 5,818,361</u>	<u>\$ 19,037,900</u>	<u>\$ 16,756,029</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, 2008
(WITH COMPARATIVE DATA AS OF JUNE 30, 2007)**

	2008	2007
Total Fund Balance for Governmental Funds	\$ 5,344,306	\$ 4,040,476
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	1,490,446
Land Improvements, Net of Accumulated Depreciation	802,020	841,041
Buildings and Improvements, Net of Accumulated Depreciation	45,114,203	46,247,727
Equipment, Net of Accumulated Depreciation	1,137,030	1,036,332
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.		
	94,624	74,084
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.		
	(274,179)	(149,953)
Bond issuance costs are reported as expenditures in the governmental funds.		
	111,436	61,888
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	(29,620,000)	(34,170,000)
Unamortized Premiums	(484,062)	(78,670)
Severance Benefits Payable	(2,826,464)	(3,121,145)
Compensated Absences Payable	(92,769)	(94,898)
Total Net Assets of Governmental Activities	\$ 21,141,899	\$ 16,177,328

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2008
(WITH COMPARATIVE DATA FOR THE YEAR ENDED JUNE 30, 2007)**

	Major		
	General	Food Service	Community Service
REVENUES			
Local Sources			
Property Taxes	\$ 3,228,936	\$ -	\$ 327,084
Earnings on Investments	124,377	27,275	17,516
Other	1,251,715	881,392	502,401
State Sources	31,692,701	134,613	635,340
Federal Sources	1,818,373	950,879	(38,724)
Total Revenues	<u>38,116,102</u>	<u>1,994,159</u>	<u>1,443,617</u>
EXPENDITURES			
Current			
Administration	1,520,533	-	-
District Support Services	1,260,883	-	-
Regular Instruction	15,795,528	-	-
Vocational Education Instruction	244,970	-	-
Special Education Instruction	7,618,983	-	-
Instructional Support Services	2,014,212	-	-
Pupil Support Services	3,109,287	-	-
Sites and Buildings	3,286,134	-	-
Fiscal and Other Fixed Cost Programs	89,981	-	-
Food Service	-	1,940,833	-
Community Service	-	-	1,562,141
Capital Outlay	1,319,883	159,629	2,252
Debt Service			
Principal	-	-	-
Interest and Fiscal Charges	-	-	-
Total Expenditures	<u>36,260,394</u>	<u>2,100,462</u>	<u>1,564,393</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,855,708	(106,303)	(120,776)
OTHER FINANCING SOURCES (USES)			
Sale of Equipment Proceeds	7,841	-	-
Sale of Real Property Proceeds	298,799	-	-
Judgments for Districts	40,067	-	-
Sale of Bonds Proceeds	-	-	-
Bond Premium	-	-	-
Payment to Refunded Bond Escrow Agent	-	-	-
Total Other Financing Sources (Uses)	<u>346,707</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	2,202,415	(106,303)	(120,776)
Fund Balances - Beginning	<u>1,790,887</u>	<u>701,551</u>	<u>294,094</u>
Fund Balances - Ending	<u>\$ 3,993,302</u>	<u>\$ 595,248</u>	<u>\$ 173,318</u>

See accompanying Notes to Basic Financial Statements

Funds			
Capital Projects - Building Construction	Debt Service	Total Governmental Funds	
		2008	2007
\$ -	\$ 4,280,008	\$ 7,836,028	\$ 7,030,251
5,966	246,347	421,481	357,336
-	-	2,635,508	3,040,383
-	445,226	32,907,880	31,061,382
-	-	2,730,528	3,726,768
<u>5,966</u>	<u>4,971,581</u>	<u>46,531,425</u>	<u>45,216,120</u>
-	-	1,520,533	1,691,997
-	-	1,260,883	1,192,539
-	-	15,795,528	16,793,901
-	-	244,970	210,188
-	-	7,618,983	7,355,144
-	-	2,014,212	2,026,739
-	-	3,109,287	3,240,176
-	-	3,286,134	3,019,511
-	-	89,981	147,420
-	-	1,940,833	1,741,306
-	-	1,562,141	2,542,723
-	-	1,481,764	1,093,367
-	4,075,000	4,075,000	2,670,000
-	1,532,401	1,532,401	1,796,683
<u>-</u>	<u>5,607,401</u>	<u>45,532,650</u>	<u>45,521,694</u>
5,966	(635,820)	998,775	(305,574)
-	-	7,841	5,550
-	-	298,799	-
-	-	40,067	122,467
-	18,965,000	18,965,000	-
-	433,348	433,348	-
-	(19,440,000)	(19,440,000)	-
<u>-</u>	<u>(41,652)</u>	<u>305,055</u>	<u>128,017</u>
5,966	(677,472)	1,303,830	(177,557)
<u>109,476</u>	<u>1,144,468</u>	<u>4,040,476</u>	<u>4,218,033</u>
<u>\$ 115,442</u>	<u>\$ 466,996</u>	<u>\$ 5,344,306</u>	<u>\$ 4,040,476</u>

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2008
(WITH COMPARATIVE DATA FOR THE YEAR ENDED JUNE 30, 2007)**

	2008	2007
Net Change in Fund Balance-Total Governmental Funds	\$ 1,303,830	\$ (177,557)
Amounts reported for governmental activities in the statement of activities are different because:		
<p>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.</p>		
Capital Outlays	817,587	285,972
Gain (Loss) on Disposal of Capital Assets	220,839	(143,873)
Proceeds from Sales of Capital Assets	(306,640)	(5,550)
Depreciation Expense	(1,458,325)	(1,553,080)
<p>Some capital asset additions are financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net assets, the lease obligation is reported as a liability. Repayment of capital lease principal is an expenditure in the governmental funds, but repayment reduces the lease obligation in the statement of net assets.</p>		
Principal Payments - Capital Leases	-	216,256
<p>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:</p>		
General Obligation Bond Proceeds	(18,965,000)	-
Payment to Refunded Bond Escrow Agent	19,440,000	-
Bond Premium	(433,348)	-
Bond Issuance Costs	58,305	-
Repayment of Bond Principal	4,075,000	2,870,000
Change in Accrued Interest Expense - General Obligation Bonds	(124,226)	10,980
Amortization of Bond Issuance Costs	(8,757)	(6,077)
Amortization of Bond Premium	27,956	8,032
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.	20,540	26,271
In the statement of activities, certain operating expenses - severance benefits and 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).	296,810	135,518
Change in Net Assets of Governmental Activities	\$ 4,964,571	\$ 1,666,892

See accompanying Notes to Basic Financial Statements.

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

YEAR ENDED JUNE 30, 2008

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2007)

	2008			2007	
	Budgeted Amounts		Actual Amounts	Over (Under) Final Budget	Actual Amounts
	Original	Final			
REVENUES					
Local Sources					
Property Taxes	\$ 3,290,657	\$ 3,413,388	\$ 3,228,936	\$ (184,452)	\$ 2,724,651
Earnings on Investments	135,000	135,000	124,377	(10,623)	132,118
Other	2,098,443	1,542,322	1,251,715	(290,607)	1,291,186
State Sources	30,787,555	31,811,599	31,692,701	(118,898)	29,843,390
Federal Sources	1,905,757	2,009,158	1,818,373	(190,785)	2,072,172
Total Revenues	<u>38,217,412</u>	<u>38,911,467</u>	<u>38,116,102</u>	<u>(795,365)</u>	<u>36,063,517</u>
EXPENDITURES					
Current:					
Administration	1,693,550	1,673,550	1,520,533	(153,017)	1,691,997
District Support Services	1,265,850	1,236,340	1,260,883	24,543	1,192,539
Regular Instruction	16,953,648	16,992,654	15,795,528	(1,197,126)	16,793,901
Vocational Education Instruction	256,531	256,531	244,970	(11,561)	210,188
Special Education Instruction	8,141,558	8,152,958	7,618,983	(533,975)	7,355,144
Instructional Support Services	2,062,606	2,061,200	2,014,212	(46,988)	2,026,739
Pupil Support Services	3,269,181	3,269,048	3,109,287	(159,761)	3,240,176
Sites and Buildings	3,301,687	3,447,655	3,286,134	(161,521)	3,253,538
Fiscal and Other Fixed Cost Programs	225,000	225,000	89,981	(135,019)	147,420
Capital Outlay	1,086,808	1,325,727	1,319,883	(5,844)	796,371
Total Expenditures	<u>38,256,419</u>	<u>38,640,663</u>	<u>36,260,394</u>	<u>(2,380,269)</u>	<u>36,708,013</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(39,007)</u>	<u>270,804</u>	<u>1,855,708</u>	<u>1,584,904</u>	<u>(644,496)</u>
OTHER FINANCING SOURCES (USES)					
Sale of Equipment Proceeds	-	-	7,841	7,841	5,550
Sale of Real Property Proceeds	-	298,800	298,799	(1)	-
Judgments for Districts	-	-	40,067	40,067	122,467
Total Other Financing Sources (Uses)	<u>-</u>	<u>298,800</u>	<u>346,707</u>	<u>47,907</u>	<u>128,017</u>
Net Change in Fund Balances	<u>\$ (39,007)</u>	<u>\$ 569,604</u>	<u>2,202,415</u>	<u>\$ 1,632,811</u>	<u>(516,479)</u>
FUND BALANCE					
Beginning of Year			<u>1,790,887</u>		<u>2,307,366</u>
End of Year			<u>\$ 3,993,302</u>		<u>\$ 1,790,887</u>

See accompanying Notes to Basic Financial Statements.

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

YEAR ENDED JUNE 30, 2008

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2007)

	2008			2007	
	Budgeted Amounts		Actual Amounts	Over (Under)	Actual Amounts
	Original	Final		Final Budget	
REVENUES					
Local Sources					
Earnings on Investments	\$ -	\$ -	\$ 27,275	\$ 27,275	\$ 27,617
Other - Primarily Meal Sales	971,000	971,000	881,392	(89,608)	918,643
State Sources	116,000	116,000	134,613	18,613	123,496
Federal Sources	839,000	839,000	950,879	111,879	886,150
Total Revenues	<u>1,926,000</u>	<u>1,926,000</u>	1,994,159	68,159	1,955,906
EXPENDITURES					
Current					
Food Service	1,984,287	1,984,287	1,940,833	(43,454)	1,741,306
Capital Outlay	1,000	1,000	159,629	158,629	2,524
Total Expenditures	<u>1,985,287</u>	<u>1,985,287</u>	<u>2,100,462</u>	<u>115,175</u>	<u>1,743,830</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ (59,287)</u>	<u>\$ (59,287)</u>	(106,303)	<u>\$ (47,016)</u>	212,076
FUND BALANCE					
Beginning of Year			701,551		489,475
End of Year			<u>\$ 595,248</u>		<u>\$ 701,551</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, 2008**

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2007)

	2008			2007	
	Budgeted Amounts		Actual Amounts	Over (Under) Final Budget	Actual Amounts
	Original	Final			
REVENUES					
Local Sources					
Property Taxes	\$ 416,946	\$ 361,102	\$ 327,084	\$ (34,018)	\$ 301,928
Earnings on Investments	1,000	1,000	17,516	16,516	22,454
Other - Primarily Tuition and Fees	368,028	386,028	502,401	116,373	830,554
State Sources	663,466	633,142	635,340	2,198	599,324
Federal Sources	38,000	36,240	(38,724)	(74,964)	768,446
Total Revenues	<u>1,487,440</u>	<u>1,417,512</u>	<u>1,443,617</u>	<u>26,105</u>	<u>2,522,706</u>
EXPENDITURES					
Current					
Community Service	1,511,524	1,511,524	1,562,141	50,617	2,542,723
Capital Outlay	10,250	10,250	2,252	(7,998)	3,247
Total Expenditures	<u>1,521,774</u>	<u>1,521,774</u>	<u>1,564,393</u>	<u>42,619</u>	<u>2,545,970</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ (34,334)</u>	<u>\$ (104,262)</u>	(120,776)	<u>\$ (16,514)</u>	(23,264)
FUND BALANCE					
Beginning of Year			<u>294,094</u>		<u>317,358</u>
End of Year			<u>\$ 173,318</u>		<u>\$ 294,094</u>

See accompanying Notes to Basic Financial Statements.

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**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

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.

This financial report has been prepared in conformity with GASB Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments, issued in June 1999.

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, account groups, 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.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basic Financial Statement Presentation

The government-wide financial statements (i.e. the Statement of Net Assets and the Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the District.

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 funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

D. Measurement Focus and Basis of Accounting

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

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

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

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

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

Description of Funds

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

Major Governmental Funds

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

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

Food Service Special Revenue Fund - The Food Service Fund is used to account for food service revenues and expenditures.

Community Service Special Revenue Fund - The Community Service Fund is used to account for services provided to residents in the areas of recreation, civic activities, nonpublic pupils, veterans, adult or early childhood programs or other similar services.

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

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

E. Budgeting

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

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

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

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

F. Cash and Investments

Cash and investments consist of demand deposit accounts, deposits in the Minnesota School District Liquid Asset Fund (MSDLAF), deposits in the Minnesota Trust Investment Shares Portfolio, government agency 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.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Accounts Receivable

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

H. Inventories

Inventories are recorded using the consumption method of accounting and consist of food and other supplies on hand at June 30 2008, and surplus commodities received from the federal government. Food and supply purchases are recorded at invoice cost, computed on a first-in, first-out method, and surplus commodities are stated at standardized cost, as determined by the Department of Agriculture.

I. Prepaid Items

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

J. Property Taxes

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

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."

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Property Taxes (Continued)

In accordance with State law, the current tax shift consists of an amount equal to 31% of the District's 2000 Pay 2001 operating referendum levy (frozen at \$329,972) for the District. The tax shift also includes certain other levies that are recognized early based on statutory requirements.

Taxes that remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is deferred because it is not known to be available to finance the operations of the District in the current year. No allowance for uncollectible taxes has been provided as such amounts are not expected to be material. Current levies of local taxes, less the amount recognized as revenue in the current period, including portions assumed by the State which will be recognized as revenue in the next fiscal year beginning July 1, 2008, are included in Property Taxes Levied for Subsequent Year to indicate that, while they are current assets, they will not be recognized as revenue until the following year.

K. Capital Assets

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

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

Capital assets not being depreciated include land.

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

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Long-Term Liabilities

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

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

M. Accrued Employee Benefits

Vacation Pay and Sick Leave

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, 2008, unpaid vacation pay totaling \$92,769 is recorded in the financial statements.

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

Severance and Health Benefits

Severance and health benefits consist of lump sum early retirement incentive payments and post-employment health care benefits. Accounting policies for severance and health benefits are described below.

a. Severance and Convertible Sick Leave

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

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Accrued Employee Benefits (Continued)

Severance and Health Benefits (Continued)

a. Early Retirement Incentive and Convertible Sick Leave (Continued)

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.

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.

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

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

The District has recorded a liability for accrued convertible sick leave based on the sick leave accumulated at June 30, 2008 by employees currently eligible to receive termination payments, as well as other employees who are expected to become eligible in the future to receive such payments. Under this "vesting method", accruals for those employees expected to become eligible in the future are based on assumptions concerning the probability that the employees will become eligible to receive termination payments (vest) at some point in the future. The District's policy is to record a liability for the teachers lump sum payment for those individuals that are eligible to receive the payments.

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Accrued Employee Benefits (Continued)

Severance and Health Benefits (Continued)

b. Post-Employment 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. Currently, 68 retirees meet the eligibility requirements.

For employees that have retired as of June 30, the District's accounting policy is to record an amount for such premiums estimated to be paid within 60 days after year-end as a liability (if material) in the governmental funds at June 30. No amounts are recorded for employees that have not retired as of June 30. All premiums are funded on a pay-as-you-go basis.

During fiscal year 2008, total expenditures for early retirement incentive payments and convertible sick leave and post-employment health care benefits were \$523,244. At June 30, 2008, a liability for early retirement incentive payments and post-employment health care benefits totaling \$2,826,464 is recorded on the Statement of Net Assets.

N. Deferred Revenues

Deferred revenues are those in which resources are received by the District before it has a legal claim to them. The District received excess Tax Increment Financing in the current fiscal year. The State of Minnesota has the right to adjust future funding to account for this excess revenue. This excess revenue is recorded in deferred revenue. The District has reported deferred revenues for 2007-2008 school lunch deposits. The District also recorded deferred revenue in the Community Service Fund in an amount equal to the unspent proceeds for the SHAC grant program.

O. Fund Balance

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

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Risk Management

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

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

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

Q. Net Assets

Net assets represent the difference between assets and liabilities in the government-wide financial statements. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net assets are reported as restricted in the government-wide financial statement when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments. The government-wide statement of net assets reports \$2,314,281 of restricted net assets, all of which is restricted by enabling legislation.

R. Comparative Data

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

NOTE 2 STEWARDSHIP AND ACCOUNTABILITY

Excess of Expenditures Over Budget

Expenditures exceeded budgeted amounts in the following funds at June 30, 2008:

	<u>Budget</u>	<u>Expenditures</u>	<u>Excess</u>
Food Service Fund	\$ 1,985,287	\$ 2,100,462	\$ 115,175
Community Service Fund	1,521,774	1,564,393	42,619

Excess expenditures were fully paid for with current year excess revenues or existing fund balances.

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

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, 2008 were entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota statutes.

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

B. Investments

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

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

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

At June 30, 2008, the District had the following investments:

Investments Held by Broker -

	At Amortized Cost
Minnesota School District Liquid Asset Fund Plus (MDSLAF)	\$ 162,312
Minnesota School District LAF MAX Series (MSDMAX)	299,258
MN Trust Investment Shares Portfolio	4,023,247
	\$ 4,484,817

The MDSLAF 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.

The Minnesota Municipal Money Market Fund Trust (MN Trust) is a common law trust organized in accordance with the Minnesota Joint Powers Act, which invests only in investment instruments allowable under Minnesota statutes as described on the previous page. Its investments are valued at amortized cost, which approximates fair value in accordance with Rule 2a-7 of the Investment Company Act of 1940. The amortized cost method of valuation values a security at its cost on the date of purchase and thereafter assumes a constant amortization to maturity of any discount or premium, regardless of the impact of fluctuating interest rates on the market value of instruments.

	Fair Value
Federal Home Loan Bank Note	\$ 725,087

The Federal Home Loan Bank Note matures on May 15, 2009 and has an interest rate of 2.082%.

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.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At June 30, 2008 all investments and collateral were listed in the name of the District.

Credit Risk

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

<u>Type</u>	<u>Rated by</u>	<u>Credit Rating</u>
Minnesota School District Liquid Asset Fund Plus (MDSLAF)	S&P	AAAm
Minnesota School District LAF MAX Series (MSDMAX)	S&P	AAAm
MN Trust Investment Shares Portfolio	Moody's	Aaa
Federal Home Loan Bank Note	Moody's	Aaa

Concentration of Credit Risk.

On an annual basis, the investment officer prepares and presents to the Board of Education for its review and approval a table specifying the maximum percentage of the school district's investment portfolio that may be invested in a single type of investment instrument. The MSDMAX Funds, Federal Home Loan Bank Note, and MN Trust Investment Shares Portfolio, detailed above, individually comprise more than 5 percent of the District's total investments.

C. Balance Sheet Presentation

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

Investments	\$ 5,209,904
Deposits	4,635,418
Cash on Hand	9,640
Total Pooled Cash and Investments	<u>\$ 9,854,962</u>
Cash and Investments - Statement of Net Assets	<u>\$ 9,854,962</u>

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 4 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets, Not Being Depreciated				
Land	\$ 1,490,446	\$ 409,500	\$ (64,192)	\$ 1,835,754
Total Capital Assets, Not Being Depreciated	1,490,446	409,500	(64,192)	1,835,754
Capital Assets, Being Depreciated				
Land Improvements	1,970,403	-	-	1,970,403
Buildings and Improvements	63,768,848	122,715	(16,825)	63,874,738
Equipment	3,644,619	285,372	(87,241)	3,842,750
Total Capital Assets, Being Depreciated	69,383,870	408,087	(104,066)	69,687,891
Accumulated Depreciation for				
Land Improvements	(1,129,362)	(39,021)	-	(1,168,383)
Buildings and Improvements	(17,521,121)	(1,239,717)	303	(18,760,535)
Equipment	(2,608,287)	(179,587)	82,154	(2,705,720)
Total Accumulated Depreciation	(21,258,770)	(1,458,325)	82,457	(22,634,638)
Total Capital Assets, Being Depreciated, Net	48,125,100	(1,050,238)	(21,609)	47,053,253
Governmental Activities				
Capital Assets, Net	<u>\$ 49,615,546</u>	<u>\$ (640,738)</u>	<u>\$ (85,801)</u>	<u>\$ 48,889,007</u>

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

Governmental Activities	
District Support Services	69,920
Regular Instruction	1,284,874
Vocational Education Instruction	9,850
Special Education Instruction	1,669
Pupil Support Services	43,108
Sites and Buildings	48,472
Community Service	432
Total Depreciation Expense, Governmental Activities	<u>\$ 1,458,325</u>

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

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	\$ 440,000	\$ 6,860,000
12/1/2003	2.50% - 4.00%	2,605,000	12/1/2013	245,000	1,685,000
3/1/2005	3.00% - 4.00%	2,375,000	2/1/2020	110,000	2,110,000
3/5/2008	3.25% - 3.50%	18,965,000	6/1/2015	2,640,000	18,965,000
Total General Obligation Bonds				3,435,000	29,620,000
Bond Premium - Net				67,804	484,062
Severance and Health Benefits Payable				411,512	2,826,464
Compensated Absences Payable				92,769	92,769
				<u>\$ 4,007,085</u>	<u>\$ 33,023,295</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
2009	\$ 3,435,000	\$ 1,192,462
2010	3,355,000	925,008
2011	3,520,000	811,282
2012	3,690,000	689,680
2013	3,875,000	558,832
2014 - 2018	11,275,000	964,000
2019 - 2020	470,000	28,400
	<u>\$ 29,620,000</u>	<u>\$ 5,169,664</u>

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 5 LONG-TERM LIABILITIES (CONTINUED)

C. Description of Long-Term Liabilities

General Obligation Bonds

On February 1, 1998, the District issued \$29,245,000 of General Obligation Refunding Bonds, Series 1998. The proceeds of this issue were used to refund, in advance of their stated maturities, the remaining maturities of the District's 1995 General Obligation Building Bonds. These bonds were refunded in advance of their stated maturities on March 5, 2008 by the General Obligation School Building Refunding Bonds, Series 2008A.

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. As a result of the refunding, the District expects to have an economic gain of \$1,641,764, with a present value of \$1,323,515.

Severance and Health Benefits Payable

Severance and health benefits payable consist of severance, convertible sick leave, and post-retirement health care benefits payable to employees upon retirement. In the past, severance benefits have been liquidated by the General Fund, the Food Service Fund, and the Community Service Fund.

Compensated Absences Payable

Compensated absences payable consists of unused vacation at June 30, 2008. In the past, vacation expense has been paid 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, 2008**

NOTE 5 LONG-TERM LIABILITIES (CONTINUED)

D. Changes in Long-Term Liabilities

	June 30, 2007	Additions	Retirements	June 30, 2008
Bonds Payable	\$ 34,170,000	\$ 18,965,000	\$23,515,000	\$ 29,620,000
Bond Premium	78,670	433,348	27,956	484,062
Severance and Health Benefits Payable	3,121,145	228,563	523,244	2,826,464
Compensated Absences Payable	94,898	114,874	117,003	92,769
	<u>\$ 37,464,713</u>	<u>\$ 19,741,785</u>	<u>\$ 24,183,203</u>	<u>\$ 33,023,295</u>

NOTE 6 RESERVED FUND BALANCES

Fund Equity

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

A. Reserved for Staff Development

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

B. Reserved for Severance and Health Benefits

In accordance with state accounting regulations, a reserved fund balance is established for vested severance benefits. The reserved amount represents vested benefits for non-teaching employees that are estimated to be paid in fiscal year 2008-2009.

C. Reserved for Area Learning Center

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

D. Reserved for Gifted and Talented

The fund balance reservation represents accumulated resources available to provide gifted and talented programming.

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 6 RESERVED FUND BALANCES (CONTINUED)

E. Reserved for Basic Skills Programs

Reserved for basic skills represents available resources to be used only for purposes to meet the educational needs of students who enroll under-prepared to learn and whose progress toward meeting state or local content or performance standards is below the level that is appropriate for students of their age.

F. Reserved for Health and Safety

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

G. Reserved for Operating Capital

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

H. Reserved for Safe Schools

The fund balance reservation represents accumulated resources available to provide for safe schools programs in accordance with funding made available for that purpose.

I. Reserved for Community Education Programs

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

J. Reserved for Early Childhood and Family Education Programs

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

K. Reserved for School Readiness

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

L. Reserved for Adult Basic Education

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

M. Reserved for Building Construction

This fund balance reservation represents unused bond proceeds reserved for addition/renovation of District buildings.

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 7 PENSION PLANS

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

A. Teachers Retirement Association (TRA)

1. Plan Description

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

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

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

2. Funding Policy

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

The District is required to contribute the following percentages of annual covered payroll: 5.5% for Coordinated Plan members and 9.5% for Basic plan members. The contribution requirements of plan members and the District are established and may be amended by State Statute. The District contributions for the years ended June 30, 2008, 2007, and 2006 were \$923,035, \$884,965, and \$732,485, respectively, equal to the required contributions for each year as set by state statute.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 7 PENSION PLANS (CONTINUED)

B. Public Employees' Retirement Association (PERA)

1. Plan Description

All full-time and certain part-time employees of the District (other than teachers) are covered by a defined benefit plan administered by the Public Employees' Retirement Association of Minnesota (PERA). PERA administers the Public Employees' Retirement Fund (PERF) which is a cost-sharing, multiple-employer retirement plan. This plan is established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. PERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by State Statute, and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. PERA issues a publicly available financial report that includes financial statements and required supplementary information for PERF. That report may be obtained by writing to PERA, 60 Empire Drive #200, St. Paul, MN 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

2. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The District makes annual contributions to the pension plans equal to the amount required by State Statutes. PERF Basic Plan members and Coordinated Plan members are required to contribute 9.10% and 5.75%, respectively, of their annual covered salary in 2007. Contribution rates in the Coordinated Plan increased to 6.00% on January 1, 2008.

The District is required to contribute the following percentages of annual covered payroll in 2007: 11.78% for Basic Plan PERF members, 6.25% for Coordinated Plan PERF members. Employer contribution rates for the Coordinated Plan increased to 6.50% effective January 1, 2008. 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, 2008, 2007 and 2006 were \$306,906, \$296,660, and \$269,579, respectively, equal to the contractually required contributions for each year as set by state statute.

NOTE 8 FLEXIBLE BENEFIT PLAN

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

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 8 FLEXIBLE BENEFIT PLAN (CONTINUED)

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

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

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

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

NOTE 9 LEASE COMMITMENTS

A. As Lessee

The District has entered into various operating leases for vehicles, office equipment and buildings. Rent expense under annual operating leases for the year ending June 30, 2008 was \$524,089.

Minimum rental commitments on leases in effect at June 30, 2008 are as follows:

Year Ending June 30,	Annual Lease Payments
2009	\$ 263,834
2010	263,439
2011	200,512
2012	3,720
2013	2,480
Total	\$ 733,985

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 9 LEASE COMMITMENTS (CONTINUED)

B. As Lessor

The District entered into an agreement with Nerstrand Elementary School to lease a 17,700 square foot building located at 205 South Second Street, Nerstrand, Minnesota. The District received \$220,524 of rent for this building during the year ended June 30, 2008, as per the terms of the lease agreement. In addition to the lease of the building, the District also has in place agreements with Nerstrand Elementary School to provide Food Service and custodial service.

NOTE 10 COMMITMENTS AND CONTINGENCIES

A. Federal and State Programs

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

B. Legal Contingencies

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

C. Construction Commitments

As of June 30, 2008 the District had entered into a construction contract for a roofing project. Total commitment under this contract was \$223,000 at June 30, 2008.

NOTE 11 JOINT POWERS AGREEMENTS

Community Education

The District and the City of Faribault have entered into a Joint Powers agreement to collaborate and coordinate in the provision of social, educational, vocational, and recreational services to members of the community. The Joint Powers Entity is governed by the Joint Powers Board, which includes two City Council members, two Board of Education members, and a resident of the District jointly appointed by the City Council and the Board of Education. The City is responsible for provision of adult community education and youth enrichment programs. The School District is responsible for provision of early childhood, adult disabled and adult basic education programs. Under the terms of the agreement, the School District paid the City for its provision of services \$148,245 for the period ending June 30, 2008. An amount necessary to pay costs for future years will be determined by the parties beginning on July 1 of each fiscal year. The agreement is perpetual but may be canceled upon six months' written notice by either party.

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 11 JOINT POWERS AGREEMENTS (CONTINUED)

The Wind Energy

District and 13 other school districts in Minnesota have entered into a Joint Powers Agreement to form the Minnesota Schools Wind Energy Cooperative (the Cooperative). The purpose of the Cooperative is to acquire, develop, construct, finance, operate, and maintain a wind energy project to be located in Minnesota. The Cooperative is governed by a Joint Powers Board, which consists of two members (a Board of Education member, and the superintendent or another district employee) from each of the participating district. Any district may withdraw from the Cooperative prior to the issuance of any project financing instruments, provided that the withdrawing district reimburses the Cooperative for its pro rata portion of the total development or other project costs or other obligations incurred by the Cooperative. Once financing instruments, other than Clean Renewable Energy Bonds (CREBs), have been issued, a district may withdraw provided it prepays the outstanding balance of its pro rata portion of any outstanding financing instruments. Upon issuance of the CREBs, no district may withdraw membership until the CREBs have been repaid in full. The District has not committed any financial resources to the Cooperative as of June 30, 2008.

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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, 2008**

Grantor/Program	CFDA Number	Agency or Pass-Through Number	Expenditures
US Department of Agriculture			
Pass-Through Minnesota Department of Education			
Food Distribution (Commodities)	10.550	1-656-000	\$ 58,289
Commodities Rebate	10.550	1-656-000	33,025
School Breakfast Program	# 10.553	1-656-000	242,804
Type A Lunch	# 10.555	1-656-000	602,367
Summer Food	10.559	1-656-000	<u>14,394</u>
Total US Department of Agriculture			950,879
US. Department of Education			
Pass-Through Minnesota Department of Education			
Adult Basic Education	84.002		25,138
Title I, Part A - Grants to Local Education Agencies	84.010		362,696
Special Education - Grants to States	& 84.027		970,680
Special Education - Preschool Grants	& 84.173		23,521
Special Education - Grants for Infants and Families with Disabilities	84.181		59,957
Title IV, Part A - Safe and Drug Free Schools	84.186		16,305
Title IV, Part B - 21st Century Community Learning Centers	84.287		185,265
Title V, Part A - Innovative Education Program Strategies	84.298		14,074
Title III - English Language Acquisition Grants	84.365		70,034
Title II, Part A - Improving Teacher Quality	84.367		<u>143,834</u>
Total US Department of Education			<u>1,871,504</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE EXPENDED			<u>\$ 2,822,383</u>

& Special Education Cluster

Child Nutrition Cluster

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, 2008**

NOTE 1 GENERAL

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

NOTE 2 BASIS OF ACCOUNTING

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

NOTE 3 FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. At June 30, 2008, the District had food commodities totaling \$16,329 in inventory.

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

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

We have audited the financial statements governmental activities and each major fund of Independent School District No. 656 as of and for the year ended June 30, 2008, which collectively comprise Independent School District No. 656's basic financial statements and have issued our report thereon dated December 15, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Independent School District No. 656's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accounting principles such there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs listed as items 2008-1 through 2008-4 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies described in the accompanying Schedule of Findings and Questioned Costs listed as items 2008-1 through 2008-4 to be material weaknesses.

Compliance and Other Matters

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

We have also issued a separate letter to management dated December 15, 2008, regarding business and other matters not deemed to be reportable conditions and nonmaterial compliance matters.

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

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


LarsonAllen LLP

Austin, Minnesota
December 15, 2008

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of Independent School District No. 656 with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. Independent School District No. 656's major federal programs are identified in the summary of the auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements and laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Independent School District No. 656's management. Our responsibility is to express an opinion on Independent School District No. 656's compliance based on our audit.

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

In our opinion, Independent School District No. 656 complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008. 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 2008-6 and 2008-7.

Internal Control Over Compliance

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

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs listed as item 2008-5 to be a significant deficiency in internal control over compliance.

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

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

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

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


LarsonAllen LLP

Austin, Minnesota
December 15, 2008

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, 2008, and have issued our report thereon dated December 15, 2008.

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

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

The results of our tests indicate that for the items tested the Independent School District No. 656 complied with the material terms and conditions of applicable legal provisions, except as described in the accompanying Schedule of Findings and Questioned Costs as items 2008-8 and 2008-9.

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

LarsonAllen LLP

LarsonAllen LLP

Austin, Minnesota
December 15, 2008

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**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008**

PART I: SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the basic financial statements of Independent School District No. 656.
2. Significant deficiencies in internal control were disclosed during the audit of the financial statements and are listed as Findings 2008-1 through 2008-4. These significant deficiencies are considered to be material weaknesses.
3. No instances of noncompliance material to the basic financial statements of Independent School District No. 656 were disclosed during the audit.
4. One significant deficiency was disclosed during the audit of the major federal award programs. This is listed as Finding 2008-5.
5. The auditors' report on compliance for the major federal award programs for Independent School District No. 656 expresses an unqualified opinion.
6. Two audit findings relative to the major federal award programs for Independent School District No. 656 were disclosed during the audit. These are listed as Findings 2008-6 and 2008-7.
7. The programs tested as major programs included:
 - U.S. Department of Education:
 - Title I, Part A CFDA #84.010
 - Special Education Cluster:
 - Special Education - Grants to States CFDA #84.027
 - Special Education – Preschool Incentive CFDA #84.173
 - Title IV, Part B, 21st Century Community Learning Centers CFDA #84.287
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Independent School District No. 656 was not determined to be a low-risk auditee.

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008**

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

FINDING: 2008-01 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: No impact on the financial statements.

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

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

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The Senior Accountant will review the 2008 audit adjustments and work papers prior to start of the 2009 audit in order to identify areas which may require adjustment. The District will also reconcile key accounts on a monthly basis.

Official Responsible for Ensuring CAP:

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

Planned Completion Date for CAP:

The planned completion date is June 30, 2009.

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, 2008**

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

FINDING: 2008-2 ANNUAL FINANCIAL REPORTING UNDER GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)

Condition: The District has adopted an internal control to review the financial statements prepared by the auditors. This control includes review of a draft copy of the financial statements by the business manager and superintendent, along with comparing UFARS guidelines and additional financial reports to the draft prepared by auditors. However, the District has not adopted a control over disclosures included in the annual financial report 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 must be able to prevent or detect a material misstatement in the annual financial statements including footnote disclosures.

Questioned Costs: None

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

Effect: No effect on the financial statements.

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

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

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

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

Official Responsible for Ensuring CAP:

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

Planned Completion Date for CAP:

The planned completion date is October 31, 2009.

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, 2008**

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

FINDING: 2008-3 REVENUES AND RECEIPTS CONTROL

Condition: Due to management turnover, a limited number of people have the primary responsibility for collecting and accounting for the District's revenues and receipts. There was not a documented review of revenue and receipt collections for the entire fiscal year. As a result, many of those aspects of internal accounting control which rely upon an adequate segregation of duties were, for all practical purposes missing.

Criteria: Generally, a system of internal control contemplates separation of duties such that no individual has responsibility to execute a transaction, have physical access to the related assets, and have responsibility or authority to record the transaction.

Questioned Costs: None

Context: The District experienced management turnover throughout the fiscal year.

Effect: The District was unable to maintain segregation of incompatible duties throughout the entire fiscal year.

Cause: Management turnover.

Recommendation: We recommend that the District continue to segregate duties as best it can within the limits of what the District considers to be cost beneficial. We suggest that staff with access to the general ledger not handle cash. Cash receipt summaries prepared by staff collecting cash should be reconciled to deposits.

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 reviews and makes improvements to its internal controls on an ongoing basis, and attempts to maximize the segregation of duties in all areas within the limits of the staff available. The District implemented procedures in July 2008 in which the Director of Finance and Operations reviews the bank statement and approves the monthly bank reconciliation.

Official Responsible for Ensuring CAP:

Colleen Mertesdorf, Director of Finance and Operations, is responsible for this corrective action plan.

Planned Completion Date for CAP:

The planned completion date is December 31, 2008.

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, 2008**

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

FINDING: 2008-4 JOURNAL ENTRY REVIEW

Condition: Due to management turnover experienced throughout the fiscal year, a significant number of journal entries were posted to the District's general ledger without review by another qualified individual. As a result, many of those aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes missing.

Criteria: Generally, a system of internal control contemplates separation of duties such that no individual has responsibility to execute a transaction, have physical access to the related assets, and have responsibility or authority to record the transaction.

Questioned Costs: None

Context: The District experienced significant turnover throughout the fiscal year.

Effect: The District was unable to maintain segregation of incompatible duties throughout the entire fiscal year.

Cause: Management turnover.

Recommendation: We recommend that journal entries posted to the District's general ledger be reviewed by another qualified individual prior to posting.

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 began requiring review of journal entries by another qualified individual in July 2008.

Official Responsible for Ensuring CAP:

Colleen Mertesdorf, Director of Finance and Operations, is responsible for this corrective action plan.

Planned Completion Date for CAP:

The planned completion date is July 1, 2008.

Plan to Monitor Completion of CAP:

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

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008**

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

FINDING: 2008-5 **TITLE I, PART A – CFDA#84.010 AND
SPECIAL EDUCATION – GRANTS TO STATES – CFDA#84.027
PASS THROUGH MINNESOTA DEPARTMENT OF EDUCATION
INTERNAL CONTROL OVER STUDENTS SERVED**

Condition: During our Single Audit student testing, one Special Education student and two Title I students selected for testing from District reports did not receive Special Education or Title I services for the current year.

Criteria: Standard internal control procedures recommend that reports be reviewed and verified by qualified personnel prior to submission.

Questioned Costs: None

Context: Not known.

Effect: No impact on the financial statements.

Cause: Not known.

Recommendation: Review and verification procedures should be implemented to ensure that all Special Education and Title I students served, and only the students served, are included on Special Education and Title I reports.

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 have qualified individuals review Special Education and Title I student served listings prior to completion and submission.

Official Responsible for Ensuring CAP:

Lora Arnott, Director of Special Services, and Elizabeth Keenan, Director of Curriculum and Instruction, are the officials responsible for ensuring corrective action of the deficiency.

Planned Completion Date for CAP:

The planned completion date for the CAP is December 31, 2008.

Plan to Monitor Completion of CAP:

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

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008**

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

**FINDING: 2008-6 SPECIAL EDUCATION – GRANTS TO STATES – CFDA#84.027
PASS THROUGH MINNESOTA DEPARTMENT OF EDUCATION
TIME CERTIFICATIONS**

Condition: Semi-annual time certifications for the Special Education programs were not completed by one applicable employee.

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

Questioned Costs: None

Context: The employee transferred out of the Special Education program. The time certification was not completed prior to transfer.

Effect: No impact on the financial statements.

Cause: Not known.

Recommendation: Semi-annual time certifications should be completed by all employees paid from a Federal program who do not otherwise meet the documentation requirement. A control procedure should be in place to ensure that employees leaving the federal program have completed all required paperwork prior to departure.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement With Audit Findings

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The District will semi-annually review a list of all employees paid from Special Education funds to ensure that the applicable time reporting requirements are met.

Official Responsible for Ensuring CAP:

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

Planned Completion Date for CAP:

The planned completion date for the CAP is December 31, 2008.

Plan to Monitor Completion of CAP:

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

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008**

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

FINDING: 2008-7 **SPECIAL EDUCATION – GRANTS TO STATES – CFDA#84.027
UNITED STATES DEPARTMENT OF EDUCATION
PASS THROUGH MINNESOTA DEPARTMENT OF EDUCATION
MISSING PARENTAL PERMISSIONS**

Condition: Documentation was not maintained that parents or guardians had received their annual copy of the Notice of Procedural Safeguards for nineteen of forty Special Education students tested.

Criteria: According to the October 2006 edition of the Notice of Procedural Safeguards *Parental Rights for Public School Special Education Students*, the notice must be given to parents or guardians at least one time per year.

Questioned Costs: None

Context: The District has indicated that the required documentation was overlooked in fiscal year 2008.

Effect: No impact on the financial statements.

Cause: Unknown.

Recommendation: The District needs to ensure that all students receiving Special Education services have documentation that the parents or guardians of the student received the Notice of Procedural Safeguards annually and that these records are maintained in the District's files.

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 plans to distribute the notice at the annual IEP meeting, and have the parents document receipt of this notice at that time.

Official Responsible for Ensuring CAP:

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

Planned Completion Date for CAP:

The planned completion date for the CAP is December 31, 2008.

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, 2008**

PART IV: FINDINGS AND QUESTIONED COSTS – MINNESOTA LEGAL COMPLIANCE

FINDING: 2008-8 MINNESOTA LEGAL COMPLIANCE – BROKER ACKNOWLEDGEMENT STATEMENT

Condition: M.S. 118A.04, subd. 9, requires that the District annually, prior to completing an initial investment transaction with each broker, provide to that broker a written statement of investment restrictions. In addition, the broker should acknowledge receipt of the investment restrictions and agree to handle the government entity's account in accordance with the restrictions. The District is to retain such documentation. The District was unable to locate any evidence of the required statement and acknowledgement for one investment company for the fiscal year ended June 30, 2008.

Recommendation: Management should develop a procedure to ensure that all required statements are received and retained in accordance with State Statute.

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 obtained the required statements prior to any investments in fiscal year 2009.

Official Responsible for Ensuring CAP:

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

Planned Completion Date for CAP:

The planned completion date is October 2008.

Plan to Monitor Completion of CAP:

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

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008**

PART IV: FINDINGS AND QUESTIONED COSTS – MINNESOTA LEGAL COMPLIANCE

FINDING: 2008-9 MINNESOTA LEGAL COMPLIANCE – TIMELY PAYMENT OF INVOICES

Condition: M.S. 471.425, subd. 2, requires prompt payment of local government bills. The standard payment period is 35 days from the date of receipt for governing boards that meet at least once per month. We noted two invoices that were paid several months after the invoice date, due to the misplacement of invoices prior to their arrival at central finance.

Recommendation: Management should develop a procedure to periodically review open purchase orders to ensure that vendors are paid in accordance with State Statute.

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 implement monthly review of open purchase orders.

Official Responsible for Ensuring CAP:

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

Planned Completion Date for CAP:

The planned completion date is December 31, 2008.

Plan to Monitor Completion of CAP:

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

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
SUMMARY SCHEDULE OF PRIOR FEDERAL AUDIT FINDINGS
YEAR ENDED JUNE 30, 2008**

Comment Reference	Comment Title	Status	If not Corrected, Provide Planned Corrective Action or Other Explanation
2007-1	Material Audit Adjustments	Not Corrected	See current year Finding 2008-1.
2007-2	Annual Financial Reporting Under Generally Accepted Accounting Principles (GAAP)	Not Corrected	See current year Finding 2008-2.
2007-3	Special Education – Time Certifications	Not Corrected	See current year Finding 2008-6.
2007-4	Title I, Part A – Suspended or Debarred Contractors	Corrected	
2007-5	Minnesota Legal Compliance – Broker Acknowledgement Statement	Not Corrected	See current year Finding 2008-8.

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS
COMPLIANCE TABLE
JUNE 30, 2008**

01 GENERAL FUND

Total Revenue	\$ 38,156,169
Total Expenditures	\$ 36,260,394
<i>Reserved:</i>	
403 Staff Development	\$ 107,122
405 Deferred Maintenance	\$ -
406 Health & Safety	\$ (27,886)
407 Capital Project Levy	\$ -
408 Cooperative Programs	\$ -
411 Severance Pay	\$ 250,000
414 Operating Debt	\$ -
416 Levy Reduction	\$ -
419 Encumbrances	\$ -
423 Certain Teacher Programs	\$ -
424 Operating Capital	\$ 813,481
426 \$25 Taconite	\$ -
427 Disabled Accessibility	\$ -
428 Learning & Development	\$ -
434 Area Learning Center	\$ 432,295
435 Contracted Alt. Programs	\$ -
436 State Approved Alt. Program	\$ -
438 Gifted & Talented	\$ -
441 Basic Skills Programs	\$ -
445 Career and Technical Programs	\$ -
446 First Grade Preparedness	\$ -
449 Safe Schools Levy	\$ -
450 Prekindergarten	\$ -
451 QZAB Payments	\$ -
<i>Unreserved:</i>	
418 Severance - Ins. Premium	\$ -
422 Unreserved/Undesignated	\$ 2,418,290

02 FOOD SERVICE

Total Revenue	\$ 1,994,159
Total Expenditures	\$ 2,100,462
<i>Reserved:</i>	
411 Severance Pay	\$ -
419 Encumbrances	\$ -
<i>Unreserved:</i>	
418 Severance - Ins. Premium	\$ -
422 Unreserved/Undesignated	\$ 595,248

04 COMMUNITY SERVICE

Total Revenue	\$ 1,443,617
Total Expenditures	\$ 1,564,393
<i>Reserved:</i>	
411 Severance Pay	\$ -
419 Encumbrances	\$ -
426 \$25 Taconite	\$ -
431 Community Education	\$ 65,236
432 E.C.F.E.	\$ 3,643
444 School Readiness	\$ (1,481)
447 Adult Basic Education	\$ 59,261
<i>Unreserved:</i>	
418 Severance Premium	\$ -
422 Unreserved/Undesignated	\$ 46,659

06 BUILDING CONSTRUCTION

Total Revenue	\$ 5,966
Total Expenditures	\$ -
<i>Reserved:</i>	
407 Capital Projects Levy	\$ -
409 Alternative Facility Program	\$ -
419 Encumbrances	\$ -
<i>Unreserved:</i>	
422 Unreserved/Undesignated	\$ 115,442

07 DEBT SERVICE

Total Revenue	\$ 4,971,581
Total Expenditures	\$ 5,607,401
<i>Reserved:</i>	
425 Bond Refundings	\$ -
451 QZAB Payments	\$ -
<i>Unreserved:</i>	
422 Unreserved/Undesignated	\$ 466,996

08 TRUST

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

09 AGENCY

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

20 INTERNAL SERVICE

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

25 OPEB REVOCABLE TRUST

Total Revenue	\$ -
Total Expenditures	\$ -
<i>Unreserved:</i>	
422 Unreserved/Undesignated	\$ -

45 OPEB IRREVOCABLE TRUST

Total Revenue	\$ -
Total Expenditures	\$ -
<i>Unreserved:</i>	
422 Unreserved/Undesignated	\$ -

47 OPEB DEBT SERVICE

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

FY08 OPERATING CAPITAL TRANSFER

Per Pupil Amount	\$ 0
AMCPU	0
Total Transfer	\$ 0