

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

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2007

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

INTRODUCTORY SECTION

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

FINANCIAL SECTION

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

REQUIRED SUPPLEMENTARY INFORMATION

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

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET ASSETS	18
--------------------------------	-----------

STATEMENT OF ACTIVITIES	19
--------------------------------	-----------

BALANCE SHEET – GOVERNMENTAL FUNDS	21
---	-----------

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS	23
---	-----------

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS	24
---	-----------

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES	26
---	-----------

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND	27
--	-----------

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

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – COMMUNITY SERVICE FUND	29
--	-----------

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

SINGLE AUDIT AND OTHER REQUIRED REPORTS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	52
---	-----------

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	53
--	-----------

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

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	54
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	56
REPORT ON MINNESOTA LEGAL COMPLIANCE	58
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	59
SUMMARY SCHEDULE OF PRIOR FEDERAL AUDIT FINDINGS	65
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS COMPLIANCE TABLE	66

INTRODUCTORY SECTION

(This page intentionally left blank)

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
BOARD OF EDUCATION AND ADMINISTRATION
FISCAL YEAR 2006 – 2007**

BOARD OF EDUCATION

	<u>Term on Board Expires December 31,</u>	<u>Position on Board During 2006-2007</u>
Sue Nelson	2008	Chair
Otto Luknic	2008	Vice-Chair
David Korbelt	2008	Clerk
Richard Olson	2008	Treasurer
Suzanne Berger	2010	Director
John Lorenz	2010	Director
Debra Davis	2010	Director

ADMINISTRATION

Dr. Gwen Jackson (1)	Superintendent
Dr. Kathy Burke (2)	Executive Director of Operational Support Services
Dr. Cheryl Freund (3)	Executive Director of Educational Support Services
Thomas Walerius (2)	Business Manager
Elizabeth Keenen	Director of Special Services

(1) Subsequently replaced by Mark Wergelan, Interim Superintendent

(2) Subsequently replaced by Sandy Ihns, Director of Finance and Operations

(3) Subsequently replaced by David Harwell, Director of Curriculum and Instruction

(This page intentionally left blank)

FINANCIAL SECTION

(This page intentionally left blank)

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, 2007, 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, 2007 and the respective changes in financial position thereof, and the budgetary comparison for the General Fund, Food Service Fund, and Community Service Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 15, 2007, on our consideration of Independent School District No. 656's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 4 through 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 and Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the uniform financial accounting and reporting standards compliance table have been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.


LarsonAllen LLP

Austin, Minnesota
December 15, 2007

REQUIRED SUPPLEMENTARY INFORMATION

(This page intentionally left blank)

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2007**

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, 2007. 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 2006-07 fiscal year include the following:

- Student enrollment – student enrollment stayed relatively constant with just a drop of two students.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2007**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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

Government-wide Statements

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

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

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

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

Fund Financial Statements

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

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

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2007**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Fund Financial Statements (Continued)

Net assets. The District's combined net assets were \$16.2 million on June 30, 2007. This represents an increase of 11.49 percent from the prior year. (See Figure A-1 below.)

**Figure A-1
Independent School District No. 656
Net Assets – Governmental Activities
As of June 30, 2007 and 2006**

	<u>Governmental Activities</u>		<u>Percentage Change</u>
	<u>2007</u>	<u>2006</u>	
Current and Other Assets	\$ 16,817,917	\$ 16,996,061	-1.05%
Capital and Non-Current Assets	49,615,546	51,032,077	-2.78%
Total Assets	<u>66,433,463</u>	<u>68,028,138</u>	-2.34%
Current Liabilities	16,315,207	16,126,099	1.17%
Long Term Liabilities	33,940,928	37,391,603	-9.23%
Total Liabilities	<u>50,256,135</u>	<u>53,517,702</u>	-6.09%
Net Assets			
Invested in Capital Assets			
Net of Related Debt	15,538,240	13,916,559	11.65%
Restricted	2,834,584	2,175,841	30.28%
Unrestricted	(2,195,496)	(1,581,964)	38.78%
Total Net Assets	<u>\$ 16,177,328</u>	<u>\$ 14,510,436</u>	11.49%

Changes in net assets. The District's total revenues were \$45.4 million and total expenses were \$43.7 million for the year ended June 30, 2007. (See Figure A-2 on the next page.) Unallocated state and federal aid and local property taxes accounted for 65% percent of the total revenue for the year. Operating and capital grants and charges for specific programs contributed 34 percent. (See Figure A-3 on page 8.) Student education and educational support accounted for 75 percent of the District's expenses. The District's administrative activities accounted for less than 4 percent of total costs. (See Figure A-4 on page 8.) Total revenues surpassed expenditures, increasing net assets by \$1,666,892.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2007**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

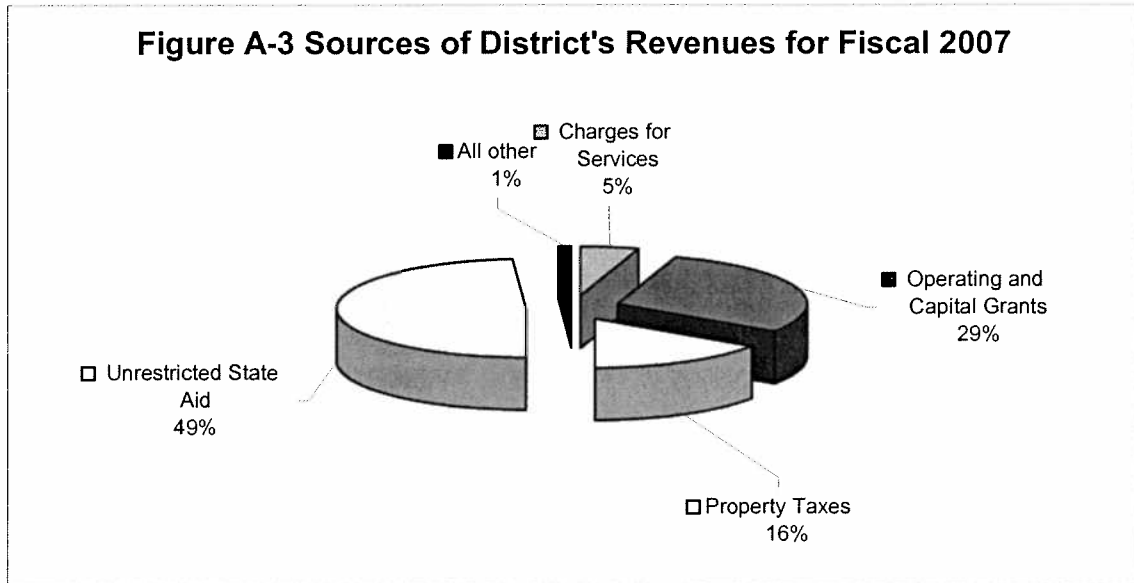
**Figure A-2
Independent School District No. 656
Change in Net Assets
For the Years Ended June 30, 2007 and 2006**

	Governmental Activities for the		Total % Change
	fiscal year ended June 30,		
	2007	2006	
Revenues			
<u>Program Revenues</u>			
Charges for Services	\$ 2,325,999	\$ 2,483,960	-6.36%
Operating Grants and Contributions	12,750,482	13,099,806	-2.67%
Capital Grants and Contributions	505,056	748,193	-32.50%
<u>General Revenues</u>			
Property Taxes	7,056,522	4,584,054	53.94%
Unrestricted State Aid	22,196,918	21,021,719	5.59%
Investment Earnings	357,336	361,969	-1.28%
Other	172,545	25,077	588.06%
Total Revenues	<u>45,364,858</u>	<u>42,324,778</u>	7.18%
Expenses			
Administration	1,645,940	1,625,738	1.24%
District Support Services	1,564,657	1,296,480	20.69%
Regular Instruction	18,015,406	17,478,157	3.07%
Vocational Education Instruction	220,038	272,590	-19.28%
Special Education Instruction	7,274,329	7,633,907	-4.71%
Instructional Support Services	1,907,675	1,950,232	-2.18%
Pupil Support Services	3,453,059	2,717,657	27.06%
Sites and Buildings	3,591,849	3,670,605	-2.15%
Fiscal and Other Fixed Cost Programs	147,420	150,143	-1.81%
Food Service	1,743,830	2,028,547	-14.04%
Community Service	2,550,015	2,434,493	4.75%
Interest and Fiscal Charges on Long-Term Liabilities	1,583,748	1,693,908	-6.50%
Total Expenses	<u>43,697,966</u>	<u>42,952,457</u>	1.74%
Decrease in Net Assets	1,666,892	(627,679)	-365.56%
Beginning Net Assets	14,510,436	15,138,115	-4.15%
Ending Net Assets	<u><u>\$ 16,177,328</u></u>	<u><u>\$ 14,510,436</u></u>	11.49%

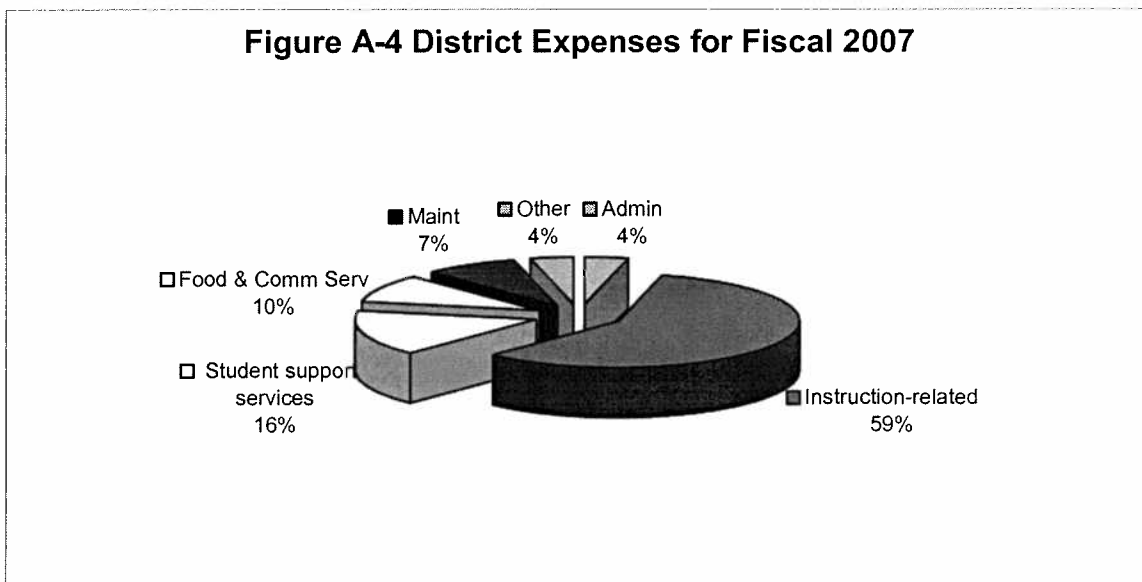
**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2007**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

**Figure A-3
Independent School District No. 656
Sources of Revenues
For Fiscal Year 2007**



**Figure A-4
Independent School District No. 656
Expenditures
For Fiscal Year 2007**



**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2007**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Governmental Activities

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

- The cost of all governmental activities this year was \$43.70 million. The net cost of all governmental activities this year was \$28.12 million.
- The users of the District's programs financed \$2.3 million of the cost of activities.
- The federal and state governments, along with local donations, subsidized certain programs with grants and contributions of \$12.8 million.
- District property taxpayers financed \$7.1 million of governmental activities and state taxpayers financed \$22.2 million of unrestricted state aid based on the statewide education aid formula.

**Figure A-5
Independent School District No. 656
Net Cost of Governmental Activities
For the Years Ended June 30, 2007 and 2006**

	<u>Total Cost of Services</u>		<u>Percentage Change</u>	<u>Net Cost of Services</u>		<u>Percentage Change</u>
	<u>2007</u>	<u>2006</u>		<u>2007</u>	<u>2006</u>	
Administration	\$ 1,645,940	\$ 1,625,738	1.24%	\$ 1,645,940	\$ 1,625,738	1.24%
District Support Services	1,564,657	1,296,480	20.69%	1,419,775	1,206,842	17.64%
Regular Instruction	18,015,406	17,478,157	3.07%	11,934,860	12,430,557	-3.99%
Vocational Education Instruction	220,038	272,590	-19.28%	220,038	272,590	-19.28%
Special Education Instruction	7,274,329	7,633,907	-4.71%	2,661,966	2,075,905	28.23%
Instructional Support Services	1,907,675	1,950,232	-2.18%	1,857,707	1,414,818	31.30%
Pupil Support Services	3,453,059	2,717,657	27.06%	3,306,644	2,442,602	35.37%
Sites and Buildings	3,591,849	3,670,605	-2.15%	3,132,107	2,914,620	7.46%
Fiscal and Other Fixed						
Cost Programs	147,420	150,143	-1.81%	147,420	150,143	-1.81%
Food Service	1,743,830	2,028,547	-14.04%	(184,415)	137,337	-234.28%
Community Service	2,550,015	2,434,493	4.75%	390,639	255,438	52.93%
Interest and Fiscal Charges on Long-Term Liabilities	1,583,748	1,693,908	-6.50%	1,583,748	1,693,908	-6.50%
Total	\$ 43,697,966	\$ 42,952,457	1.74%	\$ 28,116,429	\$ 26,620,498	5.62%

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2007**

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 Community Education Fund expenditures exceeded revenues, thereby decreasing the fund balance in these funds.

The General Fund decreased mainly due to the fact that expenditures exceeded the total revenue. The District had budgeted these excess expenditures. The District has made corresponding reductions in expenditures for the 2007-08 school year to correct the excess spending.

The Capital Projects – Building Construction Fund decreased as the final payments are made for the building projects from past years.

The Community Education fund mainly decreased due to funding of non-public schools.

The Food Service increased its fund balance, but has MDE approval to purchase needed equipment during the 2007-08 school year which will reduce this balance.

At the end of the 2006-07 fiscal year, the District's governmental funds reported combined reserved and unreserved fund balances of \$4,040,476. This is a 4% decrease over the prior year. The decrease is mostly due to a reduction in expected revenue in the General Fund, to additional spending done in the General Fund unreserved fund balance, and the projects accounted for in the Capital Projects – Building Construction Fund.

Revenues for the District's governmental funds were \$45,216,120, while total expenditures were \$45,521,694. As a result, the District completed the year with an excess of expenditures over revenues of \$305,574, prior to other financing sources of \$128,017.

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.

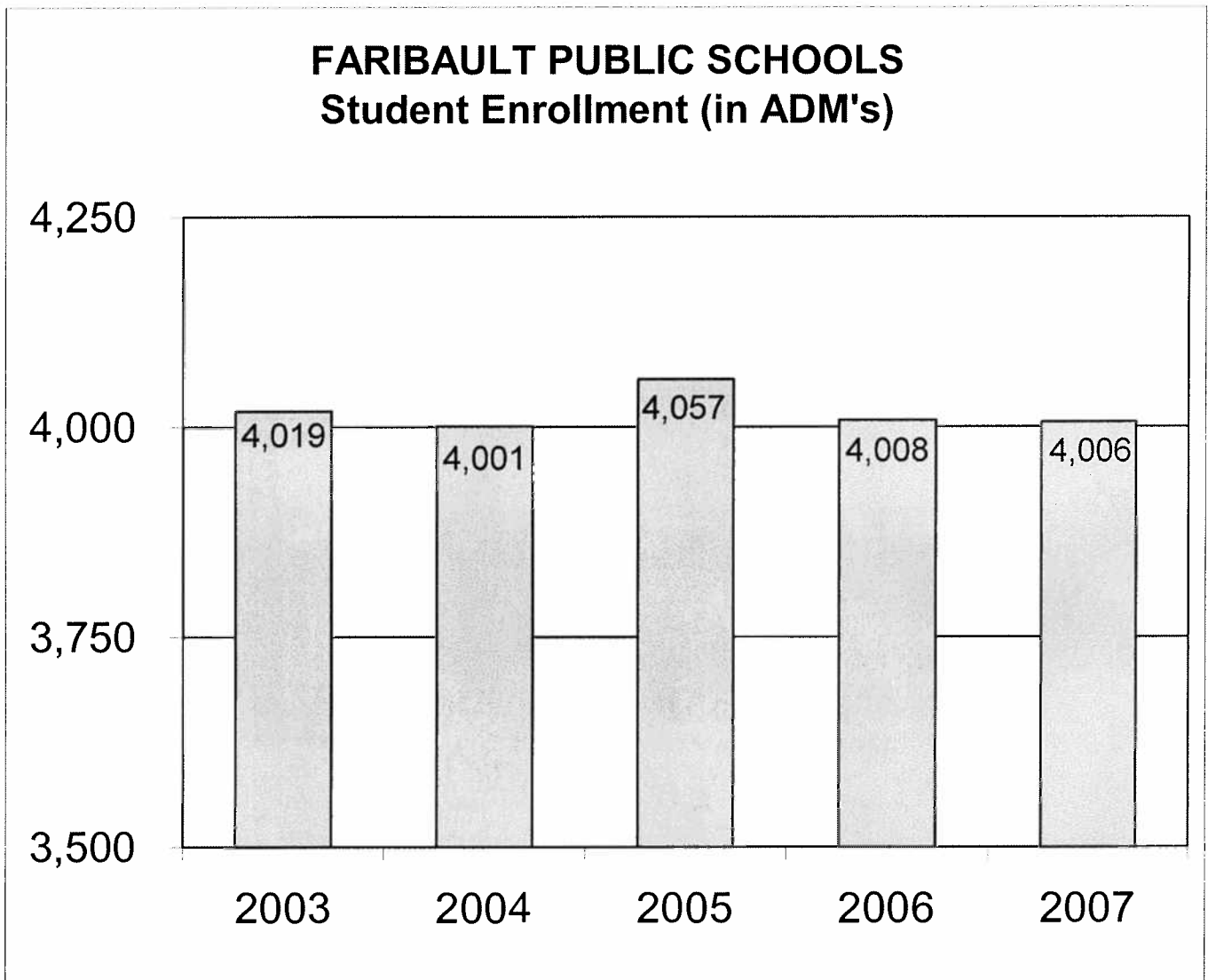
**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2007**

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (CONTINUED)

Enrollment

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

**Figure A-6
Independent School District No. 656
Student Average Daily Membership
As of June 30, 2007**



**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2007**

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (CONTINUED)

General Fund

A summary of General Fund revenues and expenditures is shown in Figure A-7 below.

**Figure A-7
Independent School District No. 656
Summary of General Fund Revenues and Expenditures
For the Years Ended June 30, 2007 and 2006**

<u>Description</u>	<u>Year Ended</u>		<u>Change</u>	
	<u>June 30, 2007</u>	<u>June 30, 2006</u>	<u>Increase (Decrease)</u>	<u>Percent</u>
Revenues:				
Local Sources				
Property Taxes	\$ 2,724,651	\$ 629,954	\$ 2,094,697	332.5%
Earnings on Investments	132,118	279,666	(147,548)	-52.8%
Other	1,291,186	1,776,534	(485,348)	-27.3%
State Sources	29,843,390	28,744,328	1,099,062	3.8%
Federal Sources	2,072,172	2,053,680	18,492	0.9%
Total General Fund Revenue	<u>\$ 36,063,517</u>	<u>\$ 33,484,162</u>	<u>\$ 2,579,355</u>	7.7%
Expenditures:				
Salaries	\$ 22,372,133	\$ 21,401,548	\$ 970,585	4.5%
Employee Benefits	6,664,358	6,208,455	455,903	7.3%
Purchased Services	4,957,288	5,032,111	(74,823)	-1.5%
Supplies and Materials	1,888,237	1,912,042	(23,805)	-1.2%
Capital Expenditures	796,371	2,468,658	(1,672,287)	-67.7%
Other Expenditures	29,626	36,959	(7,333)	-19.8%
Total Expenditures	<u>\$ 36,708,013</u>	<u>\$ 37,059,773</u>	<u>\$ (351,760)</u>	-0.9%

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2007**

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (CONTINUED)

General Fund (Continued)

Revenues

Fiscal year 2007 saw a decrease in students of 2 students. Due to the 2005 legislative session, the formula allowance was at \$4,974 per adjusted marginal cost pupil unit for the 2006-07 year. Revenues totaled \$36,063,517 or an increase of \$2,579,355 over fiscal year 2006. The 7% revenue increase is due to the increase in the state aid formula and property tax revenue.

Expenditures

Expenditures totaled \$36,708,013 - a decrease of \$351,760 over fiscal year 2006. While most expenditure functions saw increases, these were offset by a significant decrease of \$1,672,287 in capital expenditures compared to fiscal year 2006.

Fund Balance

The unreserved, undesignated fund balance is \$ 674,537 and the reserved fund balance for staff development, severance, area learning center, basic skills, safe schools, gifted and talented, health and safety, and operating capital is \$ 1,116,350.

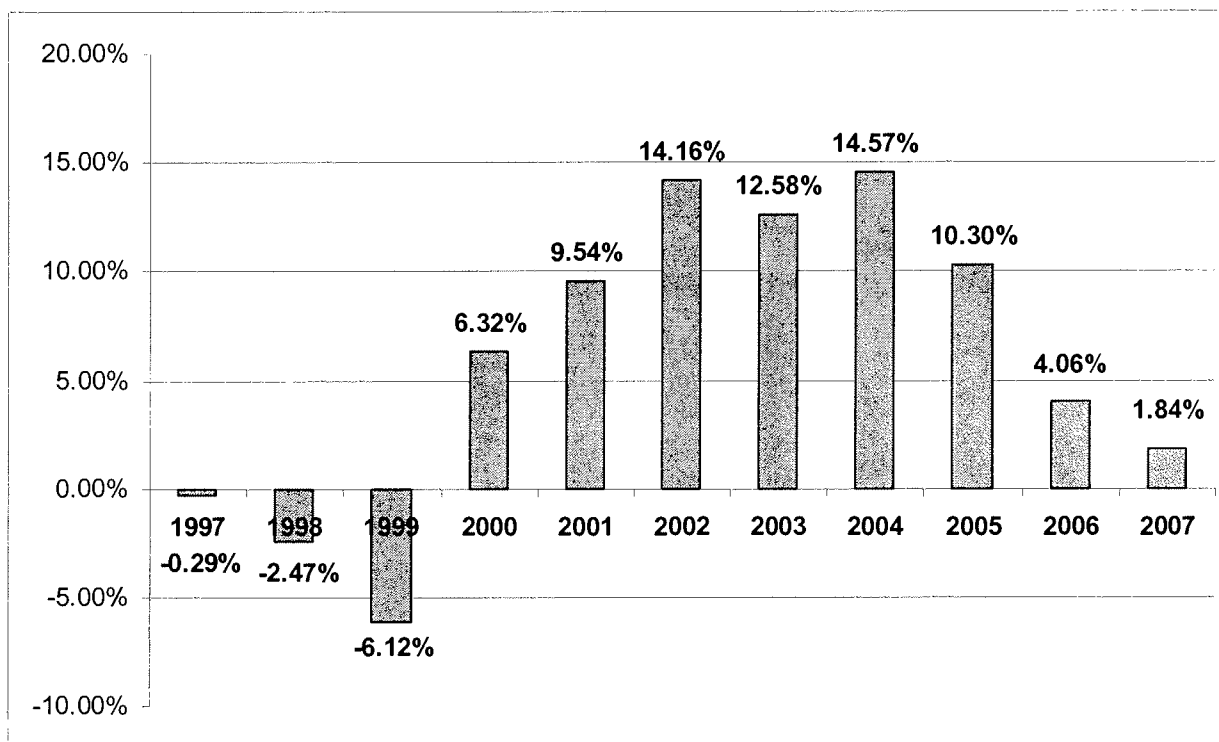
The graph in Figure A-8, on the next page, depicts the General Fund unreserved fund balance as a percentage of expenditures for fiscal years 1997–2007. The District's unreserved fund balance offers the single best measure of the District's overall financial health. The unreserved fund balance on June 30, 2007 represents 1.84% of annual expenditures.

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

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2007**

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (CONTINUED)

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



BUDGETARY HIGHLIGHTS

The District revised the annual operating budget from the preliminary budget approved in June 2006 to the final budget approved in December of 2006.

General Fund

The District's final budget for the general fund anticipated that expenditures would exceed revenues by \$1,740,594. The actual results for the year show expenditures exceeding revenues by \$644,496.

- Actual revenues were \$929,193 below budget, with most of the difference in the "other" category. This is at least partially due to state mandated changes in how special education tuition bills are calculated.
- Actual expenditures were \$2,025,291 below budget. The largest fluctuations were \$698,232 in unspent budgeted capital expenditures, \$853,830 regular education costs below budget, \$364,244 special education costs below budget (due to changes in how these amounts are accounted for) and \$256,934 in unspent instructional support budgeted expenditures.

Food Service Fund

The Food Service Fund revenue for 2006-07 totaled \$1.96 million and expenditures were \$1.74 million. The June 30, 2007 fund balance is \$701,551, an increase of \$212,076 from fiscal year 2006. 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, 2007**

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (CONTINUED)

Community Service Fund

The Community Service Fund revenue for 2006-07 totaled \$2.52 million and expenditures were \$2.55 million. The June 30, 2007 fund balance is \$294,094, a decrease of \$23,264 from fiscal year 2006.

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 2006-07 totaled \$4.67 million and expenditures were \$4.47 million. The June 30, 2007, unreserved fund balance is \$1,144,468 an increase of \$200,109 from fiscal year 2006. The unreserved fund balance increase is due the payment and interest schedule on the bonds and the legislative requirement to levy 105% of those costs.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2007, the District had invested \$49,615,546 in a broad range of capital assets, including school buildings, computer equipment, audio-visual equipment, and other equipment for various instructional programs. (See Figure A-9 below.) Accumulated depreciation totaled \$21,258,770 as of June 30, 2007. More detailed information about capital assets can be found in Note 4 of the financial statements.

**Figure A-9
Independent School District No. 656
Capital Assets
June 30, 2007 and 2006**

	<u>2007</u>	<u>2006</u>	<u>Percentage Change</u>
Land	\$ 1,490,446	\$ 1,490,446	0.0%
Construction in progress	-	449,917	-100.0%
Land Improvements	1,970,403	1,317,999	49.5%
Buildings and Improvements	63,768,848	63,758,640	0.0%
Equipment	3,644,619	3,860,554	-5.6%
Less: Accumulated Depreciation	<u>(21,258,770)</u>	<u>(19,845,479)</u>	<u>7.1%</u>
Total	<u><u>\$ 49,615,546</u></u>	<u><u>\$ 51,032,077</u></u>	<u><u>-2.8%</u></u>

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2007**

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

Long-Term Liabilities

For the fiscal year ended June 30, 2007, the District had \$34.17 million in general obligation bonds outstanding. (See Figure A-10 below.) The District also had \$3.21 million in separation and severance payable as of June 30, 2007. In fiscal year 2007, the District's total outstanding long-term liabilities decreased by 7.9 percent. More detailed information about the District's long-term liabilities is presented in Note 5 of the financial statements.

**Figure A-10
Independent School District No. 656
Outstanding Long-Term Liabilities
June 30, 2007 and 2006**

	<u>2007</u>	<u>2006</u>	<u>Percentage Change</u>
General Obligation Bonds	\$ 34,170,000	\$ 37,040,000	-7.7%
Net Bond Premium and Discount	78,670	86,702	-9.3%
Obligations Under Capital Leases	-	216,256	-100.0%
Severance Benefits Payable	3,121,145	3,256,901	-4.2%
Compensated Absences Payable	94,898	94,660	0.3%
Total	<u>\$ 37,464,713</u>	<u>\$ 40,694,519</u>	<u>-7.9%</u>
Long-term liabilities:			
Due within one year	\$ 3,523,785	\$ 3,302,916	
Due in more than one year	33,940,928	37,391,603	
	<u>\$ 37,464,713</u>	<u>\$ 40,694,519</u>	

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

The 2007 Legislative Session was completed in May. The basic formula for 2007- 2008 was increased by 2% for the 2007-2008 school year and 1% for the 2008-2009 school year. Additional one time money was added for operating capitol/technology aid. This calculation is \$40 per pupil unit for 2007-2008 and \$55 for 2008-2009. Kindergarten weighting was increased from .557 to .612. Gifted and Talented Revenue was increased from \$9 per AMCPU to \$12 beginning in FY 2008. Equity revenue increased from \$23 to \$46. Safe schools levy increased from \$27 to \$30. The ECFE revenue was increased from \$112 to \$120 per resident under the age of five. State school lunch reimbursement was increased from 10.5 cents per meal to 12 cents per lunch.

The District will continue to seek all available sources of funding, balance revenue to expenditures, and maintain systems that ensure financial stability. If state funding remains below inflation levels, we project growing General Fund budget deficits and a declining fund balance in subsequent years.

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2007**

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact the Business Office, ISD No. 656, 2800 1st Avenue NW, P.O. Box 618, Faribault, MN 55021 or visit the District's website at www.faribault.k12.mn.us.

BASIC FINANCIAL STATEMENTS

(This page intentionally left blank)

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
STATEMENT OF NET ASSETS
JUNE 30, 2007
(WITH COMPARATIVE DATA AS OF JUNE 30, 2006)**

	<u>Governmental Activities</u>	
	<u>2007</u>	<u>2006</u>
ASSETS		
Cash and Investments	\$ 7,411,654	\$ 8,558,917
Receivables		
Property Taxes	4,527,923	3,985,682
Other Governments	4,345,993	4,098,615
Other	206,344	77,807
Prepaid Items	166,182	104,596
Inventories	97,933	102,479
Bond Issuance Costs, Net	61,888	67,965
Capital Assets		
Land and Construction in Progress	1,490,446	1,940,363
Other Capital Assets, Net of Depreciation	48,125,100	49,091,714
Total Assets	<u>66,433,463</u>	<u>68,028,138</u>
LIABILITIES		
Salaries and Wages Payable	3,710,664	3,560,987
Accounts and Contracts Payable	598,649	721,376
Accrued Interest	149,953	160,933
Due to Other Governmental Units	240,863	651,808
Contracts Payable	-	452,296
Deferred Revenue		
Property Taxes	7,961,718	7,071,713
Local Sources	129,575	204,070
Long-Term Liabilities		
Portion Due Within One Year	3,523,785	3,302,916
Portion Due in More Than One Year	33,940,928	37,391,603
Total Liabilities	<u>50,256,135</u>	<u>53,517,702</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	15,538,240	13,916,559
Restricted for:		
Operating Capital Purposes	281,729	-
State-Mandated Reserves	562,695	585,582
Food Service	701,551	489,475
Community Service	294,094	317,358
Debt Service	994,515	783,426
Unrestricted	<u>(2,195,496)</u>	<u>(1,581,964)</u>
Total Net Assets	<u>\$ 16,177,328</u>	<u>\$ 14,510,436</u>

See accompanying Notes to Basic Financial Statements.

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007
(WITH COMPARATIVE DATA FOR THE YEAR ENDED JUNE 30, 2006)**

	2007		
Functions	Expenses	Charges for Services	Program Operating Grants and Contributions
Governmental Activities			
Administration	\$ 1,645,940	\$ -	\$ -
District Support Services	1,564,657	-	-
Regular Instruction	18,015,406	366,878	5,613,035
Vocational Education Instruction	220,038	-	-
Special Education Instruction	7,274,329	448,177	4,125,236
Instructional Support Services	1,907,675	19,192	30,776
Pupil Support Services	3,453,059	432	145,983
Sites and Buildings	3,591,849	239,151	-
Fiscal and Other Fixed Cost Programs	147,420	-	-
Food Service	1,743,830	918,599	1,009,646
Community Service	2,550,015	333,570	1,825,806
Interest and Fiscal Charges on Long-Term Liabilities	1,583,748	-	-
Total School District	\$ 43,697,966	\$ 2,325,999	\$ 12,750,482

General Revenues

Property Taxes Levied for:

General Purposes

Community Service

Debt Service

State Aid Not Restricted to Specific Purposes

Earnings on Investments

Miscellaneous

Total General Revenues

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

See accompanying Notes to Basic Financial Statements.

	2007	2006
Revenues	Net (Expense) Revenue and Changes in Net Assets	Net (Expense) Revenue and Changes in Net Assets
Capital	Total	Total
Grants and Contributions	Governmental Activities	Governmental Activities
\$ -	\$ (1,645,940)	\$ (1,625,738)
144,882	(1,419,775)	(1,206,842)
100,633	(11,934,860)	(12,430,557)
-	(220,038)	(272,590)
38,950	(2,661,966)	(2,075,905)
-	(1,857,707)	(1,414,818)
-	(3,306,644)	(2,442,602)
220,591	(3,132,107)	(2,914,620)
-	(147,420)	(150,143)
-	184,415	(137,337)
-	(390,639)	(255,438)
-	(1,583,748)	(1,693,908)
<u>\$ 505,056</u>	<u>(28,116,429)</u>	<u>(26,620,498)</u>

2,733,469	626,575
303,230	143,859
4,019,823	3,813,620
22,196,918	21,021,719
357,336	361,969
172,545	25,077
<u>29,783,321</u>	<u>25,992,819</u>
1,666,892	(627,679)
<u>14,510,436</u>	<u>15,138,115</u>
<u>\$ 16,177,328</u>	<u>\$ 14,510,436</u>

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007
(WITH COMPARATIVE DATA AS OF JUNE 30, 2006)**

	<u>General</u>	<u>Food Service</u>	<u>Major Community Service</u>
ASSETS			
Cash and Investments	\$ 2,782,684	\$ 697,195	\$ 474,843
Receivables			
Current Property Taxes	1,727,936	-	193,411
Delinquent Property Taxes	26,171	-	3,224
Due from Other Minnesota School Districts	304,219	-	63,862
Due from Minnesota Department of Education	3,285,123	-	4,615
Due from Federal through Minnesota Department of Education	520,717	-	26,129
Due from Federal Government Received Directly	12,821	-	62,476
Due from Other Governmental Units	16,514	-	-
Other Receivables	143,165	6,106	57,073
Prepaid Items	166,182	-	-
Inventory	67,126	30,807	-
Total Assets	<u>\$ 9,052,658</u>	<u>\$ 734,108</u>	<u>\$ 885,633</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Salaries and Wages Payable	\$ 2,767,439	\$ -	\$ 61,495
Payroll Deductions and Employer Contributions Payable	864,005	-	17,725
Accounts and Contracts Payable	508,679	4,755	27,743
Due to Other Governmental Units	223,471	-	17,392
Deferred Revenue:			
Property Taxes Levied for Subsequent Year	2,872,006	-	362,187
Delinquent Property Taxes	26,171	-	3,224
Local Sources	-	27,802	101,773
Total Liabilities	<u>7,261,771</u>	<u>32,557</u>	<u>591,539</u>
Fund Balance			
Reserved for			
Staff Development	55,566	-	-
Severance and Health Benefits	506,828	-	-
Area Learning Center	403,633	-	-
Gifted and Talented	6,691	-	-
Basic Skills Programs	40,844	-	-
Health and Safety	(234,902)	-	-
Operating Capital	281,729	-	-
Safe Schools	55,961	-	-
Community Education Programs	-	-	207,087
Early Childhood and Family Education Programs	-	-	171
School Readiness	-	-	4,727
Adult Basic Education	-	-	16,483
Building Construction	-	-	-
Unreserved			
Undesignated, Reported In			
General Fund	674,537	-	-
Debt Service Fund	-	-	-
Special Revenue Funds	-	701,551	65,626
Total Fund Balance	<u>1,790,887</u>	<u>701,551</u>	<u>294,094</u>
Total Liabilities and Fund Balance	<u>\$ 9,052,658</u>	<u>\$ 734,108</u>	<u>\$ 885,633</u>

See accompanying Notes to Basic Financial Statements.

Funds		Total Governmental	
Capital Projects	Debt Service	Funds	
		2007	2006
\$ 166,673	\$ 3,290,259	\$ 7,411,654	\$ 8,558,917
-	2,532,492	4,453,839	3,937,869
-	44,689	74,084	47,813
-	-	368,081	562,396
-	49,517	3,339,255	2,319,559
-	-	546,846	1,146,391
-	-	75,297	-
-	-	16,514	70,269
-	-	206,344	77,807
-	-	166,182	104,596
-	-	97,933	102,479
<u>\$ 166,673</u>	<u>\$ 5,916,957</u>	<u>\$ 16,756,029</u>	<u>\$ 16,928,096</u>
\$ -	\$ -	\$ 2,828,934	\$ 2,777,983
-	-	881,730	783,004
57,197	275	598,649	1,173,672
-	-	240,863	651,808
-	4,727,525	7,961,718	7,071,713
-	44,689	74,084	47,813
-	-	129,575	204,070
<u>57,197</u>	<u>4,772,489</u>	<u>12,715,553</u>	<u>12,710,063</u>
-	-	55,566	11,535
-	-	506,828	524,436
-	-	403,633	330,554
-	-	6,691	18,621
-	-	40,844	173,364
-	-	(234,902)	(307,948)
-	-	281,729	-
-	-	55,961	51,508
-	-	207,087	174,574
-	-	171	25,264
-	-	4,727	(15,252)
-	-	16,483	27,958
109,476	-	109,476	159,475
-	-	674,537	1,505,296
-	1,144,468	1,144,468	944,359
-	-	767,177	594,289
<u>109,476</u>	<u>1,144,468</u>	<u>4,040,476</u>	<u>4,218,033</u>
<u>\$ 166,673</u>	<u>\$ 5,916,957</u>	<u>\$ 16,756,029</u>	<u>\$ 16,928,096</u>

(This page intentionally left blank)

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2007
(WITH COMPARATIVE DATA AS OF JUNE 30, 2006)**

	2007	2006
Total Fund Balance for Governmental Funds	\$ 4,040,476	\$ 4,218,033
Total net assets reported for governmental activities in the statement of net assets is different because:		
Capital assets used in governmental funds are not financial resources and therefore are not reported in the funds. Those assets consist of:		
Land	1,490,446	1,490,446
Construction in Progress	-	449,917
Land Improvements, Net of Accumulated Depreciation	841,041	227,659
Buildings and Improvements, Net of Accumulated Depreciation	46,247,727	47,502,233
Equipment, Net of Accumulated Depreciation	1,036,332	1,361,822
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.		
	74,084	47,813
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.		
	(149,953)	(160,933)
Bond issuance costs are reported as expenditures in the governmental funds.		
	61,888	67,965
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	(34,170,000)	(37,040,000)
Unamortized Premiums	(78,670)	(86,702)
Obligations Under Capital Leases	-	(216,256)
Severance Benefits Payable	(3,121,145)	(3,256,901)
Compensated Absences Payable	(94,898)	(94,660)
Total Net Assets of Governmental Activities	\$ 16,177,328	\$ 14,510,436

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR JUNE 30, 2007
(WITH COMPARATIVE DATA FOR THE YEAR ENDED JUNE 30, 2006)**

Major

	<u>General</u>	<u>Food Service</u>	<u>Community Service</u>
REVENUES			
Local Sources			
Property Taxes	\$ 2,724,651	\$ -	\$ 301,928
Earnings on Investments	132,118	27,617	22,454
Other	1,291,186	918,643	830,554
State Sources	29,843,390	123,496	599,324
Federal Sources	2,072,172	886,150	768,446
Total Revenues	<u>36,063,517</u>	<u>1,955,906</u>	<u>2,522,706</u>
EXPENDITURES			
Current			
Administration	1,691,997	-	-
District Support Services	1,192,539	-	-
Regular Instruction	16,793,901	-	-
Vocational Education Instruction	210,188	-	-
Special Education Instruction	7,355,144	-	-
Instructional Support Services	2,026,739	-	-
Pupil Support Services	3,240,176	-	-
Sites and Buildings	3,253,538	-	-
Fiscal and Other Fixed Cost Programs	147,420	-	-
Food Service	-	1,741,306	-
Community Service	-	-	2,542,723
Capital Outlay	796,371	2,524	3,247
Debt Service			
Principal	-	-	-
Interest and Fiscal Charges	-	-	-
Total Expenditures	<u>36,708,013</u>	<u>1,743,830</u>	<u>2,545,970</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(644,496)	212,076	(23,264)
OTHER FINANCING SOURCES (USES)			
Capital Lease Proceeds	-	-	-
Sale of Equipment Proceeds	5,550	-	-
Judgments for Districts	122,467	-	-
Total Other Financing Sources (Uses)	<u>128,017</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	(516,479)	212,076	(23,264)
Fund Balances - Beginning	<u>2,307,366</u>	<u>489,475</u>	<u>317,358</u>
Fund Balances - Ending	<u>\$ 1,790,887</u>	<u>\$ 701,551</u>	<u>\$ 294,094</u>

See accompanying Notes to Basic Financial Statements

Funds		Total Governmental	
Capital Projects - Building Construction	Debt Service	Funds	
		2007	2006
\$ -	\$ 4,003,672	\$ 7,030,251	\$ 4,592,542
7,199	167,948	357,336	361,969
-	-	3,040,383	3,464,766
-	495,172	31,061,382	30,264,726
-	-	3,726,768	3,649,263
<u>7,199</u>	<u>4,666,792</u>	<u>45,216,120</u>	<u>42,333,266</u>
-	-	1,691,997	1,590,461
-	-	1,192,539	1,032,235
-	-	16,793,901	16,085,232
-	-	210,188	262,740
-	-	7,355,144	7,579,656
-	-	2,026,739	1,922,491
-	-	3,240,176	2,831,596
-	-	3,253,538	3,136,561
-	-	147,420	150,143
-	-	1,741,306	1,857,199
-	-	2,542,723	2,412,039
57,198	-	859,340	5,561,143
-	2,870,000	2,870,000	2,670,000
-	1,596,683	1,596,683	1,705,149
<u>57,198</u>	<u>4,466,683</u>	<u>45,521,694</u>	<u>48,796,645</u>
(49,999)	200,109	(305,574)	(6,463,379)
-	-	-	215,752
-	-	5,550	10,774
-	-	122,467	-
-	-	<u>128,017</u>	<u>226,526</u>
(49,999)	200,109	(177,557)	(6,236,853)
<u>159,475</u>	<u>944,359</u>	<u>4,218,033</u>	<u>10,454,886</u>
<u>\$ 109,476</u>	<u>\$ 1,144,468</u>	<u>\$ 4,040,476</u>	<u>\$ 4,218,033</u>

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007
(WITH COMPARATIVE DATA FOR THE YEAR ENDED JUNE 30, 2006)**

	2007	2006
Net Change in Fund Balance-Total Governmental Funds	\$ (177,557)	\$ (6,236,853)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$2,500 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. Also, governmental funds report proceeds from sales of capital assets while, in the statement of activities, only the gain or loss is included.		
Capital Outlays	285,972	4,738,871
Gain (Loss) on Disposal of Capital Assets	(143,873)	(51,390)
Proceeds from Sales of Capital Assets	(5,550)	(10,774)
Depreciation Expense	(1,553,080)	(1,499,160)
Some capital asset additions are financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net assets, the lease obligation is reported as a liability. Repayment of capital lease principal is an expenditure in the governmental funds, but repayment reduces the lease obligation in the statement of net assets.		
Other Financing Source - Capital Lease	-	(215,752)
Principal Payments - Capital Leases	216,256	130,917
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:		
Repayment of Bond Principal	2,870,000	2,670,000
Change in Accrued Interest Expense - General Obligation Bonds	10,980	9,286
Amortization of Bond Issuance Costs	(6,077)	(6,076)
Amortization of Bond Premium	8,032	8,031
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.	26,271	(8,488)
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).	135,518	(156,291)
Change in Net Assets of Governmental Activities	\$ 1,666,892	\$ (627,679)

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, 2007
(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2006)**

	2007			2006	
	Budgeted Amounts		Actual Amounts	Over (Under)	Actual Amounts
	Original	Final		Final Budget	
REVENUES					
Local Sources					
Property Taxes	\$ 2,817,474	\$ 2,745,143	\$ 2,724,651	\$ (20,492)	\$ 629,954
Earnings on Investments	125,000	125,000	132,118	7,118	279,666
Other	1,880,854	1,982,622	1,291,186	(691,436)	1,776,534
State Sources	30,953,506	29,921,122	29,843,390	(77,732)	28,744,328
Federal Sources	2,482,287	2,218,823	2,072,172	(146,651)	2,053,680
Total Revenues	<u>38,259,121</u>	<u>36,992,710</u>	<u>36,063,517</u>	<u>(929,193)</u>	<u>33,484,162</u>
EXPENDITURES					
Current:					
Administration	1,596,463	1,587,750	1,691,997	104,247	1,590,461
District Support Services	1,097,200	1,231,126	1,192,539	(38,587)	1,032,235
Regular Instruction	16,622,360	17,647,731	16,793,901	(853,830)	16,085,232
Vocational Education Instruction	254,630	254,521	210,188	(44,333)	262,740
Special Education Instruction	7,664,945	7,719,388	7,355,144	(364,244)	7,579,656
Instructional Support Services	2,270,881	2,283,673	2,026,739	(256,934)	1,922,491
Pupil Support Services	3,088,361	3,093,644	3,240,176	146,532	2,831,596
Sites and Buildings	3,302,169	3,210,331	3,253,538	43,207	3,136,561
Fiscal and Other Fixed Cost Programs	210,537	210,537	147,420	(63,117)	150,143
Capital Outlay	1,766,530	1,494,603	796,371	(698,232)	2,468,658
Total Expenditures	<u>37,874,076</u>	<u>38,733,304</u>	<u>36,708,013</u>	<u>(2,025,291)</u>	<u>37,059,773</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>385,045</u>	<u>(1,740,594)</u>	<u>(644,496)</u>	<u>1,096,098</u>	<u>(3,575,611)</u>
OTHER FINANCING SOURCES (USES)					
Capital Lease Proceeds	-	-	-	-	215,752
Sale of Equipment Proceeds	-	-	5,550	5,550	10,774
Judgments for Districts	-	-	122,467	122,467	-
Transfers Out	(5,976)	(5,976)	-	5,976	-
Total Other Financing Sources (Uses)	<u>(5,976)</u>	<u>(5,976)</u>	<u>128,017</u>	<u>133,993</u>	<u>226,526</u>
Net Change in Fund Balances	<u>\$ 379,069</u>	<u>\$ (1,746,570)</u>	<u>(516,479)</u>	<u>\$ 1,230,091</u>	<u>(3,349,085)</u>
FUND BALANCE					
Beginning of Year			2,307,366		5,656,451
End of Year			<u>\$ 1,790,887</u>		<u>\$ 2,307,366</u>

See accompanying Notes to Basic Financial Statements.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOOD SERVICE FUND
YEAR ENDED JUNE 30, 2007
(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2006)**

	2007			2006	
	Budgeted Amounts		Actual Amounts	Over (Under) Final Budget	Actual Amounts
	Original	Final			
REVENUES					
Local Sources					
Earnings on Investments	\$ 15,000	\$ 15,000	\$ 27,617	\$ 12,617	\$ -
Other - Primarily Meal Sales	1,090,000	1,090,000	918,643	(171,357)	950,578
State Sources	92,000	92,000	123,496	31,496	120,899
Federal Sources	703,000	703,000	886,150	183,150	820,512
Total Revenues	<u>1,900,000</u>	<u>1,900,000</u>	<u>1,955,906</u>	<u>55,906</u>	<u>1,891,989</u>
EXPENDITURES					
Current					
Food Service	1,774,000	1,764,000	1,741,306	(22,694)	1,857,199
Capital Outlay	51,000	61,000	2,524	(58,476)	171,348
Total Expenditures	<u>1,825,000</u>	<u>1,825,000</u>	<u>1,743,830</u>	<u>(81,170)</u>	<u>2,028,547</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ 75,000</u>	<u>\$ 75,000</u>	212,076	<u>\$ 137,076</u>	(136,558)
FUND BALANCE					
Beginning of Year			<u>489,475</u>		<u>626,033</u>
End of Year			<u>\$ 701,551</u>		<u>\$ 489,475</u>

See accompanying Notes to Basic Financial Statements.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
COMMUNITY SERVICE FUND
YEAR ENDED JUNE 30, 2007
(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2006)**

	2007			2006	
	Budgeted Amounts		Actual Amounts	Over (Under) Final Budget	Actual Amounts
	Original	Final			
REVENUES					
Local Sources					
Property Taxes	\$ 339,988	\$ 339,988	\$ 301,928	\$ (38,060)	\$ 144,236
Earnings on Investments	6,200	6,200	22,454	16,254	-
Other - Primarily Tuition and Fees	699,653	779,680	830,554	50,874	737,654
State Sources	686,351	602,195	599,324	(2,871)	845,983
Federal Sources	767,808	771,937	768,446	(3,491)	775,071
Total Revenues	2,500,000	2,500,000	2,522,706	22,706	2,502,944
EXPENDITURES					
Current					
Community Service	2,500,180	2,500,240	2,542,723	42,483	2,412,039
Capital Outlay	9,820	10,860	3,247	(7,613)	10,155
Total Expenditures	2,510,000	2,511,100	2,545,970	34,870	2,422,194
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ (10,000)</u>	<u>\$ (11,100)</u>	(23,264)	<u>\$ (12,164)</u>	80,750
FUND BALANCE					
Beginning of Year			317,358		236,608
End of Year			<u>\$ 294,094</u>		<u>\$ 317,358</u>

See accompanying Notes to Basic Financial Statements.

(This page intentionally left blank)

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 11 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, 2007**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basic Financial Statement Presentation

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

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

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

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

D. Measurement Focus and Basis of Accounting

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

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

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

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

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

Description of Funds

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

Major Governmental Funds

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

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

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

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

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

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

E. Budgeting

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

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

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

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

F. Cash and Investments

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

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

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

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 2007, and surplus commodities received from the federal government. Food and supply purchases are recorded at invoice cost, computed on a first-in, first-out method, and surplus commodities are stated at standardized cost, as determined by the Department of Agriculture.

I. Prepaid Items

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

J. Property Taxes

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

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

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Property Taxes (Continued)

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

Taxes that remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is deferred because it is not known to be available to finance the operations of the District in the current year. No allowance for uncollectible taxes has been provided as such amounts are not expected to be material. Current levies of local taxes, less the amount recognized as revenue in the current period, including portions assumed by the State which will be recognized as revenue in the next fiscal year beginning July 1, 2007, are included in Property Taxes Levied for Subsequent Year to indicate that, while they are current assets, they will not be recognized as revenue until the following year.

K. Capital Assets

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

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

Capital assets not being depreciated include land.

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

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Long-Term Liabilities

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

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

M. Accrued Employee Benefits

Vacation Pay and Sick Leave

The District compensates substantially all full-time classified employees for vacation benefits at various rates based on length of service. The expenditure for vacation pay is recognized when payment is made. At June 30, 2007, unpaid vacation pay totaling \$94,899 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.

Severance and Health Benefits

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

a. Severance and Convertible Sick Leave

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

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Accrued Employee Benefits (Continued)

Severance and Health Benefits (Continued)

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

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

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

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

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

The District has recorded a liability for accrued convertible sick leave based on the sick leave accumulated at June 30, 2007 by employees currently eligible to receive termination payments, as well as other employees who are expected to become eligible in the future to receive such payments. Under this "vesting method", accruals for those employees expected to become eligible in the future are based on assumptions concerning the probability that the employees will become eligible to receive termination payments (vest) at some point in the future. The District's policy is to record a liability for the teachers lump sum payment for those individuals that are eligible to receive the payments.

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Accrued Employee Benefits (Continued)

Severance and Health Benefits (Continued)

b. Post-Employment Health Care Benefits

Under the terms of certain collectively bargained employment contracts, the District is required to pay a portion of health insurance premiums for substantially all retired employees until they reach age 65. Currently, 74 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 2007, total expenditures for early retirement incentive payments and convertible sick leave and post-employment health care benefits were \$451,223. At June 30, 2007, a liability for early retirement incentive payments and post-employment health care benefits totaling \$3,121,145 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 2006-2007 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, 2007**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Risk Management

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

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

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

Q. Net Assets

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

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, 2007.

	<u>Budget</u>	<u>Expenditures</u>	<u>Excess</u>
Community Service Fund	\$ 2,511,100	\$ 2,545,970	\$ 34,870

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 3 CASH AND INVESTMENTS

A. Deposits

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

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

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

The District's deposits in banks at June 30, 2007 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.

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

At June 30, 2007, the District had the following investments:

Minnesota School District Liquid Asset Funds –

	At Amortized Cost
Minnesota School District Liquid Asset Fund Plus (MSDLAF)	\$ 1,330,358
Minnesota School District LAF MAX Series (MSDMAX)	5,369,390
	\$ 6,699,748

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

Credit Risk: The MSDLAF and MSDMAX pools are rated AAAm by Standard & Poor's.

Interest Rate Risk.

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

Concentration of Credit Risk.

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

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

C. Balance Sheet Presentation

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

Investments	\$ 6,699,748
Deposits	708,447
Cash on Hand	3,459
Total Pooled Cash and Investments	\$ 7,411,654
Cash and Investments - Statement of Net Assets	\$ 7,411,654

NOTE 4 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007 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	449,917	-	(449,917)	-
Total Capital Assets, Not Being Depreciated	1,940,363	-	(449,917)	1,490,446
Capital Assets, Being Depreciated				
Land Improvements	1,317,999	652,404	-	1,970,403
Buildings and Improvements	63,758,640	10,208	-	63,768,848
Equipment	3,860,554	73,277	(289,212)	3,644,619
Total Capital Assets, Being Depreciated	68,937,193	735,889	(289,212)	69,383,870
Accumulated Depreciation for				
Land Improvements	(1,090,340)	(39,022)	-	(1,129,362)
Buildings and Improvements	(16,256,407)	(1,264,714)	-	(17,521,121)
Equipment	(2,498,732)	(249,344)	139,789	(2,608,287)
Total Accumulated Depreciation	(19,845,479)	(1,553,080)	139,789	(21,258,770)
Total Capital Assets, Being Depreciated, Net	49,091,714	(817,191)	(149,423)	48,125,100
Governmental Activities				
Capital Assets, Net	\$ 51,032,077	\$ (817,191)	\$ (599,340)	\$ 49,615,546

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 4 CAPITAL ASSETS (CONTINUED)

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

Governmental Activities		
Administration		\$ 614
District Support Services		145,240
Regular Instruction		1,311,378
Vocational Education Instruction		9,850
Special Education Instruction		12,410
Pupil Support Services		10,842
Sites and Buildings		38,771
Community Service		23,975
Total Depreciation Expense, Governmental Activities		<u><u>\$ 1,553,080</u></u>

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	\$ 2,370,000	\$ 22,810,000
12/1/2003	3.00% - 4.00%	8,140,000	12/1/2017	375,000	7,235,000
12/1/2003	2.50% - 4.00%	2,605,000	12/1/2013	245,000	1,915,000
3/1/2005	3.00% - 4.00%	2,375,000	2/1/2020	100,000	2,210,000
Total General Obligation Bonds				3,090,000	34,170,000
Bond Premium - Net				8,032	78,670
Severance and Health Benefits Payable				426,518	3,121,145
Compensated Absences Payable				14,235	94,898
				<u><u>\$ 3,538,785</u></u>	<u><u>\$ 37,464,713</u></u>

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

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
2008	\$ 3,075,000	\$ 1,466,507
2009	3,290,000	1,335,732
2010	3,525,000	1,195,676
2011	3,725,000	1,046,526
2012	3,935,000	886,755
2013 - 2017	14,995,000	1,796,282
2018 - 2021	1,625,000	74,702
	\$ 34,170,000	\$ 7,802,180

C. Description of Long-Term Liabilities

General Obligation Bonds

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

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

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

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

Capital Leases

The District had entered into various capital leases with Marco Business Products, Inc. for photocopiers. These capital leases were paid off in 2007.

Severance and Health Benefits Payable

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

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 5 LONG-TERM LIABILITIES (CONTINUED)

C. Description of Long-Term Liabilities (Continued)

Compensated Absences Payable

Compensated absences payable consists of unused vacation at June 30, 2007.

D. Changes in Long-Term Liabilities

	June 30, 2006	Additions	Retirements	June 30, 2007
Bonds Payable	\$ 37,040,000	\$ -	\$ 2,870,000	\$ 34,170,000
Bond Premium	86,702	-	8,032	78,670
Lease Purchase Obligations	216,256	-	216,256	-
Severance and Health Benefits Payable	3,256,901	315,467	451,223	3,121,145
Compensated Absences Payable	94,660	157,822	157,584	94,898
	<u>\$ 40,694,519</u>	<u>\$ 473,289</u>	<u>\$ 3,703,095</u>	<u>\$ 37,464,713</u>

NOTE 6 RESERVED FUND BALANCES

Fund Equity

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

A. Reserved for Staff Development

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

B. Reserved for Severance and Health Benefits

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

C. Reserved for Area Learning Center

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

D. Reserved for Gifted and Talented

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

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 6 RESERVED FUND BALANCES (CONTINUED)

E. Reserved for Basic Skills Programs

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

F. Reserved for Health and Safety

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

G. Reserved for Operating Capital

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

H. Reserved for Safe Schools

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

I. Reserved for Community Education Programs

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

J. Reserved for Early Childhood and Family Education Programs

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

K. Reserved for School Readiness

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

L. Reserved for Adult Basic Education

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

M. Reserved for Building Construction

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

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 7 PENSION PLANS

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

A. Teachers Retirement Association (TRA)

1. Plan Description

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

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

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

2. Funding Policy

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

The District is required to contribute the following percentages of annual covered payroll: 5.0% 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, 2007, 2006, and 2005 were \$884,965, \$732,485, and \$710,178, 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, 2007**

NOTE 7 PENSION PLANS (CONTINUED)

B. Public Employees' Retirement Association (PERA)

1. Plan Description

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

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

2. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The District makes annual contributions to the pension plans equal to the amount required by State Statutes. PERF Basic Plan members and Coordinated Plan members are required to contribute 9.1% and 5.5%, respectively, of their annual covered salary in 2006. Contribution rates in the Coordinated Plan increased to 5.75% on January 1, 2007.

The District is required to contribute the following percentages of annual covered payroll in 2006: 11.78% for Basic Plan PERF members, 6.0% for Coordinated Plan PERF members. Employer contribution rates for the Coordinated Plan increased to 6.25% effective January 1, 2007. 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, 2007, 2006 and 2005 were \$296,660, \$269,579, and \$253,668, respectively, equal to the contractually required contributions for each year as set by state statute.

NOTE 8 FLEXIBLE BENEFIT PLAN

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

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 8 FLEXIBLE BENEFIT PLAN (CONTINUED)

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

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

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

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

NOTE 9 LEASE COMMITMENTS

A. As Lessee

The District has entered into various operating leases for vehicles, office equipment and buildings. Rent expense for buildings and vehicles leased under annual operating leases for the year ending June 30, 2007 was \$325,452. Rent expense for office equipment leased under multi-year operating leases totaled \$37,418.

Minimum rental commitments on leases in effect at June 30, 2007 are as follows:

<u>Year Ending June 30,</u>	<u>Annual Lease Payments</u>
2008	\$ 133,869
2009	131,346
2010	130,284
2011	<u>65,142</u>
Total	<u>\$ 460,641</u>

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 9 LEASE COMMITMENTS (CONTINUED)

B. As Lessor

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

NOTE 10 COMMITMENTS AND CONTINGENCIES

A. Federal and State Programs

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

B. Legal Contingencies

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

NOTE 11 JOINT POWERS AGREEMENTS

Community Education

The District and the City of Faribault have entered into a Joint Powers agreement to collaborate and coordinate in the provision of social, educational, vocational, and recreational services to members of the community. The Joint Powers Entity is governed by the Joint Powers Board, which includes two City Council members, two 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 \$142,544 for the period ending June 30, 2007. An amount necessary to pay costs for future years will be determined by the parties beginning on July 1 of each fiscal year. The agreement is perpetual but may be canceled upon six months' written notice by either party.

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 11 JOINT POWERS AGREEMENTS (CONTINUED)

Wind Energy

The District and 13 other school districts in Minnesota have entered into a Joint Powers Agreement to form the Minnesota Schools Wind Energy Cooperative (the Cooperative). The purpose of the Cooperative is to acquire, develop, construct, finance, operate, and maintain a wind energy project to be located in Minnesota. The Cooperative is governed by a Joint Powers Board, which consists of two members (a school board member, and the superintendent or another district employee) from each of the participating district. Any district may withdraw from the Cooperative prior to the issuance of any project financing instruments, provided that the withdrawing district reimburses the Cooperative for its pro rata portion of the total development or other project costs or other obligations incurred by the Cooperative. Once financing instruments, other than Clean Renewable Energy Bonds (CREBs), have been issued, a district may withdraw provided it prepays the outstanding balance of its pro rata portion of any outstanding financing instruments. Upon issuance of the CREBs, no district may withdraw membership until the CREBs have been repaid in full. The District has not committed any financial resources to the Cooperative as of June 30, 2007.

SINGLE AUDIT AND OTHER REQUIRED REPORTS

(This page intentionally left blank)

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2007**

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	\$ 47,339
Commodities Rebate	10.550	1-656-000	18,718
Type A Lunch	10.555	1-656-000	562,075
School Breakfast Program	10.553	1-656-000	217,675
Summer Food	10.559	1-656-000	13,422
Total US Department of Agriculture			<u>859,229</u>
US. Department of Education			
Pass-Through Minnesota Department of Education			
Adult Basic Education	84.002		26,129
Special Education - Grants to States	84.027		1,021,645
Special Education - Preschool Grants	84.173		31,466
Title I, Part A - Grants to Local Education Agencies	84.010		377,490
Title V, Part A - Innovative Education Program Strategies	84.298		7,474
Title II, Part A - Improving Teacher Quality	84.367		150,979
Title III - English Language Acquisition Grants	84.365		69,129
Special Education - Grants for Infants and Families with Disabilities	84.181		62,326
Title IV, Part A - Safe and Drug Free Schools	84.186		18,322
Carl Perkins	84.048A		12,821
Title II, Part D - Enhancing Education Through Technology	84.318		5,409
Title IV, Part B - 21st Century Community Learning Centers	84.287		336,944
Continuous Improvement / SAMS	84.027		1,432
Total US Department of Education			<u>2,121,566</u>
Corporation for National and Community Service			
Pass-Through ServeMinnesota			
Promise Fellows	94.006		<u>742,317</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE EXPENDED			<u><u>\$ 3,723,112</u></u>

See accompanying Notes to Schedule of Expenditures of Federal Awards.

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2007**

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, 2007, the District had food commodities totaling \$15,138 in inventory.

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

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

We have audited the financial statements governmental activities and each major fund of Independent School District No. 656 as of and for the year ended June 30, 2007, which collectively comprise Independent School District No. 656's basic financial statements and have issued our report thereon dated December 15, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accounting principles such there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying Schedule of Findings and Responses listed as items 2007-1 and 2007-2 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies described in the accompanying Schedule of Findings and Responses listed as items 2007-1 and 2007-2 to be material weaknesses.

Compliance and Other Matters

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

We have also issued a separate letter to management dated December 15, 2007, regarding business and other matters not deemed to be reportable conditions and nonmaterial compliance matters.

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

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


LarsonAllen LLP

Austin, Minnesota
December 15, 2007

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

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

Compliance

We have audited the compliance of Independent School District No. 656 with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. Independent School District No. 656's major federal programs are identified in the summary of the auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements and laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Independent School District No. 656's management. Our responsibility is to express an opinion on Independent School District No. 656's compliance based on our audit.

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

In our opinion, Independent School District No. 656 complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007. However, the results of our auditing procedures disclosed instances of noncompliance with Circular A-133, which are described in the accompanying Schedule of Findings and Questioned Costs as items 2007-3 and 2007-4.

Internal Control Over Compliance

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

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

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

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

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


LarsonAllen LLP

Austin, Minnesota
December 15, 2007

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, 2007, and have issued our report thereon dated December 15, 2007.

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

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

The results of our tests indicate that for the items tested the Independent School District No. 656 complied with the material terms and conditions of applicable legal provisions, except as described in the accompanying Schedule of Findings and Questioned Costs as item 2007-5.

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



LarsonAllen LLP

Austin, Minnesota
December 15, 2007

(This page intentionally left blank)

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007**

PART I: SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the basic financial statements of Independent School District No. 656.
2. Significant deficiencies in internal control were disclosed during the audit of the financial statements and are listed as Findings 2007-1 and 2007-2. These significant deficiencies are considered to be material weaknesses.
3. No instances of noncompliance material to the basic financial statements of Independent School District No. 656 were disclosed during the audit.
4. No significant deficiencies 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. Two audit findings relative to the major federal award programs for Independent School District No. 656 were disclosed during the audit. These are listed as Findings 2007-3 and 2007-4.
7. The programs tested as major programs included:

U.S. Department of Education:

Title I, Part A	CFDA #84.010
Special Education Cluster:	
Special Education - Grants to States	CFDA #84.027
Special Education – Preschool Incentive	CFDA #84.173
Child Nutrition Cluster:	
National School Lunch Program	CFDA #10.553
School Breakfast Program	CFDA #10.555

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

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007**

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

FINDING: 2007-01 MATERIAL AUDIT ADJUSTMENTS

- Condition:** The audit firm proposed and the District posted to its general ledger accounts certain misstatements.
- Criteria:** The District should have controls in place to prevent or detect a material misstatement in the financial statements in a timely manner.
- Questioned Costs:** None
- Context:** The District has informed us that they will continue to rely upon the audit firm to propose such audit adjustments as are necessary to adjust accounts in accordance with GAAP. Management will review and approve those entries prior to recording them.
- Effect:** No impact on the financial statements.
- Cause:** The District has not established controls to ensure that all accounts are adjusted to their appropriate year end balances in accordance with Generally Accepted Accounting Principles (GAAP).
- Recommendation:** The District should continue to evaluate its internal control processes to determine if additional internal control procedures should be implemented to ensure that accounts are adjusted to their appropriate year end balances in accordance with GAAP.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The District will continue to work towards making sure all accounts are in accordance with GAAP prior to the audit. The District will implement additional monthly review procedures to help ensure that all accounts are reconciled regularly. The District will also modify existing procedures to independently post all general ledger journal entries to correct certain year-end account balances.

Official Responsible for Ensuring CAP:

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

Planned Completion Date for CAP:

The planned completion date is June 30, 2008.

Plan to Monitor Completion of CAP:

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

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007**

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

FINDING: 2007-2 ANNUAL FINANCIAL REPORTING UNDER GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)

Condition: The District does not have an internal control policy in place over annual financial reporting under GAAP, therefore, the potential exists that a material misstatement of the annual financial statements could occur and not be prevented or detected by the District's internal controls.

Criteria: The District must be able to prevent or detect a material misstatement in the annual financial statements including footnote disclosures.

Questioned Costs: None

Context: The District has informed us that they do not have an internal control policy in place over the annual financial reporting and that they do not have the necessary staff and expertise to prevent or detect a material misstatement in the annual financial statements including footnote disclosures.

Effect: No effect on the financial statements.

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

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

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The District will explore the options and cost-effective feasibility of training existing personnel, or hiring/contracting additional personnel, to adequately prepare financial statements for the prevention or detection of a material misstatement in the annual statements of the district.

Official Responsible for Ensuring CAP:

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

Planned Completion Date for CAP:

The planned completion date is June 30, 2008.

Plan to Monitor Completion of CAP:

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

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007**

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

**FINDING: 2007-3 SPECIAL EDUCATION – GRANTS TO STATES – CFDA#84.027
PASS THROUGH MINNESOTA DEPARTMENT OF EDUCATION
TIME CERTIFICATIONS**

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

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

Questioned Costs: None

Context: Not applicable

Effect: No impact on the financial statements.

Cause: Not known.

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

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement With Audit Findings

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The District will immediately implement the recommendation.

Official Responsible for Ensuring CAP:

Elizabeth Keenan, Director of Special Services, is the official responsible for ensuring corrective action of the deficiency.

Planned Completion Date for CAP:

The planned completion date for the CAP is immediate.

Plan to Monitor Completion of CAP:

The Board of Education and administrative cabinet will review the CAP as of June 30, 2008.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007**

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

FINDING: 2007-4 **TITLE I, PART A – CFDA#84.010
PASS THROUGH MINNESOTA DEPARTMENT OF EDUCATION
PROCUREMENT PROCESS – SUSPENDED OR DEBARRED
CONTRACTORS**

Condition: The District does not have such policies in place.

Criteria: Common Rule requires that the District have in place formal policies to ensure that no subaward, contract, or agreement for purchases of goods or services is made with any debarred or suspended party.

Questioned Costs: None

Context: Not applicable

Effect: No impact on the financial statements.

Cause: Not known.

Recommendation: Policies and procedures should be prepared, approved, and implemented to ensure that suspended or debarred parties are not utilized.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement With Audit Findings

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The District will begin to review any purchases of goods or services relating to federal awards to make sure the party is not suspended or debarred by looking on the Excluded Parties List System website (www.epls.gov).

Official Responsible for Ensuring CAP:

Sandy Ihns, Director of Finance and Operations, and David Harwell, Director of Curriculum and Instructional Services, are the officials responsible for ensuring corrective action of the deficiency.

Planned Completion Date for CAP:

The planned completion date for the CAP is immediate.

Plan to Monitor Completion of CAP:

The Board of Education and administrative cabinet will review the CAP as of June 30, 2008.

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007**

PART IV: FINDINGS AND QUESTIONED COSTS – MINNESOTA LEGAL COMPLIANCE

FINDING: 2007-5 MINNESOTA LEGAL COMPLIANCE – BROKER ACKNOWLEDGEMENT STATEMENT

Condition: M.S. 118A.04, subd. 9 requires that the District annually, prior to completing an initial investment transaction with each broker, provide to that broker a written statement of investment restrictions. In addition, the broker should acknowledge receipt of the investment restrictions and agree to handle the government entity's account in accordance with the restrictions. The District is to retain such documentation. The District was unable to locate any evidence of the required statement and acknowledgement for the fiscal year ended June 30, 2007.

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

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement With Audit Findings

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The District obtained the required statements prior to any investments in fiscal year 2008.

Official Responsible for Ensuring CAP:

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

Planned Completion Date for CAP:

The planned completion date for the CAP is November 2007.

Plan to Monitor Completion of CAP:

The Board of Education and administrative cabinet will review the CAP as of June 30, 2008.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
SUMMARY SCHEDULE OF PRIOR FEDERAL AUDIT FINDINGS
YEAR ENDED JUNE 30, 2007**

<u>Comment Reference</u>	<u>Comment Title</u>	<u>Status</u>	<u>It not Corrected, Provide Planned Corrective Action or Other Explanation</u>
06-III-A	Title I – Semi-Annual Time Certifications not completed	Not Corrected	See current year Finding 2007-3.
06-IV-A	Minnesota Legal Compliance – Invoices not paid timely	Not Corrected	This was corrected immediately upon identification in 2007.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS
COMPLIANCE TABLE
JUNE 30, 2007**

01 GENERAL FUND

Total Revenue	\$ 36,185,984
Total Expenditures	\$ 36,708,013
<i>Reserved:</i>	
403 Staff Development	\$ 55,566
406 Health & Safety	\$ (234,902)
407 Capital Project Levy	\$ -
408 Cooperative Programs	\$ -
409 Deferred Maintenance	\$ -
410 Unemployment Compensation	\$ -
411 Severance Pay	\$ 506,828
412 Bus Purchase	\$ -
414 Operating Debt	\$ -
416 Levy Reduction	\$ -
419 Encumbrances	\$ -
423 Certain Teacher Programs	\$ -
424 Operating Capital	\$ 281,729
426 \$25 Taconite	\$ -
427 Disabled Accessibility	\$ -
428 Learning & Development	\$ -
429 Parental Involvement	\$ -
433 Student Transport Safety	\$ -
434 Area Learning Center	\$ 403,633
435 Contracted Alt. Programs	\$ -
436 State Approved Alt. Program	\$ -
437 Grad Standards Staff Develop.	\$ -
438 Gifted & Talented	\$ 6,691
439 Grad Standards	\$ -
441 Basic Skills Programs	\$ 40,844
442 Class Size, All-Day Kindergarten and Special Education Student-to-Instructor Ratio Reduction	\$ -
443 Telecommunication Access Cost	\$ -
445 Career and Technical Programs	\$ -
446 First Grade Preparedness	\$ -
449 Safe Schools	\$ 55,961
<i>Unreserved:</i>	
418 Severance - Ins. Premium	\$ -
422 Unreserved/Undesignated	\$ 674,537

02 FOOD SERVICE

Total Revenue	\$ 1,955,906
Total Expenditures	\$ 1,743,830
<i>Reserved:</i>	
411 Severance Pay	\$ -
419 Encumbrances	\$ -
<i>Unreserved:</i>	
418 Severance - Ins. Premium	\$ -
422 Unreserved/Undesignated	\$ 701,551

04 COMMUNITY SERVICE

Total Revenue	\$ 2,522,706
Total Expenditures	\$ 2,545,970
<i>Reserved:</i>	
411 Severance Pay	\$ -
419 Encumbrances	\$ -
426 \$25 Taconite	\$ -
431 Community Education	\$ 207,087
432 E.C.F.E.	\$ 171
444 School Readiness	\$ 4,727
447 Adult Basic Education	\$ 16,483
<i>Unreserved:</i>	
418 Severance Premium	\$ -
422 Unreserved/Undesignated	\$ 65,626

06 BUILDING CONSTRUCTION

Total Revenue	\$ 7,199
Total Expenditures	\$ 57,198
<i>Reserved:</i>	
407 Capital Projects Levy	\$ -
409 Alternative Facility Program	\$ -
419 Encumbrances	\$ -
<i>Unreserved:</i>	
422 Unreserved/Undesignated	\$ 109,476

07 DEBT SERVICE

Total Revenue	\$ 4,666,792
Total Expenditures	\$ 4,466,683
<i>Reserved:</i>	
425 Bond Refundings	\$ -
<i>Unreserved:</i>	
422 Unreserved/Undesignated	\$ 1,144,468

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	\$ -