

**INDEPENDENT SCHOOL DISTRICT #347  
WILLMAR, MINNESOTA**

**FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2003**

**INDEPENDENT SCHOOL DISTRICT #347  
WILLMAR, MINNESOTA  
TABLE OF CONTENTS  
YEAR ENDED JUNE 30, 2003**

**INTRODUCTORY SECTION**

<b>BOARD OF EDUCATION AND ADMINISTRATION</b>	<b>1</b>
--	----------

**FINANCIAL SECTION**

<b>INDEPENDENT AUDITORS' REPORT</b>	<b>2</b>
-------------------------------------	----------

**REQUIRED SUPPLEMENTARY INFORMATION**

<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	<b>4</b>
---	----------

**BASIC FINANCIAL STATEMENTS**

<b>STATEMENT OF NET ASSETS</b>	<b>20</b>
--------------------------------	-----------

<b>STATEMENT OF ACTIVITIES</b>	<b>21</b>
--------------------------------	-----------

<b>BALANCE SHEET – GOVERNMENTAL FUNDS</b>	<b>23</b>
---	-----------

<b>RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS</b>	<b>25</b>
---	-----------

<b>STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS</b>	<b>26</b>
---	-----------

<b>RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES</b>	<b>28</b>
---	-----------

<b>STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL – GENERAL FUND</b>	<b>29</b>
---	-----------

<b>STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – FOOD SERVICE FUND</b>	<b>30</b>
---	-----------

<b>STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL - COMMUNITY SERVICE FUND</b>	<b>31</b>
--	-----------

<b>STATEMENT OF FUND NET ASSETS – PROPRIETARY FUND</b>	<b>32</b>
--	-----------

<b>STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND NET ASSETS – PROPRIETARY FUND</b>	<b>33</b>
---	-----------

<b>STATEMENT OF CASH FLOWS – PROPRIETARY FUND</b>	<b>34</b>
---	-----------

<b>STATEMENT OF FIDUCIARY NET ASSETS</b>	<b>35</b>
--	-----------

<b>STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS</b>	<b>35</b>
---	-----------



INDEPENDENT SCHOOL DISTRICT #347  
WILLMAR, MINNESOTA  
TABLE OF CONTENTS  
YEAR ENDED JUNE 30, 2003

NOTES TO FINANCIAL STATEMENTS	36
SINGLE AUDIT AND OTHER REQUIRED REPORTS	
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	60
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	61
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROLS OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENTAL AUDITING     STANDARDS</i>	62
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	64
INDEPENDENT AUDITORS' REPORT ON LEGAL COMPLIANCE	66
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	67
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS COMPLIANCE TABLE	72
STUDENT ACTIVITY FUNDS	
INDEPENDENT AUDITORS' REPORT	73
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS – ELEMENTARY YEARBOOK ACTIVITY FUND	74
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS – JUNIOR HIGH ACTIVITY FUND	75
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS – SENIOR HIGH ACTIVITY FUND	76
NOTE TO STUDENT ACTIVITY FUND FINANCIAL STATEMENTS	77
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE	78



## INTRODUCTORY SECTION



**INDEPENDENT SCHOOL DISTRICT #347  
WILLMAR, MINNESOTA  
BOARD OF EDUCATION AND ADMINISTRATION  
JUNE 30, 2003**

Mike Reynolds	Chair
Sharon Emery	Vice Chair
Dion Warne	Treasurer
Sandra Unger	Clerk
Rudy Vigil, Jr.	Director
Brad Schmidt	Director
Mike Carlson	Director

**ADMINISTRATION**

Kathryn Leedom	Superintendent
Bob Haines	Director of Business and Finance
Bill Busta	Director of Human Resources



(This page intentionally left blank)

## FINANCIAL SECTION

(This page intentionally left blank)

## INDEPENDENT AUDITORS' REPORT

Board of Education  
Independent School District #347  
Willmar, Minnesota

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Independent School District #347 as of and for the year ended June 30, 2003, 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 an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards 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.

As described in the notes to the basic financial statements, Independent School District #347 adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of June 30, 2003.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District #347 as of June 30, 2003 and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund, Food Service Fund, and Community Service Fund for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2003, on our consideration of Independent School District #347's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on page 4 through page 19 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise Independent School District #347's basic financial statements. The accompanying schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the uniform financial accounting and reporting standards compliance table are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the uniform financial accounting and reporting standards compliance table have been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

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

Austin, Minnesota  
October 14, 2003

## REQUIRED SUPPLEMENTARY INFORMATION

(This page intentionally left blank)

## INDEPENDENT SCHOOL DISTRICT # 347

### MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2003

This section of Willmar Public Schools – Independent School District 347's annual financial report presents management's discussion of the District's financial performance during the fiscal year that ended on June 30, 2003. Please read it in conjunction with the District's financial statements, which immediately follow this section.

The Management's Discussion and Analysis (MD&A) is a new 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. Certain comparative information between the current year (2002-2003) and the prior year (2001-2002) is required to be presented in the MD&A. However, since this is the first year of implementation of the new reporting model contained in GASB Statement No. 34, and that Statement permits the omission of prior year data in the year of implementation, the District has elected not to prepare comparative data due to the cost of adjusting prior year's financial statements to the new reporting model. In future years the District will present comparative data.

#### FINANCIAL HIGHLIGHTS

Key financial highlights for the 2002-2003 fiscal year include the following:

- The General Fund undesignated-unreserved fund balance increased \$3.31 million and the District exceeded its fund balance goal of 6% of expenditures. This achievement was due to numerous factors; including the impact of the new referendum passed in 2001, higher than expected special education revenues, and lower than expected overall expenditures.
- Net Assets increased 45.3 percent over the prior year.
- Overall revenues in the Statement of Activities were \$43.32 million and exceeded expenditures by \$4.57 million.
- The District reduced its outstanding long-term liabilities by \$1.64 million, or 6.21 percent.

#### OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of four parts. They are:

- Independent Auditors' Report,
- Required Supplementary information which includes the Management's Discussion and Analysis (this section),
- Basic financial statements, Notes to financial statements, and
- Other required reports and information.



INDEPENDENT SCHOOL DISTRICT # 347

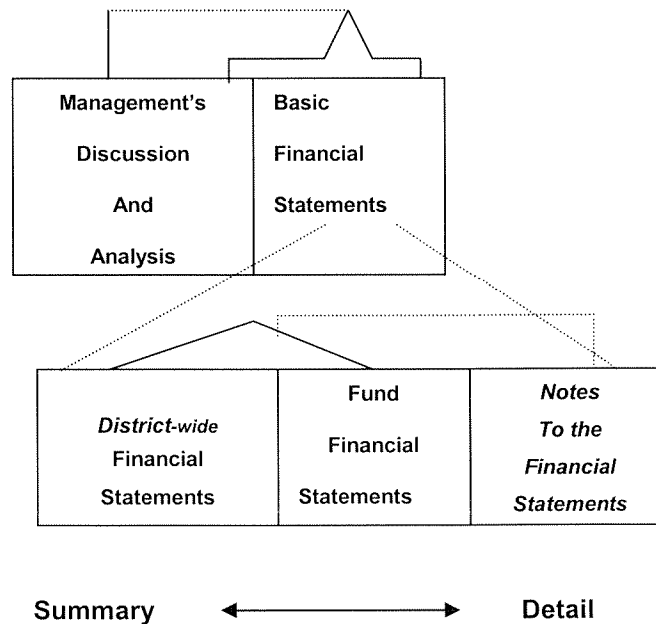
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
YEAR ENDED JUNE 30, 2003

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

- The **district-wide financial statements**, including the Statement of Net Assets and the Statement of Activities, provide both **short-term** and **long-term** information about the District's **overall** financial status.
- The remaining statements are **fund financial statements** that focus on **individual parts** of the District, reporting the District's operations in **more detail** than the district-wide statements. The District maintains three groups of fund financial statements. They are:
  - The **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.
  - **Proprietary funds statements** offer **short** and **long-term** financial information about the activities the district operates like **businesses**.
  - **Fiduciary funds statements** provide information about the financial relationships in which the District acts solely as a **trustee or agent** for the benefit of others to whom the resources belong.

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

Figure A-1 Organization of Willmar Public Schools Annual Financial Report



**INDEPENDENT SCHOOL DISTRICT # 347**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
YEAR ENDED JUNE 30, 2003**

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

<b>Figure A-2 Major Features of the District-Wide and Fund Financial Statements</b>				
	<b>District-wide Statements</b>	<b>Fund Financial Statements</b>		
		<b>Governmental Funds</b>	<b>Proprietary Funds</b>	<b>Fiduciary Funds</b>
<b>Scope</b>	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as building maintenance, food service and community education	Activities the district operates similar to private businesses: Internal service fund	Instances in which the district administers resources on behalf of someone else, such as flexible benefit plan
<b>Required financial statements</b>	<ul style="list-style-type: none"> <li>• Statement of Net Assets</li> <li>• Statement of Activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance Sheet</li> <li>• Statement of revenue, expenditures and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Net Assets</li> <li>• Statement of Revenue, Expenses, and Changes in Fund Net Assets</li> <li>• Statement of Cash Flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Fiduciary Net Assets</li> <li>• Statement of Changes in Fiduciary Net Assets</li> </ul>
<b>Accounting Basis and measurement focus</b>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
<b>Type of asset/liability information</b>	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
<b>Type of inflow/outflow information</b>	All revenues and expenses during year, regardless of when cash is received or paid.	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable.	All revenues and expenses during the year, regardless of when cash is received or paid.	All additions and dedications during the year, regardless of when cash is received or paid.

## INDEPENDENT SCHOOL DISTRICT # 347

### MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) YEAR ENDED JUNE 30, 2003

#### District-wide Statements

The district-wide statements (Statement of Net Assets and Statement of Activities) report information about the District as a whole using accounting methods similar to those used by private sector companies. The Statement of Net Assets includes **all** of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two district-wide statements report the District's **net assets** and how they have changed. Net assets – the difference between the District's assets and liabilities – is 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 overall health of the District, one needs to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the district-wide financial statements the District's activities are shown in one category titled Governmental Funds:

- **Governmental Funds** – Most of the District's basic services are included here, such as regular and special education, transportation, administration, food service, and community education. Property taxes and state 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:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes, such as a Scholarship fund to manage scholarship money.

The District has three kinds of funds:

- **Governmental funds** – The District's basic services are included in governmental funds, which generally focus on: 1) how **cash and other financial assets** that 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 helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, additional information (reconciliation schedules) is provided at the bottom of the governmental funds statements that explains the relationship (or differences) between these two types of financial statement presentations.

INDEPENDENT SCHOOL DISTRICT # 347

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
YEAR ENDED JUNE 30, 2003

- **Proprietary funds** – Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the district-wide statements. The District's sole Proprietary fund is an internal service fund.
  - The District uses internal service funds to report activities that provide supplies and services for the District's other programs and activities. The district currently has one internal service fund for the dental self-insurance program.
- **Fiduciary funds** – The District is a trustee, or fiduciary, for assets that belong to others, such as the Scholarship Fund. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets and Statement of Changes in Fiduciary Net Assets. These activities are excluded from the district-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

**Net Assets.** The District's **combined** net assets were \$14.65 million on June 30, 2003. This was an increase of 45.3% from the previous year total of \$10.08 million. (See Table A-1 below).

**Table A-1  
Independent School District #347  
Willmar Public Schools**

**Net Assets – Government Activities  
As of June 30, 2003**

Current and Other Assets	\$23,018,721
Capital Assets	<u>33,169,674</u>
<b>Total Assets</b>	<b>56,188,395</b>
Long-term Liabilities	22,854,287
Other Liabilities	<u>18,680,409</u>
<b>Total Liabilities</b>	<b>41,534,696</b>
Net Assets	
Invested in capital assets, net of related debt	11,314,674
Restricted	1,693,277
Unrestricted	<u>1,645,748</u>
<b>Total Net Assets</b>	<b><u>\$14,653,699</u></b>

**INDEPENDENT SCHOOL DISTRICT # 347**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
YEAR ENDED JUNE 30, 2003**

The District's improved financial position in fiscal year 2003 is the product of many factors. However, one item stands out:

- The District began receiving revenue in fiscal year 2003 from the new levy referendum passed by local taxpayers in 2001. This referendum revenue added \$2.4 million in new revenue in 2003.

**Table A-2  
Independent School District #347  
Willmar Public Schools**

**Change in Net Assets  
Year Ended June 30, 2003**

<b>Revenues</b>	
Program Revenues	
Charges for Services	\$2,561,176
Operating Grants and Contributions	13,288,073
Capital Grants and Contributions	994,427
General Revenues	
Property Taxes	3,743,703
Unallocated Federal and State Aid	22,545,637
Other	<u>189,252</u>
Total Revenues	43,322,268
<b>Expenses</b>	
Administration	1,192,060
District Support Services	1,493,396
Regular Instruction	15,612,289
Vocational Education Instruction	1,009,389
Special Education Instruction	6,967,950
Instructional Support Services	1,857,142
Pupil Support Services	2,529,455
Sites and Buildings	3,233,977
Fiscal and Other Fixed Cost Programs	300,954
Food Service	1,638,630
Community Service	1,753,628
Interest and fiscal charges on long-term liabilities	<u>1,164,807</u>
Total Expenses	<u>38,753,677</u>
<b>Increase in Net Assets</b>	<b><u><u>\$4,568,591</u></u></b>
<b>End of Year Net Assets</b>	<b><u><u>\$14,653,699</u></u></b>

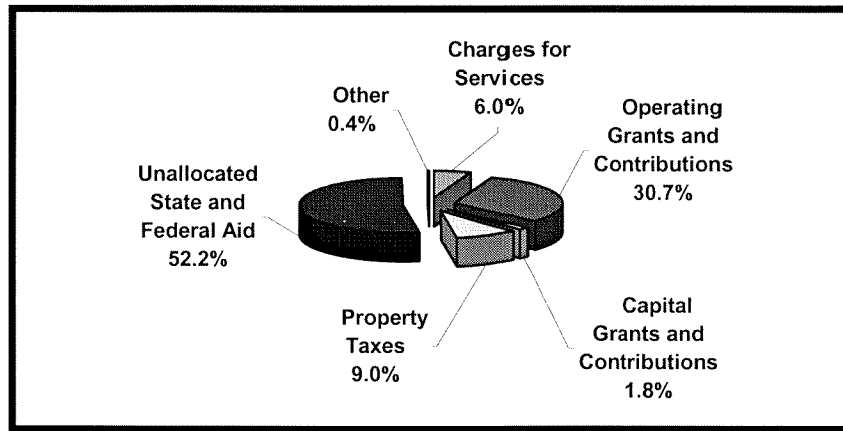
INDEPENDENT SCHOOL DISTRICT # 347

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
YEAR ENDED JUNE 30, 2003

**Changes in Net Assets.** The District's total revenues were \$43.32 million for the year ended June 30, 2003. Unallocated State and federal aid along with local property taxes accounted for 61.2 percent of the total revenue for the year. (see Figure A-3 below.) Another 0.4 percent came from other general revenue and the remainder from program revenues.

Figure A-3

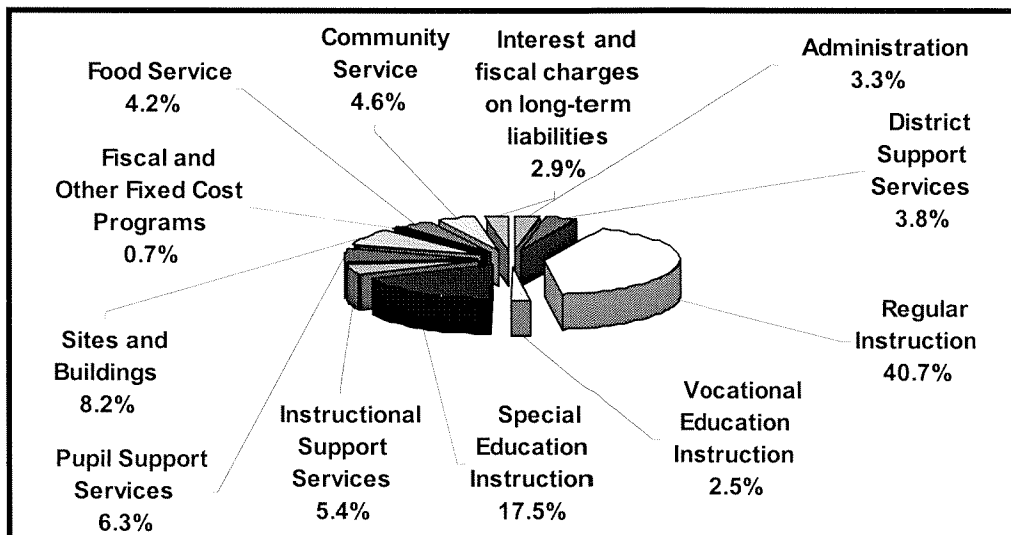
Sources of Independent School District #347 Revenues for Fiscal Year 2003



The total cost of all programs and services was \$38,753,677. The District's expenses are predominantly related to student education (72.4 percent). (See Figure A-4 below.) The purely administrative activities of the District accounted for 3.1 percent of total costs. Total revenues surpassed expenses, increasing net assets \$4,568,591 over last year.

Figure A-4

Independent School District #347 Expenses for Fiscal Year 2003



**INDEPENDENT SCHOOL DISTRICT # 347**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
YEAR ENDED JUNE 30, 2003**

- The cost of all **governmental** activities this year was \$38,753,677 (See Table A-3 below).
  - The users of the District's programs paid for 6.6%, or \$2,561,176, of the costs.
  - The federal and state governments subsidized certain programs with grants and contributions. This totaled \$13,288,073, or 34.3% of the total costs for 2002-2003.
  - Most of the District's costs (\$21,910,001), however, were paid for by state taxpayers based on the statewide education aid formula and by District taxpayers.

**Table A-3  
Independent School District #347  
Willmar Public Schools**

**Net Cost of Governmental Activities  
Year Ended June 30, 2003**

	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
Administration	\$1,192,060	\$1,192,060
District Support Services	1,493,396	1,465,676
Regular Instruction	15,612,289	9,008,993
Vocational Education Instruction	1,009,389	875,061
Special Education Instruction	6,967,950	2,064,500
Instructional Support Services	1,857,142	1,019,023
Pupil Support Services	2,529,455	2,264,327
Sites and Buildings	3,233,977	2,518,183
Fiscal and Other Fixed Cost Programs	300,954	300,954
Food Service	1,638,630	(170,724)
Community Service	1,753,628	207,141
Interest and fiscal charges on long-term liabilities	<u>1,164,807</u>	<u>1,164,807</u>
Total	<u>\$38,753,677</u>	<u>\$21,910,001</u>

INDEPENDENT SCHOOL DISTRICT # 347

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
YEAR ENDED JUNE 30, 2003

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

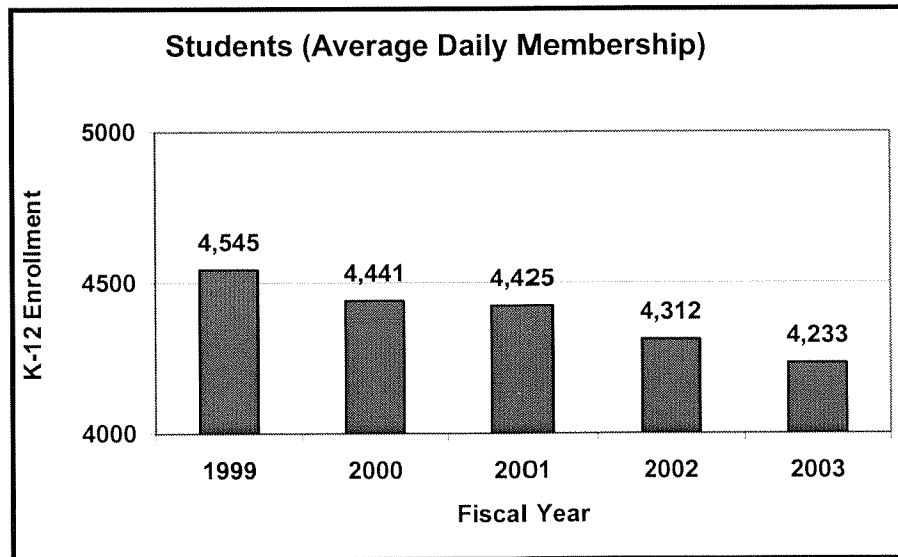
The financial performance of the District as a whole is reflected in its governmental funds. At the end of the 2002-2003 fiscal year, the District's governmental funds reported a **combined** fund balance of \$6,660,295, a 130.4% increase above last year's ending fund balance of \$2,891,295.

Revenues and other financing sources for the District's governmental funds were \$43,331,843, while total expenditures were \$39,563,893. As a result, the District completed the year with an excess of revenues over expenditures of \$3,767,950.

GENERAL FUND

The General Fund is used by the District to record the primary operations of providing educational services to students from kindergarten through grade 12. Pupil transportation activities and capital and major maintenance projects are also included in the General Fund.

**Enrollment.** Funding for Minnesota school districts is largely driven by enrollment. The majority of Minnesota school districts are facing declining enrollment. Over the last five years, the District has averaged a 1.62 percent decline in the number of students. The graph below shows that the number of students has decreased over the last five years.



Although the overall population of the District has continued to grow since 1990, the youth population has steadily declined for ages 0 – 9 during the same period. Also, the number of households with children has also declined in the same period. Demographic projections show these trends are expected to continue. A much smaller, but important factor affecting declining enrollment is the loss of students to other districts through open enrollment options, especially for students living in areas bordering neighboring school districts.



**INDEPENDENT SCHOOL DISTRICT # 347**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
YEAR ENDED JUNE 30, 2003**

Because of the above-mentioned demographic trends, and even factoring in promising economic development taking place in the Willmar area, the District predicts that enrollment will continue to decline in the next five years. The District actively uses several state-of-the-art enrollment projection models. In addition, the District completed a detailed enrollment and demographic study in September of 2003.

The following schedule presents a summary of General Fund revenues:

	<u>Year Ended</u> <u>June 30, 2003</u>	<u>Year Ended</u> <u>June 30, 2002</u>	<u>Amount of</u> <u>Increase</u> <u>(Decrease)</u>	<u>Percent</u> <u>Increase</u> <u>(Decrease)</u>
Local Sources				
Property Taxes	\$1,462,929	\$3,593,950	\$(2,131,021)	-59.29%
Interest Earnings	142,136	180,849	(38,713)	-21.41%
Other	1,815,745	2,417,740	(601,995)	-24.90%
State Sources	32,194,247	26,390,524	5,803,723	21.99%
Federal Sources	<u>1,593,643</u>	<u>1,687,479</u>	<u>(93,836)</u>	-5.56%
Total Revenues	37,208,700	34,270,542	2,938,158	8.57%
Other Financing Sources				
Sale of Capital Assets	<u>1,050</u>	<u>0</u>	<u>1,050</u>	
Total General Fund Revenues and Other Financing Sources	<u>\$37,209,750</u>	<u>\$34,270,542</u>	<u>\$2,939,208</u>	8.58%

Total General Fund revenue increased by \$2,939,208 or 8.58% from the previous year. Basic general education revenue is determined by a state per student funding formula. Other state-authorized revenue, including excess levy referendum, involve an equalized mix of property tax and state aid revenue. Therefore, the mix of property tax and state aid can change significantly from year to year without any net change in revenue.

Overall, the increase in revenues can be attributed to:

- Increased state aid as a result of equalization from the new excess levy referendum passed in November of 2001, a per pupil general education revenue increase and new state property tax reform legislation.

**INDEPENDENT SCHOOL DISTRICT # 347**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
YEAR ENDED JUNE 30, 2003**

The following schedule presents a summary of General Fund expenditures:

	<u>Year Ended</u> <u>June 30, 2003</u>	<u>Year Ended</u> <u>June 30, 2002</u>	<u>Amount of</u> <u>Increase</u> <u>(Decrease)</u>	<u>Percent</u> <u>Increase</u> <u>(Decrease)</u>
Salaries	\$21,395,957	\$20,141,643	\$1,254,314	6.23%
Employee Benefits	4,780,820	4,641,611	139,209	3.00%
Purchased Services	4,687,872	4,667,939	19,933	0.43%
Supplies & Materials	1,259,670	1,207,926	51,744	4.28%
Capital Expenditures	1,001,832	845,605	156,227	18.48%
Other Expenditures	<u>253,540</u>	<u>423,015</u>	<u>(169,475)</u>	-40.06%
 Total General Fund Expenditures	 <u>\$33,379,691</u>	 <u>\$31,927,739</u>	 <u>\$1,451,952</u>	 4.55%

Total General Fund expenditures increased \$1,451,952 or 4.55 percent from the previous year. More than 96 percent of the increase can be attributed to increases in salaries and related benefits as a result of board-approved contracts.

In fiscal year 2002-2003 salaries increased 6.23 percent and employee benefits increased by 3.0 percent. Of the \$1,254,314 increase in salaries, \$502,269 is due to increased Special Education program salaries. In addition, \$217,570 of the overall district increase is a result of higher severance costs due to more staff retirements than the prior year. The District's largest salary program, Elementary and Secondary Instruction, increased by 2 percent in 2003. Non-Salary and Benefits expenditures showed a .82 percent increase in fiscal year 2003.

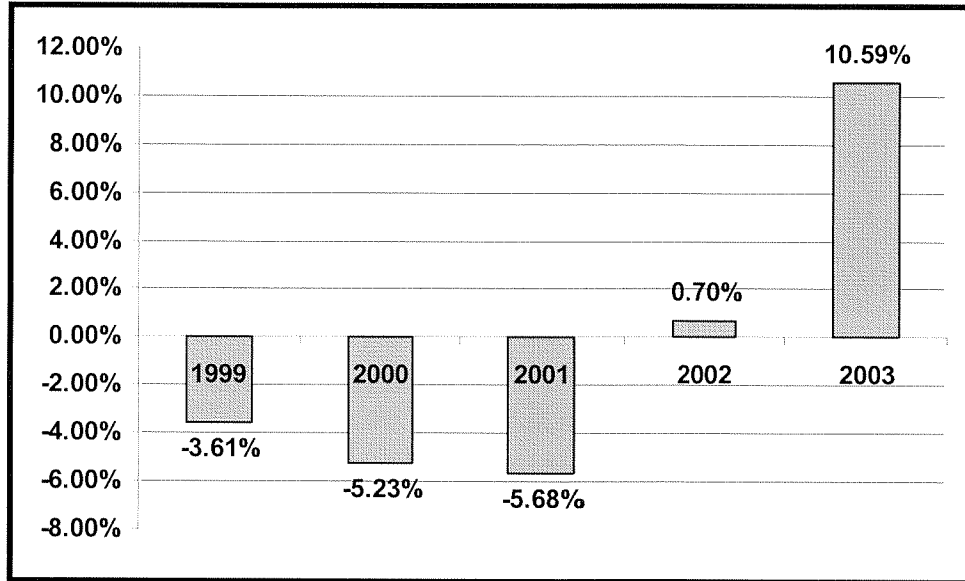
In summary, 2002-2003 General Fund revenues exceeded General Fund expenditures by \$3,830,059. As a result, the total fund balance increased to \$6,660,295 at June 30, 2003. After deducting statutory reserves, the unreserved-undesignated fund balance increased from \$224,214 at June 30, 2002 to \$3,536,006 at June 30, 2003.

INDEPENDENT SCHOOL DISTRICT # 347

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
YEAR ENDED JUNE 30, 2003

The following graph and chart depicts the General Fund unreserved-undesignated fund balance as a percentage of expenditures for fiscal years 1999 - 2003:

**General Fund  
Unreserved-Undesignated Fund Balance as a Percentage of Expenditures**



	1999	2000	2001	2002	2003
<b>Unreserved-undesignated Fund Balance</b>	-\$1,193,188	-\$1,740,905	-\$2,024,688	\$224,214	\$3,536,006
<b>% Change</b>	-367.11%	-45.90%	-16.30%	111.07%	1477.07%
<b>Expenditures</b>	\$33,097,305	\$33,310,257	\$35,648,597	\$31,927,739	\$33,379,691
<b>% Change</b>	1.43%	0.64%	7.02%	-10.44%	4.55%

The graph and chart above, describing the District's unreserved-undesignated fund balance trend, offer the single best measure of the District's overall financial health. The unreserved-undesignated fund balance of \$3,536,006 on June 30, 2003 represents 10.59% of annual expenditures or about five weeks of normal operating expenditures.

The District closely monitors the General Fund unreserved-undesignated fund balance through use of a detailed financial planning model, initiating two budget revisions during the year and with monthly budget analysis. The School Board has adopted a formal fund balance policy to reach and maintain a 6 percent (as a percentage of expenditures) fund balance in the General Fund unreserved-undesignated fund.

## INDEPENDENT SCHOOL DISTRICT # 347

### MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) YEAR ENDED JUNE 30, 2003

#### General Fund Budgetary Highlights

The District revised the annual operating budget two times during the year.

While the District's final budget for the general fund anticipated that revenues would exceed expenditures by over \$2.22 million, the actual results for the year show that revenues exceeded expenditures by \$3.83 million.

- Actual revenues were \$381,625, or 1.1 percent, more than budget, due largely to higher than expected special education revenues.
- Actual expenditures were \$1.23 million, or 3.6 percent, less than budget.
  - Approximately \$1.02 million of the budget savings are a result of positive variances in non-salary and benefit budgets, highlighted by the following areas: 1) \$511,118 under budget on staff development and travel/conferences; 2) \$247,094 under budget on tuition bills payable; and 3) \$214,661 under budget on supplies and materials.
  - The combined salary and benefits budgets were under budget by \$210,174.

#### FOOD SERVICE FUND

The Food Service Fund revenue for 2002-2003 totaled \$1.81 million and expenditures were \$1.63 million, resulting in a fund balance increase of \$182,773. The fund balance increase is primarily a result of the new Fast Break to Learning breakfast program in grades K – 6. The District's intent is to invest the gains from the breakfast program into a number of Food Service capital projects in the next several years that emphasize kitchen code compliance and process flow opportunities. The June 30, 2003 Food Service fund balance is \$398,961.

#### COMMUNITY SERVICE FUND

In 2002-2003, the total revenues for the Community Service Fund were \$1.66 million and total expenditures were \$1.81 million. Total expenditures exceeded revenues by \$158,191, resulting in a decrease of the same amount in the June 30, 2003 fund balance. The Community Service Fund fund balance as of June 30, 2003 is \$231,529. Revenues were reduced by \$183,566 in 2003 due to unexpected Community Service finance legislation passed by the state legislature during the fiscal year.

#### DEBT SERVICE FUND

The Debt Service Fund expenditures exceeded revenues by \$85,641 in 2002-2003. The remaining fund balance of \$907,371 at June 30, 2003 is available for meeting future debt service obligations.

INDEPENDENT SCHOOL DISTRICT # 347

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
YEAR ENDED JUNE 30, 2003

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

By the end of 2003, the District had net capital assets of \$33,169,674 representing a broad range of capital assets, including school buildings, computer and audio-visual equipment, and other equipment for various instructional programs. (See Table A-4.) More detailed information about capital assets can be found in Note 4 to the financial statements. Total depreciation expense for the year was \$1.11 million.

**Table A-4**  
**Independent School District #347**  
**Willmar Public Schools**

**Capital Assets**

	<u>Governmental Activities</u>
Land	\$630,422
Land Improvements	1,891,210
Buildings	45,999,552
Equipment	3,069,016
Vehicles	289,424
Less Accumulated Depreciation	<u>(18,709,950)</u>
<b>Total</b>	<u><u>\$33,169,674</u></u>

**INDEPENDENT SCHOOL DISTRICT # 347**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
YEAR ENDED JUNE 30, 2003**

**Long-term Liabilities**

At year-end, the District had \$21.86 million in general obligation bonds outstanding. This is a decrease of 6.58 percent from the previous year - as shown in Table A-5 below. The District also had \$2.61 million in separation and severance payable at June 30, 2003, a decrease of 3.03 percent from the previous year. Overall, the District's outstanding long-term liabilities decreased by 6.21 percent in fiscal year 2003. More detailed information about the District's long-term liabilities is presented in Note 5 to the financial statements.

- The District continues to pay down its debt, retiring \$1,540,000 of outstanding bonds in the year ending June 30, 2003.
- No new bonds were issued during the year.

**Table A-5  
Independent School District #347  
Willmar Public Schools**

**Outstanding Long-Term Liabilities**

	Total School District		Total Percent Change
	2003	2002	
General Obligation Bonds	\$21,855,000	\$23,395,000	-6.58%
U.S. EPA Loan Payable	15,425	20,425	-24.48%
Special Assessments	80,096	105,908	-24.37%
Accrued Vacation	129,365	110,510	17.06%
Separation and Severance Payable	2,612,750	2,694,403	-3.03%
<b>Total</b>	<b><u>\$24,692,636</u></b>	<b><u>\$26,326,246</u></b>	<b>-6.21%</b>

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

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

The 2003 Legislature approved a 0% increase in the General Education formula for 2003-2004 and 2004-2005. This funding formula is below the current annual rate of inflation. Accordingly, the District continues to utilize sophisticated enrollment and financial planning tools, along with detailed and conservative budgeting and budget monitoring processes.

**INDEPENDENT SCHOOL DISTRICT # 347**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
YEAR ENDED JUNE 30, 2003**

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide District citizens, taxpayers, customers, and 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 one has questions about this report or need additional financial information, contact the Business Office, Independent School District 347, 611 5<sup>th</sup> St SW, Willmar, MN 56201, visit the District website at [www.willmar.k12.mn.us](http://www.willmar.k12.mn.us), or call at 320-231-8500.

## **BASIC FINANCIAL STATEMENTS**



(This page intentionally left blank)

**INDEPENDENT SCHOOL DISTRICT #347  
WILLMAR, MINNESOTA  
STATEMENT OF NET ASSETS  
JUNE 30, 2003**

	Governmental Activities
<b>ASSETS</b>	
Cash and Temporary Investments	\$ 7,579,993
Investments	5,000,000
Receivables	
Property Taxes	2,367,377
Accounts Receivable	50,422
Interest Receivable	54,623
Due From Other MN School Districts	1,100,000
Due From MN Department Of Education	6,620,470
Inventories	65,788
Prepaid Expenditures	180,048
Capital Assets	
Land	630,422
Other Capital Assets, Net of Depreciation	32,539,252
Total Assets	56,188,395
<b>LIABILITIES</b>	
Accounts Payable	665,146
Salaries Payable	2,787,722
Interest Payable	636,461
Due To Other Districts	174,813
Due To Other Governmental Units	6,523
Deferred Revenue	144,384
Property Taxes Levied for Subsequent Year's Expenditures	3,951,324
Aid Anticipation Certificates Payable	8,475,687
Noncurrent Liabilities	
Due Within One Year	1,838,349
Due in More Than One Year	22,854,287
Total Liabilities	41,534,696
<b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	11,314,674
Restricted for	
Capital Asset Acquisition	213,591
Other Purposes	1,479,686
Unrestricted	1,645,748
Total Net Assets	\$ 14,653,699

See accompanying Notes to Financial Statements.

**INDEPENDENT SCHOOL DISTRICT #347  
WILLMAR, MINNESOTA  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2003**

Functions	Expenses	Charges for Services	Program Operating Grants and Contributions
<b>Governmental Activities</b>			
Administration	\$ 1,192,060	\$ -	\$ -
District Support Services	1,493,396	-	22,737
Regular Instruction	15,612,289	512,050	5,915,261
Vocational Education Instruction	1,009,389	29,342	89,984
Special Education Instruction	6,967,950	818,281	4,085,169
Instructional Support Services	1,857,142	16,405	706,987
Pupil Support Services	2,529,455	-	265,128
Sites and Buildings	3,233,977	32,064	-
Fiscal and Other Fixed Cost Programs	300,954	-	-
Food Service	1,638,630	689,411	1,119,943
Community Service	1,753,628	463,623	1,082,864
Interest and Fiscal Charges on Long-Term Liabilities	1,164,807	-	-
Total School District	<u>\$ 38,753,677</u>	<u>\$ 2,561,176</u>	<u>\$ 13,288,073</u>

**General Revenues**

Property Taxes Levied for  
  General Purposes  
  Community Service  
  Debt Service  
Federal and State Aid Not  
  Restricted to Specific Purposes  
Earnings on Investments  
Gain on Sale of Asset  
Miscellaneous  
  Total General Revenues

Changes in Net Assets  
  Net Assets - Beginning

Net Assets - Ending

See accompanying Notes to Financial Statements.

Revenues	Net (Expense) Revenue and Changes in Net Assets
Capital Grants and Contributions	Total Governmental Activities
\$ -	\$ (1,192,060)
4,983	(1,465,676)
175,985	(9,008,993)
15,002	(875,061)
-	(2,064,500)
114,727	(1,019,023)
-	(2,264,327)
683,730	(2,518,183)
-	(300,954)
-	170,724
-	(207,141)
-	-
-	(1,164,807)
<u>\$ 994,427</u>	(21,910,001)

1,450,890
74,427
2,218,386
22,545,637
178,094
1,050
10,108
<u>26,478,592</u>
4,568,591
<u>10,085,108</u>
<u>\$ 14,653,699</u>

**INDEPENDENT SCHOOL DISTRICT #347  
WILLMAR, MINNESOTA  
BALANCE SHEET – GOVERNMENTAL FUNDS  
JUNE 30, 2003**

	Major		
	General	Food Service	Community Service
<b>ASSETS</b>			
Cash and Temporary Investments	\$ 4,856,672	\$ 296,012	\$ 464,218
Investments	5,000,000	-	-
Receivables			
Current Taxes	778,802	-	124,649
Delinquent Taxes	25,391	-	1,871
Accounts Receivable	48,350	1,410	662
Interest Receivable	54,623	-	-
Due From Other MN School Districts	1,100,000	-	-
Due From MN Department of Education	6,296,441	99,594	154,265
Due From Other Funds	63,357	-	-
Inventory	28,806	36,982	-
Prepaid Expenditures	175,424	1,338	3,286
Total Assets	<u>\$ 18,427,866</u>	<u>\$ 435,336</u>	<u>\$ 748,951</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities			
Accounts Payable	603,936	14,854	42,381
Salaries And Wages Payable	2,666,435	21,521	99,766
Interest Payable	164,057	-	-
Due To Other Districts	174,813	-	-
Due to Other Governmental Units	1,720	-	4,803
Deferred Revenue	25,391	-	146,255
Property Taxes Levied For Subsequent Years' Expenditures	1,193,393	-	224,217
Aid Anticipation Certificates Payable	8,475,687	-	-
Total Liabilities	<u>13,305,432</u>	<u>36,375</u>	<u>517,422</u>
Fund Balances			
Reserved for			
Staff Development	341,981	-	-
Health and Safety	(71,046)	-	-
Reemployment	1,666	-	-
Severance Pay	892,461	-	-
Operating Capital	213,591	-	-
Disabled Accessibility	4,617	-	-
Area Learning Center	203,158	-	-
Community Education	-	-	17,117
Early Childhood Family Education	-	-	58,111
School Readiness	-	-	16,711
Debt Service	-	-	-
Undesignated, Reported in			
General Fund	3,536,006	-	-
Special Revenue Funds	-	398,961	139,590
Total Fund Balances	<u>5,122,434</u>	<u>398,961</u>	<u>231,529</u>
Total Liabilities and Fund Balances	<u>\$ 18,427,866</u>	<u>\$ 435,336</u>	<u>\$ 748,951</u>

See accompanying Notes to Financial Statements.

Funds	Total Governmental Funds
Debt Service	
\$ 1,963,091	\$ 7,579,993
-	5,000,000
1,408,574	2,312,025
28,090	55,352
-	50,422
-	54,623
-	1,100,000
70,170	6,620,470
-	63,357
-	65,788
-	180,048
<u>\$ 3,469,925</u>	<u>\$ 23,082,078</u>
750	661,921
-	2,787,722
-	164,057
-	174,813
-	6,523
28,090	199,736
2,533,714	3,951,324
-	8,475,687
<u>2,562,554</u>	<u>16,421,783</u>
-	341,981
-	(71,046)
-	1,666
-	892,461
-	213,591
-	4,617
-	203,158
-	17,117
-	58,111
-	16,711
907,371	907,371
-	3,536,006
-	538,551
<u>907,371</u>	<u>6,660,295</u>
<u>\$ 3,469,925</u>	<u>\$ 23,082,078</u>

(This page intentionally left blank)

**INDEPENDENT SCHOOL DISTRICT #347  
WILLMAR, MINNESOTA  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
YEAR ENDED JUNE 30, 2003**

<b>Total Fund Balances for Governmental Funds</b>		\$ 6,660,295
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	\$ 630,422	
Other Capital Assets, Net of \$18,709,949		
Accumulated Depreciation	32,539,252	33,169,674
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.		
		55,352
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.		
		(472,404)
Internal service fund is used by management to charge the costs associated with Delta Dental insurance. The assets and liabilities of this internal service fund are included in governmental activities in the statement of net assets. Internal service fund net assets at year-end are:		
		(66,582)
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	(21,855,000)	
U.S. EPA Loan Payable	(15,425)	
Special Assessments	(80,096)	
Accrued Vacation	(129,365)	
Separation and Severance Payable	(2,612,750)	(24,692,636)
Total Net Assets of Governmental Activities		\$ 14,653,699

See accompanying Notes to Financial Statements.



**INDEPENDENT SCHOOL DISTRICT #347  
WILLMAR, MINNESOTA  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2003**

Major

	General	Food Service	Community Service
<b>REVENUES</b>			
Local Property Tax Levies	\$ 1,462,929	\$ -	\$ 73,418
Other Local and County Revenues	1,921,687	6,999	758,420
Revenues from State Sources	32,194,247	212,584	737,513
Revenues from Federal Sources	1,593,643	903,820	84,842
Sales and Other Conversion of Assets	36,194	689,411	842
Total Revenues	<u>37,208,700</u>	<u>1,812,814</u>	<u>1,655,035</u>
<b>EXPENDITURES</b>			
Administration	1,188,380	-	-
District Support Services	1,496,621	-	-
Regular Instruction	14,792,484	-	42,128
Vocational Education Instruction	1,016,872	-	-
Special Education Instruction	6,965,758	-	-
Instructional Support Services	1,786,264	-	-
Pupil Support Services	2,522,229	-	9,466
Sites and Buildings	3,310,991	-	-
Fiscal and Other Fixed Cost Programs	300,092	-	-
Food Service	-	1,630,041	-
Community Service	-	-	1,761,632
Debt Service			
Principal	-	-	-
Interest and Fiscal Charges	-	-	-
Total Expenditures	<u>33,379,691</u>	<u>1,630,041</u>	<u>1,813,226</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>3,829,009</u>	<u>182,773</u>	<u>(158,191)</u>
<b>OTHER FINANCING SOURCES</b>			
Sale of Capital Assets	1,050	-	-
Total Other Financing Sources	<u>1,050</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	3,830,059	182,773	(158,191)
<b>Fund Balances - Beginning</b>	<u>1,292,375</u>	<u>216,188</u>	<u>389,720</u>
<b>Fund Balances - Ending</b>	<u>\$ 5,122,434</u>	<u>\$ 398,961</u>	<u>\$ 231,529</u>

See accompanying Notes to Financial Statements.

Funds

<u>Debt Service</u>	<u>Total Governmental Funds</u>
\$ 2,217,981	\$ 3,754,328
24,546	2,711,652
412,767	33,557,111
-	2,582,305
-	726,447
<u>2,655,294</u>	<u>43,331,843</u>
-	1,188,380
-	1,496,621
-	14,834,612
-	1,016,872
-	6,965,758
-	1,786,264
-	2,531,695
-	3,310,991
-	300,092
-	1,630,041
-	1,761,632
1,545,000	1,545,000
1,195,935	1,195,935
<u>2,740,935</u>	<u>39,563,893</u>
<u>(85,641)</u>	<u>3,767,950</u>
-	1,050
-	1,050
(85,641)	3,769,000
993,012	2,891,295
<u>\$ 907,371</u>	<u>\$ 6,660,295</u>

**INDEPENDENT SCHOOL DISTRICT #347  
WILLMAR, MINNESOTA  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2003**

**Net Change in Fund Balances - Total Governmental Funds** \$ 3,769,000

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 for furniture and equipment and buildings and improvements are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital Outlays	239,392	
Depreciation Expense	<u>(1,111,938)</u>	(872,546)

The governmental funds report repayment of bond principal as an expenditure. In the statement of net assets, however, repayment of principal reduces the liability. 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	1,545,000	
Repayment of Special Assessments	25,812	
Interest Expense - General Obligation Bonds	<u>31,128</u>	1,601,940

Property tax revenues received prior to the year for which they are being levied are reported as deferred revenue in the governmental funds. They are, however, recorded as revenue in the statement of activities. Deferred property tax revenues decreased this year. (10,625)

In the statement of activities, certain operating expense - compensated absences (vacations), special termination benefits (early retirement) - are measure 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). During this year, accrued vacation increased by \$18,855 and early retirement payable decreased by \$81,653. 62,798

Internal service fund is used by management to charge the costs associated with Delta Dental insurance. The net revenue of the internal service fund is reported with governmental activities. 18,024

**Change in Net Assets of Governmental Activities** \$ 4,568,591

**INDEPENDENT SCHOOL DISTRICT #347  
WILLMAR, MINNESOTA  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES – BUDGET AND ACTUAL  
GENERAL FUND  
YEAR ENDED JUNE 30, 2003**

	Budgeted Amounts		Actual Amounts	Over (Under) Final Budget
	Original	Final		
<b>REVENUES</b>				
Local Property Tax Levies	\$ 1,340,360	\$ 1,340,360	\$ 1,462,929	\$ 122,569
Other Local and County Revenues	2,929,521	2,120,740	1,921,687	(199,053)
Revenues from State Sources	31,123,433	31,804,559	32,194,247	389,688
Revenues from Federal Sources	1,291,787	1,531,616	1,593,643	62,027
Sales and Other Conversion of Assets	-	29,800	36,194	6,394
Total Revenues	<u>36,685,101</u>	<u>36,827,075</u>	<u>37,208,700</u>	<u>381,625</u>
<b>EXPENDITURES</b>				
Current				
Administration	1,784,981	1,165,180	1,188,380	23,200
District Support Services	2,391,653	1,844,940	1,496,621	(348,319)
Regular Instruction	15,075,564	15,307,101	14,792,484	(514,617)
Vocational Education Instruction	1,031,931	1,004,783	1,016,872	12,089
Special Education Instruction	6,290,565	6,888,086	6,965,758	77,672
Instructional Support Services	1,696,200	2,168,031	1,786,264	(381,767)
Pupil Support Services	2,783,740	2,590,096	2,522,229	(67,867)
Sites and Buildings	2,924,685	3,305,511	3,310,991	5,480
Fiscal and Other Fixed Cost Programs	536,417	332,966	300,092	(32,874)
Total Expenditures	<u>34,515,736</u>	<u>34,606,694</u>	<u>33,379,691</u>	<u>(1,227,003)</u>
Excess of Revenues Over Expenditures	<u>2,169,365</u>	<u>2,220,381</u>	<u>3,829,009</u>	<u>1,608,628</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from Sale of General				
Fixed Assets	-	-	1,050	1,050
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>1,050</u>	<u>1,050</u>
Net Change in Fund Balances	<u>\$ 2,169,365</u>	<u>\$ 2,220,381</u>	3,830,059	<u>\$ 1,609,678</u>
<b>Fund Balances</b>				
Beginning of Year			<u>1,292,375</u>	
End of Year			<u>\$ 5,122,434</u>	

See accompanying Notes to Financial Statements.

**INDEPENDENT SCHOOL DISTRICT #347  
WILLMAR, MINNESOTA  
STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL  
FOOD SERVICE FUND  
YEAR ENDED JUNE 30, 2003**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Other Local and County Revenues	\$ 11,200	\$ 9,000	\$ 6,999	\$ (2,001)
Revenues from State Sources	338,328	177,448	212,584	35,136
Revenues from Federal Sources	622,282	934,190	903,820	(30,370)
Sales and Other Conversion of Assets	712,013	569,956	689,411	119,455
Total Revenues	<u>1,683,823</u>	<u>1,690,594</u>	<u>1,812,814</u>	<u>122,220</u>
<b>EXPENDITURES</b>				
Current				
Pupil Support Services	<u>1,638,599</u>	<u>1,690,594</u>	<u>1,630,041</u>	<u>(60,553)</u>
Total Expenditures	<u>1,638,599</u>	<u>1,690,594</u>	<u>1,630,041</u>	<u>(60,553)</u>
Excess of Revenues Over Expenditures	<u>\$ 45,224</u>	<u>\$ -</u>	<u>182,773</u>	<u>\$ 182,773</u>
<b>Fund Balances</b>				
Beginning of Year			<u>216,188</u>	
End of Year			<u>\$ 398,961</u>	

See accompanying Notes to Financial Statements.

**INDEPENDENT SCHOOL DISTRICT #347  
WILLMAR, MINNESOTA  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL  
COMMUNITY SERVICE FUND  
YEAR ENDED JUNE 30, 2003**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Local Property Tax Levies	\$ 170,649	\$ 170,649	\$ 73,418	\$ (97,231)
Other Local and County Revenues	528,867	624,987	758,420	133,433
Revenues from State Sources	795,987	686,715	737,513	50,798
Revenues from Federal Sources	43,700	129,776	84,842	(44,934)
Sales and Other Conversion of Assets	-	842	842	-
Total Revenues	<u>1,539,203</u>	<u>1,612,969</u>	<u>1,655,035</u>	<u>42,066</u>
<b>EXPENDITURES</b>				
Current				
Regular Instruction	-	71,556	42,128	(29,428)
Community Education and Services	1,543,343	1,626,226	1,761,632	135,406
Pupil Support Services	16,000	8,850	9,466	616
Total Expenditures	<u>1,559,343</u>	<u>1,706,632</u>	<u>1,813,226</u>	<u>106,594</u>
Excess of Revenues Over Expenditures	<u>\$ (20,140)</u>	<u>\$ (93,663)</u>	(158,191)	<u>\$ (64,528)</u>
<b>Fund Balances</b>				
Beginning of Year			<u>389,720</u>	
End of Year			<u>\$ 231,529</u>	

See accompanying Notes to Financial Statements.

**INDEPENDENT SCHOOL DISTRICT #347**  
**WILLMAR, MINNESOTA**  
**STATEMENT OF FUND NET ASSETS**  
**PROPRIETARY FUND**  
**JUNE 30, 2003**

	Governmental Activities - Internal Service Fund <u>2003</u>
<b>Liabilities:</b>	
Current Liabilities:	
Accounts Payable	\$ 3,225
Total current liabilities	<u>3,225</u>
Noncurrent Liabilities:	
Advances from Other Funds	<u>63,357</u>
Total Liabilities	66,582
<b>Net Assets:</b>	
Unrestricted	<u>(66,582)</u>
Total Net Assets	<u><u>\$ (66,582)</u></u>

See accompanying Notes to Financial Statements.

**INDEPENDENT SCHOOL DISTRICT #347**  
**WILLMAR, MINNESOTA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUND**  
**YEAR ENDED JUNE 30, 2003**

	Governmental Activities - Internal Service Fund <u>2003</u>
<b>OPERATING REVENUES</b>	
Charges for Services	<u>\$ 223,423</u>
<b>OPERATING EXPENSES</b>	
Administration Fees	27,922
Dental Claim Payments	<u>177,477</u>
Total Operating Expenses	<u>205,399</u>
Operating Income	18,024
<b>Total Net Assets - Beginning</b>	<u>(84,606)</u>
<b>Total Net Assets - Ending</b>	<u><u>\$ (66,582)</u></u>

See accompanying Notes to Financial Statements.



**INDEPENDENT SCHOOL DISTRICT #347**  
**WILLMAR, MINNESOTA**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUND**  
**YEAR ENDED JUNE 30, 2003**

	Governmental Activities - Internal Service Fund <u>2003</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from Interfund Services Provided	\$ 223,423
Payments for Dental Fees and Insurance Claims	<u>(220,489)</u>
Net Cash Provided by Operating Activities	<u>2,934</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Transfer to Other Funds	<u>(2,934)</u>
Net Increase in Cash and Cash Equivalents	-
Cash and Cash Equivalents - Beginning	<u>-</u>
Cash and Cash Equivalents - Ending	<u><u>\$ -</u></u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS)</b>	
<b>TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Operating Income (Loss)	\$ 18,024
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:	
Increase (Decrease) in Accounts Payable	<u>(15,090)</u>
Net Cash Provided by Operating Activities	<u><u>\$ 2,934</u></u>

See accompanying Notes to Financial Statements.

**INDEPENDENT SCHOOL DISTRICT #347  
WILLMAR, MINNESOTA  
STATEMENT OF FIDUCIARY NET ASSETS  
JUNE 30, 2003**

	<u>Private Purpose Trust Fund</u>
<b>Assets:</b>	
Cash and Temporary Investments	\$ 35,468
Interest Receivable	350
Total Assets	<u>\$ 35,818</u>
<b>Net Assets</b>	
Held in Trust for Scholarships	<u>\$ 35,818</u>
Total Liabilities	<u>\$ 35,818</u>

**INDEPENDENT SCHOOL DISTRICT #347  
WILLMAR, MINNESOTA  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
JUNE 30, 2003**

	<u>Private Purpose Trust Fund</u>
<b>Additions:</b>	
Contributions	\$ 35,467
Interest Income	351
Change in Net Assets	35,818
<b>Net Assets</b>	
Beginning of Year	<u>-</u>
End of Year	<u>\$ 35,818</u>

See accompanying Notes to Financial Statements.

(This page intentionally left blank)

**INDEPENDENT SCHOOL DISTRICT #347  
WILLMAR, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Basis of Presentation**

The financial statements of Independent School District #347 have been prepared in conformity with accounting principles generally accepted in the United States of America (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 #347 (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.

**INDEPENDENT SCHOOL DISTRICT #347  
WILLMAR, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003**

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

**C. Basic Financial Statement Presentation**

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

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

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

Separate Fund financial statements are provided for governmental, proprietary, and fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. Fiduciary funds are presented in the fiduciary fund financial statements by type; private purpose trust. Since by definition, fiduciary fund assets are being held for the benefit of a third party and cannot be used for activities or obligations of the District, these funds are excluded from the District-wide statements.

The Internal Service Fund is presented in the proprietary fund financial statements. Because the principal user of the internal services are the District's governmental activities, the financial statement of the internal service fund is consolidated into the governmental column when presented in the government-wide financial statements. The cost of these services is reported in the appropriate functional activity.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the District's internal service fund is charges to customers for service. Operating expenses for the internal service fund include the cost of services. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**INDEPENDENT SCHOOL DISTRICT #347  
WILLMAR, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003**

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

**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 proprietary fund and 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.

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 one-year 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 applies only those applicable pronouncements of the Financial Accounting Standards Board issued on or before November 30, 1989 in accounting and reporting for its proprietary operations.

INDEPENDENT SCHOOL DISTRICT #347  
WILLMAR, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003

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

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

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

**Description of Funds**

The existence of the various District funds has been established by the State of Minnesota, Department of Education. The accounts of the district are organized on the basis of funds, each of which is considered a separate accounting entity. A description 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.

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.

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.

*Proprietary Fund*

Internal Service Fund – The Internal Service Fund accounts for financing of goods or services provided by one department to other departments or agencies of the government, or to other governments, on a cost-reimbursement basis. The District's Internal Service Fund accounts for the District's dental self-insurance program. The self-insurance costs are charged to the various funds based on established premium rates.

**INDEPENDENT SCHOOL DISTRICT #347  
WILLMAR, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003**

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

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

*Fiduciary Funds*

Private Purpose Trust Fund – The Private Purpose Trust Fund is used to account for trust arrangements under which principal and income benefits individuals, private organizations, or other governments. This fund accounts for gifts and bequests that are to be used for scholarships.

**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 October 1 of each year. Reported budget amounts represent the amended budget as adopted by the School Board. 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.

Budgeted amounts include mid-year budget amendments that increased the General Fund revenue and expenditure budgets by \$141,974 and \$90,958, respectively.

Unencumbered expenditure appropriations lapse at year-end. Encumbrances are generally not recorded.

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



**INDEPENDENT SCHOOL DISTRICT #347  
WILLMAR, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003**

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

**F. Cash and Temporary Investments**

Cash and temporary investments consist of demand deposit accounts, non-negotiable certificates of deposit and a money market account.

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 investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund.

**G. Investments**

Investments consist of negotiable certificates of deposit and are recorded at fair value.

**H. 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

**I. Inventories**

Inventories are recorded using the consumption method of accounting and consist of paper, purchased food, supplies 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. Paper is recorded at latest invoice price, which approximates the first-in, first-out method.

**J. Prepayments**

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.

**INDEPENDENT SCHOOL DISTRICT #347  
WILLMAR, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003**

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

**K. Property Taxes**

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

Generally, tax revenue is recognized in the fiscal year ending June 30, following the calendar year in which the tax levy is collectible, while the current calendar year tax levy is recorded as deferred revenue (property taxes levied for subsequent year).

The majority of District revenue in the General and Special Revenue Funds is determined annually by statutory funding formulas. The total revenue allowed by these formulas is then allocated between taxes and state aids by the Legislature based on education funding priorities. Changes in this allocation are periodically accompanied by a change in property tax revenue recognition referred to as the "tax shift."

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 \$184,153) is advance recognized as revenue in fiscal 2003. Since advance collections of Pay 2003 levy amounts at June 30, 2003 were sufficient to cover the amount required to be advance recognized as revenue in fiscal 2003, the amount advance recognized is tax revenue. To the extent advance collections would have been insufficient to cover the amount to be recognized, state statute requires that fiscal 2004 general education aid be advance recognized. Certain other portions of the District's 2002 Pay 2003 levy, normally revenue for the 2003-04 fiscal year, are also advance recognized at June 30, 2003, as required by state statute. Amounts allocated to fiscal year 2004 are recorded as deferred revenue (property taxes levied for subsequent year).

Beginning with the tax levy collectible in 2002, legislation eliminated the general education levy component of the basic funding formula. This levy was replaced entirely with state aid beginning in fiscal year 2002-2003.

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, 2003, are included in the Property Taxes Levied for Subsequent Year account to indicate that, while they are current assets, they will not be recognized as revenue until the following year.

**INDEPENDENT SCHOOL DISTRICT #347  
WILLMAR, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003**

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

**L. Capital Assets**

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

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

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 improveable property.

**M. Long-Term Obligations**

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.

**INDEPENDENT SCHOOL DISTRICT #347  
WILLMAR, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003**

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

**N. Accrued Employee Benefits**

**Vacation Pay**

Employees earn annual vacation pay at rates dependent upon each employee group labor contract. All outstanding unpaid vacation pay is payable upon termination of employment. At June 30, 2003, unpaid vacation pay totaling \$129,365 is recorded in the financial statements.

**Sick Pay**

Substantially all District employees are entitled to sick leave at various rates. For certain employees, unused sick leave enters into the calculation of severance pay upon termination.

**Severance and Health Benefits**

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

**1. Early Retirement Incentive Payment – Secretarial Staff**

An early retirement incentive payment is available to secretaries who have completed at least 15 years of continuous service with the District and are at least 58 years of age. An eligible individual will receive an amount equal to 75% of the number of unused accumulated sick leave hours multiplied by the employee's hourly rate of pay, not to exceed 600 hours.

**2. Early Retirement Incentive Payment – Library Clerical Staff and Special Education Paraprofessionals**

An early retirement incentive payment is available to library clerical staff and special education paraprofessionals who have completed at least 15 years of continuous service with the District and are at least 58 years of age. An eligible individual will receive an amount equal to 75% of the number of unused accumulated sick leave days multiplied by the employee's daily rate of pay, not to exceed 115 days.

**3. Early Retirement Incentive Payment – Food Service Staff**

An early retirement incentive payment is available to food service staff who have completed at least 15 years of continuous service with the District and are at least 58 years of age. An eligible individual will receive an amount equal to 75% of the number of unused accumulated sick leave hours multiplied by the employee's hourly rate of pay, not to exceed 430 hours.

**INDEPENDENT SCHOOL DISTRICT #347  
WILLMAR, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003**

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

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

**4. Early Retirement Incentive Payment – Administrators**

An early retirement incentive payment is available to administrators who have completed at least 10 years of continuous service with the District and are at least 55 years of age but not more than 64 years of age. An eligible administrator will receive an amount equal to the number of unused accumulated sick leave days multiplied by the employee's daily rate of pay, not to exceed 157 days.

**5. Early Retirement Incentive Payment – Teachers**

An early retirement incentive payment is available to teachers who have completed at least 15 years of continuous service with the District and are at 55 years of age. An eligible teacher will receive an amount equal to the 50% of the number of unused accumulated sick leave days multiplied by the employee's daily rate of pay, not to exceed 90 days.

Teachers that have completed at least 15 years of continuous service with the District and are at least 55 years of age are also eligible to receive a severance payment in an amount equal to the teacher's number of years of service multiplied by four and the employee's daily rate of pay, not to exceed 100 days, less any TSA match the District contributed.

**6. Early Retirement Incentive Payment – Custodians**

Custodians that have completed at least 15 years of continuous service with the District and are at least 58 years of age are eligible to receive a severance payment in amount equal to 75% of the number of years of service multiplied by 10 days, not to exceed 150 days, at the employee's daily rate of pay.

**7. Early Retirement Incentive Payment – Confidential Employees**

An early retirement incentive payment is available to confidential employees who have completed at least 15 years of continuous service with the District and are at least 58 years of age. An eligible individual will receive an amount equal to 75% of the number of unused accumulated sick leave hours multiplied by the employee's hourly rate of pay, not to exceed 600 hours.

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

Under the terms of previous employment contracts, when teachers retired between the ages of 55 to 65, the District provided life and health insurance benefits which would cease when such employees attain the age of 65 year for most employees. This benefit is no longer available to employees, however the District continues to pay health insurance for qualified individuals that retired when this benefit was in effect.

During fiscal year 2003, total expenditures for early retirement incentive payments and post-employment health care benefits totaled \$631,435. At June 20, 2003, a liability for early retirement incentive payments and post-employment health care benefits totaling \$2,612,750 is recorded on the Statement of Net Assets.

**INDEPENDENT SCHOOL DISTRICT #347  
WILLMAR, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003**

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

**O. Statement of Cash Flows**

For purposes of the statement of cash flows, the District considers cash on hand and demand deposits accounts to be cash and cash equivalents. Cash and cash equivalents are included in cash and temporary investments.

**P. 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 Federal Adult Basic Education Grant. The District also recorded deferred revenue in the Community Service Fund in an amount equal to the penalty for excess community service fund balance.

**Q. 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.

**R. Risk Management**

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

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

**S. Net Assets**

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

**T. Changes in Accounting Principles**

For the year ended June 30, 2003, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments.

**INDEPENDENT SCHOOL DISTRICT #347  
WILLMAR, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003**

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

**T. Changes in Accounting Principles (Continued)**

GASB Statement No. 34 creates new basic financial statements for reporting on the District's financial activities. The financial statements now include government-wide financial statements prepared on the accrual basis of accounting, and fund financial statements which present information for individual major funds rather than by fund type, which had been the mode of presentation in previously issued financial statements.

The implementation of GASB Statement No. 34 caused the opening fund balance at June 30, 2002, to be restated in terms of "net assets" as follows:

Total Fund Balances - Governmental Funds - at June 30, 2002	\$	2,891,295
Add: Cost of capital assets at June 30, 2002		51,644,632
Less: Accumulated depreciation at June 30, 2002		(17,602,412)
Less: Long-debt debt:		
Bond principal, capital loans and special assessments, etc.		(26,326,246)
Accrued interest payable at June 30, 2002		(503,532)
Add: Deferred revenues		65,977
Less: Retained Earnings Balance for Internal Service Fund at June 30, 2002		<u>(84,606)</u>
Net assets at June 30, 2002		<u><u>\$ 10,085,108</u></u>

**NOTE 2 STEWARDSHIP AND ACCOUNTABILITY**

**A. Excess of Expenditures Over Budget**

Expenditures exceeded budgeted amounts in the following funds at June 30, 2003.

	<u>Budget</u>	<u>Expenditures</u>	<u>Excess</u>
Special Revenue Fund			
Community Service Fund	\$ 1,706,632	\$ 1,813,226	\$ 106,594

The Internal Service Fund had deficit net assets of \$66,582 at June 30, 2003. The District will eliminate the deficit through future operations.

**INDEPENDENT SCHOOL DISTRICT #347  
WILLMAR, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003**

**NOTE 2 STEWARDSHIP AND ACCOUNTABILITY (CONTINUED)**

The District had the following interfund receivable and payable at June 30, 2003:

	Due from Other Fund	Due to Other Fund
General Fund	\$ 63,357	\$ -
Internal Service Fund	-	63,357
	\$ 63,357	\$ 63,357

The purpose of this interfund balance is to eliminate negative cash in the Internal Service Fund. The balance is expected to be repaid within one year.

**NOTE 3 DEPOSITS AND INVESTMENTS**

**A. 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 Temporary Investments." An indication of the level of custodial credit risk assumed by the District at year-end is categorized as follows for the District's 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.

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better; revenue obligations rated "AA" or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

Deposit balances at June 30, 2003 are as follows:

	Bank Balance	Carrying Amount
Insured or collateralized by Securities held by the District or its agent in the District's name.	\$ 8,320,106	\$ 7,531,617
Uncollateralized	83,844	83,844
	\$ 8,403,950	\$ 7,615,461



**INDEPENDENT SCHOOL DISTRICT #347  
WILLMAR, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003**

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

**B. Investments**

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

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

The District's Investments are categorized to give an indication of the level of custodial credit risk assumed at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the District's name.

**INDEPENDENT SCHOOL DISTRICT #347  
WILLMAR, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003**

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

**B. Investments (Continued)**

	Custodial Credit Risk Category			Carrying and Fair Value
	1	2	3	
Certificates of Deposit	\$ 5,000,000	\$ -	\$ -	\$ 5,000,000
Cash and Temporary Investments				7,615,461
Total Cash and Investments				<u>\$ 12,615,461</u>
Reconciliation of Cash and Temporary Investments:				
Cash and Temporary Investments on Statement of Net Assets				\$ 7,579,993
Cash and Temporary Investments on Fiduciary Statement of Net Assets				35,468
Investments on Statement of Fiduciary Net Assets				5,000,000
				<u>\$ 12,615,461</u>

**NOTE 4 CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2003 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities:</b>				
Capital Assets, Not Being Depreciated				
Land	\$ 630,422	\$ -	\$ -	\$ 630,422
Total Capital Assets, Not Being Depreciated	630,422	-	-	630,422
Capital Assets, Being Depreciated				
Land Improvements	1,870,253	20,957	-	1,891,210
Buildings and Improvements	45,999,552	-	-	45,999,552
Equipment and Transportation Vehicles	3,144,405	218,435	(4,400)	3,358,440
Total Capital Assets, Being Depreciated	51,014,210	239,392	(4,400)	51,249,202
Accumulated Depreciation for:				
Land Improvements	1,192,482	79,270	-	1,271,752
Buildings and Improvements	13,852,879	892,118	-	14,744,997
Equipment and Transportation	2,557,051	140,550	(4,400)	2,693,201
Total Accumulated Depreciation	17,602,412	1,111,938	(4,400)	18,709,950
Total Capital Assets, Being Depreciated, Net	33,411,798	(872,546)	-	32,539,252
Governmental Activities Capital Assets, Net	<u>\$ 34,042,220</u>	<u>\$ (872,546)</u>	<u>\$ -</u>	<u>\$ 33,169,674</u>

**INDEPENDENT SCHOOL DISTRICT #347  
WILLMAR, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003**

**NOTE 4 CAPITAL ASSETS (CONTINUED)**

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

**Governmental Activities:**

Administration	\$ 4,875
District Support Services	287
Elementary and Secondary Regular Instruction	989,357
Vocational Education Instruction	336
Special Education Instruction	2,017
Instructional Support Services	69,662
Pupil Support Services	15,835
Sites and Buildings	12,691
Fiscal and Other Fixed Cost Programs	862
Food Service	9,912
Community Service	6,104
	<u>8,104</u>

Total Depreciation Expense, Governmental Activities	<u><u>\$ 1,111,938</u></u>
---	----------------------------

**NOTE 5 GENERAL LONG-TERM DEBT**

**A. Components of General Long-Term Debt**

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	Interest Rate	Original Issue	Final Maturity	Principal Outstanding Due	
				Within One Year	Total
8/1/95	4.25-4.85%	\$ 2,600,000	2/1/2005	\$ 340,000	\$ 695,000
1/1/96	3.95-4.65%	3,865,000	2/1/2006	435,000	1,310,000
6/1/97	4.65-5.35%	20,650,000	2/1/2015	840,000	19,850,000
Total General Obligation Bonds				1,615,000	21,855,000
United States EPA Loan Payable				5,000	15,425
Special Assessments Payable				23,537	80,096
Vacation Payable				116,429	129,365
Severance and Health Benefits Payable				78,383	2,612,750
Total Long-term Liabilities				<u>\$ 1,838,349</u>	<u>\$ 24,692,636</u>

**INDEPENDENT SCHOOL DISTRICT #347  
WILLMAR, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003**

**NOTE 5 GENERAL LONG-TERM DEBT (CONTINUED)**

**B. Minimum Debt Payments**

Minimum annual principal and interest payments required to retire long-term debt, not including vacation payable and severance and health benefits payable are as follows:

Year Ending June 30	General Obligation Bonds Payable		United States EPA Loans Payable		Special Assessments Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$ 1,615,000	\$ 1,122,363	\$ 5,000	\$ -	\$ 23,537	\$ 5,371
2005	1,715,000	1,046,738	5,000	-	11,362	3,760
2006	1,440,000	964,698	5,000	-	10,338	3,002
2007	1,585,000	894,678	425	-	10,338	2,315
2008	1,700,000	815,428	-	-	8,052	1,828
2009 - 2013	10,320,000	2,636,046	-	-	16,469	1,783
2014-2015	3,480,000	243,960	-	-	-	-
	<u>\$ 21,855,000</u>	<u>\$ 7,723,911</u>	<u>\$ 15,425</u>	<u>\$ -</u>	<u>\$ 80,096</u>	<u>\$ 18,059</u>

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

**General Obligation Bonds**

On August 1, 1995, the District issued \$2,600,000 of General Obligation Capital Facilities Bonds, Series 1995A. The proceeds of the issue were used to finance improvements and repair school sites and buildings, purchases to equip or reequip school buildings with permanent attached fixtures. Capital facilities revenues under Minnesota Statute Section 124.2455, are dedicated to the retirement of these bonds. In the event the capital facilities revenues are not sufficient, the District will levy property taxes for the deficiency.

On January 1, 1996, the District issued \$3,865,000 of General Obligation Refunding Bonds, Series 1996A. The proceeds of this issue were used to refund, in advance of their stated maturities, the remaining maturities of the District's 1987 General Obligation School Building Bonds. Future ad valorem tax levies are dedicated to the retirement of these bonds.

On June 1, 1997, the District issued \$20,650,000 of General Obligation Refunding Bonds, Series 1997A. The proceeds of this issue were used to refund, in advance of their stated maturities, the remaining maturities of the District's 1992B General Obligation School Building Bonds and 1992C General Obligation School Building Bonds. Future ad valorem tax levies are dedicated to the retirement of these bonds.

**United States EPA Loans Payable**

The District received asbestos loan proceeds from the United States Environmental Protection Agency to pay for the removal of asbestos District facilities. The loan does not bear interest

INDEPENDENT SCHOOL DISTRICT #347  
WILLMAR, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003

**NOTE 5 GENERAL LONG-TERM DEBT (CONTINUED)**

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

**Special Assessments Payable**

Special assessments payable represents the outstanding liability relating to various improvements made to District property financed through local municipalities. The annual assessment levies consisting of principal and interest at various rates will be paid for by the General Fund.

**Vacation Payable**

Vacation payable consists of unused vacation at June 30, 2003.

**Severance and Health Benefits Payable**

Severance and health benefits payable consist of early retirement incentive payments, post-retirement health insurance benefits payable to employees upon retirement. Severance and health benefits have been paid by the General and Special Revenue Funds.

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

	June 30, 2002	Net Additions	Retirements	Changes in Vacation Payable and Severance and Health Benefits	June 30, 2003
General Obligation Bonds	\$ 23,395,000	\$ -	\$ 1,540,000	\$ -	\$ 21,855,000
U.S. EPA Loan Payable	20,425	-	5,000	-	15,425
Special Assessments	105,908	-	25,812	-	80,096
Subtotal	23,521,333	-	1,570,812	-	21,950,521
Vacation Payable	110,510	-	-	18,855	129,365
Severance and Health Benefits	2,694,403	-	-	(81,653)	2,612,750
	<u>\$ 26,326,246</u>	<u>\$ -</u>	<u>\$ 1,570,812</u>	<u>\$ (62,798)</u>	<u>\$ 24,692,636</u>

**INDEPENDENT SCHOOL DISTRICT #347  
WILLMAR, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003**

**NOTE 7 SHORT-TERM DEBT**

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

	June 30, 2002	Additions	Retirements	June 30, 2003
2001 Aid Anticipation Certificate	\$ 3,975,120	\$ -	\$ 3,975,120	\$ -
2002 Aid Anticipation Certificate	-	8,475,687	-	8,475,687
	<u>\$ 3,975,120</u>	<u>\$ 8,475,687</u>	<u>\$ 3,975,120</u>	<u>\$ 8,475,687</u>

For the purpose of providing funds to meet current operating expenses of the District, General Aid Anticipation Certificates of Indebtedness were issued in the aggregate principal amount of \$8,475,687. The Certificates were issued on August 20, 2002, bearing interest at an annual rate of 2.25%, and mature on August 20, 2003. The District will budget certain aid receipts for payments of the principal on the certificates in the General Fund.

On August 13, 2003, the District issued a General Obligation Aid Anticipation Certificate of Indebtedness, Series 2003A. The certificate was issued in the amount of \$2,537,065, with an interest rate of 1.75%. The certificate matures on August 27, 2004.

**NOTE 8 RESERVED FUND BALANCES**

**Fund Equity**

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

**A. Reserved for Staff Development**

In accordance with state statute, represents available resources dedicated exclusively for staff development.

**B. Reserved for 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.

**C. Reserved for Reemployment Insurance**

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

**INDEPENDENT SCHOOL DISTRICT #347  
WILLMAR, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003**

**NOTE 8 RESERVED FUND BALANCES (CONTINUED)**

**D. Reserved for Severance Pay**

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 2004-2005.

**E. 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

**F. Reserved for Disabled Accessibility**

Reserved for disabled accessibility represents available resources to be used only to provide for the removal of architectural barriers and for fire safety modifications.

**G. Reserved for Area Learning Center**

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

**H. Reserved for Community Education Programs**

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

**I. Reserved for Early Childhood Family Education Programs**

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

**J. Reserved for School Readiness**

The fund balance reservation represents accumulated resources available to provide school readiness programming in accordance with funding made available for that purpose.

**INDEPENDENT SCHOOL DISTRICT #347  
WILLMAR, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003**

**NOTE 9 PENSION PLANS**

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

A. Teachers Retirement Association (TRA)

**1. Plan Description**

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

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

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

**2. Funding Policy**

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

The District is required to contribute the following percentages of annual covered payroll: 5.0% for Coordinated Plan members and 9.0% for Basic plan members. The contribution requirements of plan members and the District are established and may be amended by State Statute. The District contributions for the years ended June 30, 2003, 2002 and 2001 were \$848,177, \$804,644 and \$874,867, respectively, equal to the required contributions for each year as set by state statute.



**INDEPENDENT SCHOOL DISTRICT #347  
WILLMAR, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003**

**NOTE 9 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 8.75% and 4.75%, respectively, of their annual covered salary.

The District was required to contribute the following percentages of annual covered payroll: 11.43% for Basic Plan PERF members, 5.18% for Coordinated Plan PERF members. Effective January 1, 2002, the current employer contribution rate became 11.78% for Basic Plan members and 5.53% for Coordinated Plan members. The contribution requirements of plan members and the District are established by and may be amended by State Statute. The District's contributions for the years ending June 30, 2003, 2002, and 2001, were \$286,077, \$253,743 and \$253,256, respectively, equal to the contractually required contributions for each year as set by state statute.

**INDEPENDENT SCHOOL DISTRICT #347  
WILLMAR, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003**

**NOTE 10 SELF-INSURED DENTAL PLAN**

The School District has elected to self-insure their employee dental insurance program. The School District has entered into an agreement with an insurance company to provide stop-loss insurance to limit the losses on individual and aggregate claims and to provide claims processing and other administrative duties. The individual stop-loss amount is \$1,000 per participant. The School District established an internal service fund to account for contributions from other funds for dental insurance and to establish a reserve for catastrophic losses. Contributions during the year were based on maximum claims before reinsurance is effective. The amounts charged to expenses include administrative fees, stop-loss insurance premiums, claims paid and accruals for claims incurred but not paid at year end. The School District recorded expenses of \$177,477 for the year ended June 30, 2003.

The liability for unpaid claims is included in the Internal Service Fund as accounts payable.

Unpaid Claims, Beginning of Year	\$ 18,315
Incurred Claims	177,477
Claims Payments	<u>(192,567)</u>
Unpaid Claims, End of Year	<u><u>\$ 3,225</u></u>

**NOTE 11 COMMITMENTS AND CONTINGENCIES**

**A. Federal and State Programs**

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

**B. Contingencies**

The District is a defendant in a custodial layoff grievance. Although the outcome of this claim is not presently determinable, the District believes that the resolution of the matter will not have a material adverse effect on its financial condition.

**NOTE 12 JOINT POWERS AGREEMENT**

The District and the City of Willmar 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. It is the intention of the parties to offer these services collaboratively and to coordinate their service programs in order to eliminate duplication of services and in order to maximize the effectiveness of the services provided. The Joint Powers Entity is governed by the Joint Powers Board, which includes five members appointed by the City Council, five members appointed by the School Board, and two students, one recommended by the Senior High School Student Council and one recommended by the Junior High School Council, to be approved and appointed by the City Council and School Board. One School Board member, one City Council member, the City Administrator and the Superintendent of Schools shall serve as ex-officio members to the Board.

**INDEPENDENT SCHOOL DISTRICT #347  
WILLMAR, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003**

**NOTE 12 JOINT POWERS AGREEMENT (CONTINUED)**

The District employs an individual to administer community education, which is in the Community Service Fund. The City is responsible for providing adult and youth recreation programs and adult and youth athletic programs. The District is responsible for providing necessary facilities, services, and employees to provide Early Childhood and Adult Basic Education programs. Under the terms of the agreement, the District paid the City for its provision of services \$42,593 for the year ended June 30, 2003. The City paid the District for its provision of services \$62,688 for the year ended June 30, 2003. This agreement is perpetual but may be canceled upon six months written notice by either party.

**SINGLE AUDIT AND OTHER REQUIRED REPORTS**

(This page intentionally left blank)

**INDEPENDENT SCHOOL DISTRICT #347  
WILLMAR, MINNESOTA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2003**

Grantor/Program	CFDA Number	Expenditures
US Department of Agriculture		
Pass-Through Minnesota Department of Education		
* Type A Lunch	10.555	\$ 515,675
After School Snack	10.558	3,208
* School Breakfast Program	10.553	253,067
Food Distribution (Commodities)	10.550	110,482
Commodity Rebates	10.550	15,516
Total US Department of Agriculture		<u>897,948</u>
US. Department of Education		
Pass-Through Minnesota Department of Education		
Special Education - Flow Through	84.027	286,544
Title I Grants to Local Education Agencies	84.010	760,970
Title I, Part C - Education of Migrant Children	84.011	68,443
Title I Comp Delinquent	84.013	85,988
Title II, Part A	84.367	210,569
Title V, Part A - Innovative Programs	84.298	30,153
Title III, Part A	84.365	26,368
Carl Perkins	84.048A	43,077
Title VI, Part A - Safe and Drug Free Schools	84.186	27,979
Title II, Part D	84.318	22,593
Title IV, Part B - 21st Century Community Learning Centers	84.287	42,128
Federal Adult Basic Education	84.002	28,193
Total US Department of Education		<u>1,633,005</u>
<b>TOTAL FEDERAL FINANCIAL ASSISTANCE EXPENDED</b>		<u><u>\$ 2,530,953</u></u>

\* Programs are Clustered - Major Program

**INDEPENDENT SCHOOL DISTRICT #347  
WILLMAR, MINNESOTA  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2003**

**NOTE 1 GENERAL**

The accompanying Schedule of Expenditures of Federal Awards presents the expenditures of all federal financial assistance programs of Independent School District #347. 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**

Non-monetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. At June 30, 2003, the District had food commodities totaling \$19,940 in inventory.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON  
INTERNAL CONTROLS OVER FINANCIAL REPORTING  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENTAL AUDITING STANDARDS**

Board of Education  
Independent School District #347  
Willmar, Minnesota

We have audited the financial statements of Independent School District #347 as of and for the year ended June 30, 2003 and have issued our report thereon dated October 14, 2003. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Compliance**

As part of obtaining reasonable assurance about whether Independent School District #347's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*. However, we have noted certain immaterial instances of noncompliance, which has been reported to management in the accompanying schedule of findings and questioned costs.

### **Internal Control over Financial Reporting**

In planning and performing our audit, we considered Independent School District #347's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.



This report is intended solely for the information and use of management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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

LARSON, ALLEN, WEISHAIR & CO., LLP

Austin, Minnesota  
October 14, 2003

**INDEPENDENT AUDITORS' 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 #347  
Willmar, Minnesota

Compliance

We have audited the compliance of Independent School District #347 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 programs for the year ended June 30, 2003. Independent School District #347'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 #347's management. Our responsibility is to express an opinion on Independent School District #347's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; 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 #347'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 #347's compliance with those requirements.

In our opinion, Independent School District #347 complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal financial assistance programs for the year ended June 30, 2003.

Internal Control Over Compliance

The management of Independent School District #347 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 #347's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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

This report is intended solely for the information and use of management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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

LARSON, ALLEN, WEISHAIR & CO., LLP

Austin, Minnesota  
October 14, 2003

## INDEPENDENT AUDITORS' REPORT ON LEGAL COMPLIANCE

Board of Education  
Independent School District #347  
Willmar, Minnesota


We have audited the financial statements of Independent School District #347 as of and for the year ended June 30, 2003, and have issued our report thereon dated October 14, 2003.

We conducted our audit in accordance with U.S. generally accepted auditing standards 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 #347 complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs.

This report is intended solely for the information and use of the Independent School District #347, the Office of the State Auditor, and other state agencies, and is not intended to be and should not be used by anyone other than these specified parties.

  
LARSON, ALLEN, WEISHAIR & CO., LLP

Austin, Minnesota  
October 14, 2003

(This page intentionally left blank)

**INDEPENDENT SCHOOL DISTRICT #347  
WILLMAR, MINNESOTA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2003**

**A. SUMMARY OF AUDITORS' RESULTS**

1. The auditors' report expresses an unqualified opinion on the basic financial statements of Independent School District #347.
2. No reportable conditions were disclosed during the audit of the general purpose financial statements.
3. No instances of noncompliance material to the financial statements of Independent School District #347 were disclosed during the audit.
4. No reportable conditions were disclosed during the audit of the major federal award programs.
5. The auditors' report on compliance for the major federal award programs for Independent School District #347 expresses an unqualified opinion.
6. No audit findings relative to the major federal award programs for Independent School District #347 were disclosed during the audit.
7. The programs tested as major programs included:

U.S. Department of Agriculture – Child Nutrition Cluster:

School Breakfast	CFDA #10.553
Type A Lunch	CFDA #10.555

U.S. Department of Education:

Special Education – Flow Through	CFDA #84.027
Title II, Part A	CFDA #84.367

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Independent School District #347 was not determined to be a low-risk auditee.

**INDEPENDENT SCHOOL DISTRICT #347  
WILLMAR, MINNESOTA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2003**

**B. FINDINGS – FINANCIAL STATEMENT AUDIT**

None

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

None

**INDEPENDENT SCHOOL DISTRICT #347  
WILLMAR, MINNESOTA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2003**

**D. FINDINGS AND QUESTIONED COSTS – MINNESOTA LEGAL COMPLIANCE**

03-D.-A

Minnesota Statute 118A.04, Subdivision 9 requires the District to obtain a written broker acknowledgement of restricted investments prior to completing an investment transaction with the broker. The District is also required to retain the written acknowledgement. The District did not obtain a written broker acknowledgement during the year ended June 30, 2003.

Corrective Action Plan (CAP):

1. Explanation of Disagreement With Audit Finding

There was no disagreement with the audit finding.

2. Actions Planned in Response to Finding

The District will obtain a written broker acknowledgement prior to each fiscal year.

3. Official Responsible for Ensuring CAP

Bob Haines, Director of Business and Finance, is responsible for ensuring corrective action of the deficiency.

4. Planned Completion Date for CAP

Immediately.

5. Plan to Monitor Completion of CAP

Kathryn Leedom, Superintendent, will be monitoring this corrective action plan.



**INDEPENDENT SCHOOL DISTRICT #347  
WILLMAR, MINNESOTA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2003**

D. FINDINGS AND QUESTIONED COSTS – MINNESOTA LEGAL COMPLIANCE

03-D.-B

Minnesota Statute 118A.03, subdivision 2 defines allowable collateral as follows:

- United States government treasury bills, treasury notes, treasury bonds;
- Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- General obligation securities of any state or local government with taxing powers which is rated "A" or better by a national bond rating service, or revenue obligation securities of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service;
- Irrevocable standby letter of credit issued by Federal Home Loan Banks to a municipality accompanied by written evidence that the bank's public debt is rated "AA" or better by Moody's Investors Service, Inc., or Standard and Poor's Corporation; and
- Time deposits that are fully insured by the Federal Deposit Insurance Corporation.

During the year ended June 30, 2003, the District's collateral portfolio included collateral from Belle South Telecomm. Inc., which is not allowable collateral.

Corrective Action Plan (CAP):

1. Explanation of Disagreement With Audit Finding

There was no disagreement with the audit finding.

2. Actions Planned in Response to Finding

The District will obtain collateral that is allowable under State Statute 118A.03, subdivision 2.

3. Official Responsible for Ensuring CAP

Bob Haines, Director of Business and Finance, is responsible for ensuring corrective action of the deficiency.

4. Planned Completion Date for CAP

Immediately.

5. Plan to Monitor Completion of CAP

Kathryn Leedom, Superintendent, will be monitoring this corrective action plan.

**INDEPENDENT SCHOOL DISTRICT #347  
WILLMAR, MINNESOTA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2003**

D. FINDINGS AND QUESTIONED COSTS – MINNESOTA LEGAL COMPLIANCE

03-D.-C

Minnesota Statute 118A.04, Subdivision 3 requires the District to have deposits in excess of FDIC or FSLIC insurance be protected by bond or collateral of which market value should be at least ten percent more than the amount of excess deposits. The District did not have adequate collateral on June 30, 2003.

Corrective Action Plan (CAP):

1. Explanation of Disagreement With Audit Finding

There was no disagreement with the audit finding.

2. Actions Planned in Response to Finding

The District will obtain additional collateral.

3. Official Responsible for Ensuring CAP

Bob Haines, Director of Business and Finance, is responsible for ensuring corrective action of the deficiency.

4. Planned Completion Date for CAP

Immediately.

5. Plan to Monitor Completion of CAP

Kathryn Leedom, Superintendent, will be monitoring this corrective action plan.

(This page intentionally left blank)

**INDEPENDENT SCHOOL DISTRICT #347  
WILLMAR, MINNESOTA  
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS  
COMPLIANCE TABLE  
JUNE 30, 2003**

**01 GENERAL FUND**

Total Revenue \$ 37,208,700  
Total Expenditures \$ 33,379,691

*Reserved:*

4.03	Staff Development	\$ 341,981
4.06	Health and Safety	\$ (71,046)
4.07	Down Payment Levy	\$ -
4.08	Cooperation Rev.	\$ -
4.09	Deferred Maintenance	\$ -
4.10	Reemployment Ins.	\$ 1,666
4.11	Severance Pay	\$ 892,461
4.12	Bus Purchases	\$ -
4.14	Operating Debt	\$ -
4.15	Reduce SOD-77	\$ -
4.16	Levy Reduction	\$ -
4.18	Severance-Ins. Premium	\$ -
4.19	Encumbrances	\$ -
4.23	Certain Teacher Programs	\$ -
4.24	Operating Capital	\$ 213,591
4.26	\$25 Taconite	\$ -
4.27	Disabled Accessibility	\$ 4,617
4.28	Learning & Development	\$ -
4.29	Parental Involvement	\$ -
4.33	Student Transport Safety	\$ -
4.34	Area Learning Center	\$ 203,158
4.35	Contracted Alt. Programs	\$ -
4.36	State Approved Alt. Programs	\$ -
4.37	Grad Standards Staff	\$ -
4.38	Grad Standards Gifted & Tal.	\$ -
4.39	Grad Standards	\$ -
4.41	Basic Skills	\$ -
4.42	Class Size, All-Day	\$ -
	Kindergarten and Special	
	Education Student-To-	
	Instructor Ratio Reduction	
4.43	Telecomm. Access Cost	\$ -
4.45	Career and Technical	\$ -

*Unreserved:*

4.20	Des S.O.D.-1977	\$ -
4.21	Des Since S.O.D.-1977	\$ -
4.22	Unreserved/Undesignated	\$ 3,536,006

**02 FOOD SERVICE**

Total Revenue \$ 1,812,814  
Total Expenditures \$ 1,630,041

*Reserved:*

4.11	Severance	\$ -
4.18	Des Severance-Ins. Premium	\$ -
4.19	Encumbrances	\$ -

*Unreserved:*

4.21	Des Since S.O.D.-1977	\$ -
4.22	Unreserved/Undesignated	\$ 398,961

**04 COMMUNITY SERVICES**

Total Revenue \$ 1,655,035  
Total Expenditures \$ 1,813,226

*Reserved:*

4.11	Severance	\$ -
4.18	Severance-Ins. Premium	\$ -
4.19	Encumbrances	\$ -
4.26	\$25 Taconite	\$ -
4.31	Community Education	\$ 17,117
4.32	E.C.F.E.	\$ 58,111
4.44	School Readiness	\$ 16,711

*Unreserved:*

4.21	Des Since S.O.D.-1977	\$ -
4.22	Unreserved/Undesignated	\$ 139,590

**06 BUILDING CONSTRUCTION**

Total Revenue \$ -  
Total Expenditures \$ -

*Reserved:*

4.07	Down Payment Levy	\$ -
4.09	Alternative Facility Program	\$ -
4.19	Encumbrances	\$ -

*Unreserved:*

4.22	Unreserved/Undesignated	\$ -
------	-------------------------	------

**07 DEBT SERVICE**

Total Revenue \$ 2,655,294  
Total Expenditures \$ 2,740,935

*Reserved:*

4.25	Bond Refundings	\$ -
------	-----------------	------

*Unreserved:*

4.22	Unreserved/Undesignated	\$ 907,371
------	-------------------------	------------

**08 TRUST**

Total Revenue \$ 35,818  
Total Expenditures \$ -

*Reserved:*

4.19	Encumbrances	\$ -
------	--------------	------

*Unreserved:*

4.22	Unreserved/Undesignated	\$ 35,818
------	-------------------------	-----------

**09 AGENCY**

*Unreserved:*

4.22	Unreserved/Undesignated	\$ -
------	-------------------------	------

**20 INTERNAL SERVICE**

Total Revenue \$ 223,423  
Total Expenditures \$ 205,399

*Reserved:*

4.19	Encumbrances	\$ -
------	--------------	------

*Unreserved:*

4.22	Unreserved/Undesignated	\$ (66,582)
------	-------------------------	-------------

(This page intentionally left blank)

## **STUDENT ACTIVITY FUNDS**

(This page intentionally left blank)

## INDEPENDENT AUDITORS' REPORT

Board of Education  
Independent School District #347  
Willmar, Minnesota

We have audited the statement of cash receipts and disbursements of the Student Activity Funds of Independent School District #347 for the year ended June 30, 2003. This financial statement is the responsibility of the District's management. Our responsibility is to express an opinion on this financial statement based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with U.S. generally accepted auditing standards. 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 opinion.

The District has not established procedures to provide assurance that all cash collections are recorded in the accounting records. Accordingly, it was not practical for us to extend our audit of such cash collections beyond the amounts recorded.

As described in the Note to Student Activity Fund Financial Statements, the financial statement is prepared on the cash basis, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, except for such adjustments, if any, as might have been determined to be necessary had the cash collections referred to above been susceptible to satisfactory audit tests, the financial statement referred to above presents fairly, in all material respects, the cash balances of the District's Student Activity Fund as of June 30, 2003, and the revenues it received and the expenditures it paid for the year then ended on the basis of accounting described in the Note to Student Activity Fund Financial Statements.

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

LARSON, ALLEN, WEISHAIR & CO., LLP

Austin, Minnesota  
October 14, 2003



(This page intentionally left blank)

**INDEPENDENT SCHOOL DISTRICT #347**  
**WILLMAR, MINNESOTA**  
**ELEMENTARY YEARBOOK ACTIVITY FUND**  
**STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS**  
**YEAR ENDED JUNE 30, 2003**

Funds	Balance 06/30/02	Transfer & Receipts	Disburse- ments	Balance 06/30/03
WEAC	\$ 1,068	\$ -	\$ 1,068	\$ -
Elementary Yearbook	-	13,204	13,063	141
Blomquist Scholarship	10,064	-	10,064	-
Keating Scholarship	23,094	-	23,094	-
Total	<u>\$ 34,226</u>	<u>\$ 13,204</u>	<u>\$ 47,289</u>	<u>\$ 141</u>

See Note to Student Activity Fund Financial Statements.

**INDEPENDENT SCHOOL DISTRICT #347  
WILLMAR, MINNESOTA  
JUNIOR HIGH ACTIVITY FUND  
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS  
YEAR ENDED JUNE 30, 2003**

Funds	Balance 06/30/02	Transfer & Receipts	Disburse- ments	Balance 06/30/03
Library	\$ 825	\$ -	\$ 825	\$ -
Student Council	840	7,200	3,094	4,946
Journalism	(1,726)	8,430	6,704	-
Drama	6,439	6,693	13,132	-
Special Projects	8,550	-	8,550	-
Swim Suit Rent	3,633	1,916	5,549	-
Faculty Pop	472	479	951	-
French	1,570	-	1,570	-
Spanish	591	-	591	-
Conservation Club	324	-	324	-
Total	<u>\$ 21,518</u>	<u>\$ 24,718</u>	<u>\$ 41,290</u>	<u>\$ 4,946</u>

See Note to Student Activity Fund Financial Statements.

**INDEPENDENT SCHOOL DISTRICT #347  
WILLMAR, MINNESOTA  
SENIOR HIGH ACTIVITY FUND  
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS  
YEAR ENDED JUNE 30, 2003**

Funds	Balance 6/30/02	Transfer & Receipts	Disburse- ments	Balance 6/30/03
Class of 2002	\$ 1,072	\$ -	\$ 1,072	\$ -
Class of 2003	7,283	3,476	6,322	4,437
Class of 2004	-	20,012	14,462	5,550
Cardettes	3,915	9,247	7,840	5,322
Choralaires	34	-	34	-
Concessions	-	21,500	21,500	-
F.F.A.	2,218	1,623	1,789	2,052
Faculty	14	30	44	-
French Club	179	1,153	1,279	53
General Fund	4,181	6,895	11,076	-
German Club	201	-	201	-
Cross Country	72	299	340	31
Key Club	2,707	2,657	3,168	2,196
Library Club	742	3	745	-
National Honor Society	-	546	546	-
Nordic Ski	639	1,276	-	1,915
Pop Fund	701	1,993	2,694	-
Seventh Rendition	475	28,323	21,539	7,259
Spanish Club	130	922	870	182
Goals - Retreat	-	3,935	3,935	-
Student Council	3,826	11,170	12,277	2,719
Sunshine Fund	461	-	461	-
Usher's Fund	39	464	266	237
"W" Fund	125	6,032	5,031	1,126
Wihisean	10,526	4,568	11,982	3,112
Wilohi	-	1,867	1,867	-
Roth-Norlien	2,000	2,000	4,000	-
Orchestra	84	1,005	982	107
Willmar Athletics	31,653	37,318	43,340	25,631
Team Target	1,167	-	1,167	-
N. Quick Memorial Scholarship	800	-	800	-
Registration	16,615	27,318	43,933	-
Final Concessions	4,673	14,578	13,084	6,167
Athletic Tournaments	-	48,455	48,455	-
FACS	77	40	117	-
Art Club	63	-	63	-
Student Handbook	450	5,486	5,936	-
High Mileage	2	1,864	1,519	347
Guidance Department	806	286	892	200
Communication Book Replacement	195	300	495	-
Jon Lee Memorial	-	2,000	2,000	-
Gymnastics	-	3,852	3,046	806
United Culture	1,138	478	856	760
Speech	-	273	230	43
Linda Aune Mini Grant	173	1,334	1,340	167
Track Apparel	682	1,851	2,533	-
Random Acts of Kindness	291	3,250	3,438	103
Total	<u>\$ 100,409</u>	<u>\$ 279,679</u>	<u>\$ 309,566</u>	<u>\$ 70,522</u>

See Note to Student Activity Fund Financial Statements.

**INDEPENDENT SCHOOL DISTRICT #347  
WILLMAR, MINNESOTA  
NOTE TO STUDENT ACTIVITY FUND FINANCIAL STATEMENTS  
JUNE 30, 2003**

**NOTE 1 BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES**

Student activity fund transactions are defined as extracurricular programs conducted for the motivation and enjoyment of students. These programs and activities are not offered for school credits nor required for graduation. Activities are generally conducted outside of school hours. The content of the activities is determined primarily by students, under the guidance of a staff member or other adult.

Student activities are to be self-sustaining with all expenses paid by dues, admissions, or other student fund raising events.

The accounts of the Student Activity Fund are maintained, and the accompanying financial statements have been prepared, on the cash basis of accounting. Consequently, receipts are recognized when received rather than when earned, and disbursements are recognized when paid rather than when the obligations are incurred.

Student Activity bank deposits are covered by deposit insurance or were properly collateralized.

## INDEPENDENT AUDITORS' REPORT ON COMPLIANCE

Board of Education  
Independent School District #347  
Willmar, Minnesota

We have audited the statement of cash receipts and disbursements of the extracurricular Student Activity Fund of Independent School District #347 for the year ended June 30, 2003 and have issued our report thereon dated October 14, 2003.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the provisions of the Manual for Activity Fund Accounting for Minnesota School Districts, issued by the Minnesota Department Education.

The Manual for Activity Fund Accounting for Minnesota School Districts provides uniform financial accounting and reporting standards for student activities. We have performed auditing procedures to test compliance with the provisions of this manual. However, our objective was not to provide an opinion on overall compliance with such provisions.

The result of our tests indicate that, with respect to the items tested, the District complied, in all material respects.

This report is intended solely for the information and use of the Board of Education, management, and students of Independent School District #347 and is not intended to be and should not be used by anyone other than these specified parties.

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

LARSON, ALLEN, WEISHAIR & CO., LLP

Austin, Minnesota  
October 14, 2003

