

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

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2005

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INDEPENDENT SCHOOL DISTRICT NO. 656
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INTRODUCTORY SECTION

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**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
BOARD OF EDUCATION AND ADMINISTRATION
FISCAL YEAR 2004 – 2005**

BOARD OF EDUCATION

	<u>Term on Board Expires December 31,</u>	<u>Position on Board During 2004-2005</u>
Willis Schoeb	2006	Chair
Lisa Burkhartzmeyer	2006	Treasurer
Kathleen LaRoche	2006	Vice-Chair
David Korbel	2006	Clerk
Richard Olson	2008	Director
Sue Nelson	2008	Director
Otto Luknic	2008	Director

ADMINISTRATION

Dr. Keith Dixon (1)	Superintendent
Ronald Spies (2)	Director of Operational Support Services
Cheryl Freund	Director of Instructional Support Services
Margo M. Nash (2)	Business Manager

(1) Resigned as of June 30, 2005. He has subsequently been replaced by Dr. Gwen Jackson.

(2) Resigned as of June 30, 2005. Position was filled on an interim basis.

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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, 2005, 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, 2005 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 *Governmental Auditing Standards*, we have also issued a report dated September 22, 2005, 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 *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 4 through 17 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 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 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
September 22, 2005

REQUIRED SUPPLEMENTARY INFORMATION

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**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005**

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, 2005. 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 2004-05 fiscal year include the following:

- Total net assets decreased 3.95 percent over the prior year.
- Overall revenues in the Statement of Activities were \$41.77 million. Expenditures exceeded revenues by \$623 thousand.
- The District issued \$2.375 million in Alternative Facilities Bonds. The funding is being used for health and safety improvements.
- The District experienced an increase in enrollment of 1.2 percent, which is the second straight year of enrollment growth.

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 ***district-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 district-wide statements. The District maintains one group of fund financial statements. It is:
 - ***Governmental funds statements*** tell how basic services such as regular and special education were financed in the short term as well as what remains for future spending.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005**

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**

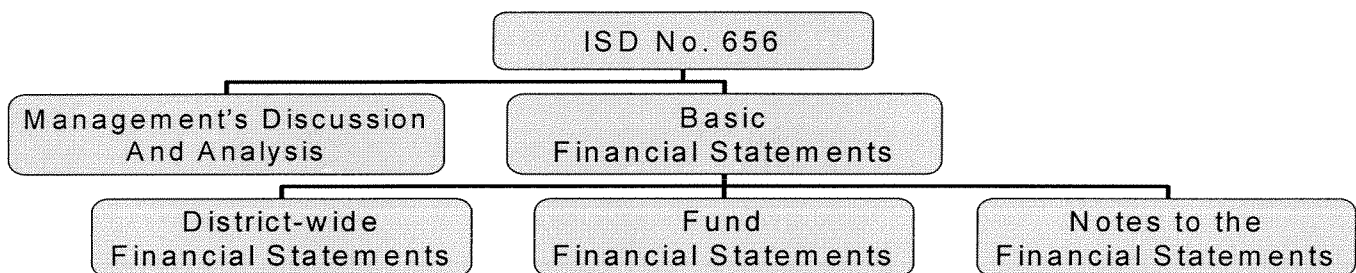


Figure A-2, shown below, summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the management's discussion and analysis highlights the structure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

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

	District-wide Statements	Fund Financial Statements Governmental
Scope	Entire district	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance
Required financial statements	Statement of Net Assets Statement of Activities	Balance Sheet, Statement of Revenues, Expenditures, and Changes in Fund Balances
Accounting Basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus
Type of asset/liability information	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
Type of inflow/outflow information	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

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

District-Wide Statements

The district-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 district-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 district-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 district-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, 2005**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Fund Financial Statements (Continued)

Net assets. The District's combined net assets were \$15.14 million on June 30, 2005. This was a decrease of 3.95 percent or \$623 thousand from the prior year. (See Figure A-3 below.) The District's decreased financial position is the product of many factors. First, the District's Food Service and Community Service Funds saw an increase in net assets. The Food Service Fund net assets increased due to additional revenues without any major equipment expenditures. The Community Service Fund net assets increased due to a large federal grant awarded. The other funds saw a decrease in net assets. In the General Fund, the Board budgeted an excess of expenditures over revenues in order to reduce the unreserved fund balance to a level closer to the Board policy of 6 to 8 percent. 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, 2005**

		Governmental Activities		Total Percent Change
		2005	2004	
<u>ASSETS</u>				
Current and Other Assets	\$	21,353,738	\$ 24,989,475	-14.55%
Capital Assets		47,854,530	45,073,965	6.17%
TOTAL ASSETS	\$	69,208,268	\$ 70,063,440	-1.22%
<u>LIABILITIES</u>				
Long-Term Liabilities	\$	40,087,965	\$ 40,798,754	-1.74%
Other Liabilities		13,982,188	13,503,733	3.54%
TOTAL LIABILITIES	\$	54,070,153	\$ 54,302,487	-0.43%
Net Assets				
Invested in Capital Assets, Net of Related Debt	\$	11,016,271	\$ 10,490,397	5.01%
Restricted		3,170,845	3,663,877	-13.46%
Unrestricted		950,999	1,606,679	-40.81%
TOTAL NET ASSETS	\$	15,138,115	\$ 15,760,953	-3.95%

Changes in net assets. The District's total revenues were \$41.77 million and total expenses were \$42.39 million for the year ended June 30, 2005. (See Figure A-4 on the next page.) Unallocated state and federal aid and local property taxes accounted for 60 percent of the total revenue for the year. Operating and capital grants and contributions for specific programs contributed 30 percent and the remainder from fees charged for services and other sources. (See Figure A-5 on the following pages.) Student education and educational support accounted for 69 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 pages.) Total expenditures surpassed revenues, decreasing net assets by \$623 thousand.

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

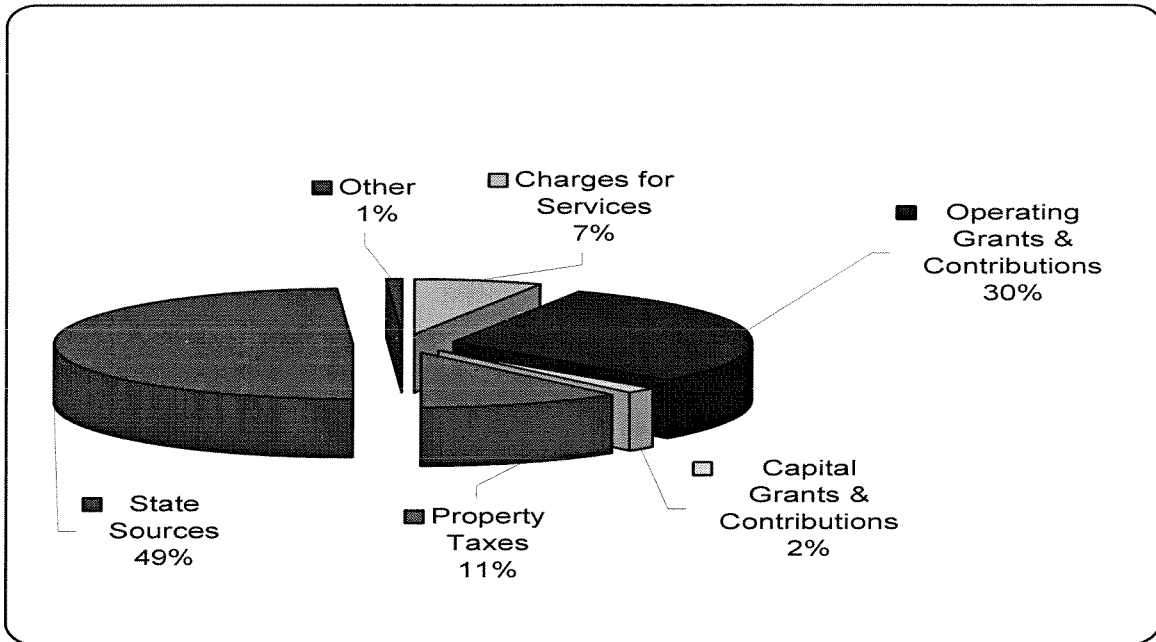
**Figure A-4
Independent School District No. 656
Change in Net Assets
For the Year Ended June 30, 2005**

	Governmental Activities		Total Percent Change
	2005	2004	
REVENUES			
Program Revenues:			
Charges for Services	\$ 2,927,706	\$ 2,644,727	10.70%
Operating Grants & Contributions	12,606,344	12,943,879	-2.61%
Capital Grants & Contributions	761,748	924,183	-17.58%
General Revenues:			
Property Taxes	4,574,763	4,647,407	-1.56%
State Formula Aid	20,588,079	21,024,261	-2.07%
Other	312,078	120,405	159.19%
TOTAL REVENUES	41,770,718	42,304,862	-1.26%
EXPENSES			
Administration	1,545,097	1,524,049	1.38%
District Support Services	1,470,362	1,433,214	2.59%
Regular Instruction	16,472,207	16,971,169	-2.94%
Vocational Education Instruction	254,764	240,703	5.84%
Special Education Instruction	7,543,620	7,199,070	4.79%
Instructional Support Services	1,803,417	1,526,354	18.15%
Pupil Support Services	2,818,845	2,691,885	4.72%
Site and Buildings	4,640,034	3,636,140	27.61%
Fiscal and Other Fixed Cost Programs	195,083	126,754	53.91%
Food Service	1,729,540	1,719,756	0.57%
Community Service	2,254,329	1,511,477	49.15%
Interest and Fiscal Charges on Long-Term Liabilities	1,666,258	3,319,893	-49.81%
TOTAL EXPENSES	42,393,556	41,900,464	1.18%
INCREASE (DECREASE) IN NET ASSET	(622,838)	404,398	-254.02%
BEGINNING OF YEAR NET ASSETS	15,760,953	15,356,555	2.63%
END OF YEAR NET ASSETS	\$ 15,138,115	\$ 15,760,953	-3.95%

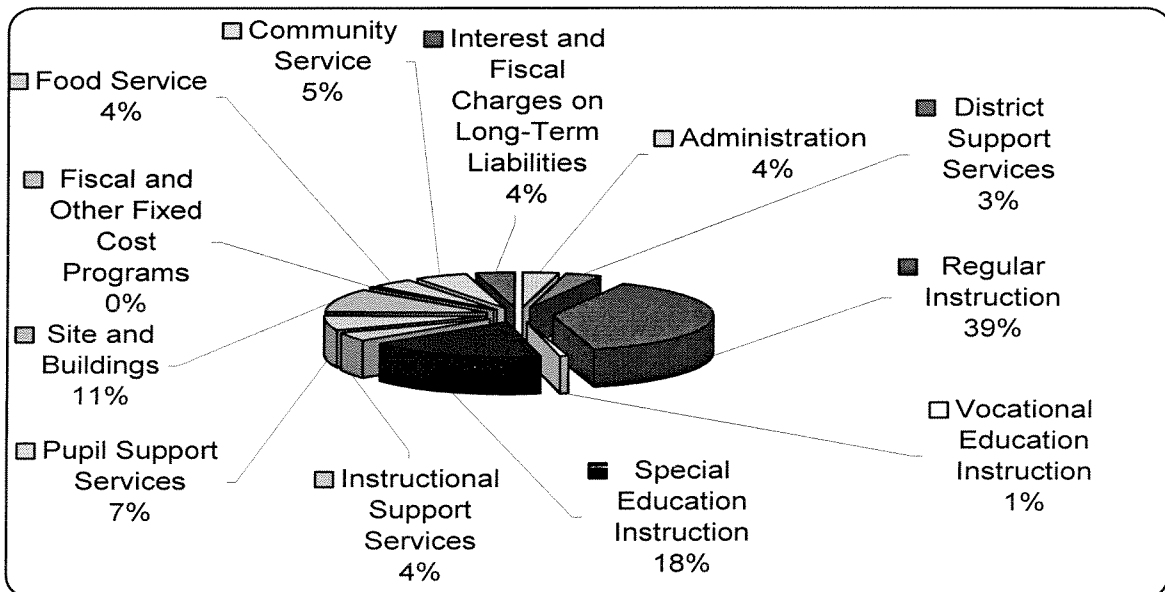
**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

**Figure A-5
Independent School District No. 656
Sources of Revenues
For Fiscal Year 2005**



**Figure A-6
Independent School District No. 656
Expenditures
For Fiscal Year 2005**



**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005**

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 \$42.39 million. The net cost of all governmental activities this year was \$26 million.
- The net cost of governmental activities was impacted by several items. First, a few key employees left at year end which required resignation termination payments to be accrued for 2005. In addition, additional funds were needed to hire interim employees for these positions during June. There was also a general increase in special education tuition receivables and payables, special education federal spending, and expenditures in the building construction fund. Additional revenue was received for the breakfast program.
- The users of the District's programs financed \$2.9 million of the cost of activities.
- The federal and state governments, along with local donations, subsidized certain programs with grants and contributions of \$13.4 million.
- District property taxpayers financed \$4.6 million of governmental activities and state taxpayers financed \$20.6 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 Year Ended June 30, 2005**

	Total Cost of Services		Total Percent Change	Net Cost of Services		Total Percent Change
	2005	2004		2005	2004	
Administration	\$ 1,545,097	\$ 1,524,049	1.38%	\$ 1,290,188	\$ 1,274,685	1.22%
District Support Services	1,470,362	1,433,214	2.59%	1,349,936	1,201,819	12.32%
Regular Instruction	16,472,207	16,971,169	-2.94%	12,239,813	12,312,188	-0.59%
Vocational Education Instruction	254,764	240,703	5.84%	236,951	239,245	-0.96%
Special Education Instruction	7,543,620	7,199,070	4.79%	1,173,098	1,563,334	-24.96%
Instructional Support Services	1,803,417	1,526,354	18.15%	1,246,945	1,058,327	17.82%
Pupil Support Services	2,818,845	2,691,885	4.72%	2,561,641	2,390,443	7.16%
Site and Buildings	4,640,034	3,636,140	27.61%	3,958,776	2,908,460	36.11%
Fiscal and Other Fixed Costs	195,083	126,754	53.91%	195,083	126,754	53.91%
Food Service	1,729,540	1,719,756	0.57%	(140,793)	(74,176)	89.81%
Community Service	2,254,329	1,511,477	49.15%	319,862	323,831	-1.23%
Interest and Fiscal Charges on Long-Term Liabilities	1,666,258	3,319,893	-49.81%	1,666,258	2,062,765	-19.22%
TOTAL EXPENSES	\$ 42,393,556	\$ 41,900,464	1.18%	\$ 26,097,758	\$ 25,387,675	2.80%

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005**

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 Debt Service Fund expenditures exceeded revenues, thereby decreasing the fund balance in these funds.

The General Fund decreased due to several reasons. First, the District decided to implement a one-time use of the unreserved fund balance. This was done to bring the unreserved fund balance closer to the 6 to 8 percent Board policy. Second, General Fund revenues were affected by a reduction in State sources. State sources of revenue were less due to State tax shifts and adjustments for revenue received in prior fiscal years. Finally, expenditures increased due to an increase in salaries and benefits in all areas, termination payments to key administrators, 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 2005. The Debt Service Fund also saw a decrease in fund balance, but it was based on the schedule of payments.

The Food Service and Community Service Funds had more revenues than expenditures. The Food Service Fund saw additional students served, but was able to maintain expenditures with no major equipment purchases. The Community Service Fund saw an increase in both revenues and expenditures due to a grant received by the Promise Fellows program.

At the end of the 2004-05 fiscal year, the District's governmental funds reported combined reserved and unreserved fund balances of \$10,454,886. This is a 28.5% decrease over the prior year. The decrease is mostly due to the intentional spending done in the General Fund unreserved fund balance and the second year projects accounted for in the Capital Projects – Building Construction Fund.

Revenues for the District's governmental funds were \$41,782,895, while total expenditures were \$48,328,266. As a result, the District completed the year with an excess of expenditures over revenues of \$6,545,371. Bond proceeds representing a \$2.4 million Alternative Facilities Bond were recorded in the Other Financing Sources (Uses) section, along with \$8,260 of capital lease proceeds. The net result of the Other Financing Sources (Uses) for the year was an additional \$2,383,260.

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.

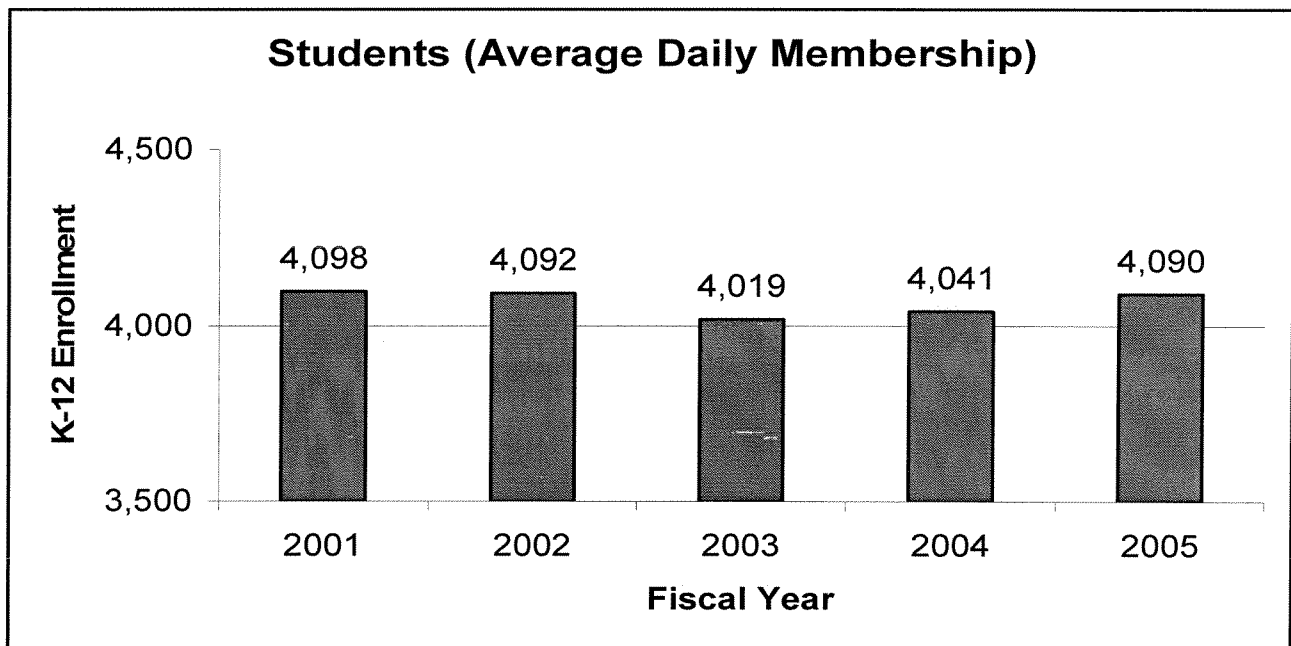
**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005**

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. The District has seen an increase in enrollment for the past two years. As seen in Figure A-8 below, there was an enrollment increase for the year of 1.2 percent over the prior year.

**Figure A-8
Independent School District No. 656
Student Average Daily Membership
As of June 30, 2005**



A summary of General Fund revenues, expenditures, and fund balance is shown in Figure A-9 on the next page.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005**

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (CONTINUED)

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

	Year Ended 6/30/05	Year Ended 6/30/04	Amount of Increase (Decrease)	Percent Increase (Decrease)
Revenues:				
Local Sources				
Property Taxes	\$ 650,646	\$ 924,936	(274,290)	-29.66%
Earnings on Investments	123,258	43,549	79,709	183.03%
Other	2,133,038	1,487,219	645,819	43.42%
State Sources	28,418,351	29,791,515	(1,373,164)	-4.61%
Federal Sources	1,937,870	1,510,515	427,355	28.29%
Total Revenues	33,263,163	33,757,734	(494,571)	-1.47%
Expenditures:				
Administration	1,597,741	1,484,834	112,907	7.60%
District Support Services	1,112,173	1,408,861	(296,688)	-21.06%
Regular Instruction	15,354,029	15,217,530	136,499	0.90%
Vocational Education Instruction	245,081	230,945	14,136	6.12%
Special Education Instruction	7,519,919	6,860,216	659,703	9.62%
Instructional Support Services	1,799,794	1,602,879	196,915	12.29%
Pupil Support Services	2,808,283	2,687,234	121,049	4.50%
Site and Buildings	2,972,109	3,479,687	(507,578)	-14.59%
Fiscal and Other Fixed Cost Programs	195,083	182,655	12,428	6.80%
Capital Outlay	1,318,371	-	1,318,371	100.00%
Total General Fund Expenditures	34,922,583	33,154,841	1,767,742	5.33%
Other Financing Sources (Uses)				
Proceeds from Capital Lease	8,260	2,793	5,467	
Proceeds from Sale of Fixed Assets	-	50	(50)	
Operating Transfers Out	(9,084)	(10,460)	1,376	
Total Other Financing Sources (Uses)	(824)	(7,617)	6,793	
Net Change in Fund Balances	(1,660,244)	595,276	(2,255,520)	
Fund Balances - Beginning	7,316,695	6,721,419	595,276	
Fund Balances - Ending	\$ 5,656,451	\$ 7,316,695	\$(1,660,244)	

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005**

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (CONTINUED)

Revenues

Fiscal year 2005 saw an increase in student adjusted marginal cost pupil units (AMCPU) of 29 students. Due to the 2003 legislative session, the formula allowance was at \$4,601 per adjusted marginal cost pupil unit for the 2004-05 year. Revenues totaled \$33,263,163, or a decrease of \$494,571 over fiscal year 2004. The 1.47% revenue decrease is primarily due to state tax shift adjustments and revenue adjustments for revenue received in prior years. These decreases affected property tax and state sources. Areas of revenue increase were increased federal special education spending, new federal 21st Century Grant, and interest revenue.

Expenditures

Expenditures total \$34,922,583 - an increase of \$1,767,742 over fiscal year 2004. The 5.33% expenditure increase is due to the intention of the Board to have expenditures exceed revenues by over \$1 million. Areas of expenditure increases are special education, an additional federal grant, cost of health insurance, and textbooks purchases. Areas of expenditure decreases include election costs and an increase in indirect costs, which decreased expenditures in the district support services area. The growth in remaining expenditures is consistent with regional inflationary trends.

Fund Balance

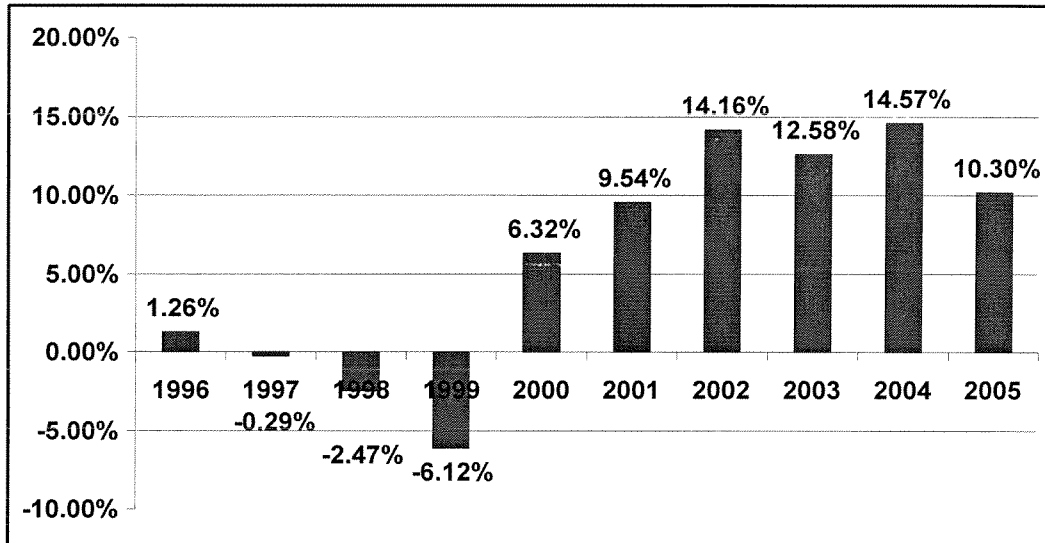
The unreserved, undesignated fund balance is \$3,596,899 and the reserved fund balance for staff development, unemployment, severance, area learning center, basic skills, health and safety, and operating capital is \$2,059,552.

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 1996–2005. The District's unreserved fund balance trend, offers the single best measure of the District's overall financial health. The unreserved fund balance on June 30, 2005 represents 10.30% of annual expenditures or about five weeks of normal operating 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 6 to 8 percent fund balance in the unreserved General Fund. The 2005-06 Budget includes a one-time use of the unreserved fund balance to reduce the balance to a level within the Board policy range.

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005**

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 2004 to the final budget approved in December of 2004.

General Fund

The District's final budget for the general fund anticipated that expenditures would exceed revenues. The actual results for the year show expenditures exceeding revenues by \$1,659,420.

- Actual revenues were \$186,065 below budget, due primarily to a reduction in federal grant revenue. This coincided with reduced spending in the federal grant area.
- The actual expenditures were \$922,986 below budget, due primarily to fewer expenditures for indoor air quality, site supply budget carryovers, technology, legal fees, election costs, and federal programs.

Food Service Fund

The Food Service Fund revenue for 2004-05 totaled \$1.88 million and expenditures were \$1.73 million. The June 30, 2005 fund balance is \$626,033, an increase of \$150,261 from fiscal year 2004. The increase in fund balance is primarily attributed to increased participation in Food Service and no major equipment purchases. The District contracts with Sodexo for District food services.

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005**

BUDGETARY HIGHLIGHTS (CONTINUED)

Community Service Fund

The Community Service Fund revenue for 2004-05 totaled \$2.27 million and expenditures were \$2.24 million. The June 30, 2005 fund balance is \$236,608, an increase of \$37,415 from fiscal year 2004. 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 2004-05.

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 2004-05 totaled \$4.31 million and expenditures were \$4.38 million. The June 30, 2005, unreserved fund balance is \$911,940, a decrease of \$78,149 from fiscal year 2004. The unreserved fund balance decrease is due to several reasons. First, there was an increase in the local levy revenue received. However, this was offset by a decrease in interest revenue. The Fund also made additional principal payments, but fewer interest payments than in 2004. 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 2005, the District had invested \$47,854,530 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 \$1,388,420. 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**

	Governmental Activities		Total Percent Change
	2005	2004	
Land	\$ 1,490,446	\$ 1,490,446	0.00%
Land Improvements	1,300,084	1,300,084	0.00%
Buildings and Improvements	59,158,385	52,064,564	13.63%
Equipment and Transportation Vehicles	3,516,113	3,248,481	8.24%
Construction in Progress	933,559	4,141,027	-77.46%
Accumulated Depreciation for:			
Land Improvements	(1,065,036)	(1,033,095)	3.09%
Buildings and Improvements	(15,016,090)	(13,853,215)	8.39%
Equipment and Transportation Vehicles	(2,462,931)	(2,284,327)	7.82%
TOTAL CAPITAL ASSETS	\$ 47,854,530	\$ 45,073,965	6.17%

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005**

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

Long-Term Liabilities

For the fiscal year ended June 30, 2005, the District had \$39.9 million in general obligation bonds outstanding and capital leases payable. This is a reduction of 1 percent from last year. (See Figure A-12 below.) The District also had \$3.2 million in separation and severance payable as of June 30, 2005. In fiscal year 2005, the District's total outstanding long-term liabilities decreased by 1.63 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**

	Total School District		Total Percent Change
	2005	2004	
General Obligation Bonds	\$ 39,710,000	\$ 39,990,000	-0.70%
Bond Premiums	94,733	102,765	-7.82%
Capital Lease Payable	131,421	179,404	-26.75%
Severance & Health Benefits Payable	3,110,437	3,475,019	-10.49%
Vacation Payable	84,833	99,560	-14.79%
Total	\$ 43,131,424	\$ 43,846,748	-1.63%

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. As a result, the District will need to request additional funding via an excess operating referendum in the future.

The 2005 Legislature approved a 4% increase in the General Education formula for 2005-06 and 2006-07. The District continues to utilize sophisticated enrollment and financial planning tools, along with detailed and conservative budgeting and budget monitoring processes. The District will continue to seek all available sources of funding, respond to a slight enrollment increase, balance revenue to expenditures, and maintain systems that ensure financial stability.

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, 930 4th Avenue NW, P.O. Box 618, Faribault, MN 55021 or visit the District's website at www.faribault.k12.mn.us.

BASIC FINANCIAL STATEMENTS

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**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
STATEMENT OF NET ASSETS
JUNE 30, 2005
(WITH COMPARATIVE DATA AS OF JUNE 30, 2004)**

	Governmental Activities	
	2005	2004
ASSETS		
Cash and Investments	\$ 11,610,466	\$ 14,134,878
Receivables		
Property Taxes	2,873,021	3,139,462
Other Governments	6,570,522	7,380,422
Other	133,589	78,808
Prepaid Items	-	129,629
Inventories	92,099	72,923
Bond Issuance Costs, Net	74,041	53,353
Capital Assets		
Land and Construction in Progress	2,424,005	5,631,473
Other Capital Assets, Net of Depreciation	45,430,525	39,442,492
Total Assets	<u>69,208,268</u>	<u>70,063,440</u>
LIABILITIES		
Salaries and Wages Payable	3,464,175	3,207,718
Accounts and Contracts Payable	1,803,140	1,917,226
Accrued Interest	170,219	205,092
Due to Other Governmental Units	586,208	350,534
Property Tax Shift Adjustment	2,749	4,131
Deferred Revenue		
Property Taxes	4,740,476	4,652,035
Local Sources	171,762	119,003
Long-Term Liabilities		
Portion Due Within One Year	3,043,459	3,047,994
Portion Due in More Than One Year	40,087,965	40,798,754
Total Liabilities	<u>54,070,153</u>	<u>54,302,487</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	11,016,271	10,490,397
Restricted for:		
Operating Capital Purposes	403,569	322,917
State-Mandated Reserves	1,162,914	1,675,906
Food Service	626,033	475,772
Community Service	236,608	199,193
Debt Service	741,721	990,089
Unrestricted	950,999	1,606,679
Total Net Assets	<u>\$ 15,138,115</u>	<u>\$ 15,760,953</u>

See accompanying Notes to Basic Financial Statements.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005
(WITH COMPARATIVE DATA FOR THE YEAR ENDED JUNE 30, 2004)**

2005			
Functions	Expenses	Charges for Services	Program Operating Grants and Contributions
Governmental Activities			
Administration	\$ 1,545,097	\$ -	\$ 254,909
District Support Services	1,470,362	-	-
Regular Instruction	16,472,207	363,021	3,713,188
Vocational Education Instruction	254,764	-	17,813
Special Education Instruction	7,543,620	1,093,824	5,276,698
Instructional Support Services	1,803,417	20,560	498,314
Pupil Support Services	2,818,845	3,973	253,231
Sites and Buildings	4,640,034	233,719	-
Fiscal and Other Fixed Cost Programs	195,083	-	-
Food Service	1,729,540	962,058	908,275
Community Service	2,254,329	250,551	1,683,916
Interest and Fiscal Charges on Long-Term Liabilities	1,666,258	-	-
Total School District	<u>\$ 42,393,556</u>	<u>\$ 2,927,706</u>	<u>\$ 12,606,344</u>
General Revenues			
Property Taxes Levied for:			
General Purposes			
Community Service			
Debt Service			
State Aid Not Restricted to Specific Purposes			
Earnings on Investments			
Gain on Sale of Fixed Assets			
Miscellaneous			
Total General Revenues			
Change in Net Assets			
Net Assets - Beginning			
Net Assets - Ending			

See accompanying Notes to Basic Financial Statements.

	2005	2004
	Net (Expense) Revenue and Changes in Net Assets	Net (Expense) Revenue and Changes in Net Assets
Revenues	Total	Total
Capital	Governmental	Governmental
Grants and Contributions	Activities	Activities
\$ -	\$ (1,290,188)	\$ (1,274,685)
120,426	(1,349,936)	(1,201,819)
156,185	(12,239,813)	(12,312,188)
-	(236,951)	(239,245)
-	(1,173,098)	(1,563,334)
37,598	(1,246,945)	(1,058,327)
-	(2,561,641)	(2,390,443)
447,539	(3,958,776)	(2,908,460)
-	(195,083)	(126,754)
-	140,793	74,176
-	(319,862)	(323,831)
-	(1,666,258)	(2,062,765)
<u>\$ 761,748</u>	<u>(26,097,758)</u>	<u>(25,387,675)</u>

647,207	920,907
320,153	370,940
3,607,403	3,355,560
20,588,079	21,024,261
272,386	102,797
-	50
39,692	17,558
<u>25,474,920</u>	<u>25,792,073</u>
(622,838)	404,398
<u>15,760,953</u>	<u>15,356,555</u>
<u>\$ 15,138,115</u>	<u>\$ 15,760,953</u>

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005
(WITH COMPARATIVE DATA AS OF JUNE 30, 2004)**

			Major
	General	Food Service	Community Service
ASSETS			
Cash and Investments	\$ 3,719,436	\$ 640,696	\$ 322,906
Receivables			
Current Property Taxes	244,806	-	177,919
Delinquent Property Taxes	20,732	-	2,299
Due from Other Minnesota School Districts	1,023,323	-	-
Due from Minnesota Department of Education	4,482,218	534	33,924
Due from Federal through Minnesota Department of Education	800,612	3,771	98,231
Due from Other Governmental Units	30,882	-	-
Other Receivables	86,195	3,695	38,233
Prepaid Items	-	-	-
Inventory	65,913	26,186	-
Total Assets	<u>\$ 10,474,117</u>	<u>\$ 674,882</u>	<u>\$ 673,512</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Salaries and Wages Payable	\$ 2,634,382	\$ -	\$ 50,496
Payroll Deductions and Employer Contributions Payable	758,717	-	20,580
Accounts and Contracts Payable	620,080	24,155	43,538
Due to Other Governmental Units	571,498	-	14,710
Property Tax Shift Adjustment	2,749	-	-
Deferred Revenue:			
Property Taxes Levied for Subsequent Year	180,940	-	186,781
Delinquent Property Taxes	20,732	-	2,299
Local Sources	28,568	24,694	118,500
Total Liabilities	<u>4,817,666</u>	<u>48,849</u>	<u>436,904</u>
Fund Balance			
Reserved for			
Staff Development	7,264	-	-
Unemployment Compensation	5,074	-	-
Severance and Health Benefits	493,069	-	-
Learning and Development	-	-	-
Area Learning Center	562,483	-	-
Basic Skills Programs	308,513	-	-
Health and Safety	279,580	-	-
Operating Capital	403,569	-	-
Community Education Programs	-	-	212,994
Early Childhood and Family Education Programs	-	-	(4,429)
School Readiness	-	-	(4,120)
Adult Basic Education	-	-	8,489
Building Construction	-	-	-
Unreserved			
Undesignated, Reported In			
General Fund	3,596,899	-	-
Debt Service Fund	-	-	-
Special Revenue Funds	-	626,033	23,674
Total Fund Balance	<u>5,656,451</u>	<u>626,033</u>	<u>236,608</u>
Total Liabilities and Fund Balance	<u>\$ 10,474,117</u>	<u>\$ 674,882</u>	<u>\$ 673,512</u>

See accompanying Notes to Basic Financial Statements.

Funds		Total Governmental	
Capital Projects	Debt Service	Funds	
		2005	2004
\$ 4,133,480	\$ 2,793,948	\$ 11,610,466	\$ 14,134,878
-	2,393,995	2,816,720	3,065,969
-	33,270	56,301	68,478
-	-	1,023,323	442,568
-	97,027	4,613,703	6,172,740
-	-	902,614	740,653
-	-	30,882	29,476
5,466	-	133,589	78,808
-	-	-	129,629
-	-	92,099	72,923
<u>\$ 4,138,946</u>	<u>\$ 5,318,240</u>	<u>\$ 21,279,697</u>	<u>\$ 24,936,122</u>
\$ -	\$ -	\$ 2,684,878	\$ 2,531,532
-	-	779,297	676,186
1,115,092	275	1,803,140	1,917,226
-	-	586,208	350,534
-	-	2,749	4,131
-	4,372,755	4,740,476	4,652,035
-	33,270	56,301	68,478
-	-	171,762	119,003
<u>1,115,092</u>	<u>4,406,300</u>	<u>10,824,811</u>	<u>10,319,125</u>
-	-	7,264	8,933
-	-	5,074	5,074
-	-	493,069	494,035
-	-	-	776
-	-	562,483	619,879
-	-	308,513	256,753
-	-	279,580	777,241
-	-	403,569	322,917
-	-	212,994	153,497
-	-	(4,429)	27,076
-	-	(4,120)	-
-	-	8,489	9,511
3,023,854	-	3,023,854	5,635,248
-	-	3,596,899	4,831,087
-	911,940	911,940	990,089
-	-	649,707	484,881
<u>3,023,854</u>	<u>911,940</u>	<u>10,454,886</u>	<u>14,616,997</u>
<u>\$ 4,138,946</u>	<u>\$ 5,318,240</u>	<u>\$ 21,279,697</u>	<u>\$ 24,936,122</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, 2005
(WITH COMPARATIVE DATA AS OF JUNE 30, 2004)**

	<u>2005</u>	<u>2004</u>
Total Fund Balance for Governmental Funds	\$ 10,454,886	\$ 14,616,997
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	933,559	4,141,027
Land Improvements, Net of Accumulated Depreciation	235,048	266,989
Buildings and Improvements, Net of Accumulated Depreciation	44,142,295	38,211,349
Equipment, Net of Accumulated Depreciation	1,053,182	964,154
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.		
	56,301	68,478
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.		
	(170,219)	(205,092)
Bond issuance costs are reported as expenditures in the governmental funds.		
	74,041	53,353
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	(39,710,000)	(39,990,000)
Unamortized Premiums	(94,733)	(102,765)
Obligations Under Capital Leases	(131,421)	(179,404)
Severance Benefits Payable	(3,110,437)	(3,475,019)
Compensated Absences Payable	(84,833)	(99,560)
Total Net Assets of Governmental Activities	<u>\$ 15,138,115</u>	<u>\$ 15,760,953</u>

FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR JUNE 30, 2005
(WITH COMPARATIVE DATA FOR THE YEAR ENDED JUNE 30, 2004)

	Major		
	General	Food Service	Community Service
REVENUES			
Local Sources			
Property Taxes	\$ 650,646	\$ -	\$ 320,970
Earnings on Investments	123,258	9,445	3,972
Other	2,133,038	962,081	551,462
State Sources	28,418,351	131,530	627,482
Federal Sources	1,937,870	776,745	767,001
Total Revenues	<u>33,263,163</u>	<u>1,879,801</u>	<u>2,270,887</u>
EXPENDITURES			
Current			
Administration	1,597,741	-	-
District Support Services	1,112,173	-	-
Regular Instruction	15,354,029	-	-
Vocational Education Instruction	245,081	-	-
Special Education Instruction	7,519,919	-	-
Instructional Support Services	1,799,794	-	-
Pupil Support Services	2,808,283	-	-
Sites and Buildings	2,972,109	-	-
Fiscal and Other Fixed Cost Programs	195,083	-	-
Food Service	-	1,671,230	-
Community Service	-	-	2,238,045
Capital Outlay	1,318,371	58,310	4,511
Debt Service			
Principal	-	-	-
Interest and Fiscal Charges	-	-	-
Total Expenditures	<u>34,922,583</u>	<u>1,729,540</u>	<u>2,242,556</u>
Excess (Deficiency) of Revenues			
Over (Under) Expenditures	(1,659,420)	150,261	28,331
OTHER FINANCING SOURCES (USES)			
Capital Lease Proceeds	8,260	-	-
Sale of Equipment Proceeds	-	-	-
Sale of Bonds Proceeds	-	-	-
Payment to Refunded Bond Escrow Agent	-	-	-
Transfers In	-	-	9,084
Transfers Out	(9,084)	-	-
Total Other Financing Sources (Uses)	<u>(824)</u>	<u>-</u>	<u>9,084</u>
Net Change in Fund Balances	(1,660,244)	150,261	37,415
Fund Balances - Beginning	7,316,695	475,772	199,193
Fund Balances - Ending	<u>\$ 5,656,451</u>	<u>\$ 626,033</u>	<u>\$ 236,608</u>

See accompanying Notes to Basic Financial Statements

Funds		Total Governmental	
Capital Projects - Building Construction	Debt Service	Funds	
		2005	2004
\$ -	\$ 3,615,324	\$ 4,586,940	\$ 4,672,062
83,027	52,684	272,386	1,472,224
-	-	3,646,581	2,779,472
-	618,009	29,795,372	31,072,018
-	-	3,481,616	2,445,985
83,027	4,286,017	41,782,895	42,441,761
-	-	1,597,741	1,484,724
-	-	1,112,173	1,122,134
-	-	15,354,029	15,061,201
-	-	245,081	230,944
-	-	7,519,919	6,836,088
-	-	1,799,794	1,599,475
-	-	2,808,283	2,685,045
-	-	2,972,109	3,658,753
-	-	195,083	182,656
-	-	1,671,230	1,689,513
-	-	2,238,045	1,501,099
5,048,736	-	6,429,928	5,359,563
-	2,655,000	2,655,000	1,771,529
-	1,729,851	1,729,851	3,418,717
5,048,736	4,384,851	48,328,266	46,601,441
(4,965,709)	(98,834)	(6,545,371)	(4,159,680)
-	-	8,260	2,793
-	-	-	50
2,354,315	20,685	2,375,000	10,852,450
-	-	-	(28,940,000)
-	-	9,084	10,460
-	-	(9,084)	(10,460)
2,354,315	20,685	2,383,260	(18,084,707)
(2,611,394)	(78,149)	(4,162,111)	(22,244,387)
5,635,248	990,089	14,616,997	36,861,384
\$ 3,023,854	\$ 911,940	\$ 10,454,886	\$ 14,616,997

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005
(WITH COMPARATIVE DATA FOR THE YEAR ENDED JUNE 30, 2004)**

	<u>2005</u>	<u>2004</u>
Net Change in Fund Balance-Total Governmental Funds	\$ (4,162,111)	\$ (22,244,387)
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	4,168,985	4,979,564
Gain (Loss) on Disposal of Capital Assets	-	50
Proceeds from Sales of Capital Assets	-	(50)
Depreciation Expense	(1,388,420)	(1,244,179)
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	(8,260)	(2,793)
Principal Payments - Capital Leases	56,243	46,189
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)	(10,745,000)
Bond Premium	-	(107,450)
Bond Issuance Costs	25,626	55,901
Repayment of Loan Principal	-	26,529
Repayment of Bond Principal	2,655,000	30,685,000
Change in Accrued Interest Expense - General Obligation Bonds	34,873	95,471
Interest Expense - Capital Loans	-	1,216
Amortization of Bond Issuance Costs	(4,938)	(2,548)
Amortization of Bond Premium	8,032	4,685
Interest receivable on the cash and investments held by trustee is not accrued in the governmental funds, but rather recognized when received	-	(112,245)
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.	(12,177)	(24,709)
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).	379,309	(1,006,846)
Change in Net Assets of Governmental Activities	\$ (622,838)	\$ 404,398

See accompanying Notes to Basic Financial Statements.

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

YEAR ENDED JUNE 30, 2005

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2004)

	2005				2004
	Budgeted Amounts		Actual	Over (Under)	Actual
	Original	Final	Amounts	Final Budget	Amounts
REVENUES					
Local Sources					
Property Taxes	\$ 485,340	\$ 716,815	\$ 650,646	\$ (66,169)	\$ 924,936
Earnings on Investments	40,881	68,313	123,258	54,945	43,549
Other	1,973,404	1,830,462	2,133,038	302,576	1,487,219
State Sources	29,160,131	28,580,316	28,418,351	(161,965)	29,791,515
Federal Sources	1,649,705	2,253,322	1,937,870	(315,452)	1,510,515
Total Revenues	33,309,461	33,449,228	33,263,163	(186,065)	33,757,734
EXPENDITURES					
Current:					
Administration	1,520,123	1,523,590	1,597,741	74,151	1,484,838
District Support Services	1,279,563	1,283,365	1,112,173	(171,192)	1,408,858
Regular Instruction	15,329,918	15,749,681	15,354,029	(395,652)	15,217,528
Vocational Education Instruction	261,272	265,026	245,081	(19,945)	230,944
Special Education Instruction	7,504,104	7,675,426	7,519,919	(155,507)	6,860,229
Instructional Support Services	2,084,506	1,967,458	1,799,794	(167,664)	1,602,878
Pupil Support Services	2,755,387	2,786,896	2,808,283	21,387	2,687,227
Sites and Buildings	2,764,795	3,177,221	2,972,109	(205,112)	3,479,683
Fiscal and Other Fixed Cost Programs	195,700	195,700	195,083	(617)	182,656
Capital Outlay	1,055,435	1,221,206	1,318,371	97,165	-
Total Expenditures	34,750,803	35,845,569	34,922,583	(922,986)	33,154,841
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,441,342)	(2,396,341)	(1,659,420)	736,921	602,893
OTHER FINANCING SOURCES (USES)					
Capital Lease Proceeds	-	-	8,260	8,260	2,793
Sale of Equipment Proceeds	-	-	-	-	50
Transfers Out	(5,558)	(6,661)	(9,084)	(2,423)	(10,460)
Total Other Financing Sources (Uses)	(5,558)	(6,661)	(824)	5,837	(7,617)
Net Change in Fund Balances	\$ (1,446,900)	\$ (2,403,002)	(1,660,244)	\$ 742,758	595,276
FUND BALANCE					
Beginning of Year			7,316,695		6,721,419
End of Year			\$ 5,656,451		\$ 7,316,695

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, 2005
(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2004)**

	2005				2004
	Budgeted Amounts		Actual Amounts	Over (Under) Final Budget	Actual Amounts
	Original	Final			
REVENUES					
Local Sources					
Earnings on Investments	\$ 4,072	\$ 7,663	\$ 9,445	\$ 1,782	\$ 3,339
Other - Primarily Meal Sales	996,329	996,329	962,081	(34,248)	996,813
State Sources	104,636	107,636	131,530	23,894	90,399
Federal Sources	524,460	667,000	776,745	109,745	706,700
Total Revenues	1,629,497	1,778,628	1,879,801	101,173	1,797,251
EXPENDITURES					
Current					
Food Service	1,618,039	1,775,351	1,671,230	(104,121)	1,689,513
Capital Outlay	36,000	21,000	58,310	37,310	32,066
Total Expenditures	1,654,039	1,796,351	1,729,540	(66,811)	1,721,579
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ (24,542)</u>	<u>\$ (17,723)</u>	150,261	<u>\$ 167,984</u>	75,672
FUND BALANCE					
Beginning of Year			475,772		400,100
End of Year			<u>\$ 626,033</u>		<u>\$ 475,772</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
COMMUNITY SERVICE FUND
YEAR ENDED JUNE 30, 2005
(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2004)**

	2005				2004
	Budgeted Amounts		Actual Amounts	Over (Under) Final Budget	Actual Amounts
	Original	Final			
REVENUES					
Local Sources					
Property Taxes	\$ 284,896	\$ 277,341	\$ 320,970	\$ 43,629	\$ 372,193
Earnings on Investments	2,000	3,316	3,972	656	2,747
Other - Primarily Tuition and Fees	309,500	648,076	551,462	(96,614)	295,440
State Sources	681,841	682,630	627,482	(55,148)	605,517
Federal Sources	145,000	714,129	767,001	52,872	228,770
Total Revenues	1,423,237	2,325,492	2,270,887	(54,605)	1,504,667
EXPENDITURES					
Current					
Community Service	1,483,648	2,370,642	2,238,045	(132,597)	1,501,099
Capital Outlay	2,950	3,950	4,511	561	1,495
Total Expenditures	1,486,598	2,374,592	2,242,556	(132,036)	1,502,594
Excess (Deficiency) of Revenues Over (Under) Expenditures	(63,361)	(49,100)	28,331	77,431	2,073
OTHER FINANCING SOURCES (USES)					
Transfer in	5,558	6,661	9,084	2,423	10,460
Total Other Financing Sources (Uses)	5,558	6,661	9,084	2,423	10,460
Net Change in Fund Balance	\$ (57,803)	\$ (42,439)	37,415	\$ 79,854	12,533
FUND BALANCE					
Beginning of Year			199,193		186,660
End of Year			\$ 236,608		\$ 199,193

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, 2005**

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.

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basic Financial Statement Presentation

The District-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 District-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, 2005**

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

Description of Funds

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

Major Governmental Funds

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

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005**

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. 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, 2005**

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 2005, 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 Special Revenue Funds 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, 2005**

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 that is advance recognized as revenue in fiscal year 2005 with no corresponding state aid adjustment. Starting in fiscal year 2004, the shift was expanded to include all other general and community service fund levies (net of credits). State aids are then reduced (or paid back to the District in the case of a reverse tax shift) by this expanded shift amount, making this portion of the tax shift revenue neutral to school districts. For 2005, this resulted in a reduction (reverse tax shift) of tax revenue in the General Fund (and corresponding state aid advance totaling \$79,350) and also included an advance recognition (tax shift) of tax in the District's Community Service Fund (and corresponding state aid holdback totaling \$27,628). Certain other portions of the District's 2004 Pay 2005 levy, normally revenue for the 2005-06 fiscal year, are also advance recognized at June 30, 2005, as required by state statute to match revenue with the same fiscal year as the related expenditures.

Taxes that remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is deferred because it is not known to be available to finance the operations of the District in the current year. No allowance for uncollectible taxes has been provided as such amounts are not expected to be material.

Current levies of local taxes, less the amount recognized as revenue in the current period, including portions assumed by the State which will be recognized as revenue in the next fiscal year beginning July 1, 2005, 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 District-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, 2005**

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, 2005, unpaid vacation pay totaling \$84,833 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.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005**

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. Early Retirement Incentive and Convertible Sick Leave

The District maintains various early retirement incentive 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 \$95 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.

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005**

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, 2005 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 2005, total expenditures for early retirement incentive payments and convertible sick leave and post-employment health care benefits totaled \$341,867. At June 30, 2005, a liability for early retirement incentive payments and post-employment health care benefits totaling \$3,110,437 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 2004-2005 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, 2005**

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 District-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 District-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, 2005.

	<u>Budget</u>	<u>Expenditures</u>	<u>Excess</u>
Capital Projects Fund	\$ 4,767,222	\$ 5,048,736	\$ 281,514

All of the District's funds have positive fund balances as of June 30, 2005.

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, 2005**

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, 2005 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, 2005, the District had the following investments:

Minnesota School District Liquid Asset Funds –

	At Amortized Cost
Minnesota School District Liquid Asset Fund Plus (MDSLAF)	\$ 3,307,026
Minnesota School District LAF MAX Series (MSDMAX)	4,650,184
	<u>\$ 7,957,210</u>

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005**

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.

Other Investments –

The District also has the following investments:

	At Estimated Market Value
FHLMC Bullet Bond - 2.875%, matures 9/15/05	\$ 149,820
FHLMC Bullet Bond - 1.500%, matures 8/15/05	294,263
FNMA Bonds - 7.000%, matures 7/15/05	270,351
	<u>\$ 714,434</u>

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	\$ 8,671,644
Deposits	2,936,511
Cash on Hand	2,310
Total Pooled Cash and Investments	<u>\$ 11,610,465</u>
Cash and Investments - Statement of Net Assets	<u>\$ 11,610,465</u>

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 4 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets, Not Being Depreciated				
Land	\$ 1,490,446	\$ -	\$ -	\$ 1,490,446
Construction in Progress	4,141,027	3,461,108	(6,668,576)	933,559
Total Capital Assets, Not Being Depreciated	5,631,473	3,461,108	(6,668,576)	2,424,005
Capital Assets, Being Depreciated				
Land Improvements	1,300,084	-	-	1,300,084
Buildings and Improvements	52,064,564	7,093,821	-	59,158,385
Equipment	3,248,481	282,632	(15,000)	3,516,113
Total Capital Assets, Being Depreciated	56,613,129	7,376,453	(15,000)	63,974,582
Accumulated Depreciation for				
Land Improvements	(1,033,095)	(31,941)	-	(1,065,036)
Buildings and Improvements	(13,853,215)	(1,162,875)	-	(15,016,090)
Equipment	(2,284,327)	(193,604)	15,000	(2,462,931)
Total Accumulated Depreciation	(17,170,637)	(1,388,420)	15,000	(18,544,057)
Total Capital Assets, Being Depreciated, Net	39,442,492	5,988,033	-	45,430,525
Governmental Activities Capital Assets, Net	<u>\$ 45,073,965</u>	<u>\$ 9,449,141</u>	<u>\$ (6,668,576)</u>	<u>\$ 47,854,530</u>

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

Governmental Activities	
Administration	\$ 471
District Support Services	43,141
Regular Instruction	1,259,507
Vocational Education Instruction	9,683
Special Education Instruction	11,230
Pupil Support Services	32,066
Sites and Buildings	23,986
Community Service	8,336
Total Depreciation Expense, Governmental Activities	<u>\$ 1,388,420</u>

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005**

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	\$ 2,140,000	\$ 27,200,000
12/1/2003	3.00% - 4.00%	8,140,000	12/1/2017	240,000	7,790,000
12/1/2003	2.50% - 4.00%	2,605,000	12/1/2013	210,000	2,345,000
3/1/2005	3.00% - 4.00%	2,375,000	2/1/2020	80,000	2,375,000
Total General Obligation Bonds				2,670,000	39,710,000
Bond Premium - net				8,032	94,733
Capital Lease Payable				60,187	131,421
Severance and Health Benefits Payable				292,515	3,110,437
Compensated Absences Payable				12,725	84,833
				<u>\$ 3,043,459</u>	<u>\$ 43,131,424</u>

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005**

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
2006	\$ 2,670,000	\$ 1,696,999
2007	2,870,000	1,589,095
2008	3,075,000	1,466,508
2009	3,290,000	1,335,733
2010	3,525,000	1,195,676
2011 - 2015	20,575,000	3,506,963
2016 - 2020	3,705,000	297,300
	<u>\$ 39,710,000</u>	<u>\$ 11,088,274</u>

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 will be 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 will be 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 will be used to finance the 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, 2005**

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, 2005:

Year Ending June 30,	Lease Payments
2006	\$ 67,668
2007	67,668
2008	6,640
Total Minimum Lease Payments	141,976
Less Amounts Representing Interest	10,555
Present Value of Net Minimum Lease Payments	<u>\$ 131,421</u>

Severance and Health Benefits Payable

Severance and health benefits payable consist of early retirement incentive and 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, 2005.

D. Changes in Long-Term Liabilities

	June 30, 2004	Net Additions	Retirements	Changes in Severance Payable	June 30, 2005
Bonds Payable	\$ 39,990,000	\$ 2,375,000	\$ 2,655,000	\$ -	\$ 39,710,000
Bond Premium	102,765	-	8,032	-	94,733
Lease Purchase Obligations	179,404	8,260	56,243	-	131,421
Severance and Health Benefits Payable	3,475,019	-	-	(364,582)	3,110,437
Compensated Absences Payable - Net	99,560	-	-	(14,727)	84,833
	<u>\$ 43,846,748</u>	<u>\$ 2,383,260</u>	<u>\$ 2,719,275</u>	<u>\$ (379,309)</u>	<u>\$ 43,131,424</u>

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 6 INTERFUND TRANSFERS

	<u>Transfer Out</u>
	<u>General Fund</u>
Transfer In:	
Community Service Fund	<u>\$ 9,084</u>

The General Fund transferred \$9,084 to the Community Service Fund to eliminate the current year deficit in Early Childhood and Preschool Screening.

NOTE 7 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, represents available resources dedicated exclusively for staff development.

B. Reserved for Unemployment Insurance

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 2006-2007.

D. Reserved for Learning and Development

Represents accumulated resources available to provide services for learning and development activities.

E. Reserved for Area Learning Center

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

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.

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 7 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 Community Education Programs

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

J. Reserved for Early Childhood and Family Education Programs

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

K. Reserved for School Readiness

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

L. Reserved for Adult Basic Education

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

M. Reserved for Building Construction

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

NOTE 8 PENSION PLANS

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

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 8 PENSION PLANS (CONTINUED)

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, 2005, 2004 and 2003 were \$822,037, \$794,749 and \$770,848, respectively, equal to the required contributions for each year as set by state statute.

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 8 PENSION PLANS (CONTINUED)

B. Public Employees' Retirement Association (PERA)

1. Plan Description

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

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

2. Funding Policy

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

The District was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members, 5.53% for Coordinated Plan PERF members. The contribution requirements of plan members and the District are established by and may be amended by State Statute. The District's contributions for the years ending June 30, 2005, 2004 and 2003 were \$264,198, \$218,122 and \$242,360, respectively, equal to the contractually required contributions for each year as set by state statute.

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 9 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 10 LEASE COMMITMENTS

A. As Lessee

The District has entered into various operating leases for office equipment and buildings. Rent expense for buildings leased under annual operating leases for the year ending June 30, 2005 was \$186,545. Rent expense for office equipment leased under multi-year operating leases totaled \$2,250.

Minimum rental commitments on leases in effect at June 30, 2005 are as follows:

<u>Year Ending June 30,</u>	<u>Annual Lease Payments</u>
2006	\$ 1,272
2007	1,272
2008	<u>954</u>
Total	<u>\$ 3,498</u>

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 10 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 \$218,772 of rent for this building during the year ended June 30, 2005, as per the terms of the lease agreement. The lease agreement with Nerstrand Elementary School has been extended for three additional years. 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 11 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 12 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 \$133,108 for the period ending June 30, 2005. 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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**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2005**

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	\$ 32,411
Commodities Rebate	10.550	1-656-000	38,306
Type A Lunch	10.555	1-656-000	505,014
School Breakfast Program	10.553	1-656-000	199,153
Total US Department of Agriculture			<u>774,884</u>
US. Department of Education			
Pass-Through Minnesota Department of Education			
Adult Basic Education	84.002		20,075
Special Education - Grants to States	84.027		1,072,753
Special Education - Preschool Grants	84.173		22,470
Continuous Improvement	84.027		3,833
Title I - Grants to Local Education Agencies	84.010		350,755
Title V, Part A - Innovative Education Program Strategies	84.298		22,274
Title II, Part A - Improving Teacher Quality	84.367		176,255
Title III - English Language Acquisition Grants	84.365		62,214
Special Education - Grants for Infants and Families with Disabilities	84.181		65,682
Title VI, Part A - Safe and Drug Free Schools	84.186		16,137
Carl Perkins	84.048A		16,131
Title II, Part D - Enhancing Education Through Technology	84.318		7,833
* Title IV, Part B - 21st Century Community Learning Centers	84.287		191,809
Total US Department of Education			<u>2,028,221</u>
Corporation for National and Community Service			
Pass-Through Minnesota Department of Education			
* Promise Fellows	94.006		<u>750,031</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE EXPENDED			<u><u>\$ 3,553,136</u></u>

* Major Program

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, 2005**

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, 2005, the District had food commodities totaling \$5,999 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, 2005, which collectively comprise Independent School District No. 656's basic financial statements and have issued our report thereon dated September 22, 2005. 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 September 22, 2005, 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
September 22, 2005

**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, 2005. 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, 2005.

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 September 22, 2005, 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
LARSON, ALLEN, WEISHAIR & CO., LLP

Austin, Minnesota
September 22, 2005

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, 2005, and have issued our report thereon dated September 22, 2005.

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.

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
LARSON, ALLEN, WEISHAIR & CO., LLP

Austin, Minnesota
September 22, 2005

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**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005**

A. 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. No audit findings 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 IV, Part B - 21st Century Community Learning Centers - CFDA #84.318
 - Corporation for National and Community Service:
 - Promise Fellows - CFDA #94.006
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.

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005**

B. FINDINGS – FINANCIAL STATEMENT AUDIT

None

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

D. FINDINGS AND QUESTIONED COSTS – MINNESOTA LEGAL COMPLIANCE

None

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
SUMMARY SCHEDULE OF PRIOR FEDERAL AUDIT FINDINGS
YEAR ENDED JUNE 30, 2005**

<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.

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**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS
COMPLIANCE TABLE
JUNE 30, 2005**

01 GENERAL FUND

Total Revenue	\$ 33,263,163
Total Expenditures	\$ 34,922,583
<i>Reserved:</i>	
403 Staff Development	\$ 7,264
406 Health & Safety	\$ 279,580
407 Capital Project Levy	\$ -
408 Cooperative Programs	\$ -
409 Deferred Maintenance	\$ -
410 Unemployment Compensation	\$ 5,074
411 Severance Pay	\$ 493,069
412 Bus Purchase	\$ -
414 Operating Debt	\$ -
416 Levy Reduction	\$ -
419 Encumbrances	\$ -
423 Certain Teacher Programs	\$ -
424 Operating Capital	\$ 403,569
426 \$25 Taconite	\$ -
427 Disabled Accessibility	\$ -
428 Learning & Development	\$ -
429 Parental Involvement	\$ -
433 Student Transport Safety	\$ -
434 Area Learning Center	\$ 562,483
435 Contracted Alt. Programs	\$ -
436 State Approved Alt. Program	\$ -
437 Grad Standards Staff Develop.	\$ -
438 Grad Standards Gifted & Talented	\$ -
439 Grad Standards	\$ -
441 Basic Skills Programs	\$ 308,513
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	\$ -
<i>Unreserved:</i>	
418 Severance - Ins. Premium	\$ -
422 Unreserved/Undesignated	\$ 3,596,899

02 FOOD SERVICE

Total Revenue	\$ 1,879,801
Total Expenditures	\$ 1,729,540
<i>Reserved:</i>	
411 Severance Pay	\$ -
419 Encumbrances	\$ -
<i>Unreserved:</i>	
418 Severance - Ins. Premium	\$ -
422 Unreserved/Undesignated	\$ 626,033

04 COMMUNITY SERVICE

Total Revenue	\$ 2,270,887
Total Expenditures	\$ 2,242,556
<i>Reserved:</i>	
411 Severance Pay	\$ -
419 Encumbrances	\$ -
426 \$25 Taconite	\$ -
431 Community Education	\$ 212,994
432 E.C.F.E.	\$ (4,429)
444 School Readiness	\$ (4,120)
447 Adult Basic Education	\$ 8,489
<i>Unreserved:</i>	
418 Severance Premium	\$ -
422 Unreserved/Undesignated	\$ 23,674

06 BUILDING CONSTRUCTION

Total Revenue	\$ 83,027
Total Expenditures	\$ 5,048,736
<i>Reserved:</i>	
407 Capital Projects Levy	\$ -
409 Alternative Facility Program	\$ -
419 Encumbrances	\$ -
<i>Unreserved:</i>	
422 Unreserved/Undesignated	\$ 3,023,854

07 DEBT SERVICE

Total Revenue	\$ 4,286,017
Total Expenditures	\$ 4,384,851
<i>Reserved:</i>	
425 Bond Refundings	\$ -
<i>Unreserved:</i>	
422 Unreserved/Undesignated	\$ 911,940

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	\$ -

