

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

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2013

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INDEPENDENT SCHOOL DISTRICT NO. 656
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INTRODUCTORY SECTION

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**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
BOARD OF EDUCATION AND ADMINISTRATION
FISCAL YEAR 2012 – 2013**

BOARD OF EDUCATION

	<u>Term on Board Expires December 31,</u>	<u>Position on Board During 2012-2013</u>
Jason Engbrecht	2016	Chair
Thomas Casper	2014	Vice Chair
Debra Davis	2014	Treasurer
Howard Bode	2014	Clerk
Yvette Marthaler	2016	Director
Jerry Robicheau	2016	Director
Richard Olson	2014	Director

ADMINISTRATION

Todd Sesker	Superintendent
Colleen Mertesdorf	Director of Finance and Operations

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 656, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the district's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 656 as of June 30, 2013, and the respective changes in financial position and, the respective budgetary comparisons for the General Fund, Food Service Fund, Community Service Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Independent School District No. 656 as of and for the year ended June 30, 2012, and we expressed unmodified opinions on those audited financial statements in our report dated November 14, 2012. In our opinion the summarized comparative information presented herein as of and for the year ended June 30, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedule of funding progress for postemployment benefit plan, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Independent School District No. 656's basic financial statements. The uniform financial accounting and reporting standards compliance table, as required by Minnesota Department of Education is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is also presented for purposes of additional analysis and is not a required part of the basic financial statements.

The uniform financial accounting and reporting standards compliance table, and schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Board of Education
Independent School District No. 656

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2013 on our consideration of Independent School District No. 656's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Independent School District No. 656's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Austin, Minnesota
November 8, 2013

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REQUIRED SUPPLEMENTARY INFORMATION

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**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013**

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, 2013. Please read it in conjunction with the District's financial statements, which immediately follow this letter.

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

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2012-13 fiscal year include the following:

- Student enrollment – student enrollment increased from the previous year, going from 3,900 in 2011-12 to 3,932 in 2012-13.
- The General Fund Unassigned Fund Balance increased, going from \$5,745,165 at the end of 2011-12 to \$7,105,501 at the end of 2012-13.
- The District continued to work on deferred maintenance projects financed by the 2009 sale of bonds. This is reflected by the \$2,500,275 decrease in the Building Construction Fund.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

The ***government-wide financial statements***, including the *Statement of Net Position* and the *Statement of Activities*, provide both short-term and long-term information about the District's overall financial status. The government-wide statements (Statement of Net Position and Statement of Activities) report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the District's assets 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 position and how they have changed. Net position – 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 position 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, 2013**

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, 2013**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net position. The District's combined net position was \$41.0 million on June 30, 2013. This represents an increase of 8.03% from the prior year. (See Figure A-1 below.)

**Figure A-1
Independent School District No. 656
Net Position – Governmental Activities
As of June 30, 2013 and 2012**

	Governmental Activities		Percentage Change
	2013	2012	
Current and Other Assets	\$ 23,343,229	\$ 35,749,527	-34.70%
Capital and Non-Current Assets	58,155,824	57,161,995	1.74%
Total Assets	81,499,053	92,911,522	-12.28%
Current Liabilities	16,733,326	26,800,695	-37.56%
Long Term Liabilities	23,806,599	28,196,262	-15.57%
Total Liabilities	40,539,925	54,996,957	-26.29%
Net Position			
Net Investment in Capital Assets	31,492,882	28,576,736	10.20%
Restricted	1,898,159	2,139,535	-11.28%
Unrestricted	7,568,087	7,198,294	5.14%
Total Net Position	\$ 40,959,128	\$ 37,914,565	8.03%

Changes in net position. The District's total revenues were \$50.9 million and total expenses were \$47.8 million for the year ended June 30, 2013. (See Figure A-2 on the next page.) Unrestricted state aid and property taxes accounted for 62% of the total revenue for the year. Operating and capital grants and charges for services contributed 37%. (See Figure A-3 on page 8.) Student support services and instruction-related expenses accounted for 76% of the District's expenses. The District's administrative activities accounted for 4% of total costs. (See Figure A-4 on page 9.) Total revenues surpassed expenditures, increasing net position by \$3,044,563.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

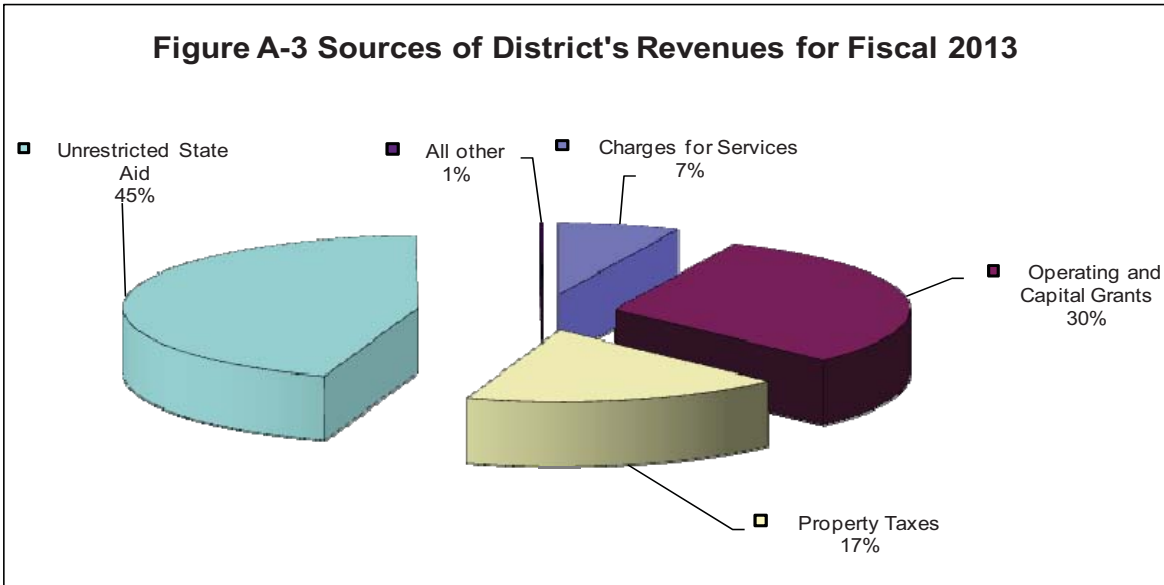
**Figure A-2
Independent School District No. 656
Change in Net Position
For the Years Ended June 30, 2013 and 2012**

	Governmental Activities for the		Total % Change
	fiscal year ended June 30.		
	2013	2012	
Revenues			
<u>Program Revenues</u>			
Charges for Services	\$ 3,385,567	\$ 2,909,471	16.36%
Operating Grants and Contributions	15,088,028	15,319,784	-1.51%
Capital Grants and Contributions	609,776	826,202	-26.20%
<u>General Revenues</u>			
Property Taxes	8,938,630	8,558,637	4.44%
Unrestricted State Aid	22,761,227	22,751,495	0.04%
Investment Earnings	24,300	11,390	113.35%
Other	47,088	154,096	-69.44%
Total Revenues	<u>50,854,616</u>	<u>50,531,075</u>	0.64%
Expenses			
Administration	1,660,461	1,692,774	-1.91%
District Support Services	2,057,507	2,006,151	2.56%
Regular Instruction	19,266,049	19,407,931	-0.73%
Vocational Education Instruction	317,765	204,187	55.62%
Special Education Instruction	9,302,535	8,497,184	9.48%
Instructional Support Services	2,203,225	2,294,561	-3.98%
Pupil Support Services	3,602,197	3,595,847	0.18%
Sites and Buildings	4,153,335	1,847,406	124.82%
Fiscal and Other Fixed Cost Programs	125,298	96,105	30.38%
Food Service	2,173,785	2,131,389	1.99%
Community Service	1,932,545	1,698,076	13.81%
Interest and Fiscal Charges on Long-Term Liabilities	1,015,351	1,215,059	-16.44%
Total Expenses	<u>47,810,053</u>	<u>44,686,670</u>	6.99%
Increase in Net Position	3,044,563	5,844,405	-47.91%
Beginning Net Position	37,914,565	32,070,160	18.22%
Ending Net Position	<u>\$ 40,959,128</u>	<u>\$ 37,914,565</u>	8.03%

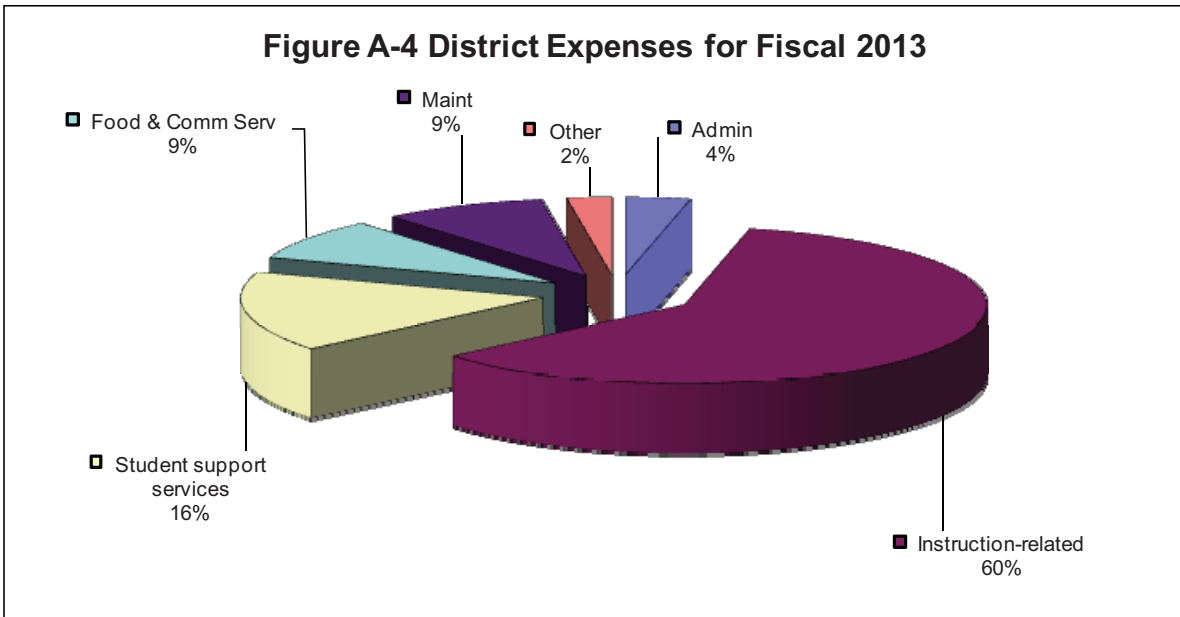
**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

**Figure A-3
Independent School District No. 656
Sources of Revenues
For Fiscal Year 2013**



**Figure A-4
Independent School District No. 656
Expenses
For Fiscal Year 2013**



**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013**

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 \$47.8 million. The net cost of all governmental activities this year was \$28.7 million.
- The users of the District's programs financed \$3.4 million of the cost of activities through various charges for services.
- The federal and state governments subsidized certain programs with grants and contributions of \$15.7 million.
- District property taxpayers financed \$8.9 million of governmental activities and state taxpayers financed \$22.8 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, 2013 and 2012**

	<u>Total Cost of Services</u>		<u>Percentage Change</u>	<u>Net Cost of Services</u>		<u>Percentage Change</u>
	<u>2013</u>	<u>2012</u>		<u>2013</u>	<u>2012</u>	
Administration	\$ 1,660,461	\$ 1,692,774	-1.91%	\$ 1,652,548	\$ 1,691,508	-2.30%
District Support Services	2,057,507	2,006,151	2.56%	1,910,266	1,859,195	2.75%
Regular Instruction	19,266,049	19,407,931	-0.73%	12,023,879	10,653,862	12.86%
Vocational Education Instruction	317,765	204,187	55.62%	309,435	193,335	60.05%
Special Education Instruction	9,302,535	8,497,184	9.48%	2,353,306	3,320,416	-29.13%
Instructional Support Services	2,203,225	2,294,561	-3.98%	1,843,047	1,973,441	-6.61%
Pupil Support Services	3,602,197	3,595,847	0.18%	3,399,114	3,414,158	-0.44%
Sites and Buildings	4,153,335	1,847,406	124.82%	3,534,554	948,843	272.51%
Fiscal and Other Fixed Cost Programs	125,298	96,105	30.38%	125,298	96,105	30.38%
Food Service	2,173,785	2,131,389	1.99%	118,906	724	16323.48%
Community Service	1,932,545	1,698,076	13.81%	440,978	264,567	66.68%
Interest and Fiscal Charges on Long-Term Liabilities	1,015,351	1,215,059	-16.44%	1,015,351	1,215,059	-16.44%
Total	<u>\$ 47,810,053</u>	<u>\$ 44,686,670</u>	6.99%	<u>\$ 28,726,682</u>	<u>\$ 25,631,213</u>	12.08%

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013**

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 revenues exceeded expenditures thereby increasing the fund balance in this fund. The Food Service Fund, Community Service Fund, Capital Projects – Building Construction Fund and Debt Service Fund expenditures exceeded revenues, thereby decreasing the fund balance in those 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 slight decrease of approximately \$79,000. The decrease in the Food Service fund Balance during 2012-13 was due to the fact that expenses came in over budget.

The restricted fund balances for Community Education Programs, Early Childhood/Family Education and Restricted for Other Purposes all saw increases in their fund balances. The restricted fund balances for School Readiness and Adult Basic Education saw decreases in their fund balances during the year. All programs will need to be closely monitored to maintain a continued balanced budget.

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

The Debt Service Fund decreased approximately \$5,500,000 due to calling bonds that were refunded during the 2011-2012 school year.

At the end of the 2012-13 fiscal year, the District's governmental funds reported combined fund balances of \$11,090,780. This is a 41% decrease from the prior year, mostly due to calling the refunded bonds.

Revenues for the District's governmental funds were \$50,875,495, while total expenditures were \$52,921,415. As a result, the District completed the year with a deficiency of revenues under expenditures of \$2,045,920, prior to other financing sources and uses of -\$5,507,613.

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.

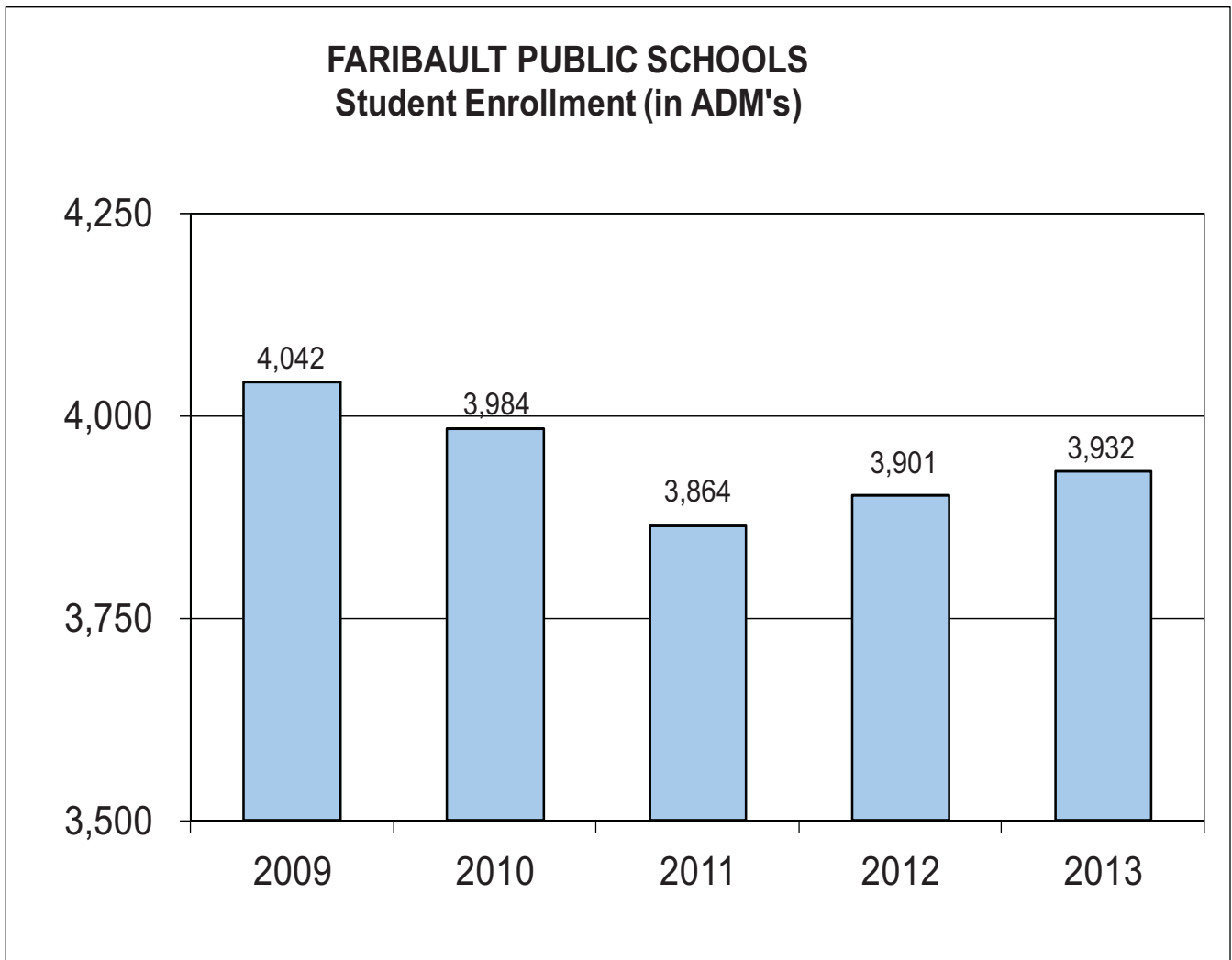
**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013**

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (CONTINUED)

Enrollment

Funding for Minnesota school districts is largely driven by enrollment. As seen in Figure A-6 below, there was an enrollment increase for the year of 31 students from the prior year.

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



**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013**

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, 2013 and 2012**

<u>Description</u>	<u>Year Ended</u>		<u>Change</u>	
	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>Increase (Decrease)</u>	<u>Percent</u>
Revenues:				
Local Sources				
Property Taxes	\$ 3,561,426	\$ 3,583,440	\$ (22,014)	-0.6%
Earnings on Investments	4,215	2,966	1,249	42.1%
Other	2,326,648	2,064,403	262,245	12.7%
State Sources	34,022,546	32,993,005	1,029,541	3.1%
Federal Sources	1,927,440	2,787,180	(859,740)	-30.8%
Total General Fund Revenue	<u>\$ 41,842,275</u>	<u>\$ 41,430,994</u>	<u>\$ 411,281</u>	1.0%
	<u>Year Ended</u>		<u>Amount of</u>	<u>Percent</u>
	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>Increase (Decrease)</u>	<u>Increase (Decrease)</u>
Expenditures:				
Salaries	\$ 23,907,630	\$ 23,443,283	\$ 464,347	2.0%
Employee Benefits	8,589,678	8,342,235	247,443	3.0%
Purchased Services	5,723,585	5,600,733	122,852	2.2%
Supplies and Materials	1,561,165	1,655,449	(94,284)	-5.7%
Capital Expenditures	1,372,277	1,133,837	238,440	21.0%
Other Expenditures	63,887	23,645	40,242	170.2%
Total Expenditures	<u>\$ 41,218,222</u>	<u>\$ 40,199,182</u>	<u>\$ 1,019,040</u>	2.5%

Revenues

Fiscal year 2012-13 saw an increase in enrollment of 31 students. The formula allowance was at \$5,224 per adjusted marginal cost pupil unit for the 2012-13 year. Revenues totaled \$41,842,275 or an increase of \$411,281 over 2011-12. The 1.0% revenue increase is due to increased state aid in several categories, offset by lower federal aid due to the expiration of the American Recovery and Reinvestment Act Education Jobs funds.

Expenditures

Expenditures totaled \$41,218,222 – an increase of \$1,019,040 over 2011-12. Most expenditure functions saw increases due to increased costs of labor contracts. There was an increase in purchased services and capital outlay, while supplies saw a decrease in the General Fund for 2012-13.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013**

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (CONTINUED)

General Fund (Continued)

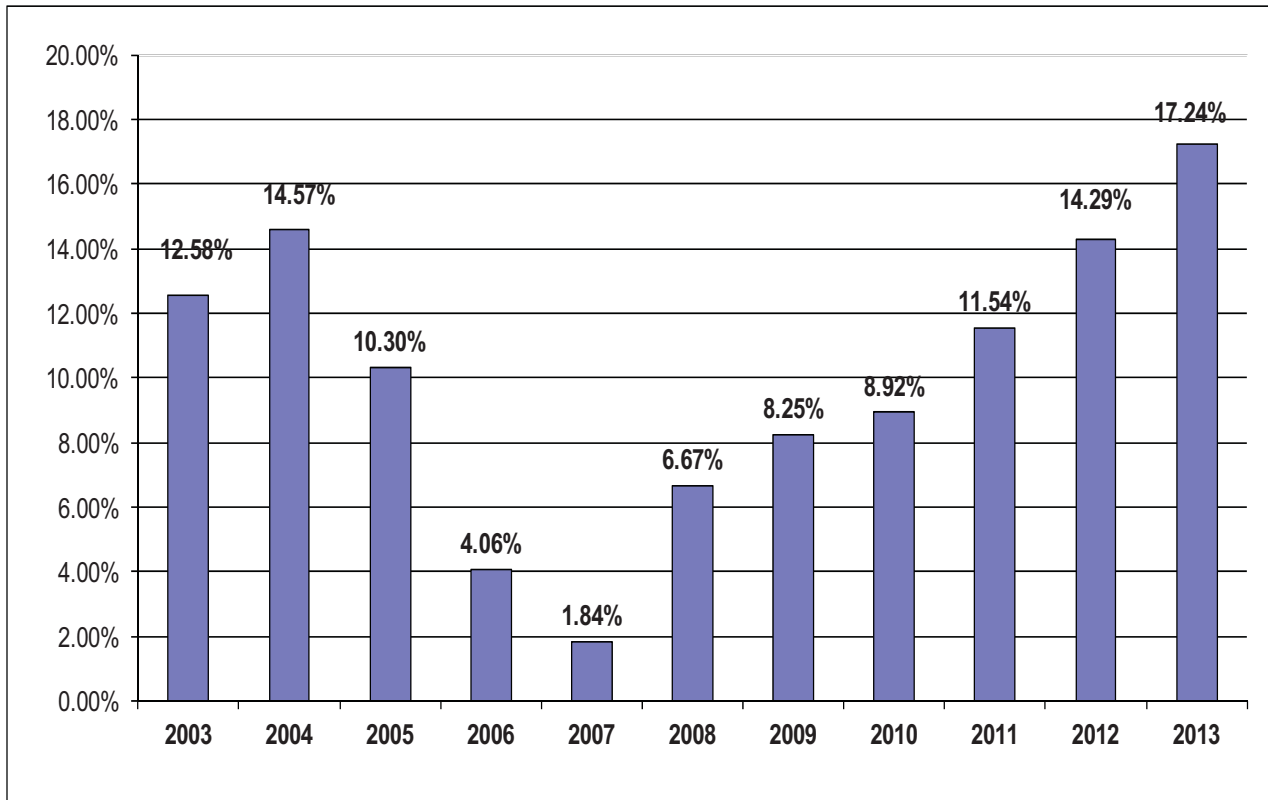
Fund Balance

The unassigned fund balance is \$7,105,501, committed fund balance for postemployment benefits is \$1,951,000, nonspendable fund balance is \$307,928 and the restricted fund balances for staff development, health and safety, operating capital, and area learning center total \$150,373.

The graph in Figure A-8, below, depicts the General Fund unassigned fund balance as a percentage of total expenditures for the 11 fiscal years ending June 30, 2003–2013. The District's unassigned fund balance offers the single best measure of the District's overall financial health. The unassigned fund balance on June 30, 2013 represents 17.24% of annual expenditures.

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

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



**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013**

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (CONTINUED)

BUDGETARY HIGHLIGHTS

The District revised the annual operating budget from the preliminary budget approved in June 2012 to the final budget approved in June of 2013.

General Fund

The District's final budget for the general fund anticipated that expenditures would exceed revenues and other financing sources by \$1,944,352. The actual results for the year show revenues and other financing sources exceeding expenditures by \$626,440.

- Actual revenues were \$950,849 above budget, with most of the difference in Other Revenues, due to higher medical assistance billing revenue and higher tuition revenue than anticipated. State general education aid and special education aid also came in above budget.
- Actual expenditures were \$1,617,556 below budget with salaries, benefits, contracted services, supplies, and capital outlay all under budget.

Food Service Fund

The Food Service Fund revenues for 2012-13 were \$2.1 million and expenditures were \$2.1 million. The June 30, 2013 fund balance is \$398,557, a decrease of \$78,946 from fiscal year 2012. 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 2012-13 totaled \$1.9 million and expenditures were \$2.0 million. The June 30, 2013 fund balance is \$184,375, a decrease of \$82,597 from fiscal year 2012. The individual restricted accounts of Community Education, Early Childhood/Family Education and Restricted for Other Purposes increased during the year, while the School Readiness and Adult Basic Education accounts decreased during the year.

Debt Service Fund

The Debt Service Fund is used to record revenues and expenditures for a school district's outstanding bonded indebtedness, whether for building construction, operating capital, or for initial or refunding bonds. The District refunded two bonds during 2011-12, which were called during 2012-13, resulting in Other Financing Use of \$5,510,000. The Debt Service Fund revenues for 2012-13 totaled \$5.1 million and expenditures were \$5.1 million. The June 30, 2013 fund balance is \$911,232, a decrease of \$5,518,155 from fiscal year 2012. Every year the Minnesota Department of Education calculates Debt Service excess fund balance amounts and uses those amounts to reduce future levies.

Capital Projects Fund

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

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2013, the District had invested \$58,155,824 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 \$31,279,653 as of June 30, 2013. More detailed information about capital assets can be found in Note 4 of the financial statements.

**Figure A-9
Independent School District No. 656
Capital Assets
June 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>	<u>Percentage Change</u>
Land	\$ 1,835,754	\$ 1,835,754	0.0%
Construction in Progress	2,851,413	2,177,623	30.9%
Land Improvements	4,880,870	4,156,068	17.4%
Buildings and Improvements	75,289,392	73,841,569	2.0%
Equipment	4,578,048	4,387,485	4.3%
Less: Accumulated Depreciation	<u>(31,279,653)</u>	<u>(29,236,504)</u>	7.0%
Total	<u>\$ 58,155,824</u>	<u>\$ 57,161,995</u>	1.7%

Long-Term Liabilities

For the fiscal year ended June 30, 2013, the District had \$26.6 million in general obligation bonds outstanding. (See Figure A-10 below.) The District also had \$1.6 million in health benefits, separation and severance payable as of June 30, 2013. In 2012-13, the District's total outstanding long-term liabilities decreased by 25.4%. More detailed information about the District's long-term liabilities is presented in Note 5 of the financial statements.

**Figure A-10
Independent School District No. 656
Outstanding Long-Term Liabilities
June 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>	<u>Percentage Change</u>
General Obligation Bonds	\$ 26,570,000	\$ 36,080,000	-26.4%
Net Bond Premium and Discount	88,176	182,828	-51.8%
Unamortized Deferred Loss on Refunding	(11,389)	-	N/A
Unamortized Deferred Gain on Refunding	16,155	-	N/A
Other Postemployment Benefits Payable	625,199	460,097	35.9%
Compensated Absences Payable	965,991	1,162,572	-16.9%
Total	<u>\$ 28,254,132</u>	<u>\$ 37,885,497</u>	-25.4%
Long-Term Liabilities:			
Due Within One Year	\$ 4,447,533	\$ 9,689,235	
Due in More Than One Year	23,806,599	28,196,262	
	<u>\$ 28,254,132</u>	<u>\$ 37,885,497</u>	

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013**

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

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

The District will continue to seek all available sources of funding, balance revenues 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, cmertesdorf@faribault.k12.mn.us 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 POSITION
JUNE 30, 2013
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2012)**

	<u>Governmental Activities</u>	
	<u>2013</u>	<u>2012</u>
ASSETS		
Cash and Investments	\$ 12,100,943	\$ 12,039,305
Cash and Investments Held by Trustee	-	5,525,205
Receivables		
Property Taxes	4,371,084	4,306,842
Other Governments	6,310,302	13,389,536
Other	131,771	103,925
Prepaid Items	260,646	143,654
Inventories	52,444	72,464
Bond Issuance Costs, Net	116,039	168,596
Capital Assets		
Land and Construction in Progress	4,687,167	4,013,377
Other Capital Assets, Net of Depreciation	53,468,657	53,148,618
Total Assets	<u>81,499,053</u>	<u>92,911,522</u>
LIABILITIES		
Short-Term Borrowing	-	4,513,526
Salaries and Wages Payable	3,767,902	3,584,473
Accounts and Contracts Payable	803,192	1,529,025
Accrued Interest	258,926	315,646
Due to Other Governmental Units	149,713	124,581
Deferred Revenue		
Property Taxes	7,151,557	6,892,134
Local Sources	154,503	152,075
Long-Term Liabilities		
Portion Due Within One Year	4,447,533	9,689,235
Portion Due in More Than One Year	23,806,599	28,196,262
Total Liabilities	<u>40,539,925</u>	<u>54,996,957</u>
NET POSITION		
Net Investment in Capital Assets	31,492,882	28,576,736
Restricted for:		
Operating Capital Purposes	488,207	256,147
State-Mandated Reserves	29,648	33,794
Food Service	398,557	477,503
Community Service	189,906	277,392
Debt Service	714,665	694,817
Capital Projects - Building Construction	77,176	399,882
Unrestricted	7,568,087	7,198,294
Total Net Position	<u>\$ 40,959,128</u>	<u>\$ 37,914,565</u>

See accompanying Notes to Basic Financial Statements.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2012)**

	2013		
Functions	Expenses	Charges for Services	Program Operating Grants and Contributions
Governmental Activities			
Administration	\$ 1,660,461	\$ 7,013	\$ 900
District Support Services	2,057,507	8,505	-
Regular Instruction	19,266,049	312,784	6,825,851
Vocational Education Instruction	317,765	66	8,264
Special Education Instruction	9,302,535	1,355,525	5,593,704
Instructional Support Services	2,203,225	15,387	325,627
Pupil Support Services	3,602,197	6,633	196,450
Sites and Buildings	4,153,335	270,440	-
Fiscal and Other Fixed Cost Programs	125,298	-	-
Food Service	2,173,785	610,479	1,444,400
Community Service	1,932,545	798,735	692,832
Interest and Fiscal Charges on Long-Term Liabilities	1,015,351	-	-
Total School District	\$ 47,810,053	\$ 3,385,567	\$ 15,088,028

General Revenues

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

See accompanying Notes to Basic Financial Statements.

	2013	2012
Revenues	Net (Expense) Revenue and Changes in Net Position	Net (Expense) Revenue and Changes in Net Position
Capital	Total	Total
Grants and Contributions	Governmental Activities	Governmental Activities
\$ -	\$ (1,652,548)	\$ (1,691,508)
138,736	(1,910,266)	(1,859,195)
103,535	(12,023,879)	(10,653,862)
-	(309,435)	(193,335)
-	(2,353,306)	(3,320,416)
19,164	(1,843,047)	(1,973,441)
-	(3,399,114)	(3,414,158)
348,341	(3,534,554)	(948,843)
-	(125,298)	(96,105)
-	(118,906)	(724)
-	(440,978)	(264,567)
-	(1,015,351)	(1,215,059)
<u>\$ 609,776</u>	<u>(28,726,682)</u>	<u>(25,631,213)</u>

3,549,435	3,573,481
366,314	331,605
5,022,881	4,653,551
22,761,227	22,751,495
24,300	11,390
-	460
<u>47,088</u>	<u>153,636</u>
<u>31,771,245</u>	<u>31,475,618</u>
3,044,563	5,844,405
<u>37,914,565</u>	<u>32,070,160</u>
<u>\$ 40,959,128</u>	<u>\$ 37,914,565</u>

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2012)**

	Major		
	General	Food Service	Community Service
ASSETS			
Cash and Investments	\$ 7,589,611	\$ 429,248	\$ 175,810
Cash and Investments Held by Trustee	-	-	-
Receivables			
Current Property Taxes	1,629,767	-	175,260
Delinquent Property Taxes	42,744	-	4,440
Due from Other Minnesota School Districts	358,543	-	63,828
Due from Minnesota Department of Education	4,688,289	-	24,759
Due from Federal through Minnesota Department of Education	1,086,051	24,208	57,141
Other Receivables	115,522	-	16,249
Due from Other Funds	-	-	-
Prepaid Items	255,484	3,307	1,855
Inventory	52,444	-	-
Total Assets	<u>\$ 15,818,455</u>	<u>\$ 456,763</u>	<u>\$ 519,342</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Short-Term Borrowing	\$ -	\$ -	\$ -
Salaries and Wages Payable	1,687,040	356	75,829
Payroll Deductions and Employer Contributions Payable	2,004,677	-	-
Accounts and Contracts Payable	592,501	29,994	28,656
Due to Other Governmental Units	128,713	-	21,000
Due to Other Funds	-	-	-
Accrued Interest Payable	-	-	-
Deferred Revenue:			
Property Taxes Levied for Subsequent Year	1,729,983	-	191,752
Delinquent Property Taxes	42,744	-	4,440
Local Sources	113,357	27,856	13,290
Total Liabilities	<u>6,299,015</u>	<u>58,206</u>	<u>334,967</u>
Fund Balance			
Nonspendable			
Prepays Items	255,484	3,307	1,855
Inventory	52,444	-	-
Restricted for			
Staff Development	29,648	-	-
Health and Safety	(367,482)	-	-
Operating Capital	488,207	-	-
Community Education Programs	-	-	144,642
Early Childhood and Family Education Programs	-	-	(1,091)
School Readiness	-	-	15,696
Adult Basic Education	-	-	25,255
Bond Refundings	-	-	-
Other Purposes	-	395,250	-
Committed	1,951,000	-	-
Assigned			
Fitness Center	4,638	-	-
Unassigned	7,105,501	-	(1,982)
Total Fund Balance	<u>9,519,440</u>	<u>398,557</u>	<u>184,375</u>
Total Liabilities and Fund Balance	<u>\$ 15,818,455</u>	<u>\$ 456,763</u>	<u>\$ 519,342</u>

See accompanying Notes to Basic Financial Statements.

Funds		Total Governmental	
Capital Projects	Debt Service	Funds	
		2013	2012
\$ 229,217	\$ 3,677,057	\$ 12,100,943	\$ 12,039,305
-	-	-	5,525,205
-	2,456,514	4,261,541	4,174,033
-	62,359	109,543	132,809
-	-	422,371	320,680
-	7,483	4,720,531	12,125,774
-	-	1,167,400	943,082
-	-	131,771	103,925
-	-	-	21,123
-	-	260,646	143,654
-	-	52,444	72,464
<u>\$ 229,217</u>	<u>\$ 6,203,413</u>	<u>\$ 23,227,190</u>	<u>\$ 35,602,054</u>
\$ -	\$ -	\$ -	\$ 4,513,526
-	-	1,763,225	1,799,553
-	-	2,004,677	1,784,920
152,041	-	803,192	1,529,025
-	-	149,713	124,581
-	-	-	21,123
-	-	-	7,995
-	5,229,822	7,151,557	6,892,134
-	62,359	109,543	132,809
-	-	154,503	152,075
<u>152,041</u>	<u>5,292,181</u>	<u>12,136,410</u>	<u>16,957,741</u>
-	-	260,646	143,654
-	-	52,444	72,464
-	-	29,648	33,794
-	-	(367,482)	(259,686)
-	-	488,207	256,147
-	-	144,642	98,712
-	-	(1,091)	(5,427)
-	-	15,696	45,126
-	-	25,255	131,867
-	-	-	5,525,205
77,176	911,232	1,383,658	3,955,841
-	-	1,951,000	2,500,000
-	-	4,638	406,302
-	-	7,103,519	5,740,314
<u>77,176</u>	<u>911,232</u>	<u>11,090,780</u>	<u>18,644,313</u>
<u>\$ 229,217</u>	<u>\$ 6,203,413</u>	<u>\$ 23,227,190</u>	<u>\$ 35,602,054</u>

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**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2013
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2012)**

	<u>2013</u>	<u>2012</u>
Total Fund Balance for Governmental Funds	\$ 11,090,780	\$ 18,644,313
Total net position reported for governmental activities in the statement of net position is different because:		
Capital assets used in governmental funds are not financial resources and therefore are not reported in the funds. Those assets consist of:		
Land	1,835,754	1,835,754
Construction in Progress	2,851,413	2,177,623
Land Improvements, Net of Accumulated Depreciation	3,073,830	2,524,996
Buildings and Improvements, Net of Accumulated Depreciation	49,265,394	49,528,813
Equipment, Net of Accumulated Depreciation	1,129,433	1,094,809
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.	109,543	132,809
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.	(258,926)	(307,651)
Bond issuance costs are reported as expenditures in the governmental funds.	116,039	168,596
Long-term liabilities that pertain to governmental funds, including bonds payable, are not due and payable in the current period and therefore are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net position. Balances at year-end are:		
Bonds Payable	(26,570,000)	(36,080,000)
Unamortized Premiums and Discounts	(88,176)	(182,828)
Unamortized Deferred Loss on Refunding	11,389	-
Unamortized Deferred Gain on Refunding	(16,155)	-
Compensated Absences Payable	(965,991)	(1,162,572)
Other Postemployment Benefits Payable	(625,199)	(460,097)
Total Net Position of Governmental Activities	<u>\$ 40,959,128</u>	<u>\$ 37,914,565</u>

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2013
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2012)**

	Major		
	General	Food Service	Community Service
REVENUES			
Local Sources			
Property Taxes	\$ 3,561,426	\$ -	\$ 366,867
Earnings on Investments	4,215	273	77
Other	2,326,648	610,482	943,942
State Sources	34,022,546	110,465	375,276
Federal Sources	1,927,440	1,333,932	184,127
Total Revenues	<u>41,842,275</u>	<u>2,055,152</u>	<u>1,870,289</u>
EXPENDITURES			
Current			
Administration	1,664,963	-	-
District Support Services	1,598,592	-	-
Regular Instruction	17,252,625	-	-
Vocational Education Instruction	310,404	-	-
Special Education Instruction	9,261,757	-	-
Instructional Support Services	2,202,278	-	-
Pupil Support Services	3,614,203	-	-
Sites and Buildings	3,815,825	-	-
Fiscal and Other Fixed Cost Programs	125,298	-	-
Food Service	-	2,102,300	-
Community Service	-	-	1,938,344
Capital Outlay	1,372,277	31,798	14,542
Debt Service			
Principal	-	-	-
Interest and Fiscal Charges	-	-	-
Total Expenditures	<u>41,218,222</u>	<u>2,134,098</u>	<u>1,952,886</u>
Excess (Deficiency) of Revenues			
Over (Under) Expenditures	624,053	(78,946)	(82,597)
OTHER FINANCING SOURCES			
Proceeds from the Sale of Equipment	-	-	-
Insurance Recovery Proceeds	2,387	-	-
Judgments for Districts	-	-	-
Issuance of Bonds	-	-	-
Payment to Refunded Bond Escrow Agent	-	-	-
Total Other Financing Sources	<u>2,387</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	626,440	(78,946)	(82,597)
Fund Balances - Beginning	<u>8,893,000</u>	<u>477,503</u>	<u>266,972</u>
Fund Balances - Ending	<u>\$ 9,519,440</u>	<u>\$ 398,557</u>	<u>\$ 184,375</u>

See accompanying Notes to Basic Financial Statements

Funds			
Capital Projects - Building Construction	Debt Service	Total Governmental Funds	
		2013	2012
\$ -	\$ 5,033,603	\$ 8,961,896	\$ 8,589,506
14,529	5,206	24,300	11,390
-	-	3,881,072	3,523,847
-	54,441	34,562,728	33,916,253
-	-	3,445,499	4,387,299
14,529	5,093,250	50,875,495	50,428,295
-	-	1,664,963	1,687,632
-	-	1,598,592	1,433,114
-	-	17,252,625	17,689,413
-	-	310,404	187,650
-	-	9,261,757	8,458,014
-	-	2,202,278	2,284,296
-	-	3,614,203	3,607,955
-	-	3,815,825	3,621,166
-	-	125,298	96,105
-	-	2,102,300	2,062,022
-	-	1,938,344	1,719,968
2,514,804	-	3,933,421	2,834,012
-	4,000,000	4,000,000	3,730,000
-	1,101,405	1,101,405	1,350,407
2,514,804	5,101,405	52,921,415	50,761,754
(2,500,275)	(8,155)	(2,045,920)	(333,459)
-	-	-	460
-	-	2,387	44,152
-	-	-	89,037
-	-	-	5,500,000
-	(5,510,000)	(5,510,000)	-
-	(5,510,000)	(5,507,613)	5,633,649
(2,500,275)	(5,518,155)	(7,553,533)	5,300,190
2,577,451	6,429,387	18,644,313	13,344,123
\$ 77,176	\$ 911,232	\$ 11,090,780	\$ 18,644,313

**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, 2013
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2012)**

	2013	2012
Net Change in Fund Balance-Total Governmental Funds	\$ (7,553,533)	\$ 5,300,190
Amounts reported for governmental activities in the statement of activities are different because:		
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. Also, governmental funds report proceeds from sales of capital assets while, in the statement of activities, only the gain or loss is included.</p>		
Capital Outlays	3,062,894	4,048,117
Gain on Disposal of Capital Assets	-	460
Proceeds from Sales of Capital Assets	-	(460)
Depreciation Expense	(2,069,065)	(1,916,023)
<p>The governmental funds report bond proceeds as financing sources, while repayment of bond principal is reported as an expenditure. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability. Also, governmental funds report the effect of issuance costs and premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of general obligation bonds and related items is as follows:</p>		
General Obligation Bond Proceeds	-	(5,500,000)
Payment to Refunded Bond Escrow Agent	5,510,000	-
Bond Issuance Costs	-	71,448
Deferred Loss on Refunding	13,097	-
Deferred Gain on Refunding	(19,138)	-
Repayment of Bond Principal	4,000,000	3,730,000
Change in Accrued Interest Expense - General Obligation Bonds	48,725	16,677
Amortization of Bond Issuance Costs	(52,557)	(18,035)
Amortization of Deferred Loss on Refunding	(1,708)	-
Amortization of Deferred Gain on Refunding	2,983	-
Amortization of Bond Premium and Discount	94,652	65,258
Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.	(23,266)	(30,869)
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).	31,479	77,642
Change in Net Position of Governmental Activities	\$ 3,044,563	\$ 5,844,405

See accompanying Notes to Basic Financial Statements.

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

YEAR ENDED JUNE 30, 2013

(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2012)

	2013			2012	
	Budgeted Amounts		Actual Amounts	Over (Under) Final Budget	Actual Amounts
	Original	Final			
REVENUES					
Local Sources					
Property Taxes	\$ 3,617,522	\$ 3,371,621	\$ 3,561,426	\$ 189,805	\$ 3,583,440
Earnings on Investments	3,000	3,000	4,215	1,215	2,966
Other	1,377,474	1,811,286	2,326,648	515,362	2,064,403
State Sources	33,046,163	33,684,110	34,022,546	338,436	32,993,005
Federal Sources	2,148,425	2,021,409	1,927,440	(93,969)	2,787,180
Total Revenues	<u>40,192,584</u>	<u>40,891,426</u>	<u>41,842,275</u>	<u>950,849</u>	<u>41,430,994</u>
EXPENDITURES					
Current:					
Administration	1,620,512	1,663,545	1,664,963	1,418	1,687,632
District Support Services	1,577,479	1,645,402	1,598,592	(46,810)	1,433,114
Regular Instruction	18,832,351	18,210,978	17,252,625	(958,353)	17,689,413
Vocational Education Instruction	183,927	178,470	310,404	131,934	187,650
Special Education Instruction	8,309,586	9,383,493	9,261,757	(121,736)	8,458,014
Instructional Support Services	2,314,517	2,352,904	2,202,278	(150,626)	2,284,296
Pupil Support Services	3,583,268	3,666,417	3,614,203	(52,214)	3,607,955
Sites and Buildings	3,700,962	3,851,905	3,815,825	(36,080)	3,621,166
Fiscal and Other Fixed Cost Programs	118,000	147,000	125,298	(21,702)	96,105
Capital Outlay	862,450	1,735,664	1,372,277	(363,387)	1,133,837
Total Expenditures	<u>41,103,052</u>	<u>42,835,778</u>	<u>41,218,222</u>	<u>(1,617,556)</u>	<u>40,199,182</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(910,468)	(1,944,352)	624,053	2,568,405	1,231,812
OTHER FINANCING SOURCES					
Proceeds from the Sale of Equipment	-	-	-	-	460
Insurance Recovery Proceeds	-	-	2,387	2,387	44,152
Judgments for Districts	-	-	-	-	89,037
Total Other Financing Sources	<u>-</u>	<u>-</u>	<u>2,387</u>	<u>2,387</u>	<u>133,649</u>
Net Change in Fund Balances	<u>\$ (910,468)</u>	<u>\$ (1,944,352)</u>	<u>626,440</u>	<u>\$ 2,570,792</u>	<u>1,365,461</u>
FUND BALANCE					
Beginning of Year			<u>8,893,000</u>		<u>7,527,539</u>
End of Year			<u>\$ 9,519,440</u>		<u>\$ 8,893,000</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, 2013**

(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2012)

	2013			Over (Under) Final Budget	2012
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
REVENUES					
Local Sources					
Earnings on Investments	\$ 500	\$ 500	\$ 273	\$ (227)	\$ 352
Other - Primarily Meal Sales	681,300	681,300	610,482	(70,818)	677,151
State Sources	116,000	116,000	110,465	(5,535)	118,564
Federal Sources	1,250,000	1,250,000	1,333,932	83,932	1,334,950
Total Revenues	<u>2,047,800</u>	<u>2,047,800</u>	<u>2,055,152</u>	<u>7,352</u>	<u>2,131,017</u>
EXPENDITURES					
Current					
Food Service	2,025,763	2,035,700	2,102,300	66,600	2,062,022
Capital Outlay	<u>20,000</u>	<u>20,000</u>	<u>31,798</u>	<u>11,798</u>	<u>21,629</u>
Total Expenditures	<u>2,045,763</u>	<u>2,055,700</u>	<u>2,134,098</u>	<u>78,398</u>	<u>2,083,651</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ 2,037</u>	<u>\$ (7,900)</u>	(78,946)	<u>\$ (71,046)</u>	47,366
FUND BALANCE					
Beginning of Year			<u>477,503</u>		<u>430,137</u>
End of Year			<u>\$ 398,557</u>		<u>\$ 477,503</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, 2013**

(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2012)

	2013			Over (Under) Final Budget	2012
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
REVENUES					
Local Sources					
Property Taxes	\$ 367,778	\$ 367,778	\$ 366,867	\$ (911)	\$ 332,826
Earnings on Investments	200	200	77	(123)	115
Other - Primarily Tuition and Fees	455,287	941,687	943,942	2,255	782,293
State Sources	654,381	401,638	375,276	(26,362)	404,583
Federal Sources	225,561	260,466	184,127	(76,339)	265,169
Total Revenues	<u>1,703,207</u>	<u>1,971,769</u>	<u>1,870,289</u>	<u>(101,480)</u>	<u>1,784,986</u>
EXPENDITURES					
Current					
Community Service	1,714,394	2,112,521	1,938,344	(174,177)	1,719,968
Capital Outlay	6,000	19,640	14,542	(5,098)	8,055
Total Expenditures	<u>1,720,394</u>	<u>2,132,161</u>	<u>1,952,886</u>	<u>(179,275)</u>	<u>1,728,023</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ (17,187)</u>	<u>\$ (160,392)</u>	(82,597)	<u>\$ 77,795</u>	56,963
FUND BALANCE					
Beginning of Year			<u>266,972</u>		<u>210,009</u>
End of Year			<u>\$ 184,375</u>		<u>\$ 266,972</u>

See accompanying Notes to Basic Financial Statements.

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2013**

	<u>Private- Purpose Trust</u>
ASSETS	
Cash and Investments	\$ 6,500
Total Assets	<u>6,500</u>
LIABILITIES	
Accounts and Contracts Payable	<u>500</u>
Total Liabilities	<u>500</u>
NET POSITION	
Held in Trust	<u><u>\$ 6,000</u></u>

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED JUNE 30, 2013**

	<u>Private- Purpose Trust</u>
ADDITIONS	
Gifts and Donations	\$ 4,000
Total Additions	<u>4,000</u>
DEDUCTIONS	
Scholarships Awarded	<u>1,000</u>
Total Deductions	<u>1,000</u>
Change in Net Position	3,000
Net Position - Beginning of Year	<u>3,000</u>
Net Position - End of Year	<u><u>\$ 6,000</u></u>

See accompanying Notes to Basic Financial Statements.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

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

B. Financial Reporting Entity

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

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

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

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

C. Basic Financial Statement Presentation

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

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basic Financial Statement Presentation (Continued)

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

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

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

Fiduciary funds are presented in the fiduciary fund financial statements by type: private purpose trust fund. Since by definition, fiduciary fund assets are being held for the benefit of a third party and cannot be used for activities or obligations or 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, 2013**

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, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

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

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

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

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

Fiduciary Funds

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

E. Budgeting

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

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

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

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Budgeting (Continued)

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

F. Cash and Investments

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

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

G. Cash and Investments Held by Trustee

Cash and investments held by trustee consist of U.S. Treasuries and cash held by an escrow agent. The U.S. Treasuries were held in the debt service fund for the purpose of refunding the General Obligation Alternative Facilities Bonds of 2003A and 2005A, that matured on December 1, 2012 and February 1, 2013.

H. Receivables

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

I. Inventories

Inventories are recorded using the consumption method of accounting and consist of supplies on hand at June 30, 2013. 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, 2013.

J. Prepaid Items

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

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Property Taxes

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

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

In accordance with State law, the current tax shift consists of an amount equal to 31% of the District's 2000 Pay 2001 operating referendum levy (frozen at \$329,972) for the District. Starting in fiscal year 2011, the shift was expanded to include all other general and community service fund levies. State aids are then reduced by this expanded shift amount, making this portion of the tax shift revenue neutral to school districts. Certain other portions of the District's 2012 pay 2013 levy, normally revenue for the 2013-14 fiscal year, are also advance recognized at June 30, 2013, as required by state statute to match revenue with the same fiscal year as the related expenditures.

Taxes that remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is deferred because it is not known to be available to finance the operations of the District in the current year. No allowance for uncollectible taxes has been provided as such amounts are not expected to be material. Current levies of local taxes, less the amount recognized as revenue in the current period, including portions assumed by the State which will be recognized as revenue in the next fiscal year beginning July 1, 2013, are included in Property Taxes Levied for Subsequent Year to indicate that, while they are current assets, they will not be recognized as revenue until the following year.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Capital Assets

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

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

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

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

M. Long-Term Liabilities

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

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

N. Accrued Employee Benefits

Compensated Absences Payable

The District compensates substantially all full-time classified employees for vacation benefits at various rates based on length of service. The expenditure for vacation pay is recognized when payment is made. At June 30, 2013, unpaid vacation pay totaling \$116,811 is recorded in the financial statements.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Accrued Employee Benefits (Continued)

Compensated Absences Payable (Continued)

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

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

The District has recorded a liability for accrued convertible sick leave based on the sick leave accumulated at June 30, 2013 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 2013, total expenditures for early retirement incentive payments and convertible sick leave were \$757,271. At June 30, 2013, a liability for early retirement incentive payments and convertible sick leave totaling \$849,180 is recorded on the Statement of Net Position.

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.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Deferred Revenues

Deferred revenues are those in which resources are received by the District before it has a legal claim to them. The District received excess Tax Increment Financing in previous years. The State of Minnesota has the right to adjust future funding to account for this excess revenue. This excess revenue is recorded in deferred revenue in the General Fund. In addition, the District has recorded deferred revenue in the General Fund for student deposits. The District has reported deferred revenues for 2012-2013 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 enrichment deposits.

P. Fund Balance

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

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

The District has a minimum fund balance policy, which identifies a minimum unassigned fund balance in the General Fund of 9.5% of the annual expenditure budget.

Q. Risk Management

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

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

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. Risk Management (Continued)

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

R. Net Position

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

S. Summarized Comparative Information

The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the government's financial statements for the year ended June 30, 2012, from which the summarized information was derived. Certain comparative information has been reclassified to conform with the current year presentation.

NOTE 2 STEWARDSHIP AND ACCOUNTABILITY

Expenditures exceeded budgeted amounts in the following fund:

	Budget	Expenditures	Excess
Food Service Fund	\$ 2,055,700	\$ 2,134,098	\$ 78,398

NOTE 3 CASH AND INVESTMENTS

A. Deposits

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

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

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

A. Deposits (Continued)

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, 2013 were not entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota statutes. Combined insurance and collateral at the District's banks were \$103,587 less than required by state statutes, representing 92% coverage as compared to the 110% coverage requirement described above.

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

B. Investments

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

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

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

At June 30, 2013, the District had the following investments:

	At Amortized Cost
Minnesota School District Liquid Asset Fund Plus (MDSLAF+)	\$ 283,153
Minnesota School District LAF MAX Series (MSDMAX)	10,588,054
	\$ 10,871,207

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.

Credit Risk

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

C. Balance Sheet Presentation

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

Cash and Investments - Statement of Net Position	\$ 12,100,943
Cash and Investments - Statement of Fiduciary Net Position	6,500
Total Cash and Investments	\$ 12,107,443

Total cash and investments at June 30, 2013 consisted of the following:

Deposits	\$ 1,233,591
Cash on Hand	2,645
Minnesota School District Liquid Asset Fund Max Series (MSDMAX)	10,588,054
Minnesota School District Liquid Asset Fund Plus (MDSLAF+)	283,153
	\$ 12,107,443

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 4 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013 was as follows:

	Beginning Balance	Increases	Transfers and Decreases	Ending Balance
Governmental Activities				
Capital Assets, Not Being Depreciated				
Land	\$ 1,835,754	\$ -	\$ -	\$ 1,835,754
Construction in Progress	2,177,623	2,846,416	(2,172,626)	2,851,413
Total Capital Assets, Not Being Depreciated	4,013,377	2,846,416	(2,172,626)	4,687,167
Capital Assets, Being Depreciated				
Land Improvements	4,156,068	724,802	-	4,880,870
Buildings and Improvements	73,841,569	1,447,823	-	75,289,392
Equipment	4,387,485	216,479	(25,916)	4,578,048
Total Capital Assets, Being Depreciated	82,385,122	2,389,104	(25,916)	84,748,310
Accumulated Depreciation for				
Land Improvements	(1,631,072)	(175,968)	-	(1,807,040)
Buildings and Improvements	(24,312,756)	(1,711,242)	-	(26,023,998)
Equipment	(3,292,676)	(181,855)	25,916	(3,448,615)
Total Accumulated Depreciation	(29,236,504)	(2,069,065)	25,916	(31,279,653)
Total Capital Assets, Being Depreciated, Net	53,148,618	320,039	-	53,468,657
Governmental Activities Capital Assets, Net	<u>\$ 57,161,995</u>	<u>\$ 3,166,455</u>	<u>\$ (2,172,626)</u>	<u>\$ 58,155,824</u>

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

Governmental Activities	
Administration	\$ 400
District Support Services	5,758
Regular Instruction	1,978,082
Vocational Education Instruction	4,962
Special Education Instruction	2,466
Pupil Support Services	2,200
Sites and Buildings	35,377
Food Service	39,687
Community Service	133
Total Depreciation Expense, Governmental Activities	<u>\$ 2,069,065</u>

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 5 LONG-TERM LIABILITIES

A. Components of Long-Term Liabilities

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

Issue Date	Net Interest Rate	Original Issue	Final Maturity	Principal Outstanding	
				Due Within One Year	Total
12/1/2003	2.50% - 4.00%	\$ 2,605,000	12/1/2013	\$ 325,000	\$ 325,000
3/5/2008	3.25% - 3.50%	18,965,000	6/1/2015	2,890,000	5,910,000
4/15/2009	3.00% - 4.125%	15,000,000	2/1/2024	100,000	14,835,000
6/19/2012	0.40% - 1.40%	5,500,000	12/1/2019	960,000	5,500,000
Total General Obligation Bonds				4,275,000	26,570,000
Bond Premium - Net				62,377	115,649
Bond Discounts - Net				(2,546)	(27,473)
Deferred Loss on Refunding				1,708	(11,389)
Deferred Gain on Refunding				(2,983)	16,155
Other Postemployment Benefits Payable				-	625,199
Compensated Absences Payable				113,977	965,991
				<u>\$ 4,447,533</u>	<u>\$ 28,254,132</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
2014	\$ 4,275,000	\$ 830,924
2015	4,065,000	715,618
2016	2,295,000	602,076
2017	2,335,000	549,936
2018	2,385,000	495,651
2019 - 2023	9,130,000	1,562,331
2024	2,085,000	86,006
	<u>\$ 26,570,000</u>	<u>\$ 4,842,542</u>

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 5 LONG-TERM LIABILITIES (CONTINUED)

C. Description of Long-Term Liabilities

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

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

On June 19, 2012, the District issued \$5,500,000 of General Obligation Refunding Bonds, Series 2012B to refund the General Obligation School Building Refunding Bonds, Series 2003A and 2005A, which were scheduled to mature in 2013 through 2020, respectively.

Compensated Absences Payable

At June 30, 2013, 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.

D. Changes in Long-Term Liabilities

	June 30, 2012	Additions	Retirements	June 30, 2013
Bonds Payable	\$ 36,080,000	\$ -	\$ 9,510,000	\$ 26,570,000
Bond Premium	212,847	-	97,198	115,649
Bond Discounts	(30,019)	-	(2,546)	(27,473)
Deferred Loss on Refunding	-	(13,097)	(1,708)	(11,389)
Deferred Gain on Refunding	-	19,138	2,983	16,155
Other Postemployment Benefits Payable	460,097	873,372	708,270	625,199
Compensated Absences Payable	1,162,572	761,516	958,097	965,991
	<u>\$ 37,885,497</u>	<u>\$ 1,640,929</u>	<u>\$ 11,272,294</u>	<u>\$ 28,254,132</u>

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 6 SHORT-TERM DEBT

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

	<u>2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>2013</u>
2012 Aid Anticipation Certificate	\$ 4,500,000	\$ -	\$ 4,500,000	\$ -
Plus: Unamortized Premium	13,526	-	13,526	-
	<u>\$ 4,513,526</u>	<u>\$ -</u>	<u>\$ 4,513,526</u>	<u>\$ -</u>

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

NOTE 7 RESTRICTED AND COMMITTED FUND BALANCES

Fund Equity

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

A. Restricted for Staff Development

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

B. Restricted for Health and Safety

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

C. Restricted for Operating Capital

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

D. Restricted for Community Education Programs

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

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 7 RESTRICTED AND COMMITTED FUND BALANCES (CONTINUED)

E. Restricted for Early Childhood and Family Education Programs

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

F. Restricted for School Readiness

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

G. Restricted for Adult Basic Education

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

H. Restricted for Bond Refunding

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

I. Restricted for Other Purposes

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

J. Committed for Separation/Retirement Benefits

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

NOTE 8 PENSION PLANS

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

A. Teachers Retirement Association (TRA)

1. Plan Description

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

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 8 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 6.0% and 9.50%, respectively, of their annual covered salary while the District is required to contribute at an actuarially determined rate.

The District is required to contribute the following percentages of annual covered payroll: 6.5% for Coordinated Plan members and 10.0% for Basic plan members. The contribution requirements of plan members and the District are established and may be amended by State Statute. The District contributions for the years ended June 30, 2013, 2012, and 2011 were \$1,200,805, \$1,077,555, and \$965,049, 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 General Employees' Retirement Fund (GERF) which is a cost-sharing, multiple-employer retirement plan. This plan is established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan. PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by State Statute, and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF. That report may be obtained by writing to PERA, 60 Empire Drive #200, St. Paul, MN 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

**FARIBAUT PUBLIC SCHOOLS
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NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 8 PENSION PLANS (CONTINUED)

B. Public Employees' Retirement Association (PERA) (Continued)

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. GERS Basic Plan members and Coordinated Plan members are required to contribute 9.10% and 6.25%, respectively, of their annual covered salary in 2013.

The District is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan GERS members, 7.25% for Coordinated Plan GERS members. The contribution requirements of plan members and the District are established by and may be amended by State Statute. The District's contributions for the years ending June 30, 2013, 2012 and 2011 were \$419,156, \$409,055, and \$392,403, 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, 2013, 2012, and 2011 are \$262,146, \$216,975, and \$197,933, respectively. The related employee contributions were \$523,567, \$509,183, and \$524,957, for the years ended June 30, 2013, 2012, and 2011, respectively.

NOTE 9 OTHER POSTEMPLOYMENT BENEFIT PLAN

A. Plan Description

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

B. Funding Policy

Contribution requirements are also negotiated between the District and union representatives. The District contributes up to \$400 per month of the cost of current-year premiums for eligible retired plan members and their spouses. For fiscal year 2013, the District contributed \$708,270 to the plan.

**FARIBAULT PUBLIC SCHOOLS
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NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 9 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

C. Annual OPEB Cost and Net OPEB Obligation

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

Annual Required Contribution	\$ 880,919
Interest on Net OPEB Obligation	20,705
Adjustment to Annual Required Contribution	(28,252)
Annual OPEB Cost (Expense)	873,372
Contributions Made	(708,270)
Increase in Net OPEB Obligation	165,102
Net OPEB Obligation - Beginning of Year	460,097
Net OPEB Obligation - End of Year	\$ 625,199

The District's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB obligation for 2013, 2012 and 2011:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2013	\$ 873,372	81.1%	\$ 625,199
6/30/2012	876,226	80.7%	460,097
6/30/2011	797,420	93.1%	290,777

D. Funded Status and Funding Progress

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

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

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 9 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

E. Actuarial Methods and Assumptions

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

In the July 1, 2011 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.5% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date. The initial healthcare trend rate was 8.0%, reduced by decrements to an ultimate rate of 5% after six years. The UAAL is being amortized as a level dollar amount on a closed basis. The remaining amortization period at June 30, 2013 doesn't exceed 30 years.

NOTE 10 FLEXIBLE BENEFIT PLAN

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

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.

**FARIBAUT PUBLIC SCHOOLS
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NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 11 LEASE COMMITMENTS

A. As Lessee

The District has entered into various operating leases for vehicles, office equipment and buildings. Rent expense under annual operating leases for the year ending June 30, 2013 was \$775,254.

Minimum rental commitments on leases in effect at June 30, 2013 are as follows:

Year Ending June 30,	Annual Lease Payments
2013	\$ 693,092
2014	698,015
2015	676,009
2016	6,108
2017	4,072
Total	\$ 2,077,296

B. As Lessor

The District entered into an agreement with Nerstrand Elementary School to lease a 17,700 square foot building located at 205 South Second Street, Nerstrand, Minnesota. The lease is renewed on an annual basis. The District received \$157,500 of rent for this building during the year ended June 30, 2013, as per the terms of the lease agreement. In addition to the lease of the building, the District also has in place agreements with Nerstrand Elementary School to provide Food Service and custodial service.

NOTE 12 COMMITMENTS AND CONTINGENCIES

A. Federal and State Programs

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

B. Construction Commitments

As of June 30, 2013 the District had entered into various construction contracts for school building projects. Total remaining commitments under these contracts were \$168,042 at June 30, 2013.

**FARIBAULT PUBLIC SCHOOLS
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JUNE 30, 2013**

NOTE 13 JOINT POWERS AGREEMENTS

Wind Energy

The District and 13 other school districts in Minnesota have entered into a Joint Powers Agreement to form the Minnesota Schools Wind Energy Cooperative (the Cooperative). The purpose of the Cooperative is to acquire, develop, construct, finance, operate, and maintain a wind energy project to be located in Minnesota. The Cooperative is governed by a Joint Powers Board, which consists of two members (a Board of Education member, and the superintendent or another district employee) from each of the participating 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, 2013.

NOTE 14 JOINTLY GOVERNED ORGANIZATION

The District is a member of the Rice County Family Services Collaborative (Collaborative). The Collaborative was established to provide comprehensive services to strengthen family functioning. As a result, the Collaborative members share certain costs related to social workers and split related time study revenues. The District received \$25,000 to reimburse it for certain salaries and benefits expenditures that the District may not otherwise have incurred.

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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, 2013**

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

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SINGLE AUDIT AND OTHER REQUIRED REPORTS

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**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2013**

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 <u>\$ 28,324</u>
Total Non-Cash Assistance			\$ 28,324
Cash Assistance:			
School Breakfast Program	a	10.553	1-656-000 359,740
National School Lunch Program - Commodities Rebate	a	10.555	1-656-000 21,516
National School Lunch Program	a	10.555	1-656-000 880,183
After School Snack	a	10.555	1-656-000 22,138
Summer Food	a	10.559	1-656-000 <u>22,032</u>
Total Cash Assistance			<u>1,305,609</u>
Total US Department of Agriculture			<u>1,333,933</u>
US. Department of Education			
Pass-Through Minnesota Department of Education			
Cash Assistance:			
Title I, Part A - Grants to Local Education Agencies		84.010	** 599,926
Special Education - Grants to States	b	84.027	** 1,088,174
Special Education - Preschool Incentive	b	84.173	** 17,929
Special Education - Preschool Incentive - Personal Dev.	b	84.173	** 900
Special Education - Grants for Infants and Families with Disabilities		84.181	** 11,719
Title IV, Part B - 21st Century Community Learning Centers		84.287	** 175,841
Title III - English Language Acquisition Grants		84.365A	** 71,198
Title II, Part A - Improving Teacher Quality		84.367	** 126,334
Total Pass-Through Minnesota Department of Education			2,092,021
Pass-Through Southern MN ABE Consortium			
Adult Basic Education		84.002	** <u>8,286</u>
Total Pass-Through Southern MN ABE Consortium			8,286
Pass-Through Region 10			
Special Education - Discretionary Low Incidence	b	84.027	** <u>2,996</u>
Total Region 10			2,996
Pass-Through South Central Cooperative			
Carl Perkins		84.048A	<u>8,264</u>
Total Pass-Through South Central Cooperative			<u>8,264</u>
Total US Department of Education - Cash Assistance			<u>2,111,567</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE EXPENDED			<u><u>\$ 3,445,500</u></u>

- a Child Nutrition Cluster
b Special Education Cluster
** Not Available

See accompanying Notes to Schedule of Expenditures of Federal Awards.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2013**

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.



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 656, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Independent School District No. 656's basic financial statements, and have issued our report thereon dated November 8, 2013.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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



CliftonLarsonAllen LLP

Austin, Minnesota
November 8, 2013



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

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

Report on Compliance for Each Major Federal Program

We have audited Independent School District No. 656's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Independent School District No. 656's major federal programs for the year ended June 30, 2013. Independent School District No. 656's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Independent School District No. 656's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Independent School District No. 656's compliance.

Opinion on Each Major Federal Program

In our opinion, Independent School District No. 656 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2013-001 and 2013-002. Our opinion on each major federal program is not modified with respect to this matter.

Independent School District No. 656's responses to the noncompliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. Independent School District No. 656's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

Management of Independent School District No. 656's is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Independent School District No. 656's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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.

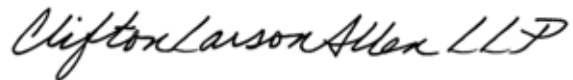
Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items 2013-001 through 2013-003 to be material weaknesses.

Independent School District No. 656's responses to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. Independent School District No. 656's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Board of Education
Independent School District No. 656

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the result of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Austin, Minnesota
November 8, 2013

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INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 656, as of June 30, 2013, and the related notes to the financial statements and have issued our report thereon dated November 8, 2013.

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

In connection with our audit, nothing came to our attention that caused us to believe that Independent School District No. 656 failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, except as described in the Schedule of Findings and Questioned Costs as items 2013-004. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding Independent School District No. 656's noncompliance with the above-referenced provisions.

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

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



CliftonLarsonAllen LLP
Austin, Minnesota
November 8, 2013

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**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2013**

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. No deficiencies in internal control were disclosed during the audit of the financial statements
3. No instances of noncompliance material to the basic financial statements of Independent School District No. 656 were disclosed during the audit.
4. Three deficiencies in internal control over compliance were disclosed during the audit of the major federal award programs. The deficiencies are considered to be material weaknesses. These are listed as Findings 2013-001 through 2013-003.
5. The auditors' report on compliance for the major federal award programs for Independent School District No. 656 expresses an unqualified opinion.
6. The audit disclosed two findings, which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section 510(a).
7. The programs tested as major programs included:

U.S. Department of Education

Special Education Cluster:

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

Title I, Part A – Grants to Local Education Agencies	CFDA #84.010
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U.S. Department of Agriculture:

Child Nutrition Cluster

School Breakfast Program	CFDA #10.553
National School Lunch Program	CFDA #10.555
Summer Program for Children	CFDA #10.559
After School Snack Program	CFDA #10.555

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Independent School District No. 656 was not determined to be a low-risk auditee.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2013**

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

None

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

FINDING: 2013-001 SPECIAL EDUCATION CLUSTER – CFDA # 84.027 AND 84.173, ALL GRANT YEARS, PASS THROUGH MINNESOTA DEPARTMENT OF EDUCATION - INAPPROPRIATE TIME AND EFFORT DISTRIBUTION RECORD COMPLETION

Condition: For two Special Education employees the required Time Certifications were not completed in a timely manner as required by OMB Circular A-87.

Criteria: OMB Circular A-87, Attachment B, paragraph 8.h.(4) requires that employees who are expected to work solely on a single Federal award or cost objective, complete semi-annual time certifications. In addition the annual time certifications need to be completed in a timely manner.

Questioned Costs: None

Context: Two out of eleven payroll expenditures tested.

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

Cause: Not known.

Recommendation: We recommend employees coded fully to a single federal cost objective should complete the appropriate time certifications.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The District will immediately implement the recommendation.

Official Responsible for Ensuring CAP:

Colleen Mertesdorf, Director of Finance and Operations, and Cheryl Hall, Special Services, are the officials responsible for ensuring corrective action of the deficiency.

Planned Completion Date for CAP:

December 31, 2013.

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, 2013**

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

FINDING: 2013-002 TITLE I, PART A, CLUSTER - CFDA # 84.010, ALL GRANT YEARS, PASS THROUGH MINNESOTA DEPARTMENT OF EDUCATION – PERIOD OF AVAILABILITY

- Condition:** For one disbursement the District requested funding in fiscal year 2013 based on an actual expense that occurred in fiscal year 2012, with no available carry-over funds.
- Criteria:** OMB Circular A-133 states that all LEA's must obligate funds during the 27 months, extending from July 1 of the fiscal year for which the funds were appropriated through September 30 of the second following fiscal year.
- Questioned Costs:** \$100.15
- Context:** One out of the forty expenditures tested.
- Effect:** The potential exits that the District would have to pay back reimbursed costs incurred outside of the grant period of availability.
- Cause:** Not known.
- Recommendation:** We recommend that the District implement a review process to ensure that expenditures are funded in the appropriate grant period of availability.

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 Cardenuto, Director of Teaching & Learning, is the official responsible for ensuring corrective action of the deficiency.

Planned Completion Date for CAP:

December 31, 2013.

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, 2013**

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

**FINDING: 2013-003 CHILD NUTRITION CLUSTER – CFDA #10.555, 10.553, 10.556 AND 10.559
AND PASS THROUGH MINNESOTA DEPARTMENT OF EDUCATION**

**REVIEW OF CLICS REPORT SUBMISSIONS
INTERNAL CONTROL OVER REPORTING**

Condition: CLICS reports for food service are prepared and submitted by the same individual. The reports are not reviewed by another responsible official.

Criteria: Internal controls require that reports be reviewed and approved by an individual independent of the report preparation.

Questioned Costs: None

Context: The District was not aware of the internal control requirement associated with the federal program.

Effect: The potential exists that inaccurate data is reported and not detected and corrected by the District's internal controls.

Cause: The District's controls are not adequate to make sure all reports are reviewed by another responsible official.

Recommendation: We recommend that an individual other than the person preparing the reports should review the reports before they are submitted.

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, are the officials responsible for ensuring corrective action of the deficiency.

Planned Completion Date for CAP:

Immediately

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, 2013**

PART IV: FINDINGS AND QUESTIONED COSTS – MINNESOTA LEGAL COMPLIANCE

FINDING: 2013-004 MINNESOTA LEGAL COMPLIANCE – UNCOLLATERALIZED DEPOSITS

Condition: Minnesota State Statute 118A.003 requires the District to have deposits in excess of FDIC or FSLIC insurance protected by a bond or collateral of which market value should be at least ten percent more than the excess deposits. The District did not have adequate collateral for its deposits as of June 30, 2013.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Finding:

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The District obtained the necessary collateral and will monitor collateral levels in the future.

Official Responsible for Corrective Action:

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

Planned Completion Date for CAP:

Planned completion date is immediately.

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
 SUMMARY SCHEDULE OF PRIOR FEDERAL AUDIT FINDINGS
 YEAR ENDED JUNE 30, 2013**

Comment Reference	Comment Title	Status	If not Corrected, Provide Planned Corrective Action or Other Explanation
2012-3	Improper Time Reporting Documentation	Not Corrected	See current year Finding 2013-001
2012-4	Improperly Including a Student on the December 1 st Child Count Report	Corrected	

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS
COMPLIANCE TABLE
JUNE 30, 2013**

	Audit	UFARS	Audit - UFARS		Audit	UFARS	Audit - UFARS
01 GENERAL FUND				06 BUILDING CONSTRUCTION			
Total Revenue	\$ 41,844,662	\$ 41,844,647	\$ 15	Total Revenue	\$ 14,529	\$ 14,528	\$ 1
Total Expenditures	\$ 41,218,222	\$ 41,218,211	\$ 11	Total Expenditures	\$ 2,514,804	\$ 2,514,804	\$ -
<i>Nonspendable:</i>				<i>Nonspendable:</i>			
460 Nonspendable	\$ 307,928	\$ 307,928	\$ -	460 Nonspendable	\$ -	\$ -	\$ -
<i>Restricted:</i>				<i>Restricted:</i>			
403 Staff Development	\$ 29,648	\$ 29,648	\$ -	407 Capital Projects Levy	\$ -	\$ -	\$ -
405 Deferred Maintenance	\$ -	\$ -	\$ -	409 Alternative Facility Program	\$ -	\$ -	\$ -
406 Health & Safety	\$ (367,482)	\$ (367,482)	\$ -	413 Project Funded by COP	\$ -	\$ -	\$ -
407 Capital Project Levy	\$ -	\$ -	\$ -	419 Encumbrances	\$ -	\$ -	\$ -
408 Cooperative Programs	\$ -	\$ -	\$ -	464 Other Purposes	\$ 77,176	\$ 77,176	\$ -
409 Deferred Maintenance	\$ -	\$ -	\$ -	<i>Unreserved:</i>			
411 Severance	\$ -	\$ -	\$ -	463 Unassigned	\$ -	\$ -	\$ -
414 Operating Debt	\$ -	\$ -	\$ -	07 DEBT SERVICE			
416 Levy Reduction	\$ -	\$ -	\$ -	Total Revenue	\$ 5,093,250	\$ 5,093,249	\$ 1
423 Certain Teacher Programs	\$ -	\$ -	\$ -	Total Expenditures	\$ 5,101,405	\$ 5,101,405	\$ -
424 Operating Capital	\$ 488,207	\$ 488,207	\$ -	<i>Restricted:</i>			
426 \$25 Taconite	\$ -	\$ -	\$ -	425 Bond Refundings	\$ -	\$ -	\$ -
427 Disabled Accessibility	\$ -	\$ -	\$ -	451 QZAB Payments	\$ -	\$ -	\$ -
428 Learning & Development	\$ -	\$ -	\$ -	464 Other Purposes	\$ 911,232	\$ 911,232	\$ -
434 Area Learning Center	\$ -	\$ -	\$ -	<i>Unassigned:</i>			
435 Contracted Alt. Programs	\$ -	\$ -	\$ -	463 Unassigned	\$ -	\$ -	\$ -
436 State Approved Alt. Program	\$ -	\$ -	\$ -	08 TRUST			
438 Gifted & Talented	\$ -	\$ -	\$ -	Total Revenue	\$ 4,000	\$ 4,000	\$ -
441 Basic Skills Programs	\$ -	\$ -	\$ -	Total Expenditures	\$ 1,000	\$ 1,000	\$ -
446 First Grade Preparedness	\$ -	\$ -	\$ -	<i>Unassigned:</i>			
449 Safe Schools Levy	\$ -	\$ -	\$ -	422 Unassigned	\$ 6,000	\$ 6,000	\$ -
450 Prekindergarten	\$ -	\$ -	\$ -	09 AGENCY			
451 QZAB Payments	\$ -	\$ -	\$ -	<i>Unreserved: Should Always Be -0-</i>			
452 OPEB Liab Not In Trust	\$ -	\$ -	\$ -	422 Unassigned	\$ -	\$ -	\$ -
453 Unfunded Sev & Retirement Levy	\$ -	\$ -	\$ -	20 INTERNAL SERVICE			
464 Other Purposes	\$ -	\$ -	\$ -	Total Revenue	\$ -	\$ -	\$ -
<i>Committed:</i>				Total Expenditures	\$ -	\$ -	\$ -
418 Severance - Ins. Premium	\$ 1,951,000	\$ 1,951,000	\$ -	<i>Unassigned:</i>			
461 Committed	\$ -	\$ -	\$ -	422 Unassigned	\$ -	\$ -	\$ -
<i>Assigned:</i>				25 OPEB REVOCABLE TRUST			
462 Assigned	\$ 4,638	\$ 4,638	\$ -	Total Revenue	\$ -	\$ -	\$ -
<i>Unassigned:</i>				Total Expenditures	\$ -	\$ -	\$ -
422 Unassigned	\$ 7,105,501	\$ 7,105,499	\$ 2	<i>Unassigned:</i>			
02 FOOD SERVICE				422 Unassigned	\$ -	\$ -	\$ -
Total Revenue	\$ 2,055,152	\$ 2,055,150	\$ 2	45 OPEB IRREVOCABLE TRUST			
Total Expenditures	\$ 2,134,098	\$ 2,134,094	\$ 4	Total Revenue	\$ -	\$ -	\$ -
<i>Nonspendable:</i>				Total Expenditures	\$ -	\$ -	\$ -
460 Nonspendable	\$ 3,307	\$ 3,307	\$ -	<i>Unassigned:</i>			
<i>Restricted:</i>				422 Unassigned	\$ -	\$ -	\$ -
452 OPEB Liab Not In Trust	\$ -	\$ -	\$ -	47 OPEB DEBT SERVICE			
464 Other Purposes	\$ 395,250	\$ 395,250	\$ -	Total Revenue	\$ -	\$ -	\$ -
<i>Unassigned:</i>				Total Expenditures	\$ -	\$ -	\$ -
463 Unassigned	\$ -	\$ -	\$ -	<i>Restricted:</i>			
04 COMMUNITY SERVICE				464 Other Purposes	\$ -	\$ -	\$ -
Total Revenue	\$ 1,870,289	\$ 1,870,281	\$ 8	<i>Unassigned:</i>			
Total Expenditures	\$ 1,952,886	\$ 1,952,881	\$ 5	463 Unassigned	\$ -	\$ -	\$ -
<i>Nonspendable:</i>				47 OPEB DEBT SERVICE			
460 Nonspendable	\$ 1,855	\$ 1,855	\$ -	Total Revenue	\$ -	\$ -	\$ -
<i>Restricted:</i>				Total Expenditures	\$ -	\$ -	\$ -
426 \$25 Taconite	\$ -	\$ -	\$ -	<i>Restricted:</i>			
431 Community Education	\$ 144,642	\$ 144,642	\$ -	464 Other Purposes	\$ -	\$ -	\$ -
432 E.C.F.E.	\$ (1,091)	\$ (1,091)	\$ -	<i>Unassigned:</i>			
444 School Readiness	\$ 15,696	\$ 15,696	\$ -	463 Unassigned	\$ -	\$ -	\$ -
447 Adult Basic Education	\$ 25,255	\$ 25,255	\$ -	47 OPEB DEBT SERVICE			
452 OPEB Liab Not In Trust	\$ -	\$ -	\$ -	Total Revenue	\$ -	\$ -	\$ -
464 Other Purposes	\$ -	\$ -	\$ -	Total Expenditures	\$ -	\$ -	\$ -
<i>Unassigned:</i>				<i>Restricted:</i>			
463 Unassigned	\$ (1,982)	\$ (1,984)	\$ 2	464 Other Purposes	\$ -	\$ -	\$ -

