

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

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2010

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

INTRODUCTORY SECTION

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

FINANCIAL SECTION

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

REQUIRED SUPPLEMENTARY INFORMATION

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

BASIC FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

REQUIRED SUPPLEMENTARY INFORMATION

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

SINGLE AUDIT AND OTHER REQUIRED REPORTS

| | |
|---|-----------|
| SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS | 56 |
|---|-----------|

| | |
|--|-----------|
| NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS | 57 |
|--|-----------|

| | |
|--|-----------|
| REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i> | 58 |
|--|-----------|

| | |
|--|-----------|
| INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 | 60 |
|--|-----------|

| | |
|---|-----------|
| REPORT ON MINNESOTA LEGAL COMPLIANCE | 62 |
|---|-----------|

| | |
|--|-----------|
| SCHEDULE OF FINDINGS AND QUESTIONED COSTS | 63 |
|--|-----------|

| | |
|---|-----------|
| SUMMARY SCHEDULE OF PRIOR FEDERAL AUDIT FINDINGS | 71 |
|---|-----------|

| | |
|--|-----------|
| UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS COMPLIANCE TABLE | 72 |
|--|-----------|

INTRODUCTORY SECTION

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**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
BOARD OF EDUCATION AND ADMINISTRATION
FISCAL YEAR 2009 – 2010**

BOARD OF EDUCATION

| | Term on Board Expires December 31, | Position on Board During 2009-2010 |
|-----------------|------------------------------------|---------------------------------------|
| Jerry Robicheau | 2012 | Chair |
| Debra Davis | 2010 | Vice-Chair |
| Jason Engbrecht | 2012 | Clerk |
| James Wolf | 2012 | Treasurer |
| David Korbel | 2010 | Director |
| Richard Berg | 2010 | Director |
| John Lorenz | 2010 | Director |

ADMINISTRATION

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

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 656 as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year partial comparative information has been derived from the Independent School District No. 656's 2009 financial statements and, in our report dated December 7, 2009, we expressed unqualified opinions on the respective financial statements of the governmental activities, each major fund, and the aggregate remaining fund information.

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

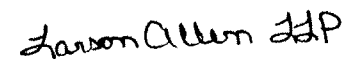
In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 656 at June 30, 2010 and the respective changes in financial position thereof, and the budgetary comparison for the General Fund, Food Service Fund, and Community Service Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 27, 2010, 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.

Board of Education
Independent School District No. 656

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

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



LarsonAllen LLP

Austin, Minnesota
November 27, 2010

REQUIRED SUPPLEMENTARY INFORMATION

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**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

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, 2010. 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 2009-10 fiscal year include the following:

- Student enrollment – student enrollment decreased from the previous year, going from 4,042 in 2008-09 to 3,984 in 2009-10. This is primarily due to the opening of a new charter school in Faribault.
- The General Fund Unreserved, Undesignated Fund Balance increased, going from \$3,100,580 at the end of 2008-09 to \$3,437,880 at the end of 2009-10.
- The District continues to work on deferred maintenance projects financed by the 2009 sale of bonds. The \$3,466,000 decrease in the Building Construction Fund reflects this.
- The District transferred \$1,100,000 within the general fund - from the unreserved, undesignated fund balance to the designated for separation/retirement benefits fund balance.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net assets. The District's combined net assets were \$29.7 million on June 30, 2010. This represents an increase of 9.44 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, 2010 and 2009**

**Figure A-3
Net Assets - Governmental Activities**

| | <u>Governmental Activities</u> | | <u>Percentage Change</u> |
|--------------------------------|--------------------------------|----------------------|------------------------------|
| | <u>2010</u> | <u>2009</u> | |
| Current and Other Assets | \$ 32,353,661 | \$ 34,969,134 | -7.48% |
| Capital and Non-Current Assets | 51,581,163 | 49,828,392 | 3.52% |
| Total Assets | 83,934,824 | 84,797,526 | -1.02% |
| Current Liabilities | 18,189,332 | 18,139,412 | 0.28% |
| Long Term Liabilities | 36,082,911 | 39,553,917 | -8.78% |
| Total Liabilities | 54,272,243 | 57,693,329 | -5.93% |
| Net Assets | | | |
| Invested in Capital Assets | | | |
| Net of Related Debt | 22,469,080 | 21,059,000 | 6.70% |
| Restricted | 2,624,658 | 2,913,962 | -9.93% |
| Unrestricted | 4,568,843 | 3,131,235 | 45.91% |
| Total Net Assets | \$ 29,662,581 | \$ 27,104,197 | 9.44% |

Changes in net assets. The District's total revenues were \$48.3 million and total expenses were \$45.7 million for the year ended June 30, 2010. (See Figure A-2 on the next page.) Unallocated state and federal aid and local property taxes accounted for 58 percent of the total revenue for the year. Operating and capital grants and charges for specific programs contributed 41 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 \$2,558,384.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

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, 2010 and 2009**

| | Governmental Activities for the | | Total % Change |
|--|--|----------------------|---------------------------|
| | fiscal year ended June 30, | | |
| | 2010 | 2009 | |
| Revenues | | | |
| <u>Program Revenues</u> | | | |
| Charges for Services | \$ 2,661,800 | \$ 2,374,853 | 12.08% |
| Operating Grants and Contributions | 16,693,554 | 12,871,263 | 29.70% |
| Capital Grants and Contributions | 323,671 | 641,755 | -49.56% |
| <u>General Revenues</u> | | | |
| Property Taxes | 8,319,602 | 8,106,574 | 2.63% |
| Unrestricted State Aid | 19,749,859 | 23,029,807 | -14.24% |
| Investment Earnings | 255,741 | 190,247 | 34.43% |
| Other | 284,571 | 245,837 | 15.76% |
| Total Revenues | <u>48,288,798</u> | <u>47,460,336</u> | 1.75% |
| Expenses | | | |
| Administration | 1,600,240 | 1,554,438 | 2.95% |
| District Support Services | 1,949,709 | 1,809,208 | 7.77% |
| Regular Instruction | 18,340,339 | 16,782,379 | 9.28% |
| Vocational Education Instruction | 212,414 | 236,359 | -10.13% |
| Special Education Instruction | 8,376,568 | 7,857,810 | 6.60% |
| Instructional Support Services | 2,213,280 | 1,838,280 | 20.40% |
| Pupil Support Services | 3,314,221 | 3,216,738 | 3.03% |
| Sites and Buildings | 4,400,916 | 3,787,835 | 16.19% |
| Fiscal and Other Fixed Cost Programs | 87,472 | 89,903 | -2.70% |
| Food Service | 2,174,830 | 1,914,406 | 13.60% |
| Community Service | 1,604,418 | 1,370,755 | 17.05% |
| Interest and Fiscal Charges on Long-Term Liabilities | 1,456,007 | 1,039,927 | 40.01% |
| Total Expenses | <u>45,730,414</u> | <u>41,498,038</u> | 10.20% |
| Increase in Net Assets | 2,558,384 | 5,962,298 | -57.09% |
| Beginning Net Assets | 27,104,197 | 21,141,899 | 28.20% |
| Ending Net Assets | <u>\$ 29,662,581</u> | <u>\$ 27,104,197</u> | 9.44% |

FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Figure A-3
Independent School District No. 656
Sources of Revenues
For Fiscal Year 2010

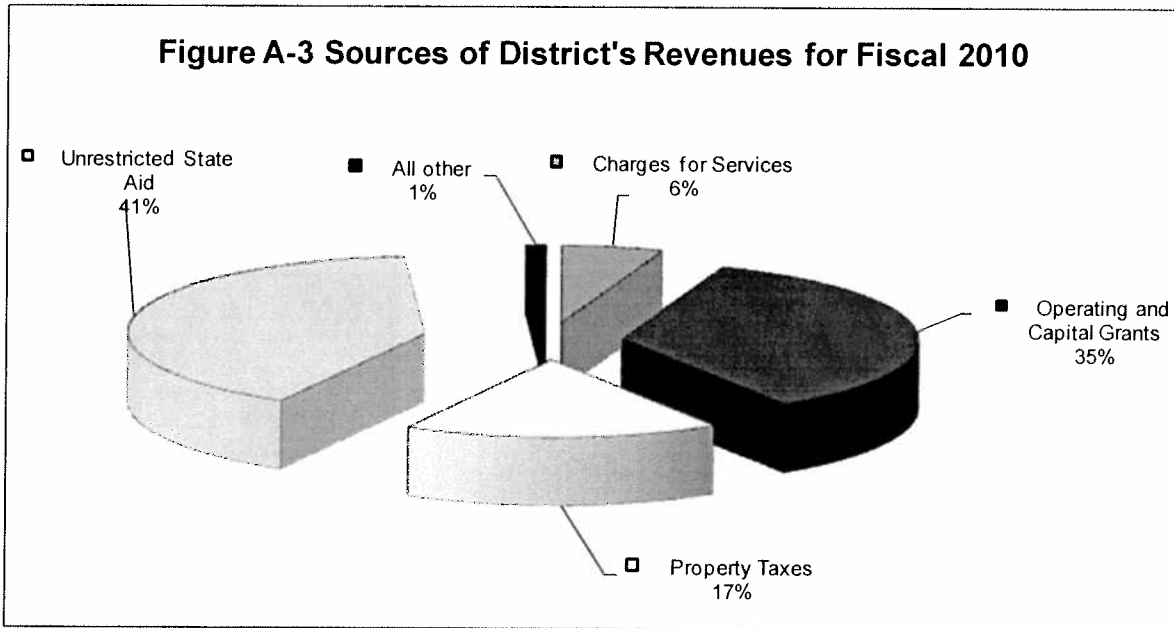
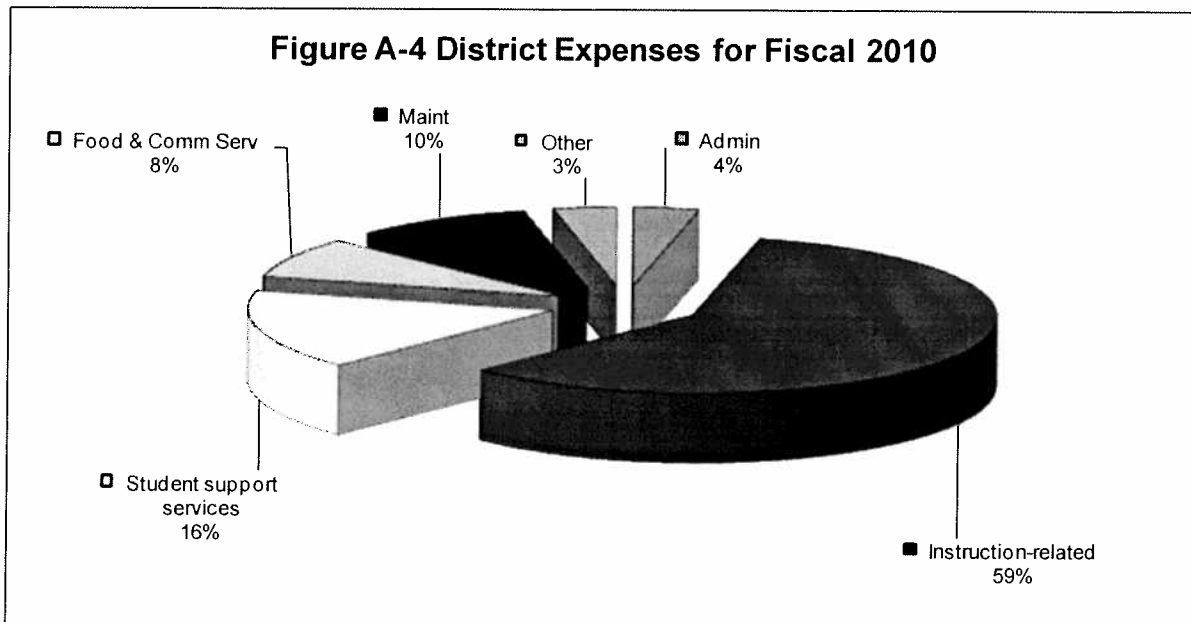


Figure A-4
Independent School District No. 656
Expenses
For Fiscal Year 2010



**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

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 \$45.7 million. The net cost of all governmental activities this year was \$26.1 million.
- The users of the District's programs financed \$2.7 million of the cost of activities through various charges for services.
- The federal and state governments, along with local donations, subsidized certain programs with grants and contributions of \$17.0 million.
- District property taxpayers financed \$8.3 million of governmental activities and state taxpayers financed \$19.7 million of unrestricted state aid based on the statewide education aid formula.

**Figure A-5
Independent School District No. 656
Net Cost of Governmental Activities
For the Years Ended June 30, 2010 and 2009**

| | <u>Total Cost of Services</u> | | <u>Percentage Change</u> | <u>Net Cost of Services</u> | | <u>Percentage Change</u> |
|---|-------------------------------|----------------------|------------------------------|-----------------------------|----------------------|------------------------------|
| | <u>2010</u> | <u>2009</u> | | <u>2010</u> | <u>2009</u> | |
| Administration | \$ 1,600,240 | \$ 1,554,438 | 2.95% | \$ 1,596,897 | \$ 1,554,438 | 2.73% |
| District Support Services | 1,949,709 | 1,809,208 | 7.77% | 1,844,026 | 1,588,918 | 16.06% |
| Regular Instruction | 18,340,339 | 16,782,379 | 9.28% | 8,603,212 | 10,418,120 | -17.42% |
| Vocational Education Instruction | 212,414 | 236,359 | -10.13% | 198,465 | 223,080 | -11.03% |
| Special Education Instruction | 8,376,568 | 7,857,810 | 6.60% | 2,579,781 | 2,482,888 | 3.90% |
| Instructional Support Services | 2,213,280 | 1,838,280 | 20.40% | 2,131,561 | 1,777,961 | 19.89% |
| Pupil Support Services | 3,314,221 | 3,216,738 | 3.03% | 3,092,554 | 3,024,926 | 2.24% |
| Sites and Buildings | 4,400,916 | 3,787,835 | 16.19% | 4,000,254 | 3,313,235 | 20.74% |
| Fiscal and Other Fixed Cost Programs | 87,472 | 89,903 | -2.70% | 87,472 | 89,903 | -2.70% |
| Food Service | 2,174,830 | 1,914,406 | 13.60% | 146,808 | (160,611) | -191.41% |
| Community Service | 1,604,418 | 1,370,755 | 17.05% | 314,352 | 257,382 | 22.13% |
| Interest and Fiscal Charges on Long-Term Liabilities | 1,456,007 | 1,039,927 | 40.01% | 1,456,007 | 1,039,927 | 40.01% |
| Total | \$ 45,730,414 | \$ 41,498,038 | 10.20% | \$ 26,051,389 | \$ 25,610,167 | 1.72% |

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

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 Community Education Fund revenues exceeded expenditures thereby increasing the fund balance in these funds. The Food Service Fund, Capital Projects – Building Construction Fund and Debt Service Fund expenditures exceeded revenues, thereby decreasing the fund balance in these funds.

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

The Food Service Fund saw a decrease of approximately \$97,000. Revenues exceeded budget and expenditures came in slightly below budget. Because the Food Service fund balance has remained at a strong level for the previous three years, the District is allowed to reclassify costs of lunchroom supervision, lunchroom custodial services and utility costs and other administrative costs that are generally the responsibility of the General Fund to the Food Service Fund. This reclassification accounts for the decrease in the Food Service fund balance.

The reserved fund balances for Community Education, Early Childhood/Family Education, School Readiness, Adult Basic Education and the unreserved, undesignated Community Service fund balance all saw increases in their fund balances. However, all programs will need to be closely monitored to maintain a continued balanced budget.

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

The Debt Service Fund decreased approximately \$231,000 due to payments made on the District's long-term debt.

At the end of the 2009-10 fiscal year, the District's governmental funds reported combined reserved and unreserved fund balances of \$17,929,423. This is a 12% decrease from the prior year. The decrease is mostly due to the deferred maintenance projects.

Revenues for the District's governmental funds were \$48,213,800, while total expenditures were \$50,729,527. As a result, the District completed the year with a deficiency of revenues under expenditures of \$2,515,727, prior to other financing sources of \$26,588.

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.

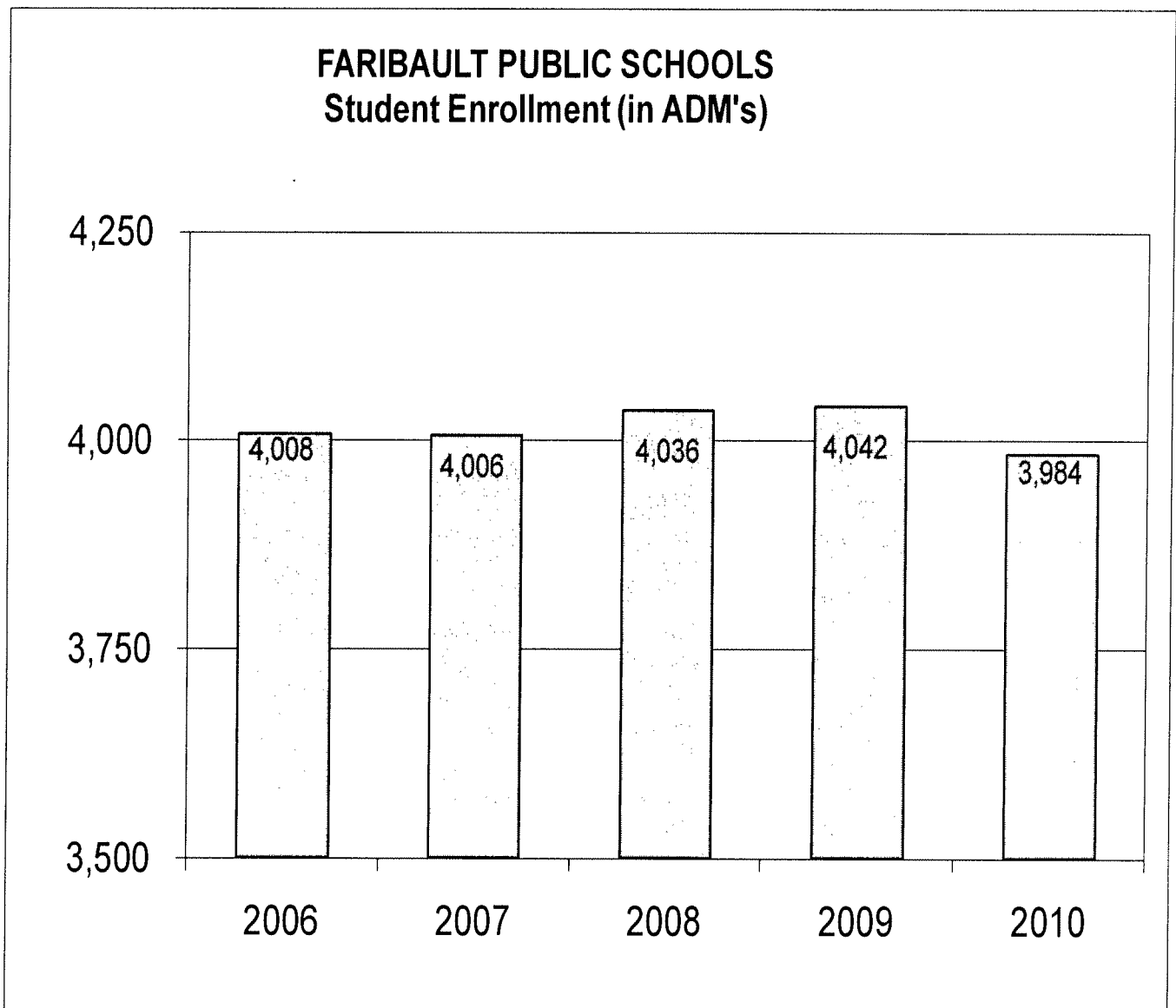
**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (CONTINUED)

Enrollment

Funding for Minnesota school districts is largely driven by enrollment. The majority of Minnesota school districts are facing declining enrollment. As seen in Figure A-6 below, there was an enrollment decrease for the year of 58 students from the prior year. This decrease is largely due to the opening of the Cannon River STEM School, a charter school, in the fall of 2009.

**Figure A-6
Independent School District No. 656
Student Average Daily Membership
As of June 30, 2010**



**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

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, 2010 and 2009**

| <u>Description</u> | <u>Year Ended</u> | | <u>Change</u> | |
|----------------------------|--------------------------|--------------------------|--------------------------------|----------------|
| | <u>June 30, 2010</u> | <u>June 30, 2009</u> | <u>Increase (Decrease)</u> | <u>Percent</u> |
| Revenues: | | | | |
| Local Sources | | | | |
| Property Taxes | \$ 3,797,978 | \$ 3,402,274 | \$ 395,704 | 11.6% |
| Earnings on Investments | 6,979 | 128,690 | (121,711) | -94.6% |
| Other | 1,597,613 | 1,287,971 | 309,642 | 24.0% |
| State Sources | 29,123,340 | 32,221,064 | (3,097,724) | -9.6% |
| Federal Sources | 5,239,979 | 1,965,087 | 3,274,892 | 166.7% |
| Total General Fund Revenue | <u>\$ 39,765,889</u> | <u>\$ 39,005,086</u> | <u>\$ 760,803</u> | 2.0% |

| | <u>Year Ended</u> | | <u>Amount of Increase (Decrease)</u> | <u>Percent Increase (Decrease)</u> |
|------------------------|--------------------------|--------------------------|--|--|
| | <u>June 30, 2010</u> | <u>June 30, 2009</u> | | |
| Expenditures: | | | | |
| Salaries | \$ 22,948,778 | \$ 22,191,410 | \$ 757,368 | 3.4% |
| Employee Benefits | 7,752,811 | 7,115,835 | 636,976 | 9.0% |
| Purchased Services | 4,989,364 | 5,042,444 | (53,080) | -1.1% |
| Supplies and Materials | 1,777,396 | 1,774,361 | 3,035 | 0.2% |
| Capital Expenditures | 1,041,726 | 1,434,419 | (392,693) | -27.4% |
| Other Expenditures | 51,226 | 33,124 | 18,102 | 54.6% |
| Total Expenditures | <u>\$ 38,561,301</u> | <u>\$ 37,591,593</u> | <u>\$ 969,708</u> | 2.6% |

Revenues

Fiscal year 2010 saw a decrease in enrollment of 58 students due to the opening of a new charter school in Faribault. The formula allowance was at \$5,124 per adjusted marginal cost pupil unit for the 2009-10 year. Revenues totaled \$39,765,889 or an increase of \$760,803 over fiscal year 2009. The 2.0% revenue increase is due to the net increase in federal revenues with an offsetting decrease to state aid revenue and increases to property tax revenue and miscellaneous revenue.

Expenditures

Expenditures totaled \$38,561,301 – an increase of \$969,708 over fiscal year 2009. Most expenditure functions saw increases due to increased costs of labor contracts. There was a slight decrease in purchased services while supplies expense stayed relatively stagnant. Capital outlay saw a decrease as a result of less technology equipment purchases and fewer deferred maintenance projects in the general fund.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (CONTINUED)

General Fund (Continued)

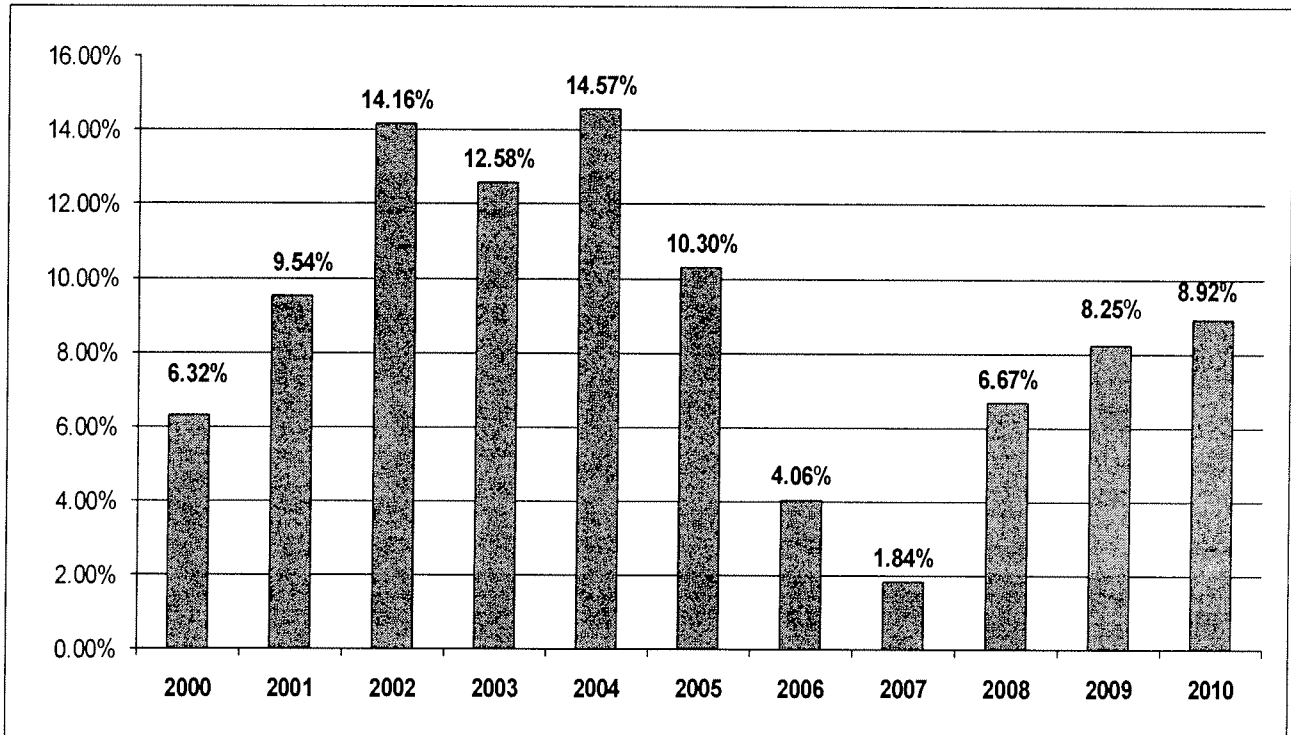
Fund Balance

The unreserved, undesignated fund balance is \$3,437,880, designated fund balance for postemployment benefits is \$2,500,000, and the reserved fund balances for staff development, health and safety, operating capital, and area learning center total \$735,396.

The graph in Figure A-8, below, depicts the General Fund unreserved, undesignated fund balance as a percentage of total expenditures for the 11 fiscal years ending June 30, 2000–2010. The District's unreserved undesignated fund balance offers the single best measure of the District's overall financial health. The unreserved, undesignated fund balance on June 30, 2010 represents 8.92% of annual expenditures and 10.72% of unreserved, undesignated expenditures.

The District closely monitors the General Fund unreserved undesignated fund balance through the use of financial software spending controls, a detailed financial planning model, up to two budget revisions during the year, and monthly budget analysis. The Board of Education has adopted a fund balance policy to maintain a fund balance in the unreserved undesignated General Fund of not less than 5% of the annual operation budget for that fund.

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



**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (CONTINUED)

BUDGETARY HIGHLIGHTS

The District revised the annual operating budget from the preliminary budget approved in June 2009 to the final budget approved in June of 2010.

General Fund

The District's final budget for the general fund anticipated that revenues and other financing sources would exceed expenditures by \$9,022. The actual results for the year show revenues and other financing sources exceeding expenditures by \$1,231,176.

- Actual revenues were \$826,330 above budget, with most of the difference in the state sources category. This is mostly due to year end pupil units coming in higher than projected.
- Actual expenditures were \$380,340 below budget with most of the difference in supplies (approximately \$330,000).

Food Service Fund

The Food Service Fund revenues for 2009-10 totaled \$2.0 million and expenditures were \$2.1 million. The June 30, 2010 fund balance is \$674,861, a decrease of \$97,421 from fiscal year 2009. The decrease in the fund balance is due to the District being allowed to reclassify costs of lunchroom supervision, lunchroom custodial services and utility costs and other administrative costs that are generally the responsibility of the General Fund to the Food Service Fund as a result of the strong Food Service fund balance. The District contracts with Sodexo for management of the District food service program. Sodexo continues to provide exemplary management services.

Community Service Fund

The Community Service Fund revenues for 2009-10 totaled \$1.7 million and expenditures were \$1.6 million. The June 30, 2010 fund balance is \$238,125, an increase of \$74,057 from fiscal year 2009. The individual reserve accounts of Community Education, Early Childhood Family Education and School Readiness all reversed their trends of deficit spending for fiscal year 2010, while the Reserve for Adult Basic Education and the Unreserved, Undesignated accounts continue to generate excess revenues and have sufficient fund balances.

Debt Service Fund

The Debt Service Fund is used to record revenues and expenditures for a school district's outstanding bonded indebtedness, whether for building construction, operating capital, or for initial or refunding bonds. The Debt Service Fund revenues for 2009-10 totaled \$4.5 million and expenditures were \$4.7 million. The June 30, 2010 unreserved fund balance is \$1,014,967, a decrease of \$230,935 from fiscal year 2009. Every year the Minnesota Department of Education calculates Debt Service excess fund balance amounts and uses those amounts to reduce future levies.

Capital Projects Fund

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

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2010, the District had invested \$51,581,163 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 \$25,718,882 as of June 30, 2010. More detailed information about capital assets can be found in Note 3 of the financial statements.

**Figure A-9
Independent School District No. 656
Capital Assets
June 30, 2010 and 2009**

| | <u>2010</u> | <u>2009</u> | <u>Percentage Change</u> |
|--------------------------------|----------------------|----------------------|------------------------------|
| Land | \$ 1,835,754 | \$ 1,835,754 | 0.0% |
| Construction in Progress | 1,377,510 | 1,684,251 | -18.2% |
| Land Improvements | 3,200,257 | 1,970,403 | 62.4% |
| Buildings and Improvements | 66,836,493 | 64,531,243 | 3.6% |
| Equipment | 4,050,031 | 3,854,109 | 5.1% |
| Less: Accumulated Depreciation | (25,718,882) | (24,047,368) | 7.0% |
| Total | \$ 51,581,163 | \$ 49,828,392 | 3.5% |

Long-Term Liabilities

For the fiscal year ended June 30, 2010, the District had \$37.83 million in general obligation bonds outstanding. (See Figure A-10 below.) The District also had \$1.64 million in health benefits, separation and severance payable as of June 30, 2010. In fiscal year 2010, the District's total outstanding long-term liabilities decreased by 7.8 percent. More detailed information about the District's long-term liabilities is presented in Note 4 of the financial statements.

**Figure A-10
Independent School District No. 656
Outstanding Long-Term Liabilities
June 30, 2010 and 2009**

| | <u>2010</u> | <u>2009</u> | <u>Percentage Change</u> |
|---------------------------------------|----------------------|----------------------|------------------------------|
| General Obligation Bonds | \$ 37,830,000 | \$ 41,185,000 | -8.1% |
| Net Bond Premium and Discount | 313,344 | 378,602 | -17.2% |
| Other Postemployment Benefits Payable | 235,523 | 80,114 | 194.0% |
| Compensated Absences Payable | 1,403,194 | 1,512,237 | -7.2% |
| Total | \$ 39,782,061 | \$ 43,155,953 | -7.8% |
| Long-Term Liabilities: | | | |
| Due Within One Year | \$ 3,699,150 | \$ 3,602,036 | |
| Due in More Than One Year | 36,082,911 | 39,553,917 | |
| | \$ 39,782,061 | \$ 43,155,953 | |

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

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

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

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BASIC FINANCIAL STATEMENTS

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**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
STATEMENT OF NET ASSETS
JUNE 30, 2010
(WITH COMPARATIVE DATA AS OF JUNE 30, 2009)**

| | <u>Governmental Activities</u> | |
|---|--------------------------------|----------------------|
| | <u>2010</u> | <u>2009</u> |
| ASSETS | | |
| Cash and Investments | \$ 17,764,907 | \$ 25,704,275 |
| Receivables | | |
| Property Taxes | 4,505,194 | 4,316,496 |
| Other Governments | 9,462,023 | 4,327,606 |
| Other | 330,126 | 330,564 |
| Prepaid Items | 97,275 | 58,416 |
| Inventories | 61,230 | 81,148 |
| Bond Issuance Costs, Net | 132,906 | 150,629 |
| Capital Assets | | |
| Land and Construction in Progress | 3,213,264 | 3,520,005 |
| Other Capital Assets, Net of Depreciation | 48,367,899 | 46,308,387 |
| Total Assets | <u>83,934,824</u> | <u>84,797,526</u> |
| LIABILITIES | | |
| Salaries and Wages Payable | 3,588,663 | 3,499,633 |
| Accounts and Contracts Payable | 2,242,109 | 2,154,773 |
| Accrued Interest | 335,624 | 225,797 |
| Due to Other Governmental Units | 76,453 | 176,197 |
| Deferred Revenue | | |
| Property Taxes | 8,027,014 | 7,840,794 |
| Local Sources | 220,319 | 640,182 |
| Long-Term Liabilities | | |
| Portion Due Within One Year | 3,699,150 | 3,602,036 |
| Portion Due in More Than One Year | 36,082,911 | 39,553,917 |
| Total Liabilities | <u>54,272,243</u> | <u>57,693,329</u> |
| NET ASSETS | | |
| Invested in Capital Assets, Net of Related Debt | 22,469,080 | 21,059,000 |
| Restricted for: | | |
| Operating Capital Purposes | 396,951 | 597,568 |
| State-Mandated Reserves | 338,445 | 349,146 |
| Food Service | 674,861 | 772,282 |
| Community Service | 238,125 | 174,861 |
| Debt Service | 679,343 | 1,020,105 |
| Capital Projects - Building Construction | 296,933 | - |
| Unrestricted | 4,568,843 | 3,131,235 |
| Total Net Assets | <u>\$ 29,662,581</u> | <u>\$ 27,104,197</u> |

See accompanying Notes to Basic Financial Statements.

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2010
(WITH COMPARATIVE DATA FOR THE YEAR ENDED JUNE 30, 2009)**

| | 2010 | | |
|---|---------------|-------------------------|---|
| Functions | Expenses | Charges for Services | Program Operating Grants and Contributions |
| Governmental Activities | | | |
| Administration | \$ 1,600,240 | \$ - | \$ 3,343 |
| District Support Services | 1,949,709 | 203 | - |
| Regular Instruction | 18,340,339 | 409,746 | 9,277,859 |
| Vocational Education Instruction | 212,414 | 449 | 13,500 |
| Special Education Instruction | 8,376,568 | 784,166 | 5,012,621 |
| Instructional Support Services | 2,213,280 | 25,417 | 16,116 |
| Pupil Support Services | 3,314,221 | 3,206 | 218,461 |
| Sites and Buildings | 4,400,916 | 272,179 | - |
| Fiscal and Other Fixed Cost Programs | 87,472 | - | - |
| Food Service | 2,174,830 | 760,377 | 1,267,645 |
| Community Service | 1,604,418 | 406,057 | 884,009 |
| Interest and Fiscal Charges on Long-Term Liabilities | 1,456,007 | - | - |
| Total School District | \$ 45,730,414 | \$ 2,661,800 | \$ 16,693,554 |

General Revenues

Property Taxes Levied for:

General Purposes

Community Service

Debt Service

State Aid Not Restricted to Specific Purposes

Earnings on Investments

Miscellaneous

Total General Revenues

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

See accompanying Notes to Basic Financial Statements.

| | 2010 | 2009 |
|--|--|--|
| Revenues | Net (Expense) Revenue and Changes in Net Assets | Net (Expense) Revenue and Changes in Net Assets |
| Capital Grants and Contributions | Total Governmental Activities | Total Governmental Activities |
| \$ - | \$ (1,596,897) | \$ (1,554,438) |
| 105,480 | (1,844,026) | (1,588,918) |
| 49,522 | (8,603,212) | (10,418,120) |
| - | (198,465) | (223,080) |
| - | (2,579,781) | (2,482,888) |
| 40,186 | (2,131,561) | (1,777,961) |
| - | (3,092,554) | (3,024,926) |
| 128,483 | (4,000,254) | (3,313,235) |
| - | (87,472) | (89,903) |
| - | (146,808) | 160,611 |
| - | (314,352) | (257,382) |
| - | (1,456,007) | (1,039,927) |
| <u>\$ 323,671</u> | <u>(26,051,389)</u> | <u>(25,610,167)</u> |

| | |
|----------------------|----------------------|
| 3,818,289 | 3,400,937 |
| 341,482 | 227,986 |
| 4,159,831 | 4,477,651 |
| 19,749,859 | 23,029,807 |
| 255,741 | 190,247 |
| 284,571 | 245,837 |
| <u>28,609,773</u> | <u>31,572,465</u> |
| 2,558,384 | 5,962,298 |
| 27,104,197 | 21,141,899 |
| <u>\$ 29,662,581</u> | <u>\$ 27,104,197</u> |

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010
(WITH COMPARATIVE DATA AS OF JUNE 30, 2009)**

| | Major | | |
|---|----------------------|-------------------|----------------------|
| | General | Food Service | Community Service |
| ASSETS | | | |
| Cash and Investments | \$ 3,115,046 | \$ 718,483 | \$ 288,524 |
| Receivables | | | |
| Current Property Taxes | 1,673,485 | - | 150,124 |
| Delinquent Property Taxes | 53,625 | - | 5,931 |
| Due from Other Minnesota School Districts | 29,383 | - | 19,062 |
| Due from Minnesota Department of Education | 7,983,970 | - | 167,302 |
| Due from Federal through Minnesota Department of Education | 1,121,456 | 22,237 | 24,583 |
| Due from Other Governmental Units | - | - | - |
| Other Receivables | 216,790 | - | 39,694 |
| Prepaid Items | 97,175 | - | 100 |
| Inventory | 61,230 | - | - |
| Total Assets | <u>\$ 14,352,160</u> | <u>\$ 740,720</u> | <u>\$ 695,320</u> |
| LIABILITIES AND FUND BALANCE | | | |
| Liabilities | | | |
| Salaries and Wages Payable | \$ 1,668,524 | \$ - | \$ 75,614 |
| Payroll Deductions and Employer Contributions Payable | 1,844,525 | - | - |
| Accounts and Contracts Payable | 1,012,869 | 42,808 | 21,753 |
| Due to Other Governmental Units | 76,453 | - | - |
| Deferred Revenue: | | | |
| Property Taxes Levied for Subsequent Year | 2,893,918 | - | 285,599 |
| Delinquent Property Taxes | 53,625 | - | 5,931 |
| Local Sources | 128,970 | 23,051 | 68,298 |
| Total Liabilities | <u>7,678,884</u> | <u>65,859</u> | <u>457,195</u> |
| Fund Balance | | | |
| Reserved for | | | |
| Staff Development | 34,059 | - | - |
| Area Learning Center | 207,779 | - | - |
| Health and Safety | 96,607 | - | - |
| Operating Capital | 396,951 | - | - |
| Community Education Programs | - | - | 71,562 |
| Early Childhood and Family Education Programs | - | - | 19,832 |
| School Readiness | - | - | 5,913 |
| Adult Basic Education | - | - | 74,869 |
| Unreserved | | | |
| Designated for | | | |
| Separation/Retirement Benefits | 2,500,000 | - | - |
| Undesignated, Reported In | | | |
| General Fund | 3,437,880 | - | - |
| Debt Service Fund | - | - | - |
| Special Revenue Funds | - | 674,861 | 65,949 |
| Building Construction | - | - | - |
| Total Fund Balance | <u>6,673,276</u> | <u>674,861</u> | <u>238,125</u> |
| Total Liabilities and Fund Balance | <u>\$ 14,352,160</u> | <u>\$ 740,720</u> | <u>\$ 695,320</u> |

See accompanying Notes to Basic Financial Statements.

| Funds | | Total Governmental | |
|----------------------|---------------------|----------------------|----------------------|
| Capital Projects | Debt Service | Funds | |
| | | 2010 | 2009 |
| \$ 10,418,956 | \$ 3,223,898 | \$ 17,764,907 | \$ 25,704,275 |
| - | 2,544,811 | 4,368,420 | 4,228,132 |
| - | 77,218 | 136,774 | 88,364 |
| - | - | 48,445 | 92,080 |
| - | 94,030 | 8,245,302 | 3,643,833 |
| - | - | 1,168,276 | 571,937 |
| - | - | - | 19,756 |
| 73,642 | - | 330,126 | 330,564 |
| - | - | 97,275 | 58,416 |
| - | - | 61,230 | 81,148 |
| <u>\$ 10,492,598</u> | <u>\$ 5,939,957</u> | <u>\$ 32,220,755</u> | <u>\$ 34,818,505</u> |
| \$ - | \$ - | \$ 1,744,138 | \$ 1,880,425 |
| - | - | 1,844,525 | 1,619,208 |
| 1,164,404 | 275 | 2,242,109 | 2,154,773 |
| - | - | 76,453 | 176,197 |
| - | 4,847,497 | 8,027,014 | 7,840,794 |
| - | 77,218 | 136,774 | 88,364 |
| - | - | 220,319 | 640,182 |
| <u>1,164,404</u> | <u>4,924,990</u> | <u>14,291,332</u> | <u>14,399,943</u> |
| - | - | 34,059 | 115,892 |
| - | - | 207,779 | 233,254 |
| - | - | 96,607 | (5,194) |
| - | - | 396,951 | 597,568 |
| - | - | 71,562 | 42,714 |
| - | - | 19,832 | 1,554 |
| - | - | 5,913 | (10,793) |
| - | - | 74,869 | 73,895 |
| - | - | 2,500,000 | 1,400,000 |
| - | - | 3,437,880 | 3,100,580 |
| - | 1,014,967 | 1,014,967 | 1,245,902 |
| - | - | 740,810 | 828,980 |
| 9,328,194 | - | 9,328,194 | 12,794,210 |
| <u>9,328,194</u> | <u>1,014,967</u> | <u>17,929,423</u> | <u>20,418,562</u> |
| <u>\$ 10,492,598</u> | <u>\$ 5,939,957</u> | <u>\$ 32,220,755</u> | <u>\$ 34,818,505</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, 2010
(WITH COMPARATIVE DATA AS OF JUNE 30, 2009)**

| | 2010 | 2009 |
|--|----------------------|----------------------|
| Total Fund Balance for Governmental Funds | \$ 17,929,423 | \$ 20,418,562 |
| Total net assets reported for governmental activities in the statement of net assets is different because: | | |
| Capital assets used in governmental funds are not financial resources and therefore are not reported in the funds. Those assets consist of: | | |
| Land | 1,835,754 | 1,835,754 |
| Construction in Progress | 1,377,510 | 1,684,251 |
| Land Improvements, Net of Accumulated Depreciation | 1,813,194 | 789,094 |
| Buildings and Improvements, Net of Accumulated Depreciation | 45,572,495 | 44,545,532 |
| Equipment, Net of Accumulated Depreciation | 982,210 | 973,761 |
| 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. | | |
| | 136,774 | 88,364 |
| Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. | | |
| | (335,624) | (225,797) |
| Bond issuance costs are reported as expenditures in the governmental funds. | | |
| | 132,906 | 150,629 |
| 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 | (37,830,000) | (41,185,000) |
| Unamortized Premiums and Discounts | (313,344) | (378,602) |
| Compensated Absences Payable | (1,403,194) | (1,512,237) |
| Other Postemployment Benefits Payable | (235,523) | (80,114) |
| Total Net Assets of Governmental Activities | \$ 29,662,581 | \$ 27,104,197 |

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2010
(WITH COMPARATIVE DATA FOR THE YEAR ENDED JUNE 30, 2009)**

| | Major | | |
|--|----------------|-------------------------|------------------------------|
| | General | Food Service | Community Service |
| REVENUES | | | |
| Local Sources | | | |
| Property Taxes | \$ 3,797,978 | \$ - | \$ 339,122 |
| Earnings on Investments | 6,979 | 5,426 | 1,532 |
| Other | 1,597,613 | 760,657 | 447,960 |
| State Sources | 29,123,340 | 124,232 | 658,152 |
| Federal Sources | 5,239,979 | 1,143,133 | 243,544 |
| Total Revenues | 39,765,889 | 2,033,448 | 1,690,310 |
| EXPENDITURES | | | |
| Current | | | |
| Administration | 1,588,183 | - | - |
| District Support Services | 1,529,825 | - | - |
| Regular Instruction | 16,780,695 | - | - |
| Vocational Education Instruction | 198,078 | - | - |
| Special Education Instruction | 8,331,619 | - | - |
| Instructional Support Services | 2,213,064 | - | - |
| Pupil Support Services | 3,314,838 | - | - |
| Sites and Buildings | 3,475,801 | - | - |
| Fiscal and Other Fixed Cost Programs | 87,472 | - | - |
| Food Service | - | 2,122,443 | - |
| Community Service | - | - | 1,610,478 |
| Capital Outlay | 1,041,726 | 8,426 | 5,775 |
| Debt Service | | | |
| Principal | - | - | - |
| Interest and Fiscal Charges | - | - | - |
| Total Expenditures | 38,561,301 | 2,130,869 | 1,616,253 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 1,204,588 | (97,421) | 74,057 |
| OTHER FINANCING SOURCES | | | |
| Judgments for Districts | 26,588 | - | - |
| Sale of Bonds Proceeds | - | - | - |
| Bond Discount | - | - | - |
| Transfers In | - | - | - |
| Transfers Out | - | - | - |
| Total Other Financing Sources | 26,588 | - | - |
| Net Change in Fund Balances | 1,231,176 | (97,421) | 74,057 |
| Fund Balances - Beginning | 5,442,100 | 772,282 | 164,068 |
| Fund Balances - Ending | \$ 6,673,276 | \$ 674,861 | \$ 238,125 |

See accompanying Notes to Basic Financial Statements

| Funds | | Total Governmental Funds | |
|--|---------------------|--------------------------|----------------------|
| Capital Projects - Building Construction | Debt Service | 2010 | 2009 |
| \$ - | \$ 4,134,092 | \$ 8,271,192 | \$ 8,112,834 |
| 206,373 | 35,431 | 255,741 | 190,247 |
| - | - | 2,806,230 | 2,585,385 |
| - | 348,257 | 30,253,981 | 33,478,155 |
| - | - | 6,626,656 | 3,064,670 |
| <u>206,373</u> | <u>4,517,780</u> | <u>48,213,800</u> | <u>47,431,291</u> |
| - | - | 1,588,183 | 1,560,396 |
| - | - | 1,529,825 | 1,228,929 |
| - | - | 16,780,695 | 16,389,333 |
| - | - | 198,078 | 226,191 |
| - | - | 8,331,619 | 8,029,875 |
| - | - | 2,213,064 | 1,899,851 |
| - | - | 3,314,838 | 3,175,352 |
| - | - | 3,475,801 | 3,557,344 |
| - | - | 87,472 | 89,903 |
| - | - | 2,122,443 | 1,908,869 |
| - | - | 1,610,478 | 1,420,571 |
| 3,672,389 | - | 4,728,316 | 3,237,764 |
| - | 3,355,000 | 3,355,000 | 3,435,000 |
| - | 1,393,715 | 1,393,715 | 1,194,775 |
| <u>3,672,389</u> | <u>4,748,715</u> | <u>50,729,527</u> | <u>47,354,153</u> |
| (3,466,016) | (230,935) | (2,515,727) | 77,138 |
| - | - | 26,588 | 35,305 |
| - | - | - | 15,000,000 |
| - | - | - | (38,187) |
| - | - | - | 463,869 |
| - | - | - | (463,869) |
| <u>-</u> | <u>-</u> | <u>26,588</u> | <u>14,997,118</u> |
| (3,466,016) | (230,935) | (2,489,139) | 15,074,256 |
| 12,794,210 | 1,245,902 | 20,418,562 | 5,344,306 |
| <u>\$ 9,328,194</u> | <u>\$ 1,014,967</u> | <u>\$ 17,929,423</u> | <u>\$ 20,418,562</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, 2010
(WITH COMPARATIVE DATA FOR THE YEAR ENDED JUNE 30, 2009)**

| | 2010 | 2009 |
|--|-----------------------|----------------------|
| Net Change in Fund Balance-Total Governmental Funds | \$ (2,489,139) | \$ 15,074,256 |
| Amounts reported for governmental activities in the statement of activities are different because: | | |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$2,500 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. Also, governmental funds report proceeds from sales of capital assets while, in the statement of activities, only the gain or loss is included. | | |
| Capital Outlays | 3,439,544 | 2,382,141 |
| Gain (Loss) on Disposal of Capital Assets | (13,224) | - |
| Depreciation Expense | (1,673,549) | (1,442,756) |
| The governmental funds report bond proceeds as financing sources, while repayment of bond principal is reported as an expenditure. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability. Also, governmental funds report the effect of issuance costs and premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of general obligation bonds and related items is as follows: | | |
| General Obligation Bond Proceeds | - | (15,000,000) |
| Bond Discount | - | 38,187 |
| Bond Issuance Costs | - | 54,062 |
| Repayment of Bond Principal | 3,355,000 | 3,435,000 |
| Change in Accrued Interest Expense - General Obligation Bonds | (109,827) | 48,382 |
| Amortization of Bond Issuance Costs | (17,723) | (14,869) |
| Amortization of Bond Premium and Discount | 65,258 | 67,273 |
| 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. | 48,410 | (6,260) |
| In the statement of activities, certain operating expenses - compensated absences - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). | (46,366) | 1,326,882 |
| Change in Net Assets of Governmental Activities | \$ 2,558,384 | \$ 5,962,298 |

See accompanying Notes to Basic Financial Statements.

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

YEAR ENDED JUNE 30, 2010

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2009)

| | 2010 | | | 2009 | |
|--|---------------------|-------------------|---------------------|------------------------------------|---------------------|
| | Budgeted Amounts | | Actual Amounts | Over (Under) Final Budget | Actual Amounts |
| | Original | Final | | | |
| REVENUES | | | | | |
| Local Sources | | | | | |
| Property Taxes | \$ 3,475,632 | \$ 3,633,836 | \$ 3,797,978 | \$ 164,142 | \$ 3,402,274 |
| Earnings on Investments | 25,000 | 75,000 | 6,979 | (68,021) | 128,690 |
| Other | 650,939 | 1,408,106 | 1,597,613 | 189,507 | 1,287,971 |
| State Sources | 32,385,812 | 28,450,813 | 29,123,340 | 672,527 | 32,221,064 |
| Federal Sources | 1,922,663 | 5,371,804 | 5,239,979 | (131,825) | 1,965,087 |
| Total Revenues | <u>38,460,046</u> | <u>38,939,559</u> | <u>39,765,889</u> | <u>826,330</u> | <u>39,005,086</u> |
| EXPENDITURES | | | | | |
| Current: | | | | | |
| Administration | 1,604,108 | 1,603,567 | 1,588,183 | (15,384) | 1,560,396 |
| District Support Services | 1,422,234 | 1,369,586 | 1,529,825 | 160,239 | 1,228,929 |
| Regular Instruction | 17,397,697 | 16,977,960 | 16,780,695 | (197,265) | 16,389,333 |
| Vocational Education Instruction | 268,422 | 220,115 | 198,078 | (22,037) | 226,191 |
| Special Education Instruction | 8,215,867 | 8,278,752 | 8,331,619 | 52,867 | 8,029,875 |
| Instructional Support Services | 2,004,519 | 2,187,285 | 2,213,064 | 25,779 | 1,899,851 |
| Pupil Support Services | 3,313,260 | 3,398,861 | 3,314,838 | (84,023) | 3,175,352 |
| Sites and Buildings | 3,270,612 | 3,738,048 | 3,475,801 | (262,247) | 3,557,344 |
| Fiscal and Other Fixed Cost Programs | 77,468 | 77,468 | 87,472 | 10,004 | 89,903 |
| Capital Outlay | 997,480 | 1,089,999 | 1,041,726 | (48,273) | 1,434,419 |
| Total Expenditures | <u>38,571,667</u> | <u>38,941,641</u> | <u>38,561,301</u> | <u>(380,340)</u> | <u>37,591,593</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (111,621) | (2,082) | 1,204,588 | 1,206,670 | 1,413,493 |
| OTHER FINANCING SOURCES | | | | | |
| Judgments for Districts | - | 11,104 | 26,588 | 15,484 | 35,305 |
| Total Other Financing Sources | <u>-</u> | <u>11,104</u> | <u>26,588</u> | <u>15,484</u> | <u>35,305</u> |
| Net Change in Fund Balances | <u>\$ (111,621)</u> | <u>\$ 9,022</u> | 1,231,176 | <u>\$ 1,222,154</u> | 1,448,798 |
| FUND BALANCE | | | | | |
| Beginning of Year | | | <u>5,442,100</u> | | <u>3,993,302</u> |
| End of Year | | | <u>\$ 6,673,276</u> | | <u>\$ 5,442,100</u> |

See accompanying Notes to Basic Financial Statements.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOOD SERVICE FUND
YEAR ENDED JUNE 30, 2010**

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2009)

| | 2010 | | | Over (Under) Final Budget | 2009 |
|--|--------------------|---------------------|-------------------|------------------------------------|-------------------|
| | Budgeted Amounts | | Actual Amounts | | Actual Amounts |
| | Original | Final | | | |
| REVENUES | | | | | |
| Local Sources | | | | | |
| Earnings on Investments | \$ - | \$ - | \$ 5,426 | \$ 5,426 | \$ 16,423 |
| Other - Primarily Meal Sales | 893,592 | 893,592 | 760,657 | (132,935) | 867,005 |
| State Sources | 152,061 | 152,061 | 124,232 | (27,829) | 137,936 |
| Federal Sources | 956,796 | 956,796 | 1,143,133 | 186,337 | 1,070,076 |
| Total Revenues | <u>2,002,449</u> | <u>2,002,449</u> | <u>2,033,448</u> | <u>30,999</u> | <u>2,091,440</u> |
| EXPENDITURES | | | | | |
| Current | | | | | |
| Food Service | 2,077,127 | 2,117,127 | 2,122,443 | 5,316 | 1,908,869 |
| Capital Outlay | 5,000 | 15,000 | 8,426 | (6,574) | 5,537 |
| Total Expenditures | <u>2,082,127</u> | <u>2,132,127</u> | <u>2,130,869</u> | <u>(1,258)</u> | <u>1,914,406</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>\$ (79,678)</u> | <u>\$ (129,678)</u> | (97,421) | <u>\$ 32,257</u> | 177,034 |
| FUND BALANCE | | | | | |
| Beginning of Year | | | <u>772,282</u> | | <u>595,248</u> |
| End of Year | | | <u>\$ 674,861</u> | | <u>\$ 772,282</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, 2010
(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2009)**

| | 2010 | | | 2009 | |
|--|------------------|-------------------|-------------------|------------------------------------|-------------------|
| | Budgeted Amounts | | Actual Amounts | Over (Under) Final Budget | Actual Amounts |
| | Original | Final | | | |
| REVENUES | | | | | |
| Local Sources | | | | | |
| Property Taxes | \$ 369,598 | \$ 369,598 | \$ 339,122 | \$ (30,476) | \$ 228,612 |
| Earnings on Investments | 5,000 | 5,000 | 1,532 | (3,468) | 9,831 |
| Other - Primarily Tuition and Fees | 423,500 | 453,560 | 447,960 | (5,600) | 430,409 |
| State Sources | 475,787 | 671,249 | 658,152 | (13,097) | 716,476 |
| Federal Sources | 25,457 | 228,040 | 243,544 | 15,504 | 29,507 |
| Total Revenues | <u>1,299,342</u> | <u>1,727,447</u> | <u>1,690,310</u> | <u>(37,137)</u> | <u>1,414,835</u> |
| EXPENDITURES | | | | | |
| Current | | | | | |
| Community Service | 1,220,797 | 1,731,026 | 1,610,478 | (120,548) | 1,420,571 |
| Capital Outlay | 6,715 | 4,515 | 5,775 | 1,260 | 3,514 |
| Total Expenditures | <u>1,227,512</u> | <u>1,735,541</u> | <u>1,616,253</u> | <u>(119,288)</u> | <u>1,424,085</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>\$ 71,830</u> | <u>\$ (8,094)</u> | 74,057 | <u>\$ 82,151</u> | (9,250) |
| FUND BALANCE | | | | | |
| Beginning of Year | | | <u>164,068</u> | | <u>173,318</u> |
| End of Year | | | <u>\$ 238,125</u> | | <u>\$ 164,068</u> |

See accompanying Notes to Basic Financial Statements.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2010**

| | Private- Purpose Trust | Agency Funds |
|--------------------------|------------------------------|-----------------|
| ASSETS | | |
| Cash and Investments | \$ - | \$ 1,269 |
| Total Assets | \$ - | \$ 1,269 |
| LIABILITIES | | |
| Due to Other Governments | \$ - | \$ 1,269 |
| Total Liabilities | - | \$ 1,269 |
| NET ASSETS | | |
| Total Net Assets | \$ - | |

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
YEAR ENDED JUNE 30, 2010**

| | Private- Purpose Trust |
|--------------------------------|------------------------------|
| ADDITIONS | |
| Gifts and Donations | \$ 5,745 |
| Total Additions | 5,745 |
| DEDUCTIONS | |
| Scholarships Awarded | 5,745 |
| Total Deductions | 5,745 |
| Change in Net Assets | - |
| Net Assets - Beginning of Year | - |
| Net Assets - End of Year | \$ - |

See accompanying Notes to Basic Financial Statements.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

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

B. Financial Reporting Entity

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

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

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

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

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basic Financial Statement Presentation

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

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

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

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

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

D. Measurement Focus and Basis of Accounting

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

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

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

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

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

Description of Funds

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

Major Governmental Funds

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

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

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

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

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

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

Fiduciary Funds

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

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

E. Budgeting

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

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

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

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

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Cash and Investments

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

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

G. Receivables

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

H. Inventories

Inventories are recorded using the consumption method of accounting and consist of supplies on hand at June 30, 2010. Purchases are recorded at invoice cost, computed on a first-in, first-out method, and surplus commodities are stated at standardized cost, as determined by the Department of Agriculture. The District had no food or commodity inventory on hand at June 30, 2010.

I. Prepaid Items

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

J. Property Taxes

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

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Property Taxes (Continued)

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

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

Taxes that remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is deferred because it is not known to be available to finance the operations of the District in the current year. No allowance for uncollectible taxes has been provided as such amounts are not expected to be material. Current levies of local taxes, less the amount recognized as revenue in the current period, including portions assumed by the State which will be recognized as revenue in the next fiscal year beginning July 1, 2010, are included in Property Taxes Levied for Subsequent Year to indicate that, while they are current assets, they will not be recognized as revenue until the following year.

K. Capital Assets

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

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

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

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

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Long-Term Liabilities

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

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

M. Accrued Employee Benefits

Compensated Absences Payable

The District compensates substantially all full-time classified employees for vacation benefits at various rates based on length of service. The expenditure for vacation pay is recognized when payment is made. At June 30, 2010, unpaid vacation pay totaling \$113,892 is recorded in the financial statements.

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

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

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Accrued Employee Benefits (Continued)

1. Faribault Principals Association

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

2. Administrators

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

3. Teachers

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

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

The District has recorded a liability for accrued convertible sick leave based on the sick leave accumulated at June 30, 2010 by employees currently eligible to receive termination payments, as well as other employees who are expected to become eligible in the future to receive such payments. Under this "vesting method", accruals for those employees expected to become eligible in the future are based on assumptions concerning the probability that the employees will become eligible to receive termination payments (vest) at some point in the future. The District's policy is to record a liability for the teachers lump sum payment for those individuals that are eligible to receive the payments.

During fiscal year 2010, total expenditures for early retirement incentive payments and convertible sick leave were \$288,198. At June 30, 2010, a liability for early retirement incentive payments and convertible sick leave totaling \$1,289,302 is recorded on the Statement of Net Assets.

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Accrued Employee Benefits (Continued)

Other Postemployment Health Care Benefits

Under the terms of certain collectively bargained employment contracts, the District is required to pay a portion of health insurance premiums for substantially all retired employees until they reach age 65. All premiums are funded on a pay-as-you-go basis. This amount was actuarially determined, in accordance with GASB 45, at June 30, 2010.

N. Deferred Revenues

Deferred revenues are those in which resources are received by the District before it has a legal claim to them. The District received excess Tax Increment Financing in the current fiscal year. The State of Minnesota has the right to adjust future funding to account for this excess revenue. This excess revenue is recorded in deferred revenue in the General Fund. In addition, the District has recorded deferred revenue in the General Fund for student deposits. The District has reported deferred revenues for 2010-2011 school lunch deposits in the Food Service Fund. The District also recorded deferred revenue in the Community Service Fund in an amount equal to prepaid daycare account balances and fund balance penalties.

O. Fund Balance

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

P. Risk Management

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

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

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

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. Net Assets

Net assets represent the difference between assets and liabilities in the government-wide financial statements. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net assets are reported as restricted in the government-wide financial statement when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments. The government-wide statement of net assets reports \$2,624,658 of restricted net assets, all of which is restricted by enabling legislation.

R. Comparative Data

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

NOTE 2 CASH AND INVESTMENTS

A. Deposits

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

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

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

The District's deposits in banks at June 30, 2010 were entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota statutes.

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

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

B. Investments

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

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

At June 30, 2010, the District had the following investments:

Investments Held by Broker -

| | At Amortized Cost |
|--|----------------------|
| Minnesota School District Liquid Asset Fund Plus (MDSLAF+) | \$ 717,748 |
| Minnesota School District LAF MAX Series (MSDMAX) | 6,701,195 |
| | \$ 7,418,943 |

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

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

| | Fair Value |
|-----------------------------|--------------|
| FHLB Bonds | \$ 2,960,573 |
| FFCB Bonds | 457,681 |
| FHLMC Global Notes | 1,194,883 |
| FNMA Global Benchmark Notes | 374,147 |
| | \$ 4,987,284 |

Interest Rate Risk.

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

The following summarizes maturities of the District's investments:

| Type | Fair Value | 12 Months or Less | 13 to 24 Months | 25 to 60 Months |
|--|--------------|----------------------|--------------------|--------------------|
| Minnesota School District Liquid Asset Fund Max Series (MSDMAX) | \$ 6,701,195 | \$ 6,701,195 | \$ - | \$ - |
| Minnesota School District Liquid Asset Fund Plus (MDSLAF+) | 717,748 | 717,748 | - | - |
| FHLB Bonds | 2,960,573 | 747,794 | 1,142,307 | 1,070,472 |
| FFCB Bonds | 457,681 | - | - | 457,681 |
| FHLMC Global Notes | 1,194,883 | 1,194,883 | - | - |
| FNMA Global Benchmark Notes | 374,147 | 196,463 | - | 177,684 |
| | \$12,406,227 | \$ 9,558,083 | \$ 1,142,307 | \$ 1,705,837 |

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At June 30, 2010 all investments and collateral were listed in the name of the District.

Credit Risk

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

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

Concentration of Credit Risk.

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

| Type | Amount | Percentage |
|---|------------|------------|
| Minnesota School District Liquid Asset Fund Plus (MDSLAF+) | \$ 717,748 | 5.79% |
| Minnesota School District Liquid Asset Fund Max Series (MSDMAX) | 6,701,195 | 54.01% |
| FHLB Bonds | 2,960,573 | 23.86% |
| FHLMC Global Notes | 1,194,883 | 9.63% |

C. Balance Sheet Presentation

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

| | |
|--|----------------------|
| Cash and Investments - Statement of Net Assets | \$ 17,764,907 |
| Cash and Investments - Statement of Fiduciary Net Assets | 1,269 |
| Total Cash and Investments | <u>\$ 17,766,176</u> |

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

C. Balance Sheet Presentation (Continued)

Total cash and investments at June 30, 2010 consisted of the following:

| | |
|--|----------------------|
| Deposits | \$ 686,204 |
| Cash on hand | 2,745 |
| Certificates of deposit | 4,671,000 |
| Minnesota School District Liquid Asset Funds | 7,418,943 |
| Government bonds and notes | 4,987,284 |
| | <u>\$ 17,766,176</u> |

NOTE 3 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2010 was as follows:

| | Beginning Balance | Increases | Transfers and Decreases | Ending Balance |
|---|----------------------|---------------------|----------------------------|----------------------|
| Governmental Activities | | | | |
| Capital Assets, Not Being Depreciated | | | | |
| Land | \$ 1,835,754 | \$ - | \$ - | \$ 1,835,754 |
| Construction in Progress | 1,684,251 | 1,317,930 | (1,624,671) | 1,377,510 |
| Total Capital Assets, Not Being Depreciated | 3,520,005 | 1,317,930 | (1,624,671) | 3,213,264 |
| Capital Assets, Being Depreciated | | | | |
| Land Improvements | 1,970,403 | 1,177,980 | 51,874 | 3,200,257 |
| Buildings and Improvements | 64,531,243 | 2,301,335 | 3,915 | 66,836,493 |
| Equipment | 3,854,109 | 266,970 | (71,048) | 4,050,031 |
| Total Capital Assets, Being Depreciated | 70,355,755 | 3,746,285 | (15,259) | 74,086,781 |
| Accumulated Depreciation for | | | | |
| Land Improvements | (1,181,309) | (196,150) | (9,604) | (1,387,063) |
| Buildings and Improvements | (19,985,711) | (1,287,891) | 9,604 | (21,263,998) |
| Equipment | (2,880,348) | (189,508) | 2,035 | (3,067,821) |
| Total Accumulated Depreciation | (24,047,368) | (1,673,549) | 2,035 | (25,718,882) |
| Total Capital Assets, Being Depreciated, Net | 46,308,387 | 2,072,736 | (13,224) | 48,367,899 |
| Governmental Activities Capital Assets, Net | <u>\$ 49,828,392</u> | <u>\$ 3,390,666</u> | <u>\$ (1,637,895)</u> | <u>\$ 51,581,163</u> |

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

| | |
|---|---------------------|
| Governmental Activities | |
| District Support Services | \$ 1,859 |
| Regular Instruction | 1,586,982 |
| Vocational Education Instruction | 10,458 |
| Special Education Instruction | 2,626 |
| Pupil Support Services | 1,875 |
| Sites and Buildings | 25,655 |
| Food Service | 43,961 |
| Community Service | 133 |
| Total Depreciation Expense, Governmental Activities | <u>\$ 1,673,549</u> |

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 4 LONG-TERM LIABILITIES

A. Components of Long-Term Liabilities

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

| Issue Date | Net Interest Rate | Original Issue | Final Maturity | Principal Outstanding | |
|---------------------------------------|-------------------|----------------|----------------|-----------------------|----------------------|
| | | | | Due Within One Year | Total |
| 12/1/2003 | 3.00% - 4.00% | \$ 8,140,000 | 12/1/2017 | \$ 565,000 | \$ 5,895,000 |
| 12/1/2003 | 2.50% - 4.00% | 2,605,000 | 12/1/2013 | 270,000 | 1,185,000 |
| 3/1/2005 | 3.00% - 4.00% | 2,375,000 | 2/1/2020 | 135,000 | 1,875,000 |
| 3/5/2008 | 3.25% - 3.50% | 18,965,000 | 6/1/2015 | 2,550,000 | 13,875,000 |
| 4/15/2009 | 3.00% - 4.125% | 15,000,000 | 2/1/2024 | - | 15,000,000 |
| Total General Obligation Bonds | | | | 3,520,000 | 37,830,000 |
| Bond Premium - Net | | | | 67,804 | 348,455 |
| Bond Discounts - Net | | | | (2,546) | (35,111) |
| Other Postemployment Benefits Payable | | | | - | 235,523 |
| Compensated Absences Payable | | | | 113,892 | 1,403,194 |
| | | | | <u>\$ 3,699,150</u> | <u>\$ 39,782,061</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 |
| 2011 | \$ 3,520,000 | \$ 1,395,174 |
| 2012 | 3,730,000 | 1,273,571 |
| 2013 | 4,000,000 | 1,141,524 |
| 2014 | 4,185,000 | 997,841 |
| 2015 | 4,005,000 | 852,141 |
| 2016 - 2020 | 10,540,000 | 2,710,557 |
| 2021 - 2024 | 7,850,000 | 820,845 |
| | <u>\$ 37,830,000</u> | <u>\$ 9,191,653</u> |

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 4 LONG-TERM LIABILITIES (CONTINUED)

C. Description of Long-Term Liabilities

General Obligation Bonds

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

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

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

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

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

Compensated Absences Payable

At June 30, 2010, compensated absences payable consists of unused vacation and severance and convertible sick leave payable to employees upon retirement. In the past, compensated absences payable has been liquidated by the General Fund, the Food Service Fund, and the Community Service Fund.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 4 LONG-TERM LIABILITIES (CONTINUED)

D. Changes in Long-Term Liabilities

| | June 30, 2009 | Additions | Retirements | June 30, 2010 |
|--|----------------------|---------------------|---------------------|----------------------|
| Bonds Payable | \$ 41,185,000 | \$ - | \$ 3,355,000 | \$ 37,830,000 |
| Bond Premium | 416,259 | - | 67,804 | 348,455 |
| Bond Discounts | (37,657) | - | (2,546) | (35,111) |
| Other Postemployment Benefits Payable | 80,114 | 799,838 | 644,429 | 235,523 |
| Compensated Absences Payable | 1,512,237 | 354,664 | 463,707 | 1,403,194 |
| | <u>\$ 43,155,953</u> | <u>\$ 1,154,502</u> | <u>\$ 4,528,394</u> | <u>\$ 39,782,061</u> |

NOTE 5 RESERVED AND DESIGNATED FUND BALANCES

Fund Equity

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

A. Reserved for Staff Development

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

B. Reserved for Area Learning Center

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

C. 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.

D. 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.

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 5 RESERVED AND DESIGNATED FUND BALANCES (CONTINUED)

E. Reserved for Community Education Programs

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

F. 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.

G. Reserved for School Readiness

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

H. Reserved for Adult Basic Education

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

I. Designated for Separation/Retirement Benefits

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

NOTE 6 PENSION PLANS

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

A. Teachers Retirement Association (TRA)

1. Plan Description

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

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 6 PENSION PLANS (CONTINUED)

A. Teachers Retirement Association (TRA) (Continued)

1. Plan Description (Continued)

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

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

2. Funding Policy

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

The District is required to contribute the following percentages of annual covered payroll: 5.5% for Coordinated Plan members and 9.5% for Basic plan members. The contribution requirements of plan members and the District are established and may be amended by State Statute. The District contributions for the years ended June 30, 2010, 2009, and 2008 were \$949,737, \$932,622, and \$923,035, respectively, equal to the required contributions for each year as set by state statute.

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.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 6 PENSION PLANS (CONTINUED)

B. Public Employees' Retirement Association (PERA)

1. Plan Description (Continued)

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

2. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The District makes annual contributions to the pension plans equal to the amount required by State Statutes. PERF Basic Plan members and Coordinated Plan members are required to contribute 9.10% and 6.00%, respectively, of their annual covered salary in 2010.

The District is required to contribute the following percentages of annual covered payroll in 2010: 11.78% for Basic Plan PERF members, 6.75% for Coordinated Plan PERF members. Employer contribution rates for the Coordinated Plan increased to 7.0% effective January 1, 2010. 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, 2010, 2009 and 2008 were \$370,818, \$339,560, and \$306,906, respectively, equal to the contractually required contributions for each year as set by state statute.

C. Defined Contribution Plan

The District provides eligible employees future retirement benefits through the District's 403(b) Plan (the "Plan"). Employees of the District are eligible to participate in the Plan commencing on the date of their employment. Eligible employees may elect to have a percentage of their pay contributed to the Plan. Some employees are eligible to receive a District match of employee contributions up to the qualifying amounts set forth in their respective collective bargaining agreements. Contributions are invested in tax deferred annuities selected and owned by Plan participants. The District contributions for the years ended June 30, 2010, 2009, and 2008 are \$184,484, \$140,534, and \$150,091, respectively. The related employee contributions were \$551,585, \$839,090, and \$990,676, for the years ended June 30, 2010, 2009, and 2008, respectively.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 7 OTHER POSTEMPLOYMENT BENEFIT PLAN

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

A. Plan Description

The District operates a single-employer retiree benefit plan ("the Plan") that provides health insurance to eligible employees and their spouses through the District's self-insured health insurance plan. There are 517 active participants, 67 retired participants, and 12 spouses of retirees receiving payments. Benefit and eligibility provisions are established through negotiations between the District and various unions representing District employees and are renegotiated each two-year bargaining period. The Plan does not issue a publicly available financial report.

B. Funding Policy

Contribution requirements are also negotiated between the District and union representatives. The District contributes up to \$400 per month of the cost of current-year premiums for eligible retired plan members and their spouses. For fiscal year 2010, the District contributed \$644,429 to the plan.

C. Annual OPEB Cost and Net OPEB Obligation

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

| | |
|--|------------|
| Annual Required Contribution | \$ 801,044 |
| Interest on Net OPEB Obligation | 3,605 |
| Adjustment to Annual Required Contribution | (4,811) |
| Annual OPEB Cost (Expense) | 799,838 |
| Contributions Made | (644,429) |
| Increase in Net OPEB Obligation | 155,409 |
| Net OPEB Obligation - Beginning of Year | 80,114 |
| Net OPEB Obligation - End of Year | \$ 235,523 |

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

| Fiscal Year Ended | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|-------------------------|---------------------|---|---------------------------|
| 6/30/2010 | \$ 799,838 | 80.6% | \$ 235,523 |
| 6/30/2009 | \$ 652,253 | 87.7% | \$ 80,114 |

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 7 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

D. Funded Status and Funding Progress

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

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

E. Actuarial Methods and Assumptions

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

In the July 1, 2009 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.5% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date. The initial healthcare trend rate was 9.0%, reduced by decrements to an ultimate rate of 5% after eight years. The UAAL is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at June 30, 2010 was 29 years for the initial \$6,400,766 amortization base and 30 years for the remaining \$1,302,810 amortization base.

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, 2010**

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, 2010 was \$580,063.

Minimum rental commitments on leases in effect at June 30, 2010 are as follows:

| Year Ending June 30, | Annual Lease Payments |
|----------------------|-----------------------------|
| 2011 | \$ 200,512 |
| 2012 | 3,720 |
| 2013 | 2,480 |
| Total | \$ 206,712 |

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 \$158,094 of rent for this building during the year ended June 30, 2010, as per the terms of the lease agreement. In addition to the lease of the building, the District also has in place agreements with Nerstrand Elementary School to provide Food Service and custodial service.

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

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, 2010 the District had entered into various construction contracts for school building projects. Total remaining commitments under these contracts were \$4,123,973 at June 30, 2010.

NOTE 11 JOINT POWERS AGREEMENTS

Community Education

The District and the City of Faribault have entered into a Joint Powers agreement to collaborate and coordinate in the provision of social, educational, vocational, and recreational services to members of the community. The Joint Powers Entity is governed by the Joint Powers Board, which includes two City Council members, two Board of Education members, and a resident of the District jointly appointed by the City Council and the Board of Education. The City is responsible for provision of adult community education and youth enrichment programs. The School District is responsible for provision of early childhood, adult disabled and adult basic education programs. Under the terms of the agreement, the School District paid the City for its provision of services \$160,340 for the period ending June 30, 2010. 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, 2010**

NOTE 11 JOINT POWERS AGREEMENTS (CONTINUED)

Wind Energy

District and 13 other school districts in Minnesota have entered into a Joint Powers Agreement to form the Minnesota Schools Wind Energy Cooperative (the Cooperative). The purpose of the Cooperative is to acquire, develop, construct, finance, operate, and maintain a wind energy project to be located in Minnesota. The Cooperative is governed by a Joint Powers Board, which consists of two members (a Board of Education member, and the superintendent or another district employee) from each of the participating district. Any district may withdraw from the Cooperative prior to the issuance of any project financing instruments, provided that the withdrawing district reimburses the Cooperative for its pro rata portion of the total development or other project costs or other obligations incurred by the Cooperative. Once financing instruments, other than Clean Renewable Energy Bonds (CREBs), have been issued, a district may withdraw provided it prepays the outstanding balance of its pro rata portion of any outstanding financing instruments. Upon issuance of the CREBs, no district may withdraw membership until the CREBs have been repaid in full. The District has not committed any financial resources to the Cooperative as of June 30, 2010.

NOTE 12 JOINTLY GOVERNED ORGANIZATION

The District is a member of the Rice County Family Services Collaborative (Collaborative). The Collaborative was established to provide comprehensive services to strengthen family functioning. As a result, the Collaborative members share certain costs related to social workers and split related time study revenues. The District received \$115,518 to reimburse it for certain salaries and benefits expenditures that the District may not otherwise have incurred.

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REQUIRED SUPPLEMENTARY INFORMATION

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**FARIBAUT PUBLIC SCHOOLS
 INDEPENDENT SCHOOL DISTRICT NO. 656
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS FOR OTHER POSTEMPLOYMENT BENEFIT PLAN
 JUNE 30, 2010**

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

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SINGLE AUDIT AND OTHER REQUIRED REPORTS

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**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2010**

| Grantor/Program | CFDA Number | Agency or Pass-Through Number | Federal Expenditures |
|---|----------------|-------------------------------------|---------------------------|
| US Department of Agriculture | | | |
| Pass-Through Minnesota Department of Education | | | |
| Non-Cash Assistance (Commodities): | | | |
| National School Lunch Program | a | 10.555 | 1-656-000 \$ 49,340 |
| Total Non-Cash Assistance | | | \$ 49,340 |
| Cash Assistance: | | | |
| School Breakfast Program | a | 10.553 | 1-656-000 292,568 |
| National School Lunch Program - Commodities Rebate | a | 10.555 | 1-656-000 25,938 |
| National School Lunch Program | a | 10.555 | 1-656-000 737,494 |
| After School Snack | a | 10.555 | 1-656-000 4,895 |
| Summer Food | a | 10.559 | 1-656-000 17,815 |
| Total Cash Assistance | | | <u>1,078,710</u> |
| Total US Department of Agriculture | | | <u>1,128,050</u> |
| US. Department of Education | | | |
| Pass-Through Minnesota Department of Education | | | |
| Cash Assistance: | | | |
| Adult Basic Education | | 84.002 | ** 17,951 |
| EL/Civics | | 84.002A | ** 17,052 |
| Title I, Part A - Grants to Local Education Agencies | c | 84.010 | ** 493,923 |
| Special Education - Grants to States | b | 84.027 | ** 1,052,969 |
| Special Education - Preschool Incentive | b | 84.173 | ** 14,577 |
| Special Education - Preschool Incentive - Personal Dev. | b | 84.173 | ** 1,302 |
| Special Education - Preschool Supplemental, IEIC | b | 84.173 | ** 2,041 |
| Special Education - Grants for Infants and Families with Disabilities | d | 84.181 | ** 67,070 |
| Title IV, Part A - Safe and Drug Free Schools | | 84.186A | ** 10,955 |
| Title IV, Part B - 21st Century Community Learning Centers | | 84.287 | ** 208,542 |
| Title III - English Language Acquisition Grants | | 84.365A | ** 66,426 |
| Title II, Part A - Improving Teacher Quality | | 84.367 | ** 161,371 |
| ARRA - Special Education - Grants for Infants and Families with Disabilities - Part C | d | 84.383 | ** 6,936 |
| ARRA - Title I, Part A - Grants to Local Education Agencies | c | 84.389 | ** 229,148 |
| ARRA - Targeted Fund - IDEA Part B 611 | b | 84.391 | ** 667,370 |
| ARRA - Targeted Fund - IDEA Part B 619 - Preschool Grant | b | 84.392 | ** 23,850 |
| ARRA - Title VIII - Impact Aid - Stabilization | | 84.394 | ** 2,444,663 |
| Total US Department of Education - Cash Assistance | | | <u>5,486,146</u> |
| TOTAL FEDERAL FINANCIAL ASSISTANCE EXPENDED | | | <u>\$ 6,614,196</u> |

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

See accompanying Notes to Schedule of Expenditures of Federal Awards.

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2010**

NOTE 1 GENERAL

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

NOTE 2 BASIS OF ACCOUNTING

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

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 656 as of and for the year ended June 30, 2010, which collectively comprise Independent School District No. 656's basic financial statements and have issued our report thereon dated November 27, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2010-1 and 2010-2 to be material weaknesses.

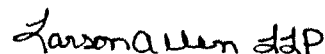
Compliance and Other Matters

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

We have also issued a separate letter to management dated November 27, 2010, 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
November 27, 2010

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

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

Compliance

We have audited the compliance of Independent School District No. 656 with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. Independent School District No. 656's major federal programs are identified in the summary of auditors' results sections of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Independent School District No. 656's management. Our responsibility is to express an opinion on Independent School District No. 656's compliance based on our audit.

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

In our opinion, Independent School District No. 656 complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010. 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 2010-3 and 2010-4.

Internal Control Over Compliance

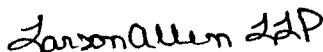
The management of Independent School District No. 656 is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Independent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

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

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies listed as items 2010-5 and 2010-6 in the accompanying schedule of findings and questioned costs to be material weaknesses.

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

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



LarsonAllen LLP

Austin, Minnesota
November 27, 2010

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, 2010, and have issued our report thereon dated November 27, 2010.

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

The results of our tests indicate that for the items tested the Independent School District No. 656 complied with the material terms and conditions of applicable legal provisions, except as described in the accompanying Schedule of Findings and Questioned Costs as item 2010-7.

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
November 27, 2010

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**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010**

PART I: SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the basic financial statements of Independent School District No. 656.
2. Deficiencies in internal control were disclosed during the audit of the financial statements and are listed as Findings 2010-1 and 2010-2. These deficiencies are considered to be material weaknesses.
3. No instances of noncompliance material to the basic financial statements of Independent School District No. 656 were disclosed during the audit.
4. Two deficiencies in internal control over compliance were disclosed during the audit of the major federal award programs. These deficiencies are considered to be material weaknesses. These are listed as Findings 2010-5 and 2010-6.
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 2010-3 and 2010-4.
7. The programs tested as major programs included:
 - U.S. Department of Agriculture
 - Child Nutrition Cluster
 - School Breakfast Program CFDA #10.553
 - National School Lunch Program CFDA #10.555
 - Commodity Cash Rebate Program CFDA #10.555
 - Commodity Distribution CFDA #10.555
 - After School Snack Program CFDA #10.555
 - Summer Food Service Program for Children CFDA #10.559
 - U.S. Department of Education
 - Special Education Cluster:
 - Special Education – Grants to States CFDA #84.027
 - ARRA – Targeted Fund - IDEA Part B 611 CFDA #84.391
 - ARRA – Targeted Fund - IDEA Part B 619 – Preschool Grant CFDA #84.392
 - Special Education – Preschool Incentive CFDA #84.173
 - Special Education – Preschool Supplemental, IEIC CFDA #84.173
 - Special Education – Preschool Incentive – Personnel Dev. CFDA #84.173
 - Title I Cluster:
 - Title I, Part A – Grants to Local Education Agencies CFDA #84.010
 - ARRA – Title I, Part A – Grants to Local Education Agencies CFDA #84.389
 - ARRA – Title VIII – Impact Aid – Stabilization CFDA #84.394
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, 2010**

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

FINDING: 2010-01 MATERIAL AUDIT ADJUSTMENTS

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

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

Questioned Costs: None

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

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

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

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

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The Controller will review the 2010 audit adjustments and work papers prior to start of the 2011 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, 2011.

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, 2010**

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

FINDING: 2010-2 ANNUAL FINANCIAL REPORTING UNDER GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)

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

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

Questioned Costs: None

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

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

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

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

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings:

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

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

Official Responsible for Ensuring CAP:

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

Planned Completion Date for CAP:

June 30, 2011

Plan to Monitor Completion of CAP:

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

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010**

**FINDING: 2010-3 SPECIAL EDUCATION CLUSTER – CFDA# 84.027, 84.391, 84.392, & 84.173
PASS THROUGH MINNESOTA DEPARTMENT OF EDUCATION
COMPLETION OF JOBS SURVEY FORM 1512**

Condition: Special Education Cluster ARRA dollars were not used to pay any payroll expenditures. However, Jobs Survey reports were submitted throughout the year which calculated FTE's for jobs saved for this program.

Criteria: The U.S. Department of Education requires that Local Education Agencies report on a quarterly basis the number jobs created and retained as a result of funding received through ARRA funding.

Questioned Costs: None

Context: New grant.

Effect: Possible loss of funding.

Cause: Management misinterpreted the compliance requirement.

Recommendation: The District should use survey instructions provided by the Minnesota Department of Education to calculate full time equivalents (FTEs) created or retained through the use of federal ARRA dollars for District employees only, and submit these computed figures on a quarterly basis.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement With Audit Findings

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The District will immediately implement the recommendation.

Official Responsible for Ensuring CAP:

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

Planned Completion Date for CAP:

The planned completion date is December 31, 2010.

Plan to Monitor Completion of CAP:

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

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010**

FINDING: 2010-4 **SPECIAL EDUCATION CLUSTER – CFDA# 84.027, 84.391, 84.392, & 84.173
TITLE I, PART A, CLUSTER - CFDA # 84.010 & 84.389 PASS THROUGH
MINNESOTA DEPARTMENT OF EDUCATION INAPPROPRIATE TIME AND
EFFORT DISTRIBUTION RECORD COMPLETION**

Condition: Two Title I employees did not complete the required Time Certifications as required by OMB Circular A-87. In addition, one Special Education employee incorrectly completed a time study rather than a PAR.

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

Questioned Costs: None

Context: None.

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

Cause: Misunderstanding of requirements.

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

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The District will immediately implement the recommendation.

Official Responsible for Ensuring CAP:

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

Planned Completion Date for CAP:

December 31, 2010.

Plan to Monitor Completion of CAP:

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

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010**

- FINDING: 2010-5** **TITLE I, PART A, CLUSTER - CFDA # 84.010 & 84.389
PASS THROUGH MINNESOTA DEPARTMENT OF EDUCATION
INTERNAL CONTROL OVER TIME AND EFFORT DISTRIBUTION RECORDS**
- Condition:** The District's system of internal control over time and effort distribution records did not identify the appropriate time and effort distribution records needed for all employees working in federal programs.
- Criteria:** OMB Circular A-87, Attachment B, paragraph 8.h.(4), paragraph 13d requires that employees that are not coded 100% to a single Federal cost objective prepare a "personal activity report" or timesheet.
- Questioned Costs:** None
- Context:** Personal activity reports and/or time certifications were not maintained or were completed incorrectly.
- Effect:** The potential exists that undocumented time could be incorrectly charged to the federal program code.
- Cause:** Not known.
- Recommendation:** The District should review its controls and implement a system that identifies all employees coded to federal programs and ensures proper time reporting completion.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The District will immediately implement the recommendation.

Official Responsible for Ensuring CAP:

Elizabeth Keenan, Director of Curriculum & Instruction, are the officials responsible for ensuring corrective action of the deficiency.

Planned Completion Date for CAP:

December 31, 2010.

Plan to Monitor Completion of CAP:

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

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010**

FINDING: 2010-6 **ARRA - TITLE VIII - IMPACT AID - STABILIZATION, CFDA #84.394; SPECIAL EDUCATION CLUSTER – CFDA# 84.027, 84.391, 84.392, & 84.173 TITLE I CLUSTER – CFDA# 84.010 AND 84.389 CHILD NUTRITION CLUSTER – CFDA# 10.553, 10.555, & 10.559 PASS THROUGH MINNESOTA DEPARTMENT OF EDUCATION INTERNAL CONTROL OVER CASH MANAGEMENT AND REPORTING**

Condition: During our testing of cash management and reporting, it was noted that an independent member of management does not review or approve data submitted for reimbursement and reporting for these grants.

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

Questioned Costs: None

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

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

Cause: Not Known

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

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement With Audit Findings

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The District will immediately implement the recommendation.

Official Responsible for Ensuring CAP:

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

Planned Completion Date for CAP:

The planned completion date is December 31, 2010.

Plan to Monitor Completion of CAP:

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

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010**

PART IV: FINDINGS AND QUESTIONED COSTS – MINNESOTA LEGAL COMPLIANCE

FINDING: 2010-7 MINNESOTA LEGAL COMPLIANCE – TIMELY PAYMENT OF INVOICES

Condition: We noted one invoice that was not paid within the legally required period and on which no interest was paid.

Criteria: 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. For bills paid after the standard time period, the government entity is required to calculate and pay interest at a rate of 1 ½% per month.

Questioned Costs: None

Context: Invoice was misplaced prior to arrival at central finance.

Effect: The District is not in compliance with State Statute.

Cause: Unknown.

Recommendation: Management should review procedures in place regarding periodically review open purchase orders to determine whether changes should be implemented.

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 review its current procedures with all employees involved in the purchasing process.

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 for the CAP is December 31, 2010.

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
SUMMARY SCHEDULE OF PRIOR FEDERAL AUDIT FINDINGS
YEAR ENDED JUNE 30, 2010**

| Comment Reference | Comment Title | Status | If not Corrected, Provide Planned Corrective Action or Other Explanation |
|-------------------|---|---------------|--|
| 2009-1 | Material Audit Adjustments | Not Corrected | See current year Finding 2010-1 |
| 2009-2 | Annual Financial Reporting Under Generally Accepted Accounting Principles (GAAP | Not Corrected | See current year Finding 2010-2 |
| 2009-3 | Timely Reconciliation of Bank Accounts | Corrected | |
| 2009-4 | Special Education Cluster – Improper Time Reporting Documentation | Not Corrected | See current year Finding 2010-4 |
| 2009-5 | Title I, Part A – Improper Time Reporting Documentation | Not Corrected | See current year Finding 2010-5 |
| 2009-6 | Title II – Improper Time Reporting Documentation | Corrected | |

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS
COMPLIANCE TABLE
JUNE 30, 2010**

| | Audit | UFARS | Audit - UFARS | | Audit | UFARS | Audit - UFARS |
|-----------------------------------|---------------|---------------|---------------|--|--------------|--------------|---------------|
| 01 GENERAL FUND | | | | 06 BUILDING CONSTRUCTION | | | |
| Total Revenue | \$ 39,792,477 | \$ 39,792,472 | \$ 5 | Total Revenue | \$ 206,373 | \$ 206,374 | \$ (1) |
| Total Expenditures | \$ 38,561,301 | \$ 38,561,298 | \$ 3 | Total Expenditures | \$ 3,672,389 | \$ 3,672,390 | \$ (1) |
| <i>Reserved:</i> | | | | <i>Reserved:</i> | | | |
| 403 Staff Development | \$ 34,059 | \$ 34,059 | \$ - | 407 Capital Projects Levy | \$ - | \$ - | \$ - |
| 405 Deferred Maintenance | \$ - | \$ - | \$ - | 409 Alternative Facility Program | \$ - | \$ - | \$ - |
| 406 Health & Safety | \$ 96,607 | \$ 96,607 | \$ - | 413 Project Funded by COP | \$ - | \$ - | \$ - |
| 407 Capital Project Levy | \$ - | \$ - | \$ - | 419 Encumbrances | \$ - | \$ - | \$ - |
| 408 Cooperative Programs | \$ - | \$ - | \$ - | <i>Unreserved:</i> | | | |
| 411 Severance | \$ - | \$ - | \$ - | 422 Unreserved/Undesignated | \$ 9,328,194 | \$ 9,328,195 | \$ (1) |
| 414 Operating Debt | \$ - | \$ - | \$ - | 07 DEBT SERVICE | | | |
| 416 Levy Reduction | \$ - | \$ - | \$ - | Total Revenue | \$ 4,517,760 | \$ 4,517,779 | \$ 1 |
| 417 Taconite Building Maint | \$ - | \$ - | \$ - | Total Expenditures | \$ 4,748,715 | \$ 4,748,714 | \$ 1 |
| 419 Encumbrances | \$ - | \$ - | \$ - | <i>Reserved:</i> | | | |
| 423 Certain Teacher Programs | \$ - | \$ - | \$ - | 425 Bond Refundings | \$ - | \$ - | \$ - |
| 424 Operating Capital | \$ 398,951 | \$ 398,951 | \$ - | 451 QZAB Payments | \$ - | \$ - | \$ - |
| 426 \$25 Taconite | \$ - | \$ - | \$ - | <i>Unreserved:</i> | | | |
| 427 Disabled Accessibility | \$ - | \$ - | \$ - | 422 Unreserved/Undesignated | \$ 1,014,967 | \$ 1,014,967 | \$ - |
| 428 Learning & Development | \$ - | \$ - | \$ - | 08 TRUST | | | |
| 434 Area Learning Center | \$ 207,779 | \$ 207,779 | \$ - | Total Revenue | \$ 5,745 | \$ 5,745 | \$ - |
| 435 Contracted Alt. Programs | \$ - | \$ - | \$ - | Total Expenditures | \$ 5,745 | \$ 5,745 | \$ - |
| 436 State Approved Alt. Program | \$ - | \$ - | \$ - | <i>Reserved:</i> | | | |
| 438 Gifted & Talented | \$ - | \$ - | \$ - | 419 Encumbrances | \$ - | \$ - | \$ - |
| 441 Basic Skills Programs | \$ - | \$ - | \$ - | <i>Unreserved:</i> | | | |
| 445 Career and Technical Programs | \$ - | \$ - | \$ - | 422 Unreserved/Undesignated | \$ - | \$ - | \$ - |
| 446 First Grade Preparedness | \$ - | \$ - | \$ - | 09 AGENCY | | | |
| 449 Safe Schools Levy | \$ - | \$ - | \$ - | <i>Unreserved: Should Always Be -0-</i> | | | |
| 450 Prekindergarten | \$ - | \$ - | \$ - | 422 Unreserved/Undesignated | \$ - | \$ - | \$ - |
| 451 QZAB Payments | \$ - | \$ - | \$ - | 20 INTERNAL SERVICE | | | |
| 452 OPEB Liab Not in Trust | \$ - | \$ - | \$ - | Total Revenue | \$ - | \$ - | \$ - |
| 453 Unfunded Sev & Retirem Levy | \$ - | \$ - | \$ - | Total Expenditures | \$ - | \$ - | \$ - |
| <i>Unreserved:</i> | | | | <i>Reserved:</i> | | | |
| 418 Severance - Ins. Premium | \$ 2,500,000 | \$ 2,500,000 | \$ - | 419 Encumbrances | \$ - | \$ - | \$ - |
| 422 Unreserved/Undesignated | \$ 3,437,880 | \$ 3,437,879 | \$ 1 | <i>Unreserved:</i> | | | |
| 02 FOOD SERVICE | | | | 422 Unreserved/Undesignated | | | |
| Total Revenue | \$ 2,033,448 | \$ 2,033,447 | \$ 1 | 25 OPEB REVOCABLE TRUST | | | |
| Total Expenditures | \$ 2,130,889 | \$ 2,130,867 | \$ 2 | Total Revenue | \$ - | \$ - | \$ - |
| <i>Reserved:</i> | | | | Total Expenditures | \$ - | \$ - | \$ - |
| 411 Severance | \$ - | \$ - | \$ - | <i>Reserved:</i> | | | |
| 419 Encumbrances | \$ - | \$ - | \$ - | 419 Encumbrances | \$ - | \$ - | \$ - |
| 452 OPEB Liab Not in Trust | \$ - | \$ - | \$ - | <i>Unreserved:</i> | | | |
| <i>Unreserved:</i> | | | | 422 Unreserved/Undesignated | \$ - | \$ - | \$ - |
| 418 Severance - Ins. Premium | \$ - | \$ - | \$ - | 45 OPEB IRREVOCABLE TRUST | | | |
| 422 Unreserved/Undesignated | \$ 674,861 | \$ 674,861 | \$ - | Total Revenue | \$ - | \$ - | \$ - |
| 04 COMMUNITY SERVICE | | | | Total Expenditures | \$ - | \$ - | \$ - |
| Total Revenue | \$ 1,690,310 | \$ 1,690,302 | \$ 8 | <i>Reserved:</i> | | | |
| Total Expenditures | \$ 1,616,253 | \$ 1,616,245 | \$ 8 | 419 Encumbrances | \$ - | \$ - | \$ - |
| <i>Reserved:</i> | | | | <i>Unreserved:</i> | | | |
| 411 Severance | \$ - | \$ - | \$ - | 422 Unreserved/Undesignated | \$ - | \$ - | \$ - |
| 419 Encumbrances | \$ - | \$ - | \$ - | 47 OPEB DEBT SERVICE | | | |
| 426 \$25 Taconite | \$ - | \$ - | \$ - | Total Revenue | \$ - | \$ - | \$ - |
| 431 Community Education | \$ 71,562 | \$ 71,562 | \$ - | Total Expenditures | \$ - | \$ - | \$ - |
| 432 E.C.F.E. | \$ 19,832 | \$ 19,832 | \$ - | <i>Reserved:</i> | | | |
| 444 School Readiness | \$ 5,913 | \$ 5,913 | \$ - | 425 Bond Refundings | \$ - | \$ - | \$ - |
| 447 Adult Basic Education | \$ 74,869 | \$ 74,869 | \$ - | <i>Unreserved:</i> | | | |
| 452 OPEB Liab Not in Trust | \$ - | \$ - | \$ - | 422 Unreserved/Undesignated | \$ - | \$ - | \$ - |
| <i>Unreserved:</i> | | | | Unaudited Data Reporting Elements | | | |
| 418 Severance Premium | \$ - | \$ - | \$ - | FY09 OPERATING CAPITAL TRANSFER | | | |
| 422 Unreserved/Undesignated | \$ 65,949 | \$ 65,948 | \$ 1 | Per Pupil Amount | \$ 0 | | |
| | | | | AMCPU | \$ 0 | | |
| | | | | Total Transfer | \$ 0 | | |