

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

**FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2006**

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INDEPENDENT SCHOOL DISTRICT NO. 656  
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## INTRODUCTORY SECTION

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**FARIBAULT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
BOARD OF EDUCATION AND ADMINISTRATION  
FISCAL YEAR 2005 – 2006**

**BOARD OF EDUCATION**

	Term on Board Expires December 31,	Position on Board During 2005-2006
Willis Schoeb	2006	Chair
Sue Nelson	2008	Vice-Chair
David Korbel	2006	Clerk
Otto Luknic	2008	Treasurer
Lisa Burkhartzmeyer	2006	Director
Kathleen LaRoche	2006	Director
Richard Olson	2008	Director

**ADMINISTRATION**

Dr. Gwen Jackson	Superintendent
Dr. Kathy Burke	Executive Director of Operational Support Services
Dr. Cheryl Freund	Executive Director of Educational Support Services
Todd Netzke **	Interim Business Manager

\*\* Contract expired October 2006. Subsequently replaced by Tom Walerius.



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## FINANCIAL SECTION

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities and each major fund of Independent School District No. 656 as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of the governmental activities and each major fund of Independent School District No. 656 at June 30, 2006 and the respective changes in financial position thereof, and the budgetary comparison for the General Fund, Food Service Fund, and Community Service Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 30, 2006, on our consideration of Independent School District No. 656's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 4 through 18 is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However we did not audit the information and express no opinion on it.

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

*Larson, Allen, Weishair & Co., LLP*  
**LARSON, ALLEN, WEISHAIR & CO., LLP**

Austin, Minnesota  
October 30, 2006

**REQUIRED SUPPLEMENTARY INFORMATION**

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**FARIBAULT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
MANAGEMENT DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2006**

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, 2006. Please read it in conjunction with the District's financial statements, which immediately follow this letter.

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

**FINANCIAL HIGHLIGHTS**

Key financial highlights for the 2005-06 fiscal year include the following:

- Student enrollment was about 75 students below what was budgeted; thereby reducing general fund revenue expectations by about \$450,000. A negative revenue adjustment was made for the State Academy for the Deaf and the State Academy for the Blind in Faribault in the amount of nearly \$122,852.
- The Alternative Learning Center (ALC) reserved fund balance was reduced from \$562,483 down to \$330,554, an intentional effort to reduce that reserve amount.
- Expenditures for a roof at the High School and for new tennis courts were incurred in 2005 – 2006 instead of 2006 – 2007 would have caused the Capital outlay reserve to drop below 0. A transfer from the general fund unreserved of \$211,201 was made to cover the deficit.
- Special Education tuition payables were not due to districts until October 15, 2006. Many of those invoices are still disputed and have not yet been resolved. The amounts payable total \$216,394 more than expected.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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

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



**FARIBAULT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
MANAGEMENT DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2006**

**OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. Figure A-1, shown below, depicts how the various parts of this annual report are arranged and related to one another.

**Figure A-1  
Organization of ISD No. 656 Annual Financial Report**

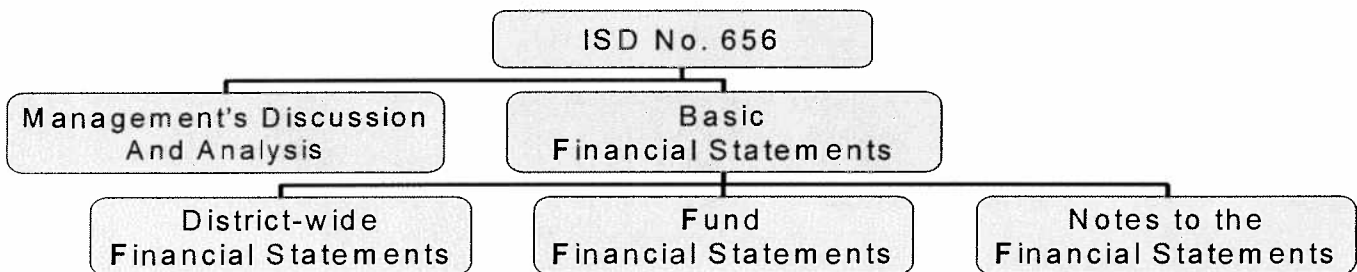


Figure A-2, shown below, summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the management's discussion and analysis highlights the structure and contents of each of the statements.

**Figure A-2  
Government-wide and Fund Financial Statement Comparisons**

	<b>District-wide Statements</b>	<b>Fund Financial Statements Governmental</b>
<b>Scope</b>	Entire district	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance
<b>Required financial statements</b>	Statement of Net Assets Statement of Activities	Balance Sheet, Statement of Revenues, Expenditures, and Changes in Fund Balances
<b>Accounting Basis and measurement focus</b>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus
<b>Type of asset/liability information</b>	All assets and liabilities, both financial and capital, short-term and long-term	Assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included
<b>Type of inflow/outflow information</b>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable

**FARIBAULT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
MANAGEMENT DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2006**

**OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

**Government-wide Statements**

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

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

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

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

**Fund Financial Statements**

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

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

**FARIBAULT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
MANAGEMENT DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2006**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

**Fund Financial Statements (Continued)**

**Net assets.** The District's combined net assets were \$14.5 million on June 30, 2006. This represents a decrease of 4.54 percent or \$687,000 from the prior year. (See Figure A-3 below.) The District's decreased financial position is the product of many factors. The Food Service Fund net assets decreased due to spending down the fund balance by \$136,558. The Community Service Fund net assets increased by \$80,750. In the General Fund, the Board budgeted an excess of expenditures over revenues. The Building Construction Fund saw a planned decrease in net assets as expenditures continued to be made related to the construction project revenue that was received in 2004.

**Figure A-3  
Independent School District No. 656  
Net Assets – Governmental Activities  
As of June 30, 2006 and 2005**

	<u>Governmental Activities</u>		<u>Percentage Change</u>
	<u>2006</u>	<u>2005</u>	
Current and Other Assets	\$ 16,996,061	\$ 21,353,738	-20.41%
Capital and Non-Current Assets	51,032,077	47,854,530	6.64%
<b>Total Assets</b>	<b>68,028,138</b>	<b>69,208,268</b>	<b>-1.71%</b>
Current Liabilities	16,126,099	13,982,188	15.33%
Long Term Liabilities	37,391,603	40,087,965	-6.73%
<b>Total Liabilities</b>	<b>53,517,702</b>	<b>54,070,153</b>	<b>-1.02%</b>
Net Assets			
Invested in Capital Assets			
Net of Related Debt	13,916,559	11,016,271	26.33%
Restricted	2,175,841	3,170,845	-31.38%
Unrestricted	(1,581,964)	950,999	-266.35%
<b>Total Net Assets</b>	<b>\$ 14,510,436</b>	<b>\$ 15,138,115</b>	<b>-4.15%</b>

**Changes in net assets.** The District's total revenues were \$42.32 million and total expenses were \$42.95 million for the year ended June 30, 2006. (See Figure A-4 on the next page.) Unallocated state and federal aid and local property taxes accounted for 61 percent of the total revenue for the year. Operating and capital grants and contributions for specific programs contributed 32 percent and the remainder from fees charged for services and other sources. (See Figure A-5 on the following page.) Student education and educational support accounted for 73 percent of the District's expenses. The District's administrative activities accounted for 4 percent of total costs. (See Figure A-6 on the following page.) Total expenditures surpassed revenues, decreasing net assets by \$628,000.

**FARIBAUT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
MANAGEMENT DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2006**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)**

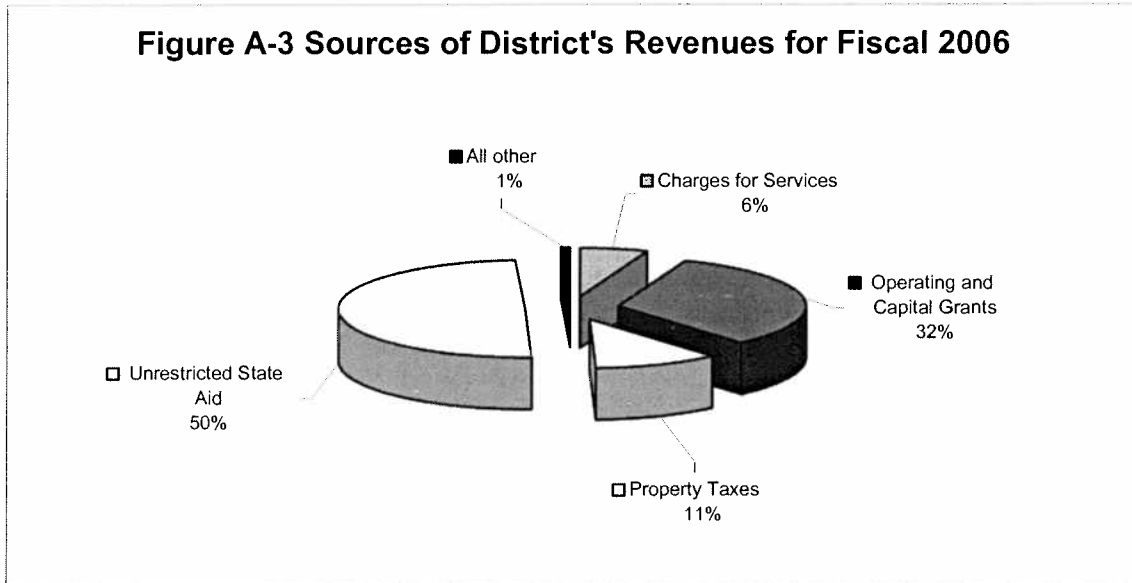
**Figure A-4  
Independent School District No. 656  
Change in Net Assets  
For the Years Ended June 30, 2006 and 2005**

	<b>Governmental Activities for the</b>		<b>Total % Change</b>
	<b>fiscal year ended June 30,</b>		
	<b>2006</b>	<b>2005</b>	
<b>Revenues</b>			
<u>Program Revenues</u>			
Charges for Services	\$ 2,483,960	\$ 2,927,706	-15.16%
Operating Grants and Contributions	13,099,806	12,606,344	3.91%
Capital Grants and Contributions	748,193	761,748	-1.78%
<u>General Revenues</u>			
Property Taxes	4,584,054	4,574,763	0.20%
Unrestricted State Aid	21,021,719	20,588,079	2.11%
Investment Earnings	361,969	-	N/A
Other	25,077	312,078	-91.96%
<b>Total Revenues</b>	<b>42,324,778</b>	<b>41,770,718</b>	<b>1.33%</b>
<b>Expenses</b>			
Administration	1,625,738	1,545,097	5.22%
District Support Services	1,296,480	1,470,362	-11.83%
Regular Instruction	17,478,157	16,472,207	6.11%
Vocational Education Instruction	272,590	254,764	7.00%
Special Education Instruction	7,633,907	7,543,620	1.20%
Instructional Support Services	1,950,232	1,803,417	8.14%
Pupil Support Services	2,717,657	2,818,845	-3.59%
Sites and Buildings	3,670,605	4,640,034	-20.89%
Fiscal and Other Fixed Cost Programs	150,143	195,083	-23.04%
Food Service	2,028,547	1,729,540	17.29%
Community Service	2,434,493	2,254,329	7.99%
Interest and Fiscal Charges on Long-Term Liabilities	1,693,908	1,666,258	1.66%
<b>Total Expenses</b>	<b>42,952,457</b>	<b>42,393,556</b>	<b>1.32%</b>
<b>Decrease in Net Assets</b>	<b>(627,679)</b>	<b>(622,838)</b>	<b>0.78%</b>
Beginning Net Assets	15,138,115	15,760,953	-3.95%
Ending Net Assets	<b>\$ 14,510,436</b>	<b>\$ 15,138,115</b>	<b>-4.15%</b>

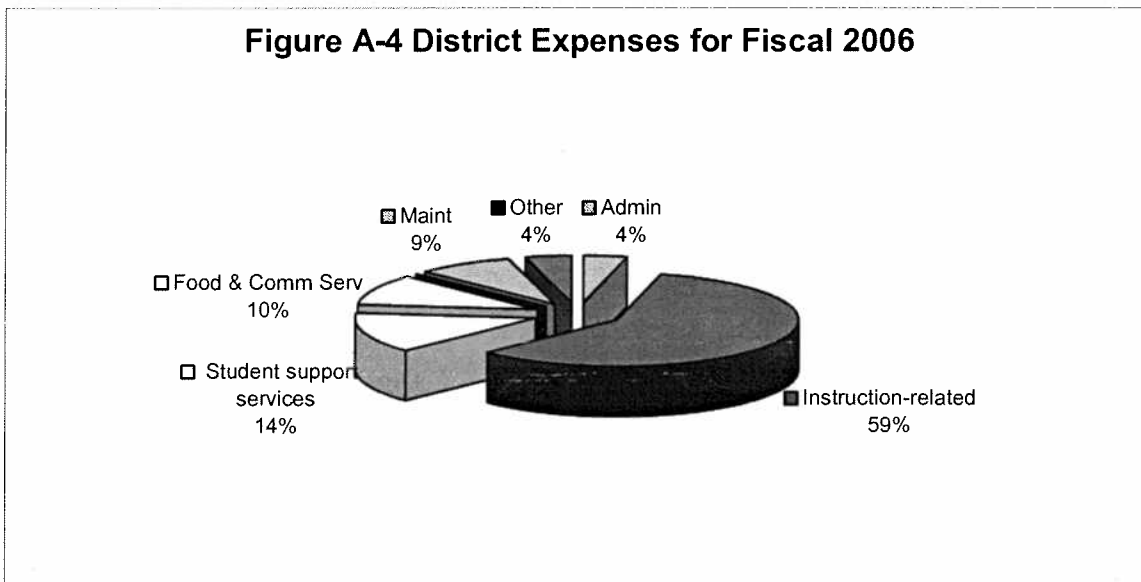
**FARIBAUT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
MANAGEMENT DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2006**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)**

**Figure A-5  
Independent School District No. 656  
Sources of Revenues  
For Fiscal Year 2006**



**Figure A-6  
Independent School District No. 656  
Expenditures  
For Fiscal Year 2006**



**FARIBAULT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
MANAGEMENT DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2006**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)**

**Governmental Activities**

Figure A-7, 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 \$42.95 million. The net cost of all governmental activities this year was \$26.62 million.
- The net cost of governmental activities was impacted by several items. Funds were needed to hire interim employees for positions during the year. There was also a general increase in special education tuition receivables and payables, special education federal spending, and expenditures in the building construction fund.
- The users of the District's programs financed \$2.5 million of the cost of activities.
- The federal and state governments, along with local donations, subsidized certain programs with grants and contributions of \$13.8 million.
- District property taxpayers financed \$4.6 million of governmental activities and state taxpayers financed \$21.0 million of unrestricted state aid based on the statewide education aid formula.

**Figure A-7  
Independent School District No. 656  
Net Cost of Governmental Activities  
For the Years Ended June 30, 2006 and 2005**

	<u>Total Cost of Services</u>		<u>Percentage Change</u>	<u>Net Cost of Services</u>		<u>Percentage Change</u>
	<u>2006</u>	<u>2005</u>		<u>2006</u>	<u>2005</u>	
Administration	\$ 1,625,738	\$ 1,545,097	5.22%	\$ 1,625,738	\$ 1,290,188	26.01%
District Support Services	1,296,480	1,470,362	-11.83%	1,206,842	1,349,936	-10.60%
Regular Instruction	17,478,157	16,472,207	6.11%	12,430,557	12,239,813	1.56%
Vocational Education Instruction	272,590	254,764	7.00%	272,590	236,951	15.04%
Special Education Instruction	7,633,907	7,543,620	1.20%	2,075,905	1,173,098	76.96%
Instructional Support Services	1,950,232	1,803,417	8.14%	1,414,818	1,246,945	13.46%
Pupil Support Services	2,717,657	2,818,845	-3.59%	2,442,602	2,561,641	-4.65%
Sites and Buildings	3,670,605	4,640,034	-20.89%	2,914,620	3,958,776	-26.38%
Fiscal and Other Fixed Cost Programs	150,143	195,083	-23.04%	150,143	195,083	-23.04%
Food Service	2,028,547	1,729,540	17.29%	137,337	(140,793)	-197.55%
Community Service	2,434,493	2,254,329	7.99%	255,438	319,862	-20.14%
Interest and Fiscal Charges on Long-Term Liabilities	1,693,908	1,666,258	1.66%	1,693,908	1,666,258	1.66%
<b>Total</b>	<b>\$ 42,952,457</b>	<b>\$ 42,393,556</b>	<b>1.32%</b>	<b>\$ 26,620,498</b>	<b>\$ 26,097,758</b>	<b>2.00%</b>

**FARIBAULT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
MANAGEMENT DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2006**

**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, Capital Projects – Building Construction Fund, and Food Service Fund expenditures exceeded revenues, thereby decreasing the fund balance in these funds.

The General Fund decreased due to several reasons. First, the District budgeted more expenditures than revenue for the year ending June 30, 2006. This was done to bring the unreserved fund balance closer to the 5 to 8 percent Board policy. Second, General Fund unreserved balance was reduced to offset additional costs in capital outlay due to construction costs at the high school that were paid in June 2006 rather than in July 2006. Finally, expenditures increased due to an increase in salaries and benefits in all areas and an increase in special education expenditures.

The Capital Projects – Building Construction Fund decreased because revenue for most of the bonds for the construction projects was received in 2004, but expenditures for these projects continued through 2006. The fund balance was lowered by \$2,864,379 to \$159,475. The Debt Service Fund had little change in fund balance.

The Food Service Fund intentionally reduced its fund balance by \$136,558 to \$489,475, or about 25% of normal expenditures. The Community Service Fund had more revenue than expenditures to increase its fund balance by \$80,750 to \$317,358.

At the end of the 2005-06 fiscal year, the District's governmental funds reported combined reserved and unreserved fund balances of \$4,218,033. This is a 60% decrease over the prior year. The decrease is mostly due to a reduction in expected revenue in the General Fund, to additional spending done in the General Fund unreserved fund balance, and the second year projects accounted for in the Capital Projects – Building Construction Fund.

Revenues and other financing sources for the District's governmental funds were \$42,559,792, while total expenditures were \$48,796,645. As a result, the District completed the year with an excess of expenditures over revenues of \$6,236,853.

**General Fund**

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

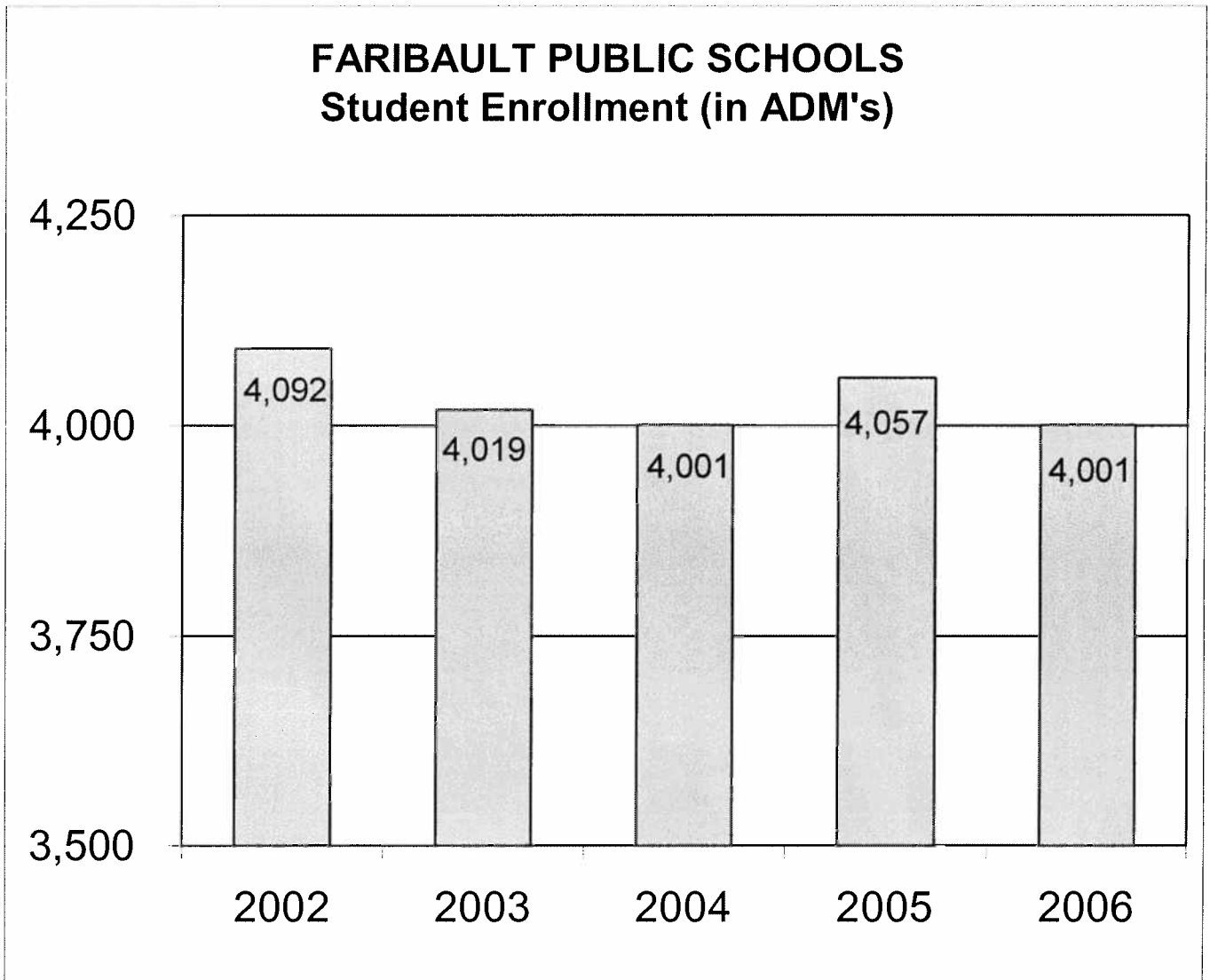
**FARIBAULT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
MANAGEMENT DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2006**

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (CONTINUED)**

**Enrollment**

Funding for Minnesota school districts is largely driven by enrollment. The majority of Minnesota school districts are facing declining enrollment. As seen in Figure A-8 below, there was an enrollment decrease for the year of 1.4 percent from the prior year. An increase had been expected.

**Figure A-8  
Independent School District No. 656  
Student Average Daily Membership  
As of June 30, 2006**





**FARIBAULT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
MANAGEMENT DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2006**

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (CONTINUED)**

**General Fund**

A summary of General Fund revenues and expenditures is shown in Figure A-9 below.

**Figure A-9  
Independent School District No. 656  
Summary of General Fund Revenues and Expenditures  
For The Year Ended June 30, 2006 and 2005**

<u>Description</u>	<u>Year Ended</u>		<u>Change</u>	
	<u>June 30, 2006</u>	<u>June 30, 2005</u>	<u>Increase (Decrease)</u>	<u>Percent</u>
<b>Revenues:</b>				
Local Sources				
Property Taxes	\$ 629,954	\$ 650,646	\$ (20,692)	-3.2%
Earnings on Investments	279,666	123,258	156,408	126.9%
Other	1,776,534	2,133,038	(356,504)	-16.7%
State Sources	28,744,328	28,418,351	325,977	1.1%
Federal Sources	2,053,680	1,937,870	115,810	6.0%
Total General Fund Revenue	<u>\$ 33,484,162</u>	<u>\$ 33,263,163</u>	<u>\$ 220,999</u>	0.7%
<b>Expenditures:</b>				
Salaries	\$ 21,401,548	\$ 21,050,302	\$ 351,246	1.7%
Employee Benefits	6,208,455	5,903,099	305,356	5.2%
Purchased Services	5,032,111	5,090,674	(58,563)	-1.2%
Supplies and Materials	1,912,042	1,528,345	383,697	25.1%
Capital Expenditures	2,468,658	1,318,371	1,150,287	87.3%
Other Expenditures	36,959	31,792	5,167	16.3%
Total Expenditures	<u>\$ 37,059,773</u>	<u>\$ 34,922,583</u>	<u>\$ 2,137,190</u>	6.1%

**FARIBAULT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
MANAGEMENT DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2006**

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (CONTINUED)**

**Revenues**

Fiscal year 2006 saw a decrease in students of 56 students. Due to the 2005 legislative session, the formula allowance was at \$4,783 per adjusted marginal cost pupil unit for the 2005-06 year. Revenues and other financing sources totaled \$33,710,688 or an increase of \$439,265 over fiscal year 2005. The 1.3% revenue increase is due to the increase in the state aid formula. Other areas of revenue increase were increased federal special education spending, new federal 21<sup>st</sup> Century Grant, and interest revenue.

**Expenditures**

Expenditures totaled \$37,059,773 - an increase of \$2,137,190 over fiscal year 2005. The 6.1% expenditure increase is partially due to increased costs of employee salaries and benefits. Capital expenditures increased by \$1,150,287, or 87.3% largely due to the payment for expenditures at the high school for the roof and for the new tennis courts. There was also a 25.1% increase in expenditures for supplies and materials.

**Fund Balance**

The unreserved, undesignated fund balance is \$1,505,296 and the reserved fund balance for staff development, unemployment, severance, area learning center, basic skills, safe schools, gifted and talented, health and safety, and operating capital is \$802,070.

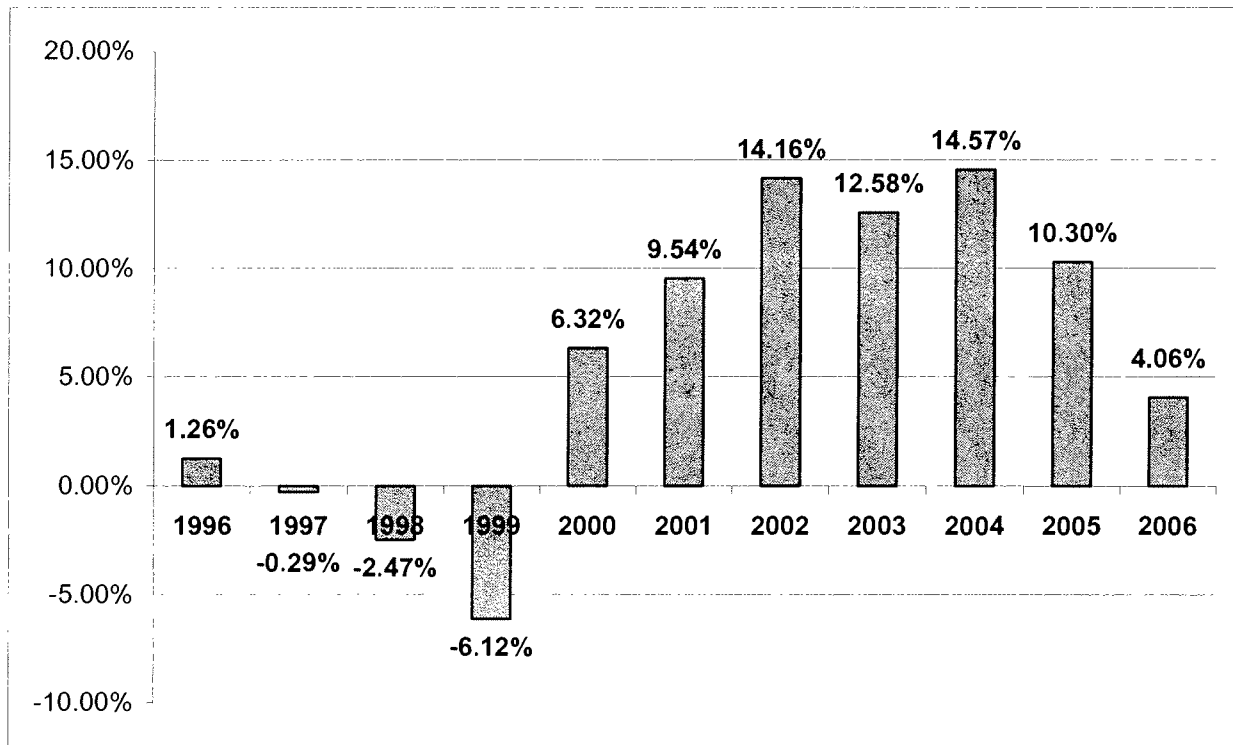
The graph in Figure A-10, on the next page, depicts the General Fund unreserved fund balance as a percentage of expenditures for fiscal years 1996–2006. The District's unreserved fund balance, offers the single best measure of the District's overall financial health. The unreserved fund balance on June 30, 2006 represents 4.06% of annual expenditures.

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

**FARIBAULT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
MANAGEMENT DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2006**

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (CONTINUED)**

**Figure A-10  
Independent School District No. 656  
General Fund Unreserved Fund Balance as a Percentage of Expenditures**



**BUDGETARY HIGHLIGHTS**

The District revised the annual operating budget from the preliminary budget approved in June 2005 to the final budget approved in December of 2005.

**General Fund**

The District's final budget for the general fund anticipated that expenditures would exceed revenues by \$2,134,449. The actual results for the year show expenditures exceeding revenues by \$3,349,085.

- Actual revenues were \$932,527 below budget, due primarily to fewer students than expected and changes in special education revenues.
- The actual expenditures were \$514,437 above budget, due primarily to the additional capital expenditures at the high school and to the additional costs of special education's accounts payable.

**Food Service Fund**

The Food Service Fund revenue for 2005-06 totaled \$1.89 million and expenditures were \$2.03 million. The June 30, 2006 fund balance is \$489,475, a decrease of \$136,558 from fiscal year 2005, a deliberate reduction. The District contracts with Sodexo for District food services.

**FARIBAUT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
MANAGEMENT DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2006**

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (CONTINUED)**

**Community Service Fund**

The Community Service Fund revenue for 2005-06 totaled \$2.50 million and expenditures were \$2.42 million. The June 30, 2006 fund balance is \$317,358, an increase of \$80,750 from fiscal year 2005. The increase in fund balance is primarily due to the addition of grants received by the District. This increased both the revenues and expenditures for 2005-06.

**Debt Service Fund**

The Debt Service Fund is used to record revenues and expenditures for a school district's outstanding bonded indebtedness, whether for building construction, operating capital, or for initial or refunding bonds. The Debt Service Fund revenue for 2005-06 totaled \$4.41 million and expenditures were \$4.38 million. The June 30, 2006, unreserved fund balance is \$944,359, an increase of \$32,419 from fiscal year 2005. The unreserved fund balance increase is due to several reasons. First, there was an increase in the local levy revenue received. However, this was partially offset by a decrease in interest revenue. The expenditure budget is based on the payment schedule of bond principal and interest on the general obligation bonds issued in 1998 and capital leases.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

By the end of 2006, the District had invested \$51,032,077 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-11 below.) Total depreciation expense for the year was \$1,499,160. More detailed information about capital assets can be found in Note 4 of the financial statements.

**Figure A-11  
Independent School District No. 656  
Capital Assets  
June 30, 2006 and 2005**

	<u>2006</u>	<u>2005</u>	<u>Percentage Change</u>
Land	\$ 1,490,446	\$ 1,490,446	0.0%
Construction in progress	449,917	933,559	-51.8%
Land Improvements	1,317,999	1,300,084	1.4%
Buildings and Improvements	63,758,640	59,158,385	7.8%
Equipment	3,860,554	3,516,113	9.8%
Less: Accumulated Depreciation	<u>(19,845,479)</u>	<u>(18,544,057)</u>	<u>7.0%</u>
<b>Total</b>	<b><u>\$ 51,032,077</u></b>	<b><u>\$ 47,854,530</u></b>	<b><u>6.6%</u></b>

**FARIBAULT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
MANAGEMENT DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2006**

**CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)**

**Long-Term Liabilities**

For the fiscal year ended June 30, 2006, the District had \$37.34 million in general obligation bonds outstanding and capital leases payable. This is a reduction of 6.5 percent from last year. (See Figure A-12 below.) The District also had \$3.35 million in separation and severance payable as of June 30, 2006. In fiscal year 2006, the District's total outstanding long-term liabilities decreased by 5.6 percent. More detailed information about the District's long-term liabilities is presented in Note 5 of the financial statements.

**Figure A-12  
Independent School District No. 656  
Outstanding Long-Term Liabilities  
June 30, 2006 and 2005**

	<u>2006</u>	<u>2005</u>	<u>Percentage Change</u>
General Obligation Bonds	\$ 37,040,000	\$ 39,710,000	-6.7%
Net Bond Premium and Discount	86,702	94,733	-8.5%
Obligations Under Capital Leases	216,256	131,421	64.6%
Severance Benefits Payable	3,256,901	3,110,437	4.7%
Compensated Absences Payable	94,660	84,833	11.6%
<b>Total</b>	<b><u>\$ 40,694,519</u></b>	<b><u>\$ 43,131,424</u></b>	<b><u>-5.6%</u></b>
Long-term liabilities:			
Due within one year	\$ 3,302,916	\$ 3,043,459	
Due in more than one year	37,391,603	40,087,965	
	<b><u>\$ 40,694,519</u></b>	<b><u>\$ 43,131,424</u></b>	

**FACTORS BEARING ON THE DISTRICT'S FUTURE**

With the exception of a voter-approved excess operating referendum, the District is dependent on the State of Minnesota for its revenue authority. Recent experience demonstrates that legislated revenue increases have not been sufficient to meet instructional needs and increased costs due to inflation.

The 2005 Legislature approved a 4% increase in the General Education formula for 2005-2006 and 2006-2007. The set aside for staff development of 2% was reinstated, effectively reducing the 4% formula increase to 2%. Other additional revenues include improved equity and compensatory revenue. This funding formula is below the current annual rate of inflation. Accordingly, the District will continue to seek all available sources of funding, balance revenue to expenditures, and maintain systems that ensure financial stability. If state funding remains below inflationary levels, we project growing General Fund budget deficits and a declining fund balance in subsequent years. The District can offset the projected decline in fund balance by reducing operating costs.

**FARIBAULT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
MANAGEMENT DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2006**

**Contacting the District's Financial Management**

This financial report is designed to provide the District's citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact the Business Office, ISD No. 656, P.O. Box 618, Faribault, MN 55021 or visit the District's website at [www.faribault.k12.mn.us](http://www.faribault.k12.mn.us).

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## **BASIC FINANCIAL STATEMENTS**



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**FARIBAULT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
STATEMENT OF NET ASSETS  
JUNE 30, 2006  
(WITH COMPARATIVE DATA AS OF JUNE 30, 2005)**

	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
<b>ASSETS</b>		
Cash and Investments	\$ 8,558,917	\$ 11,610,466
Receivables		
Property Taxes	3,985,682	2,873,021
Other Governments	4,098,615	6,570,522
Other	77,807	133,589
Prepaid Items	104,596	-
Inventories	102,479	92,099
Bond Issuance Costs, Net	67,965	74,041
Capital Assets		
Land and Construction in Progress	1,940,363	2,424,005
Other Capital Assets, Net of Depreciation	49,091,714	45,430,525
Total Assets	<u>68,028,138</u>	<u>69,208,268</u>
<b>LIABILITIES</b>		
Salaries and Wages Payable	3,560,987	3,464,175
Accounts and Contracts Payable	721,376	1,803,140
Accrued Interest	160,933	170,219
Due to Other Governmental Units	651,808	586,208
Property Tax Shift Adjustment	-	2,749
Contracts Payable	452,296	-
Deferred Revenue		
Property Taxes	7,071,713	4,740,476
Local Sources	204,070	171,762
Long-Term Liabilities		
Portion Due Within One Year	3,302,916	3,043,459
Portion Due in More Than One Year	37,391,603	40,087,965
Total Liabilities	<u>53,517,702</u>	<u>54,070,153</u>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	13,916,559	11,016,271
Restricted for:		
Operating Capital Purposes	-	403,569
State-Mandated Reserves	585,582	1,162,914
Food Service	489,475	626,033
Community Service	317,358	236,608
Debt Service	783,426	741,721
Unrestricted	(1,581,964)	950,999
Total Net Assets	<u>\$ 14,510,436</u>	<u>\$ 15,138,115</u>

See accompanying Notes to Basic Financial Statements.

**FARIBAUT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2006  
(WITH COMPARATIVE DATA FOR THE YEAR ENDED JUNE 30, 2005)**

	2006		
Functions	Expenses	Charges for Services	Program Operating Grants and Contributions
<b>Governmental Activities</b>			
Administration	\$ 1,625,738	\$ -	\$ -
District Support Services	1,296,480	-	-
Regular Instruction	17,478,157	372,984	4,589,154
Vocational Education Instruction	272,590	-	-
Special Education Instruction	7,633,907	607,791	4,916,812
Instructional Support Services	1,950,232	19,617	495,124
Pupil Support Services	2,717,657	1,650	273,405
Sites and Buildings	3,670,605	236,964	-
Fiscal and Other Fixed Cost Programs	150,143	-	-
Food Service	2,028,547	949,799	941,411
Community Service	2,434,493	295,155	1,883,900
Interest and Fiscal Charges on Long-Term Liabilities	1,693,908	-	-
Total School District	\$ 42,952,457	\$ 2,483,960	\$ 13,099,806

**General Revenues**

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

See accompanying Notes to Basic Financial Statements.

	2006	2005
Revenues	Net (Expense) Revenue and Changes in Net Assets	Net (Expense) Revenue and Changes in Net Assets
Capital Grants and Contributions	Total Governmental Activities	Total Governmental Activities
\$ -	\$ (1,625,738)	\$ (1,290,188)
89,638	(1,206,842)	(1,349,936)
85,462	(12,430,557)	(12,239,813)
-	(272,590)	(236,951)
33,399	(2,075,905)	(1,173,098)
20,673	(1,414,818)	(1,246,945)
-	(2,442,602)	(2,561,641)
519,021	(2,914,620)	(3,958,776)
-	(150,143)	(195,083)
-	(137,337)	140,793
-	(255,438)	(319,862)
-	(1,693,908)	(1,666,258)
<u>\$ 748,193</u>	<u>(26,620,498)</u>	<u>(26,097,758)</u>

626,575	647,207
143,859	320,153
3,813,620	3,607,403
21,021,719	20,588,079
361,969	272,386
25,077	39,692
<u>25,992,819</u>	<u>25,474,920</u>
(627,679)	(622,838)
<u>15,138,115</u>	<u>15,760,953</u>
<u>\$ 14,510,436</u>	<u>\$ 15,138,115</u>

**FARIBAUT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2006  
(WITH COMPARATIVE DATA AS OF JUNE 30, 2005)**

	Major		
	General	Food Service	Community Service
<b>ASSETS</b>			
Cash and Investments	\$ 4,250,710	\$ 597,593	\$ 562,681
Receivables			
Current Property Taxes	1,292,663	-	185,218
Delinquent Property Taxes	17,353	-	1,922
Due from Other Minnesota School Districts	555,225	-	7,171
Due from Minnesota Department of Education	2,197,688	-	66,519
Due from Federal through Minnesota Department of Education	1,040,723	8,118	97,550
Due from Other Governmental Units	70,264	-	-
Other Receivables	63,161	5,557	9,089
Prepaid Items	104,596	-	-
Inventory	61,598	40,881	-
Total Assets	<u>\$ 9,653,981</u>	<u>\$ 652,149</u>	<u>\$ 930,150</u>
<b>LIABILITIES AND FUND BALANCE</b>			
Liabilities			
Salaries and Wages Payable	\$ 2,720,616	\$ -	\$ 57,367
Payroll Deductions and Employer Contributions Payable	763,372	-	19,632
Accounts and Contracts Payable	491,000	134,810	44,686
Due to Other Governmental Units	638,469	-	13,339
Contracts Payable	452,296	-	-
Property Tax Shift Adjustment	-	-	-
Deferred Revenue:			
Property Taxes Levied for Subsequent Year	2,221,803	-	341,346
Delinquent Property Taxes	17,353	-	1,922
Local Sources	41,706	27,864	134,500
Total Liabilities	<u>7,346,615</u>	<u>162,674</u>	<u>612,792</u>
Fund Balance			
Reserved for			
Staff Development	11,535	-	-
Unemployment Compensation	-	-	-
Severance and Health Benefits	524,436	-	-
Area Learning Center	330,554	-	-
Gifted and Talented	18,621	-	-
Basic Skills Programs	173,364	-	-
Health and Safety	(307,948)	-	-
Operating Capital	-	-	-
Safe Schools	51,508	-	-
Community Education Programs	-	-	174,574
Early Childhood and Family Education Programs	-	-	25,264
School Readiness	-	-	(15,252)
Adult Basic Education	-	-	27,958
Building Construction	-	-	-
Unreserved			
Undesignated, Reported In			
General Fund	1,505,296	-	-
Debt Service Fund	-	-	-
Special Revenue Funds	-	489,475	104,814
Total Fund Balance	<u>2,307,366</u>	<u>489,475</u>	<u>317,358</u>
Total Liabilities and Fund Balance	<u>\$ 9,653,981</u>	<u>\$ 652,149</u>	<u>\$ 930,150</u>

See accompanying Notes to Basic Financial Statements.

Funds		Total Governmental	
Capital Projects	Debt Service	Funds	
		2006	2005
\$ 210,080	\$ 2,937,853	\$ 8,558,917	\$ 11,610,466
-	2,459,988	3,937,869	2,816,720
-	28,538	47,813	56,301
-	-	562,396	1,023,323
-	55,352	2,319,559	4,613,703
-	-	1,146,391	902,614
-	5	70,269	30,882
-	-	77,807	133,589
-	-	104,596	-
-	-	102,479	92,099
<u>\$ 210,080</u>	<u>\$ 5,481,736</u>	<u>\$ 16,928,096</u>	<u>\$ 21,279,697</u>
\$ -	\$ -	\$ 2,777,983	\$ 2,684,878
-	-	783,004	779,297
50,605	275	721,376	1,803,140
-	-	651,808	586,208
-	-	452,296	-
-	-	-	2,749
-	4,508,564	7,071,713	4,740,476
-	28,538	47,813	56,301
-	-	204,070	171,762
<u>50,605</u>	<u>4,537,377</u>	<u>12,710,063</u>	<u>10,824,811</u>
-	-	11,535	7,264
-	-	-	5,074
-	-	524,436	493,069
-	-	330,554	562,483
-	-	18,621	-
-	-	173,364	308,513
-	-	(307,948)	279,580
-	-	-	403,569
-	-	51,508	-
-	-	174,574	212,994
-	-	25,264	(4,429)
-	-	(15,252)	(4,120)
-	-	27,958	8,489
159,475	-	159,475	3,023,854
-	-	1,505,296	3,596,899
-	944,359	944,359	911,940
-	-	594,289	649,707
<u>159,475</u>	<u>944,359</u>	<u>4,218,033</u>	<u>10,454,886</u>
<u>\$ 210,080</u>	<u>\$ 5,481,736</u>	<u>\$ 16,928,096</u>	<u>\$ 21,279,697</u>

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**FARIBAUT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2006  
(WITH COMPARATIVE DATA AS OF JUNE 30, 2005)**

	<b>2006</b>	<b>2005</b>
<b>Total Fund Balance for Governmental Funds</b>	<b>\$ 4,218,033</b>	<b>\$ 10,454,886</b>
 Total net assets reported for governmental activities in the statement of net assets is different because:		
 Capital assets used in governmental funds are not financial resources and therefore are not reported in the funds. Those assets consist of:		
Land	1,490,446	1,490,446
Construction in Progress	449,917	933,559
Land Improvements, Net of Accumulated Depreciation	227,659	235,048
Buildings and Improvements, Net of Accumulated Depreciation	47,502,233	44,142,295
Equipment, Net of Accumulated Depreciation	1,361,822	1,053,182
 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.		
	47,813	56,301
 Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.		
	(160,933)	(170,219)
 Bond issuance costs are reported as expenditures in the governmental funds.		
	67,965	74,041
 Long-term liabilities that pertain to governmental funds, including bonds payable, are not due and payable in the current period and therefore are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net assets. Balances at year-end are:		
Bonds Payable	(37,040,000)	(39,710,000)
Unamortized Premiums	(86,702)	(94,733)
Obligations Under Capital Leases	(216,256)	(131,421)
Severance Benefits Payable	(3,256,901)	(3,110,437)
Compensated Absences Payable	(94,660)	(84,833)
<b>Total Net Assets of Governmental Activities</b>	<b>\$ 14,510,436</b>	<b>\$ 15,138,115</b>



**FARIBAUT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR JUNE 30, 2006  
(WITH COMPARATIVE DATA FOR THE YEAR ENDED JUNE 30, 2005)**

	Major		
	General	Food Service	Community Service
<b>REVENUES</b>			
Local Sources			
Property Taxes	\$ 629,954	\$ -	\$ 144,236
Earnings on Investments	279,666	-	-
Other	1,776,534	950,578	737,654
State Sources	28,744,328	120,899	845,983
Federal Sources	2,053,680	820,512	775,071
Total Revenues	<u>33,484,162</u>	<u>1,891,989</u>	<u>2,502,944</u>
<b>EXPENDITURES</b>			
Current			
Administration	1,590,461	-	-
District Support Services	1,032,235	-	-
Regular Instruction	16,085,232	-	-
Vocational Education Instruction	262,740	-	-
Special Education Instruction	7,579,656	-	-
Instructional Support Services	1,922,491	-	-
Pupil Support Services	2,831,596	-	-
Sites and Buildings	3,136,561	-	-
Fiscal and Other Fixed Cost Programs	150,143	-	-
Food Service	-	1,857,199	-
Community Service	-	-	2,412,039
Capital Outlay	2,468,658	171,348	10,155
Debt Service			
Principal	-	-	-
Interest and Fiscal Charges	-	-	-
Total Expenditures	<u>37,059,773</u>	<u>2,028,547</u>	<u>2,422,194</u>
Excess (Deficiency) of Revenues			
Over (Under) Expenditures	(3,575,611)	(136,558)	80,750
<b>OTHER FINANCING SOURCES (USES)</b>			
Capital Lease Proceeds	215,752	-	-
Sale of Equipment Proceeds	10,774	-	-
Sale of Bonds Proceeds	-	-	-
Transfers In	-	-	-
Transfers Out	-	-	-
Total Other Financing Sources (Uses)	<u>226,526</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	(3,349,085)	(136,558)	80,750
Fund Balances - Beginning	5,656,451	626,033	236,608
Fund Balances - Ending	<u>\$ 2,307,366</u>	<u>\$ 489,475</u>	<u>\$ 317,358</u>

See accompanying Notes to Basic Financial Statements

<b>Funds</b>		<b>Total Governmental</b>	
<b>Capital</b>		<b>Funds</b>	
<b>Projects -</b>			
<b>Building</b>	<b>Debt</b>		
<b>Construction</b>	<b>Service</b>	<b>2006</b>	<b>2005</b>
\$ -	\$ 3,818,352	\$ 4,592,542	\$ 4,586,940
46,603	35,700	361,969	272,386
-	-	3,464,766	3,646,581
-	553,516	30,264,726	29,795,372
-	-	3,649,263	3,481,616
<u>46,603</u>	<u>4,407,568</u>	<u>42,333,266</u>	<u>41,782,895</u>
-	-	1,590,461	1,597,741
-	-	1,032,235	1,112,173
-	-	16,085,232	15,354,029
-	-	262,740	245,081
-	-	7,579,656	7,519,919
-	-	1,922,491	1,799,794
-	-	2,831,596	2,808,283
-	-	3,136,561	3,809,893
-	-	150,143	195,083
-	-	1,857,199	1,671,230
-	-	2,412,039	2,238,045
2,910,982	-	5,561,143	5,592,144
-	2,670,000	2,670,000	2,655,000
-	1,705,149	1,705,149	1,729,851
<u>2,910,982</u>	<u>4,375,149</u>	<u>48,796,645</u>	<u>48,328,266</u>
(2,864,379)	32,419	(6,463,379)	(6,545,371)
-	-	215,752	8,260
-	-	10,774	-
-	-	-	2,375,000
-	-	-	9,084
-	-	-	(9,084)
-	-	<u>226,526</u>	<u>2,383,260</u>
(2,864,379)	32,419	(6,236,853)	(4,162,111)
<u>3,023,854</u>	<u>911,940</u>	<u>10,454,886</u>	<u>14,616,997</u>
<u>\$ 159,475</u>	<u>\$ 944,359</u>	<u>\$ 4,218,033</u>	<u>\$ 10,454,886</u>

**FARIBAUT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2006  
(WITH COMPARATIVE DATA FOR THE YEAR ENDED JUNE 30, 2005)**

	<b>2006</b>	<b>2005</b>
<b>Net Change in Fund Balance-Total Governmental Funds</b>	<b>\$ (6,236,853)</b>	<b>\$ (4,162,111)</b>

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$2,500 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital Outlays	4,738,871	4,168,985
Gain (Loss) on Disposal of Capital Assets	(51,390)	-
Proceeds from Sales of Capital Assets	(10,774)	-
Depreciation Expense	(1,499,160)	(1,388,420)

Some capital asset additions are financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net assets, the lease obligation is reported as a liability. Repayment of capital lease principal is an expenditure in the governmental funds, but repayment reduces the lease obligation in the statement of net assets.

Other Financing Source - Capital Lease	(215,752)	(8,260)
Principal Payments - Capital Leases	130,917	56,243

The governmental funds report bond proceeds as financing sources, while repayment of bond principal is reported as an expenditure. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability. Also, governmental funds report the effect of issuance costs and premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of general obligation bonds and related items is as follows:

General Obligation Bond Proceeds	-	(2,375,000)
Bond Issuance Costs	-	25,626
Repayment of Bond Principal	2,670,000	2,655,000
Change in Accrued Interest Expense - General Obligation Bonds	9,286	34,873
Amortization of Bond Issuance Costs	(6,076)	(4,938)
Amortization of Bond Premium	8,031	8,032

Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.	(8,488)	(12,177)
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In the statement of activities, certain operating expenses - severance benefits and compensated absences - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).

	(156,291)	379,309
<b>Change in Net Assets of Governmental Activities</b>	<b>\$ (627,679)</b>	<b>\$ (622,838)</b>

See accompanying Notes to Basic Financial Statements.

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

**YEAR ENDED JUNE 30, 2006**

**(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2005)**

	2006			2005	
	Budgeted Amounts		Actual Amounts	Over (Under)	Actual Amounts
	Original	Final		Final Budget	
<b>REVENUES</b>					
Local Sources					
Property Taxes	\$ 515,039	\$ 515,039	\$ 629,954	\$ 114,915	\$ 650,646
Earnings on Investments	92,378	92,378	279,666	187,288	123,258
Other	1,761,522	1,772,771	1,776,534	3,763	2,133,038
State Sources	29,656,253	29,620,414	28,744,328	(876,086)	28,418,351
Federal Sources	2,398,332	2,416,087	2,053,680	(362,407)	1,937,870
Total Revenues	<u>34,423,524</u>	<u>34,416,689</u>	<u>33,484,162</u>	<u>(932,527)</u>	<u>33,263,163</u>
<b>EXPENDITURES</b>					
Current:					
Administration	1,538,924	1,537,862	1,590,461	52,599	1,597,741
District Support Services	1,209,655	1,084,016	1,032,235	(51,781)	1,112,173
Regular Instruction	15,903,726	16,138,628	16,085,232	(53,396)	15,354,029
Vocational Education Instruction	222,849	239,472	262,740	23,268	245,081
Special Education Instruction	7,589,160	7,459,578	7,579,656	120,078	7,519,919
Instructional Support Services	2,128,031	2,138,449	1,922,491	(215,958)	1,799,794
Pupil Support Services	2,812,669	2,801,891	2,831,596	29,705	2,808,283
Sites and Buildings	2,911,021	3,158,556	3,136,561	(21,995)	2,972,109
Fiscal and Other Fixed Cost Programs	204,405	204,405	150,143	(54,262)	195,083
Capital Outlay	1,229,995	1,782,479	2,468,658	686,179	1,318,371
Total Expenditures	<u>35,750,435</u>	<u>36,545,336</u>	<u>37,059,773</u>	<u>514,437</u>	<u>34,922,583</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,326,911)</u>	<u>(2,128,647)</u>	<u>(3,575,611)</u>	<u>(1,446,964)</u>	<u>(1,659,420)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Capital Lease Proceeds	-	-	215,752	215,752	8,260
Sale of Equipment Proceeds	-	-	10,774	10,774	-
Transfers Out	(5,802)	(5,802)	-	5,802	(9,084)
Total Other Financing Sources (Uses)	<u>(5,802)</u>	<u>(5,802)</u>	<u>226,526</u>	<u>232,328</u>	<u>(824)</u>
Net Change in Fund Balances	<u>\$ (1,332,713)</u>	<u>\$ (2,134,449)</u>	<u>(3,349,085)</u>	<u>\$ (1,214,636)</u>	<u>(1,660,244)</u>
<b>FUND BALANCE</b>					
Beginning of Year			5,656,451		7,316,695
End of Year			<u>\$ 2,307,366</u>		<u>\$ 5,656,451</u>

See accompanying Notes to Basic Financial Statements.

**FARIBAULT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL  
FOOD SERVICE FUND  
YEAR ENDED JUNE 30, 2006  
(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2005)**

	2006			Over (Under) Final Budget	2005
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
<b>REVENUES</b>					
Local Sources					
Earnings on Investments	\$ 16,517	\$ 16,517	\$ -	\$ (16,517)	\$ 9,445
Other - Primarily Meal Sales	1,121,572	1,121,572	950,578	(170,994)	962,081
State Sources	125,500	125,500	120,899	(4,601)	131,530
Federal Sources	646,195	646,195	820,512	174,317	776,745
Total Revenues	1,909,784	1,909,784	1,891,989	(17,795)	1,879,801
<b>EXPENDITURES</b>					
Current					
Food Service	1,775,113	1,790,243	1,857,199	66,956	1,671,230
Capital Outlay	36,000	150,000	171,348	21,348	58,310
Total Expenditures	1,811,113	1,940,243	2,028,547	88,304	1,729,540
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ 98,671	\$ (30,459)	(136,558)	\$ (106,099)	150,261
<b>FUND BALANCE</b>					
Beginning of Year			626,033		475,772
End of Year			\$ 489,475		\$ 626,033

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, 2006  
(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2005)**

	2006			2005	
	Budgeted Amounts		Actual Amounts	Over (Under) Final Budget	Actual Amounts
	Original	Final			
<b>REVENUES</b>					
Local Sources					
Property Taxes	\$ 302,683	\$ 302,683	\$ 144,236	\$ (158,447)	\$ 320,970
Earnings on Investments	6,803	6,803	-	(6,803)	3,972
Other - Primarily Tuition and Fees	671,754	744,987	737,654	(7,333)	551,462
State Sources	638,527	638,527	845,983	207,456	627,482
Federal Sources	767,808	767,808	775,071	7,263	767,001
Total Revenues	<u>2,387,575</u>	<u>2,460,808</u>	<u>2,502,944</u>	<u>42,136</u>	<u>2,270,887</u>
<b>EXPENDITURES</b>					
Current					
Community Service	2,379,757	2,522,592	2,412,039	(110,553)	2,238,045
Capital Outlay	14,500	9,219	10,155	936	4,511
Total Expenditures	<u>2,394,257</u>	<u>2,531,811</u>	<u>2,422,194</u>	<u>(109,617)</u>	<u>2,242,556</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(6,682)	(71,003)	80,750	151,753	28,331
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfer in	5,802	5,802	-	(5,802)	9,084
Total Other Financing Sources (Uses)	<u>5,802</u>	<u>5,802</u>	<u>-</u>	<u>(5,802)</u>	<u>9,084</u>
Net Change in Fund Balance	<u>\$ (880)</u>	<u>\$ (65,201)</u>	80,750	<u>\$ 145,951</u>	37,415
<b>FUND BALANCE</b>					
Beginning of Year			236,608		199,193
End of Year			<u>\$ 317,358</u>		<u>\$ 236,608</u>

See accompanying Notes to Basic Financial Statements.

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**FARIBAULT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2006**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Basis of Presentation**

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

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

**B. Financial Reporting Entity**

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

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

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

Student activities are determined primarily by student participants under the guidance of an adult and are generally conducted outside school hours. The School Board 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 School Board has not elected to control or exercise oversight responsibility with respect to the underlying student activities. Accordingly, the student activity accounts are not included in these financial statements.



**FARIBAUT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2006**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. Basic Financial Statement Presentation**

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

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

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

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

**D. Measurement Focus and Basis of Accounting**

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

**FARIBAULT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2006**

**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 combined 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, 2006**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Measurement Focus and Basis of Accounting (Continued)**

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

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

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

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

**E. Budgeting**

Budgets presented in this report for comparison to actual amounts are presented in accordance with U.S. generally accepted accounting principles. Each June, the School Board 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 School Board. 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 School Board 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 School Board action. Revisions to budgeted amounts must be approved by the School Board.

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

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

**F. Cash and Investments**

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

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

**FARIBAULT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2006**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**G. Accounts Receivable**

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

**H. Inventories**

Inventories are recorded using the consumption method of accounting and consist of food and other supplies on hand at June 30 2006, and surplus commodities received from the federal government. Food and supply purchases are recorded at invoice cost, computed on a first-in, first-out method, and surplus commodities are stated at standardized cost, as determined by the Department of Agriculture.

**I. Prepaid Items**

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

**J. Property Taxes**

Property tax levies are established by the School Board 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 (and to a lesser extent in the District's Community service Special Revenue Fund) is determined annually by statutory funding formulas. The total revenue allowed by these formulas is then allocated between taxes and state aids by the Legislature based on education funding priorities. Changes in this allocation are periodically accompanied by a change in property tax revenue recognition referred to as the "tax shift."

**FARIBAULT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2006**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**J. Property Taxes (Continued)**

In accordance with State law, the current tax shift consists of an amount equal to 31% of the District's 2000 Pay 2001 operating referendum levy (frozen at \$329,927) for the district. Starting in fiscal year 2004, the shift was expanded to include all other general and community service fund levies (net of credits) resulting in an advance recognition of property taxes and a corresponding reduction in state aids. In 2006, the Legislature repaid the tax shift. This resulted in a decrease in property tax revenues of \$146,888 and \$138,197, respectively, in the general fund and the community service fund and a corresponding increase in state aid in each fund.

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, 2006, are included in the Property Taxes Levied for Subsequent Year account to indicate that, while they are current assets, they will not be recognized as revenue until the following year.

**K. Capital Assets**

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

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

**FARIBAULT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2006**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**K. Capital Assets (Continued)**

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.

**L. Long-Term Liabilities**

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

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

**M. Accrued Employee Benefits**

**Vacation Pay and Sick Leave**

The District compensates substantially all full-time classified employees for vacation benefits at various rates based on length of service. The expenditure for vacation pay is recognized when payment is made. At June 30, 2006, unpaid vacation pay totaling \$94,660 is recorded in the financial statements.

Substantially all District employees are entitled to sick leave at various rates for each month of full-time service. The District pays clerical, custodial and educational assistants for 1 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.

**FARIBAULT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2006**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**M. Accrued Employee Benefits (Continued)**

**Severance and Health Benefits**

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

**a. Severance and Convertible Sick Leave**

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

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

Full-time administrators upon retirement or resigning from the District may receive severance at the rate of \$75 to \$110 per day of unused sick leave. Also, they are eligible to participate in a district matching deferred compensation program as entitled under M.S. 356.24. The district match is according to a table in the administrative policy series and is not to exceed \$30,000 over the years of employment.

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

Full-time teachers who have completed at least 15 years of service with the District, and who are at least 55 years of age are eligible for payment of \$75 per day of unused sick leave, up to a maximum of 100 days.

**FARIBAUT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2006**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**M. Accrued Employee Benefits (Continued)**

**Severance and Health Benefits (Continued)**

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

The District has recorded a liability for accrued convertible sick leave based on the sick leave accumulated at June 30, 2006 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.

**b. Post-Employment Health Care Benefits**

Under the terms of certain collectively bargained employment contracts, the District is required to pay a portion of health insurance premiums for substantially all retired employees until they reach age 65. Currently, 86 retirees meet the eligibility requirements.

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

During fiscal year 2006, total expenditures for early retirement incentive payments and convertible sick leave and post-employment health care benefits were \$392,173. At June 30, 2006, a liability for early retirement incentive payments and post-employment health care benefits totaling \$3,256,901 is recorded on the Statement of Net Assets.

**N. Deferred Revenues**

Deferred revenues are those in which resources are received by the District before it has a legal claim to them. The District has reported deferred revenues for 2005-2006 school year deposits and school lunch deposits. The District also recorded deferred revenue in the Community Service Fund in an amount equal to the unspent local match for the Promise Fellows grant program.

**O. Fund Balance**

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



**FARIBAULT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2006**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**P. Risk Management**

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

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

**Q. Net Assets**

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

**R. Comparative Data**

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

**NOTE 2 STEWARDSHIP AND ACCOUNTABILITY**

**Excess of Expenditures Over Budget**

Expenditures exceeded budgeted amounts in the following funds at June 30, 2006.

	<u>Budget</u>	<u>Expenditures</u>	<u>Excess</u>
General Fund	\$ 36,545,336	\$ 37,059,773	\$ 514,437
Food Service Fund	1,940,243	2,028,547	88,304

All of the District's funds have positive fund balances as of June 30, 2006.

**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.

**FARIBAULT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2006**

**NOTE 3 CASH AND INVESTMENTS (CONTINUED)**

**A. Deposits (Continued)**

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

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

The District's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota statutes.

In accordance with applicable Minnesota Statutes, the District maintains deposits at depository banks authorized by the School District's Board.

**B. Investments**

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

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

At June 30, 2006, the District had the following investments:

**Minnesota School District Liquid Asset Funds –**

	At Amortized Cost
Minnesota School District Liquid Asset Fund Plus (MDSLAF)	\$ 247,907
Minnesota School District LAF MAX Series (MSDMAX)	6,298,674
	\$ 6,546,581

**FARIBAUT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2006**

**NOTE 3 CASH AND INVESTMENTS (CONTINUED)**

**B. Investments (Continued)**

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.

***Interest Rate Risk.***

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

***Concentration of Credit Risk.***

On an annual basis, the investment officer prepares and presents to the School Board for its review and approval a table specifying the maximum percentage of the school district's investment portfolio that may be invested in a single type of investment instrument. Only the MSDLAF and MSDMAX Funds, detailed above, comprise more than 5 percent of the District's total investments.

**C. Balance Sheet Presentation**

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

Investments	\$ 6,546,581
Deposits	2,010,425
Cash on Hand	1,911
Total Pooled Cash and Investments	<u>\$ 8,558,917</u>
Cash and Investments - Statement of Net Assets	<u>\$ 8,558,917</u>

**FARIBAUT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2006**

**NOTE 4 CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2006 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities</b>				
Capital Assets, Not Being Depreciated				
Land	\$ 1,490,446	\$ -	\$ -	\$ 1,490,446
Construction in Progress	933,559	449,917	(933,559)	449,917
Total Capital Assets, Not Being Depreciated	2,424,005	449,917	(933,559)	1,940,363
Capital Assets, Being Depreciated				
Land Improvements	1,300,084	17,915	-	1,317,999
Buildings and Improvements	59,158,385	4,600,255	-	63,758,640
Equipment	3,516,113	604,343	(259,902)	3,860,554
Total Capital Assets, Being Depreciated	63,974,582	5,222,513	(259,902)	68,937,193
Accumulated Depreciation for				
Land Improvements	(1,065,036)	(25,304)	-	(1,090,340)
Buildings and Improvements	(15,016,090)	(1,240,317)	-	(16,256,407)
Equipment	(2,462,931)	(233,539)	197,738	(2,498,732)
Total Accumulated Depreciation	(18,544,057)	(1,499,160)	197,738	(19,845,479)
Total Capital Assets, Being Depreciated, Net	45,430,525	3,723,353	(62,164)	49,091,714
Governmental Activities Capital Assets, Net	<u>\$ 47,854,530</u>	<u>\$ 4,173,270</u>	<u>\$ (995,723)</u>	<u>\$ 51,032,077</u>

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

<b>Governmental Activities</b>	
Administration	\$ 662
District Support Services	80,895
Regular Instruction	1,326,517
Vocational Education Instruction	9,850
Special Education Instruction	15,001
Pupil Support Services	31,977
Sites and Buildings	22,645
Community Service	11,613
Total Depreciation Expense, Governmental Activities	<u>\$ 1,499,160</u>

**FARIBAULT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2006**

**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
2/1/1998	4.75%	\$ 29,245,000	6/1/2015	\$ 2,250,000	\$ 25,060,000
12/1/2003	3.00% - 4.00%	8,140,000	12/1/2017	315,000	7,550,000
12/1/2003	2.50% - 4.00%	2,605,000	12/1/2013	220,000	2,135,000
3/1/2005	3.00% - 4.00%	2,375,000	2/1/2020	85,000	2,295,000
Total General Obligation Bonds				2,870,000	37,040,000
Bond Premium - net				8,032	86,702
Capital Lease Payable				53,198	216,256
Severance and Health Benefits Payable				357,487	3,256,901
Compensated Absences Payable				14,199	94,660
				<u>\$ 3,302,916</u>	<u>\$ 40,694,519</u>

**FARIBAULT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2006**

**NOTE 5 LONG-TERM LIABILITIES (CONTINUED)**

**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
2007	\$ 2,870,000	\$ 1,589,095
2008	3,075,000	1,466,507
2009	3,290,000	1,335,732
2010	3,525,000	1,195,676
2011	3,725,000	1,046,526
2012 - 2016	17,855,000	2,592,439
2017 - 2020	2,700,000	165,300
	\$ 37,040,000	\$ 9,391,275

**C. Description of Long-Term Liabilities**

**General Obligation Bonds**

On February 1, 1998, the District issued \$29,245,000 of General Obligation Refunding Bonds, Series 1998. The proceeds of this issue were used to refund, in advance of their stated maturities, the remaining maturities of the District's 1995 General Obligation Building Bonds. Future ad valorem tax levies are dedicated to the retirement of these bonds.

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

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

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

**FARIBAULT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2006**

**NOTE 5 LONG-TERM LIABILITIES (CONTINUED)**

**C. Description of Long-Term Liabilities (Continued)**

**Capital Leases**

The District has entered into various capital leases with Marco Business Products, Inc. for photocopiers. The lease terms are for 5 years.

The following is a schedule of future minimum lease payments under the capital leases together with the present value of the net minimum lease payments as of June 30, 2006:

<u>Year Ending June 30,</u>	<u>Lease Payments</u>
2007	\$ 66,882
2008	54,184
2009	52,080
2010	52,080
2011	26,040
Total Minimum Lease Payments	251,266
Less Amounts Representing Interest	35,010
Present Value of Net Minimum Lease Payments	<u>\$ 216,256</u>

**Severance and Health Benefits Payable**

Severance and health benefits payable consist of severance, convertible sick leave, and post-retirement health care benefits payable to employees upon retirement.

**Compensated Absences Payable**

Compensated absences payable consists of unused vacation at June 30, 2006.

**D. Changes in Long-Term Liabilities**

	<u>June 30, 2005</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2006</u>
Bonds Payable	\$ 39,710,000	\$ -	\$ 2,670,000	\$ 37,040,000
Bond Premium	94,733	-	8,031	86,702
Lease Purchase Obligations	131,421	215,752	130,917	216,256
Severance and Health Benefits Payable	3,110,437	511,046	364,582	3,256,901
Compensated Absences Payable	84,833	24,554	14,727	94,660
	<u>\$ 43,131,424</u>	<u>\$ 751,352</u>	<u>\$ 3,188,257</u>	<u>\$ 40,694,519</u>

**FARIBAULT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2006**

**NOTE 6 RESERVED FUND BALANCES**

**Fund Equity**

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

**A. Reserved for Staff Development**

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

**B. Reserved for Unemployment Compensation**

The District levies amounts for reemployment insurance costs and records the revenue from such levies in the General Fund. The balance in the reemployment insurance appropriation is derived by adding to last year's ending balance, the net of the current year's tax revenue and reemployment obligations paid.

**C. Reserved for Severance and Health Benefits**

In accordance with state accounting regulations, a reserved fund balance is established for vested severance benefits. The reserved amount represents vested benefits for non-teaching employees that are estimated to be paid in fiscal year 2007-2008.

**D. Reserved for Area Learning Center**

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

**E. Reserved for Gifted and Talented**

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

**F. Reserved for Basic Skills Programs**

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



**FARIBAUT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2006**

**NOTE 6 RESERVED FUND BALANCES (CONTINUED)**

**G. Reserved for Health and Safety**

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

**H. Reserved for Operating Capital**

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

**I. Reserved for Safe Schools**

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

**J. Reserved for Community Education Programs**

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

**K. Reserved for Early Childhood and Family Education Programs**

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

**L. Reserved for School Readiness**

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

**M. Reserved for Adult Basic Education**

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

**N. Reserved for Building Construction**

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

**FARIBAUT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2006**

**NOTE 7 PENSION PLANS**

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

A. Teachers Retirement Association (TRA)

**1. Plan Description**

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

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

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

**2. Funding Policy**

*Minnesota Statutes* Chapter 354 sets the rates for the employee and employer contributions. These statutes are established and amended by the state legislature. Coordinated and Basic Plan members are required to contribute 5.0% and 9.0%, respectively, of their annual covered salary while the District is required to contribute at an actuarially determined rate.

The District is required to contribute the following percentages of annual covered payroll: 5.0% for Coordinated Plan members and 9.0% 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, 2006, 2005 and 2004 were \$732,485, \$710,178 and \$794,749, respectively, equal to the required contributions for each year as set by state statute.

**FARIBAUT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2006**

**NOTE 7 PENSION PLANS (CONTINUED)**

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

**1. Plan Description**

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

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

**2. Funding Policy**

*Minnesota Statutes* Chapter 353 sets the rates for the employer and employee contributions. These statutes are established and amended by the state legislature. The District makes annual contributions to the pension plans equal to the amount required by state statutes. PERF Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 5.10%, respectively, of their annual cover salary in 2005. Contribution rates in the Coordinated Plan increased in 2006 to 5.5%.

The District is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members and 5.53% for Coordinated Plan members. Employer contribution rates for the Coordinated Plan increased to 6.0% effective January 1, 2006. The contribution requirements of plan members and the District are established and may be amended by State Statute. The District's contributions for the years ending June 30, 2006, 2005 and 2004 were \$269,579, \$253,668 and \$218,122, respectively, equal to the contractually required contributions for each year as set by state statute.

**FARIBAUT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2006**

**NOTE 8 FLEXIBLE BENEFIT PLAN**

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

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

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

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

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

**NOTE 9 LEASE COMMITMENTS**

**A. As Lessee**

The District has entered into various operating leases for vehicles, office equipment and buildings. Rent expense for buildings and vehicles leased under annual operating leases for the year ending June 30, 2006 was \$204,241. Rent expense for office equipment leased under multi-year operating leases totaled \$6,774.

Minimum rental commitments on leases in effect at June 30, 2006 are as follows:

Year Ending June 30,	Annual Lease Payments
2007	\$ 4,308
2008	3,585
2009	1,062
Total	\$ 8,955

**FARIBAULT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2006**

**NOTE 9 LEASE COMMITMENTS (CONTINUED)**

**B. As Lessor**

The District entered into an agreement with Nerstrand Elementary School to lease a 17,700 square foot building located at 205 South Second Street, Nerstrand, Minnesota. The District received \$220,524 of rent for this building during the year ended June 30, 2006, as per the terms of the lease agreement. The lease agreement with Nerstrand Elementary School has been extended for three additional years, through June 30, 2007. Under the terms of the lease extension, the District will receive rent of \$220,524 annually. In addition to the lease of the building, the District also has in place agreements with Nerstrand Elementary School to provide Food Service and custodial service.

**NOTE 10 COMMITMENTS AND CONTINGENCIES**

**A. Federal and State Programs**

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

**B. Legal Contingencies**

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

**NOTE 11 JOINT POWERS AGREEMENT**

The District and the City of Faribault have entered into a Joint Powers agreement to collaborate and coordinate in the provision of social, educational, vocational, and recreational services to members of the community. The Joint Powers Entity is governed by the Joint Powers Board, which includes two City Council members, two School Board members, and a resident of the District jointly appointed by the City Council and the School Board. The City is responsible for provision of adult community education and youth enrichment programs. The School District is responsible for provision of early childhood, adult disabled and adult basic education programs. Under the terms of the agreement, the School District paid the City for its provision of services \$137,062 for the period ending June 30, 2006. An amount necessary to pay costs for future years will be determined by the parties beginning on July 1 of each fiscal year. The agreement is perpetual but may be canceled upon six months' written notice by either party.

**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, 2006**

Grantor/Program	CFDA Number	Agency or Pass-Through Number	Expenditures
US Department of Agriculture			
Pass-Through Minnesota Department of Education			
Food Distribution (Commodities)	10.550	1-656-000	\$ 52,526
Commodities Rebate	10.550	1-656-000	39,980
Type A Lunch	10.555	1-656-000	527,202
School Breakfast Program	10.553	1-656-000	199,042
Total US Department of Agriculture			<u>818,750</u>
US. Department of Education			
Pass-Through Minnesota Department of Education			
Adult Basic Education	84.002		35,450
Special Education - Grants to States	84.027		1,082,692
Special Education - Preschool Grants	84.173		27,183
Title I - Grants to Local Education Agencies	84.010		351,098
Title V, Part A - Innovative Education Program Strategies	84.298		2,956
Title II, Part A - Improving Teacher Quality	84.367		155,531
Title III - English Language Acquisition Grants	84.365		54,344
Special Education - Grants for Infants and Families with Disabilities	84.181		59,425
Title VI, Part A - Safe and Drug Free Schools	84.186		18,366
Carl Perkins	84.048A		21,539
Title II, Part D - Enhancing Education Through Technology	84.318		10,535
Title IV, Part B - 21st Century Community Learning Centers	84.287		251,688
Total US Department of Education			<u>2,070,807</u>
Corporation for National and Community Service			
Pass-Through Minnesota Department of Education			
Promise Fellows	94.006		<u>752,852</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE EXPENDED			<u>\$ 3,642,409</u>

See accompanying Notes to Schedule of Expenditures of Federal Awards.



**FARIBAULT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2006**

**NOTE 1 GENERAL**

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

**NOTE 2 BASIS OF ACCOUNTING**

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

**NOTE 3 FOOD DISTRIBUTION**

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. At June 30, 2006, the District had food commodities totaling \$15,740 in inventory.

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

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

We have audited the financial statements of the governmental activities and each major fund of Independent School District No. 656 as of and for the year ended June 30, 2006, which collectively comprise Independent School District No. 656's basic financial statements and have issued our report thereon dated October 30, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Independent School District No. 656's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

### **Compliance and Other Matters**

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

We have issued a separate letter to the management dated October 30, 2006, regarding business and other matters not deemed to be reportable conditions and nonmaterial compliance matters.

This report is solely for the information and use of the Board of Education and management of Independent School District No. 656, the Office of the State Auditor, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Larson, Allen, Weishair & Co., LLP*

**LARSON, ALLEN, WEISHAIR & CO., LLP**

Austin, Minnesota  
October 30, 2006

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

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

### **Compliance**

We have audited the compliance of Independent School District No. 656, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. Independent School District No. 656's major federal programs are identified in the summary of auditors' results sections of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Independent School District No. 656's management. Our responsibility is to express an opinion on Independent School District No. 656's compliance based on our audit.

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

In our opinion, Independent School District No. 656 complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as item 06-III-A.

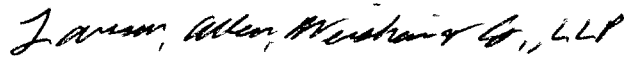
## Internal Control Over Compliance

The management of Independent School District No. 656 is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Independent School District No. 656's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

We have issued a separate letter to the management dated October 30, 2006, regarding business and other matters not deemed to be reportable conditions and nonmaterial compliance matters.

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



LARSON, ALLEN, WEISHAIR & CO., LLP

Austin, Minnesota  
October 30, 2006

## REPORT ON MINNESOTA LEGAL COMPLIANCE

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

We have audited the financial statements of Independent School District No. 656 as of and for the year ended June 30, 2006, and have issued our report thereon dated October 30, 2006.

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

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

The results of our tests indicate that for the items tested the District complied with the material terms and conditions of applicable legal provisions, except as described in the accompanying Schedule of Findings and Questioned Costs item 06-IV-A.

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

  
LARSON, ALLEN, WEISHAIR & CO., LLP

Austin, Minnesota  
October 30, 2006

**FARIBAULT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2006**

**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 reportable conditions were disclosed during the audit of the basic 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. No reportable conditions were disclosed during the audit of the major federal award programs.
5. The auditors' report on compliance for the major federal award programs for Independent School District No. 656 expresses an unqualified opinion.
6. One audit finding relative to the major federal award programs for Independent School District No. 656 were disclosed during the audit.
7. The programs tested as major programs included:

U.S. Department of Education:

Title I, Part A	CFDA #84.010
Child Nutrition Cluster	CFDA #10.553, 10.555

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Independent School District No. 656 was determined to be a low-risk auditee.

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

None

**FARIBAULT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2006**

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

**06-III-A**

**Condition:** Semi-annual time certifications for the Title I program are not completed by employees.

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

**Questioned Costs:** None

**Cause:** Unfamiliarity with the requirement

**Effect:** The District does not have the necessary documentation to support its expenditures of Federal awards.

**Recommendations:** Semi-annual time certifications should be completed by all employees paid from a Federal program who do not otherwise meet the documentation requirement.

**Response:** There is no disagreement with the finding.

**PART IV: FINDINGS AND QUESTIONED COSTS – MINNESOTA LEGAL COMPLIANCE**

**06-IV-A**

**Condition:** The District did not always pay invoices in a timely manner.

**Criteria:** Minnesota Statute 471.425, Subdivision 2, requires prompt payment of local government bills. The standard payment period is 35 days from the date of receipt for governing boards that meet at least once per month. In the event that a vendor is not paid in a timely manner, the District should pay an interest rate of 1½ percent per month on any overdue balances.

**Questioned Costs:** None

**Cause:** Inadequate monitoring of aged invoices.

**Effect:** The District risks incurring additional liabilities from vendors who have not been paid.

**Recommendations:** The District should review aging schedules of accounts payable on a monthly basis to ensure that vendors are being paid in a timely manner.

**Response:** There is no disagreement with the finding.



**FARIBAULT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
SUMMARY SCHEDULE OF PRIOR FEDERAL AUDIT FINDINGS  
YEAR ENDED JUNE 30, 2006**

<u>Comment Reference</u>	<u>Comment Title</u>	<u>Status</u>	<u>It not Corrected, Provide Planned Corrective Action or Other Explanation</u>
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No Prior Year Findings.

**FARIBAUT PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 656  
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS  
COMPLIANCE TABLE  
JUNE 30, 2006**

**01 GENERAL FUND**

Total Revenue	\$ 33,484,162
Total Expenditures	\$ 37,059,773
<i>Reserved:</i>	
403 Staff Development	\$ 11,535
406 Health & Safety	\$ (307,948)
407 Capital Project Levy	\$ -
408 Cooperative Programs	\$ -
409 Deferred Maintenance	\$ -
410 Unemployment Compensation	\$ -
411 Severance Pay	\$ 524,436
412 Bus Purchase	\$ -
414 Operating Debt	\$ -
416 Levy Reduction	\$ -
419 Encumbrances	\$ -
423 Certain Teacher Programs	\$ -
424 Operating Capital	\$ -
426 \$25 Taconite	\$ -
427 Disabled Accessibility	\$ -
428 Learning & Development	\$ -
429 Parental Involvement	\$ -
433 Student Transport Safety	\$ -
434 Area Learning Center	\$ 330,554
435 Contracted Alt. Programs	\$ -
436 State Approved Alt. Program	\$ -
437 Grad Standards Staff Develop.	\$ -
438 Gifted & Talented	\$ 18,621
439 Grad Standards	\$ -
441 Basic Skills Programs	\$ 173,364
442 Class Size, All-Day Kindergarten and Special Education Student-to-Instructor Ratio Reduction	\$ -
443 Telecommunication Access Cost	\$ -
445 Career and Technical Programs	\$ -
446 First Grade Preparedness	\$ -
449 Safe Schools	\$ 51,508
<i>Unreserved:</i>	
418 Severance - Ins. Premium	\$ -
422 Unreserved/Undesignated	\$ 1,505,296

**02 FOOD SERVICE**

Total Revenue	\$ 1,891,989
Total Expenditures	\$ 2,028,547
<i>Reserved:</i>	
411 Severance Pay	\$ -
419 Encumbrances	\$ 489,475
<i>Unreserved:</i>	
418 Severance - Ins. Premium	\$ -
422 Unreserved/Undesignated	\$ -

**04 COMMUNITY SERVICE**

Total Revenue	\$ 2,502,944
Total Expenditures	\$ 2,422,194
<i>Reserved:</i>	
411 Severance Pay	\$ -
419 Encumbrances	\$ -
426 \$25 Taconite	\$ -
431 Community Education	\$ 174,574
432 E.C.F.E.	\$ 25,264
444 School Readiness	\$ (15,252)
447 Adult Basic Education	\$ 27,958
<i>Unreserved:</i>	
418 Severance Premium	\$ -
422 Unreserved/Undesignated	\$ 104,814

**06 BUILDING CONSTRUCTION**

Total Revenue	\$ 46,603
Total Expenditures	\$ 2,910,982
<i>Reserved:</i>	
407 Capital Projects Levy	\$ -
409 Alternative Facility Program	\$ -
419 Encumbrances	\$ -
<i>Unreserved:</i>	
422 Unreserved/Undesignated	\$ 159,475

**07 DEBT SERVICE**

Total Revenue	\$ 4,407,568
Total Expenditures	\$ 4,375,149
<i>Reserved:</i>	
425 Bond Refundings	\$ -
<i>Unreserved:</i>	
422 Unreserved/Undesignated	\$ 944,359

**08 TRUST**

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

**09 AGENCY**

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

**20 INTERNAL SERVICE**

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

