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# Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2004



Independent School District No. 347

Willmar, Minnesota

*Preparing All Students for a Successful Tomorrow*

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**COMPREHENSIVE ANNUAL FINANCIAL REPORT  
For the Fiscal Year ended June 30, 2004**

**WILLMAR PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 347**

**611 5<sup>St.</sup> SW  
Willmar, MN 56201-3218**

**Prepared by  
Business Office Staff**

# INTRODUCTORY SECTION

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**JUNE 30, 2004**

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**WILLMAR PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT 347  
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**COMPREHENSIVE ANNUAL  
FINANCIAL REPORT  
FISCAL YEAR ENDED JUNE 30, 2004**

**INDEPENDENT SCHOOL DISTRICT NO. 347  
WILLMAR PUBLIC SCHOOLS**

**SCHOOL BOARD AND ADMINISTRATION  
JUNE 30, 2004**

**SCHOOL BOARD**

<b><u>NAME</u></b>	<b><u>TERM EXPIRES</u></b>	<b><u>POSITION</u></b>
Brad Schmidt	12/31/05	Chairperson
Dion Warne	12/31/05	Vice Chairperson
Mike Carlson	12/31/05	Clerk
Eric Roberts	12/31/07	Treasurer
Lenny Lenzmeier	12/31/07	Director
Shawn Mueske	12/31/07	Director
Sandra Unger	12/31/07	Director

**CENTRAL ADMINISTRATION**

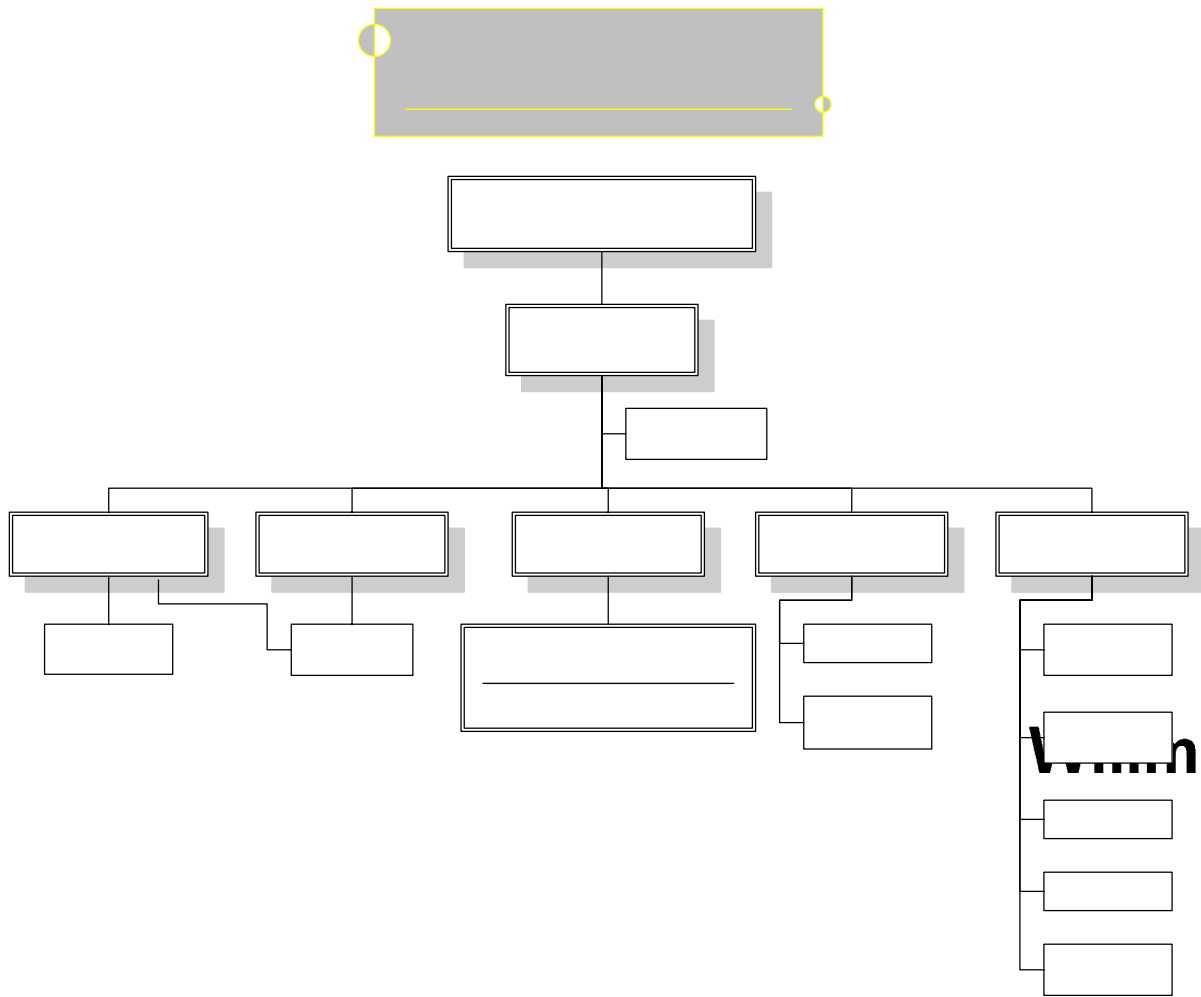
Kathryn A. Leedom	Superintendent
Robert M. Haines	Director of Business and Finance
William B. Busta	Director of Human Resources

**District Offices:**

Willmar Public Schools  
Independent School District No. 347  
611 5<sup>th</sup> St. SW  
Willmar, MN 56201-3218  
320-231-8500  
[www.willmar.k12.mn.us](http://www.willmar.k12.mn.us)

**INDEPENDENT SCHOOL DISTRICT NO. 347  
WILLMAR PUBLIC SCHOOLS**

**ORGANIZATIONAL CHART  
JUNE 30, 2004**



**Willmar Public  
ISD 347**

**SCHOOL BOARD**

**Superintendent**

December 21, 2004

To: Citizens of Independent School District 347  
Members of the Board of Education  
Employees of the District

## **INTRODUCTION**

We submit the Comprehensive Annual Financial Report of Willmar Public Schools – Independent School District No. 347 for the fiscal year (FY) ending June 30, 2004. The enclosed information is accurate in all material respects and reported in a manner that fairly presents the District's financial position and results of operations. This report is a complete disclosure of all financial activities of the district. The District Administration accepts full responsibility for the accuracy, completeness and fairness of this presentation.

This report is prepared in conformance with United States generally accepted accounting principles (GAAP). This report is also consistent with legal reporting requirements of the State of Minnesota. In addition to meeting legal requirements, this report is intended to present a comprehensive summary of significant financial data to meet the needs of citizens, taxpayers, employees, financial institutions, and the School Board.

## **REPORT FORMAT**

The comprehensive annual financial is presented in three sections.

**Introductory Section** – includes this letter of transmittal, an organization chart, and a list of School Board members and administrative personnel. The Introductory Section is not audited.

**Financial Section** – includes the independent auditor's report, Management's Discussion and Analysis (MD&A), basic financial statements, and notes to the basic financial statements.

**Statistical Section** – includes selected financial, demographic and economic information, generally presented on a multi-year comparative basis. The Statistical Section is not audited.

GAAP requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of the MD&A. This letter of transmittal is designed to compliment the MD&A and should be read in conjunction with it. The MD&A of Independent School District No. 347 can be found immediately after the report of the independent auditors.

## **FEDERAL SINGLE AUDIT AND STATE COMPLIANCE AUDIT**

The District is required to undergo an annual audit in conformity with the provisions of the Federal Single Audit Act amendments of 1996 and the U.S. Office of Management and Budget's Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. The District is also required to undergo an annual Minnesota State legal compliance audit under Statute Section 6.65. Independent auditor reports and a Schedule of Expenditures of Federal Awards are included in a separately issued document. This report contains no significant findings or questioned costs.



## **REPORTING ENTITY AND ITS SERVICES**

Independent School District No. 347, also known as the Willmar Public Schools, is an instrumentality of the State of Minnesota established to function as an educational institution. The District is an independent entity governed by an elected seven member School Board. The School Board has the power and duty to set budgets, certify tax levies, issue debt and perform other tasks necessary to the operation of the District. The District is subject to the oversight of the Minnesota Department of Education.

The District, established in 1881, serves the communities of Blomkest, Kandiyohi, Pennock and Willmar. The District is located in west-central Minnesota, approximately 100 miles west of the Minneapolis/St. Paul metropolitan area. The District encompasses an area of approximately 149,294 acres in Kandiyohi County with an estimated population of 24,000 citizens, including a population of 18,351 in Willmar. All school buildings are located in Willmar. The District currently operates 12 owned or leased buildings.

The District provides a full range of public education services appropriate to grade levels ranging from pre-kindergarten through grade 12. These include regular and enriched academic education, special education and career/vocational education. Food service and transportation are provided as supporting programs. The District's community education program includes Early Childhood and Family Education programs, Adult Basic Education programs and a wide variety of classes for lifelong learning experiences for children and adults.

## **ECONOMIC CONDITION AND OUTLOOK**

The area is fortunate to have an expanding economic base with an excellent quality of life. The City of Willmar was recently named the 19<sup>th</sup> most livable micropolitan city in the nation by Life in America's Small Cities. Willmar was also recently named one of 141 United States "dream towns" by Demographics Daily. In April 2004, Willmar received designation as a Community of Promise from the Alliance for Youth, a national initiative begun by Colin Powell.

Although the economy of the District and adjacent communities is reliant on agriculture and related businesses, the City of Willmar serves as a regional center for retail, trade, medical care, education and small industries. The diversity of the economic base has provided steady growth and stability.

With the exception of voter approved operating and bond referendums, the District is dependent on the State of Minnesota for its revenue authority. Recent experience demonstrates that legislated revenue increases are not sufficient to meet instructional program needs and increased costs due to inflation. As a result of these pressures, the District has had to rely on a property tax referendum to support its educational programs. The voters approved an operating referendum in 2001, scheduled to sunset in calendar year 2012. An increase in revenues from the 2001 operating referendum began in FY 2003. In addition to passing the operating referendum, the School Board cut \$1.8 million in expenditures from the FY 2002 Budget.

In the last four years, the School Board, Staff and Community have embarked on a mission to restore the General Fund fund balance to a reasonable level. A combination of the operating referendum, budget cuts, expenditure control, and revenue enhancements have assisted in restoring the fund balance. The District will continue to be proactive in its financial management by seeking all available sources of revenue, responding to declining enrollment, controlling expenditures and seeking maximum efficiencies. Implementation of state of art enrollment and long-range financial planning software, development of a Finance Advisory Committee (including community members), updated budgeting processes and the business office reorganization all will continue contributing towards the quest for financial stability into the future.

The financial future for the District looks difficult. The Legislature did not approve an increase in the education formula for either the FY 2004 or FY 2005 fiscal years (the formula is maintained at the current \$4,601 per pupil). The State of Minnesota will most likely face another deficit budget situation for the next biennium. How the state will address this funding situation is uncertain.

## MISSION STATEMENT

### *Preparing All Students for a Successful Tomorrow*

- Purposeful Thinker
- Effective Communicator
- Self Directed Learner
- Productive Group Participant
- Responsible Citizen

### **Long Term District Wide Goal**

*Increase the academic proficiency of all students through effective instruction and appropriate curriculum and assessments in partnership with all staff as well as parents, guardians and community members.*

*In order to meet our mission and reach our goal it is understood that we must all work collaboratively to provide for the social, physical and emotional well being of every child.*

The District began a new long-range planning process in the fall of FY 2005.

## FINANCIAL AND BUDGETARY CONTROL

The District complies with the Uniform Financial Accounting and Reporting Standards (UFARS) for Minnesota schools. UFARS, established in 1976, dictates a modified accrual basis of accounting. An audited annual financial report is required to be provided to the Minnesota Department of Education by November 30, subsequent to the year end on June 30.

The District has established and maintained internal controls designed to ensure that the assets of the District are protected from theft, misuse or losses. These controls are also designed to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) and Minnesota UFARS. The internal control system is designed to provide reasonable, but no absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: 1) the cost of a control should not exceed the benefits likely to be derived, and 2) the valuation of the costs and benefits requires estimates and judgments by management.

Minnesota school finance law requires that the budget fiscal year begin July 1 and end June 30. ISD 347 develops a General Fund Budget, Food Service Fund Budget, Community Education & Recreation Budget, Debt Service Budget and other necessary budgets on an annual basis.

The budget process is comprised of five phases – planning, preparation, adoption, implementation, and evaluation. Planning and preparation for the FY 2004 budget began in the winter of 2003 with the development of the budget development plan and analysis of the student enrollment trend. The current enrollment status provided the data to update allocations for site non-payroll budgets. Expenditure estimates were updated both on a site basis and district-wide in the spring. An enrollment projection was developed in early May and provided the key data for the budget's revenue projection. The FY 2004 Budget was adopted in June of 2003 and implemented on July 1, 2004. The District completes two budget revisions during the year.

To accurately track and report financial activities with a focus on site responsibility, approximately 8,160 account codes have been defined in the District's chart of accounts.

The District's budget and financial management practices are evidenced by the following District policies:

*Fund Balance Policy #703:* Requires the District to maintain a minimum General Fund unreserved fund balance of 6% of the annual operating budget.

*Budgeting Policy #709 and 709.1:* Establishes guidelines for allocation of District resources.

## MAJOR INITIATIVES

### Fiscal and Operational Integrity

The District is committed to maintaining the General Fund according to Board Fund Balance Policy. The Willmar Public Schools is also committed to implementing and maintaining systems that ensure financial stability and operational efficiency.

Due to the combined effort of the Community, School Board, all staff and students, the District's General Fund has been restored to a reasonable and responsible level. The District's sound fiscal management has a long-term positive impact on the student success.

A sophisticated long-range financial planning model, several detailed enrollment projection models, a reorganization of the business office, a Finance Advisory Committee comprised of community members, board members and staff, enhanced communication, consistently improving financial accuracy and compliance, and improved budgeting and accounting processes have all played a role in the District's financial recovery.

Major fiscal and operational initiatives from FY 2004 include:

- **Governmental Accounting and Standards (GASB) 34 Compliance** - GASB 34 is a major new set of accounting rules that all school districts must implement. This included implementation of a new fixed asset process, more extensive financial statement and reporting requirements, and reclassification of accounts.
- **Minnesota School Finance Award** – the District received the MN School District Finance Award representing achievements in financial management, accuracy, compliance and reporting. Less than 10% of Minnesota districts received this honor.
- **Parent Portal internet communication link for Parents** – offers parents the ability to access their child's attendance, discipline, schedules, lunch balances, assignments and grades in a secure, online environment at times that are convenient to them. Over 440 parents utilized the Portal in its first year.
- **VEBA Health Plan** – a new high deductible health plan with a VEBA trust account was implemented in a continuing effort to control rising health care costs.
- **Technology Support Reorganization** – the District refocused current staff and added several additional technology support staff in order to improve service levels for the District's growing instructional technology capability. This was implemented in a cost neutral manner.
- **Food Service Software and Accounting Project** – New Food Service software was installed and accounting processes were redesigned with a goal of improving accuracy, compliance and efficiency. The software uses our current student data system (Campus) and allowed us to eliminate a redundant data base.
- **Substitute Employee Management System (SEMS)** – This new software automates the process of finding substitute employees and provides useful operational data.
- **Food Service Kitchen Compliance Project** – Began a project to upgrade District kitchens to meet code compliance and take advantage of process improvement opportunities.
- **Comprehensive Facility Study** – Began a district wide project to develop a detailed capital and maintenance study of all buildings. The study will be completed in the fall of FY 2005 and lead to

the development of a long-range facility plan that covers anticipated facility maintenance and improvement needs.

- **Finance Web Site** – Established a District Finance web site that includes the following topics and related documents: Financial Statements, School Board Monthly Financial Reporting, Finance Advisory Committee, Budget, Levy Certification, Truth in Taxation and school finance links.

### **Student Achievement**

The District's mission is "To Prepare All Students for a Successful Tomorrow." That mission is met with an intense effort at all levels of the Willmar Public Schools.

In order to have our mission become a reality, academic standards of the Willmar Public Schools are high. We are currently in the 2<sup>nd</sup> year of the North Central Association of Schools and Colleges (NCA) accreditation renewal process. All of our schools are currently accredited. In order to continue this accreditation an improvement process has been identified at each site. Sites have conducted a needs survey and have examined data that includes test scores as well as information taken from the survey that was sent to all teachers, students and parents.

In addition, NCA academic goals were established that will be verified by a triangulation of data. In order to meet the needs of all students and to insure their academic and affective success, each site has established a committee comprised of teachers, administrators, parents and community members to create an implementation plan. This plan includes identification of needs, a definitive plan to meet the goals, and multiple means of assessing progress.

Teaching our students to become contributing members of our society is also a high priority. Students, teachers and support staff participate in many community building initiatives such as service clubs, community service classes, volunteering to help younger students on a regular basis, adopting nursing homes for monthly visits and organizing a "community helper day." Character education is an integrated and important part of the education of all students.

Our high school leads all area schools in offering Advanced Placement (AP) opportunities in 12 subject areas. More than 100 students took AP exams in 2004. Students in grades 2 – 10 take the Northwest Educational Assessment (NWEA) exams twice a year in reading and mathematics, with progress reports sent to all students and parents. Growth is measured individually as well as by classroom. We will initiate NWEA testing in Science when the new Science Standards are implemented. The Social Studies department is developing course/grade assessments that align with the newly published Social Studies and History Standards. Opportunities for remediation and acceleration are the norm. In addition to national standardized tests and state assessments, formative and summative assessments are an expectation for all classroom teachers for all students.

In 2004, the Willmar average composite score for the ACT exam was 22.1. The national average is 20.9. The Minnesota Comprehensive Assessments (MCA) demonstrate growth in reading and math when looking at trend data. These achievements are especially impressive given the large numbers of students who are identified as ELL, Special Education and who qualify for free/reduced lunch (a nationally recognized factor in lower student achievement). Being very close to or above state averages in achievement and being well above the norm in the number of students who are "at risk" validates the quality improvements implemented by the Willmar Schools.

### **Programs & Improvements**

- Instituted NWEA testing in math and reading in grades 2-10, as a means of assessing student growth, as well as program and instructional quality.
- Published curriculum maps in all subject areas at all grade levels on our website to insure public awareness of curriculum content, assessment and standard implementation.

- Maintained an active Curriculum Advisory Committee comprised of interested patrons from diverse backgrounds, representing the community at large.
- Involved the District Site Council in all staff development initiatives as well as in curriculum and program improvement.
- Contributed significantly to a Willmar area community visioning and planning initiative entitled "Vision 2020"
- Capitalized on volunteers, foundations and Parent-Teacher-Student-Associations' willingness to bring value added opportunities to our students, from the funding of Guided Reading books to playground equipment to providing hundreds of hours of assistance in the classroom.

## **CASH MANAGEMENT**

Temporary cash balances during the year are invested in various securities per the District Investment Policy and statute. The District uses a twelve month cash flow projection, updated monthly, to guide investment terms. The District's investment policy is structured to minimize risk while maintaining a competitive yield. Accordingly, deposits are either insured by federal depository insurance or collateralized in compliance with Minnesota statutes. Investment yield during FY 2004 ranged from 1.00% to 1.84%, resulting in a total net return of \$110,285.

## **RISK MANAGEMENT**

The District maintains a comprehensive risk management program that includes a property/casualty insurance program specifically designed to meet school district needs. Other key aspects of the risk management program include a health & safety consultation arrangement, an active health & safety committee, annual safety inspections and periodic review of policies to assure regulatory compliance and adherence to legal constructs.

## **INDEPENDENT AUDIT**

District policy and state statutes require an annual financial audit by independent certified public accountants. This requirement has been complied with and the opinion of Larson, Allen, Weishair & Co., LLP is included in this report.

## **CERTIFICATE OF EXCELLENCE IN FINANCIAL REPORTING**

This report has been prepared following the guidelines provided by the Association of School Business Officials (ASBO) for their Certificate of Excellence in Financial Reporting Program. Achieving recognition by this program provides a clear indication of the District's high standards for financial reporting and financial stewardship. We believe this report conforms to the Certificate of Excellence program requirements. This report will be submitted to ASBO to determine its eligibility for the certificate. This is the District's first such submission.

## **ACKNOWLEDGEMENTS**

Preparation of this report could not have been accomplished without the efficient and dedicated services of the Business Office staff. In particular, we want to acknowledge the excellent contribution from Dan Holtz, Accountant, for his dedication to detail and accuracy. Thanks also go to Sam Modderman, Kandiyohi County Auditor/Treasurer for his assistance with this project.

We would like to express our appreciation to the School Board for the interest and support in planning and conducting the financial operations of the District in a responsible and progressive manner.

Sincerely,

Kathy Leedom  
Superintendent

Bob Haines  
Director of Business and Finance

## FINANCIAL SECTION

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## 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, 2004, 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District #347 as of June 30, 2004 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 accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2004, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be 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 accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming 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**

Austin, Minnesota  
October 6, 2004

**REQUIRED SUPPLEMENTARY INFORMATION**

## **INDEPENDENT SCHOOL DISTRICT # 347**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2004**

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, 2004. Please read it in conjunction with the transmittal letter at the front of this report and the District's financial statements, which immediately follow this section.

The Management's Discussion and Analysis (MD&A) is 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 (2003-2004) and the prior year (2002-2003) is presented in the MD&A.

#### **FINANCIAL HIGHLIGHTS**

Key financial highlights for the 2003-2004 fiscal year include the following:

- The General Fund undesignated-unreserved fund balance increased \$1.87 million and the District again exceeded its fund balance goal of 6% of expenditures. This achievement was due to numerous factors; most notably, the continuing impact of the operating referendum passed in 2001.
- Net Assets increased 18.82% over the prior year.
- Overall revenues in the Statement of Activities were \$43.80 million and exceeded expenditures by \$2.76 million.
- The District reduced its outstanding long-term liabilities by \$1.41 million, or 5.72%.

#### **OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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

INDEPENDENT SCHOOL DISTRICT # 347

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
YEAR ENDED JUNE 30, 2004

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

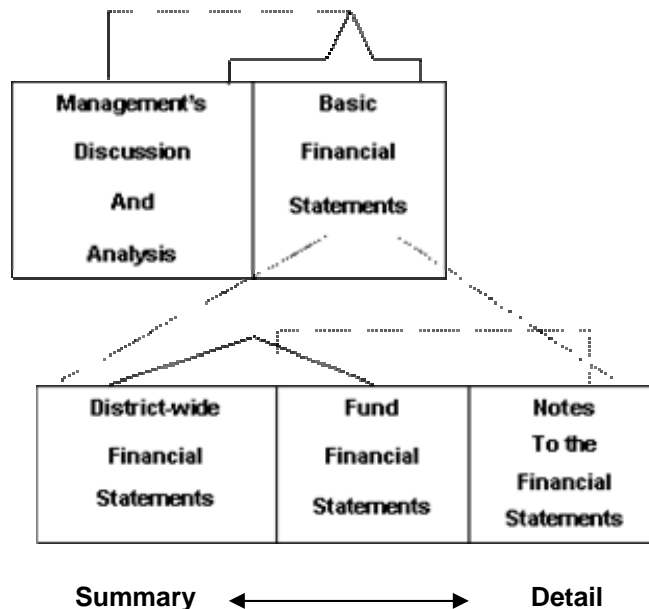
The basic financial statements include two kinds of statements that present different views of the District:

- 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 1, shown below, shows how the various parts of this annual report are arranged and related to one another.

Figure 1 Organization of Willmar Public Schools Annual Financial Report



**INDEPENDENT SCHOOL DISTRICT # 347**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
YEAR ENDED JUNE 30, 2004**

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

Figure 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 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 scholarships
<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

***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.

## INDEPENDENT SCHOOL DISTRICT # 347

### MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) YEAR ENDED JUNE 30, 2004

#### OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

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.
- **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.

**INDEPENDENT SCHOOL DISTRICT # 347**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
YEAR ENDED JUNE 30, 2004**

- 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.

**INDEPENDENT SCHOOL DISTRICT # 347**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
YEAR ENDED JUNE 30, 2004**

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

- **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 \$17.41 million on June 30, 2004. This was an increase of 18.82% from the previous year total of \$14.65 million. (See Table 1 below).

<b>Table 1</b>			
<b>Independent School District No. 347</b>			
<b>Change in Net Assets</b>			
	<u>2004</u>	<u>2003</u>	<b>Percentage Change 2003 to 2004</b>
<b>Assets</b>			
Current and Other Assets	\$ 18,998,294	\$ 23,018,721	-17.47%
Capital Assets	<u>32,397,243</u>	<u>33,169,674</u>	-2.33%
<b>Total Assets</b>	<b>51,395,537</b>	<b>56,188,395</b>	-8.53%
<b>Liabilities</b>			
Long-term Liabilities	21,323,063	22,854,287	-6.70%
Other Liabilities	<u>12,661,194</u>	<u>18,680,409</u>	-32.22%
<b>Total Liabilities</b>	<b>33,984,257</b>	<b>41,534,696</b>	-18.18%
<b>Net Assets</b>			
Invested in capital assets, net of related debt	12,018,714	11,314,674	6.22%
Restricted	1,998,553	1,693,277	18.03%
Unrestricted	<u>3,394,013</u>	<u>1,645,748</u>	106.23%
<b>Total Net Assets</b>	<b><u>\$ 17,411,280</u></b>	<b><u>\$ 14,653,699</u></b>	18.82%

The District's improved financial position in fiscal year 2004 is the product of many factors. However, the largest single factor is a \$6.02 million reduction in Other Liabilities. The primary reduction occurred in Aid Anticipation Certificates Payable, which was \$8.48 million in 2003 and \$2.54 million in 2004, a reduction of \$5.94 million.



**INDEPENDENT SCHOOL DISTRICT # 347**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
YEAR ENDED JUNE 30, 2004**

**INDEPENDENT SCHOOL DISTRICT # 347**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
YEAR ENDED JUNE 30, 2004**

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

Table 2, below, contains a condensed view of the change in net assets of the District.

<b>Table 2</b>			
<b>Independent School District No. 347</b>			
<b>Change in Net Assets</b>			
	<u><b>2004</b></u>	<u><b>2003</b></u>	<b>Percentage Change 2003 to 2004</b>
<b>Revenues</b>			
Program Revenues			
Charges for Services	\$ 2,668,075	\$ 2,561,176	4.17%
Operating Grants and Contributions	13,043,811	13,288,073	-1.84%
Capital Grants and Contributions	1,006,214	994,427	1.19%
General Revenues			
Property Taxes	4,571,168	3,743,703	22.10%
Federal and State Aid	22,383,185	22,545,637	-0.72%
Other	<u>111,223</u>	<u>189,252</u>	-41.23%
<b>Total Revenues</b>	<b>43,783,676</b>	<b>43,322,268</b>	<b>1.07%</b>
<b>Expenses</b>			
Administration	1,199,931	1,192,060	0.66%
District Support Services	798,273	1,493,396	-46.55%
Regular Instruction	17,896,044	15,612,289	14.63%
Vocational Education Instruction	956,619	1,009,389	-5.23%
Special Education Instruction	7,354,987	6,967,950	5.55%
Instructional Support Services	2,000,604	1,857,142	7.72%
Pupil Support Services	2,683,324	2,529,455	6.08%
Sites and Buildings	3,256,881	3,233,977	0.71%
Fiscal and Other Fixed Cost Programs	264,007	300,954	-12.28%
Food Service	1,846,894	1,638,630	12.71%
Community Service	1,673,941	1,753,628	-4.54%
Interest and fiscal charges on long-term liabilities	<u>1,094,590</u>	<u>1,164,807</u>	-6.03%
<b>Total Expenses</b>	<b>41,026,095</b>	<b>38,753,677</b>	<b>5.86%</b>
<b>Increase in Net Assets</b>	<b><u>2,757,581</u></b>	<b><u>4,568,591</u></b>	<b>-39.64</b>
<b>End of Year Net Assets</b>	<b><u>\$ 17,411,280</u></b>	<b><u>\$ 14,653,699</u></b>	<b>18.82%</b>

**Changes in Net Assets.** The District's total revenues were \$43.78 million for the year ended June 30, 2004. This is a 1.07% increase of over the prior year's revenues.

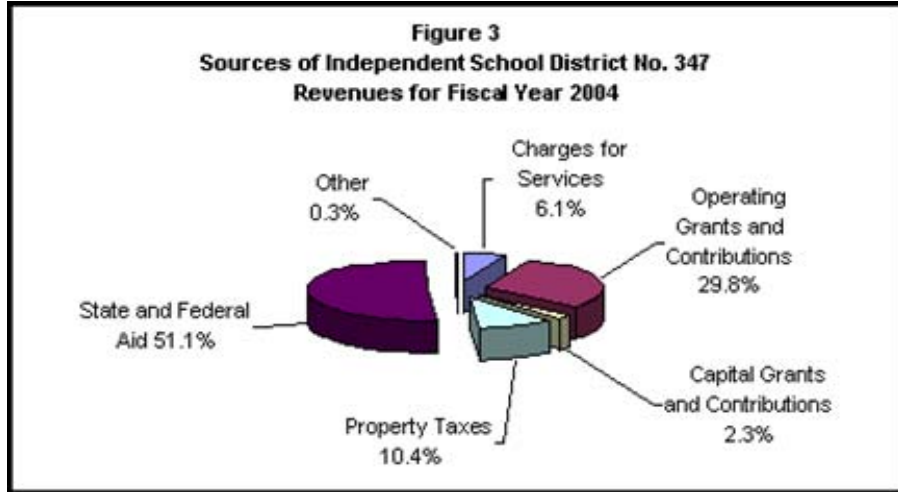
**INDEPENDENT SCHOOL DISTRICT # 347**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
YEAR ENDED JUNE 30, 2004**

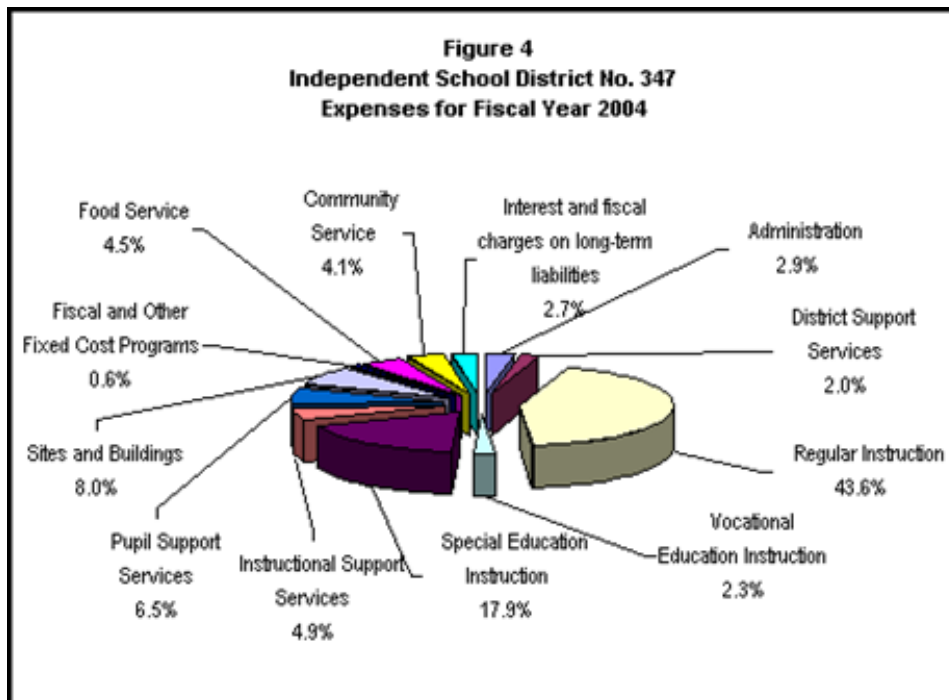
**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (Continued)**

State and federal aid along with local property taxes accounted for 61.5% of the total revenue for the year (see Figure 3 below). Another 0.3% came from other general revenue and the remaining 38.2% from program revenues.

Total revenues surpassed expenses, increasing net assets \$2,757,581 over last year.



The total cost of all programs and services was \$41,026,095. The District's expenses are predominantly related to student education (75.2%). (See Figure 4 below.) The purely administrative activities of the District accounted for just 2.9% of total costs.



**INDEPENDENT SCHOOL DISTRICT # 347**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
YEAR ENDED JUNE 30, 2004**

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

- The cost of all **governmental** activities this year was \$41,026,095 (See Table 3 below).
  - The users of the District's programs paid for 6.5%, or \$2,668,075 million of the costs.
  - The federal and state governments subsidized certain programs with grants and contributions. This totaled \$14,050,025, or 34.25% of the total costs for 2003-2004.
  - The remainder of the District's costs (\$24,307,995), however, were paid for by state taxpayers based on the statewide education aid formula and by District taxpayers.
  - Only \$111,223 of the total revenues came from investment earnings and other general revenues.

**Table 3  
Independent School District No. 347  
Net Cost of Governmental Activities**

	<u>Total Cost of Services</u>		<u>Percent</u>	<u>Net Cost of Services</u>		<u>Percent</u>
	<u>2004</u>	<u>2003</u>	<u>Change</u>	<u>2004</u>	<u>2003</u>	<u>Change</u>
			<u>2003-2004</u>			<u>2003-2004</u>
Administration	\$ 1,199,931	\$ 1,192,060	0.7%	\$ 1,195,085	\$ 1,192,060	0.3%
District Support Services	798,273	1,493,396	-46.5%	672,375	1,465,676	-54.1%
Regular Instruction	17,896,044	15,612,289	14.6%	11,181,225	9,008,993	24.1%
Vocational Education Instruction	956,619	1,009,389	-5.2%	791,557	875,061	-9.5%
Special Education Instruction	7,354,987	6,967,950	5.6%	2,339,752	2,064,500	13.3%
Instructional Support Services	2,000,604	1,857,142	7.7%	1,372,381	1,019,023	34.7%
Pupil Support Services	2,683,324	2,529,455	6.1%	2,517,330	2,264,327	11.2%
Sites and Buildings	3,256,881	3,233,977	0.7%	2,662,582	2,518,183	5.7%
Fiscal and Other Fixed Cost Programs	264,007	300,954	-12.3%	264,007	300,954	-12.3%
Food Service	1,846,894	1,638,630	12.7%	121,545	(170,724)	-171.2%
Community Service	1,673,941	1,753,628	-4.5%	95,566	207,141	-53.9%
Interest and Fiscal Charges on Long-term Liabilities	1,094,590	1,164,807	-6.0%	1,094,590	1,164,807	-6.0%
<b>Total</b>	<b>\$ 41,026,095</b>	<b>\$ 38,753,677</b>	<b>5.9%</b>	<b>\$ 24,307,995</b>	<b>\$ 21,910,001</b>	<b>10.9%</b>

## INDEPENDENT SCHOOL DISTRICT # 347

### MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) YEAR ENDED JUNE 30, 2004

#### FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

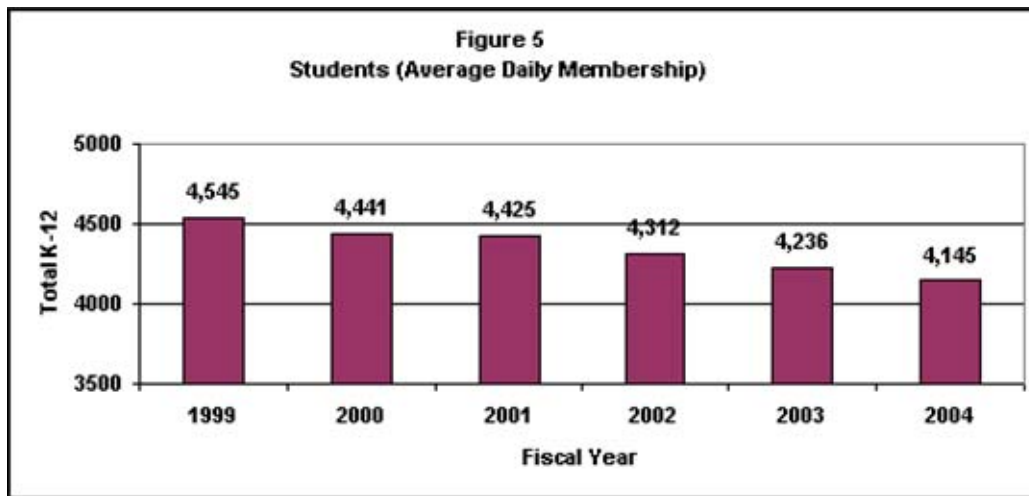
The financial performance of the District as a whole is reflected in its governmental funds. At the end of the 2003-2004 fiscal year, the District's governmental funds reported a **combined** fund balance of \$8,707,152, a 30.7% increase above last year's ending fund balance of \$6,660,295.

Revenues and other financing sources for the District's governmental funds were \$43,789,316, while total expenditures were \$42,257,170. As a result, the District completed the year with an excess of revenues over expenditures of \$1,532,146.

#### 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 six years, the District has averaged an annual 1.82% decline in the number of students. The Figure 5, below, shows that the number of students has decreased steadily over the last six 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.

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.

**INDEPENDENT SCHOOL DISTRICT # 347**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
YEAR ENDED JUNE 30, 2004**

**GENERAL FUND (Continued)**

The following schedule presents a summary of General Fund revenues:

<b>Table 4</b>				
<b>Independent School District #347</b>				
<b>General Fund Revenues</b>				
	<u>Year Ended</u> <u>June 30, 2004</u>	<u>Year Ended</u> <u>June 30, 2003</u>	<u>Amount of</u> <u>Increase</u> <u>(Decrease)</u>	<u>Percent</u> <u>Increase</u> <u>(Decrease)</u>
Local Sources				
Property Taxes	\$ 2,082,070	\$ 1,462,929	\$ 619,141	42.32%
Interest Earnings	82,231	142,136	(59,905)	-42.15%
Other	1,957,056	1,815,745	141,311	7.78%
State Sources	31,101,721	32,194,247	(1,092,526)	-3.39%
Federal Sources	<u>2,045,563</u>	<u>1,593,643</u>	<u>451,920</u>	28.36%
Total Revenues	37,268,641	37,208,700	59,941	.016%
Other Financing Sources				
Sale of Capital Assets	<u>-</u>	<u>1,050</u>	<u>(1,050)</u>	-100.00%
Total General Fund Revenues and Other Financing Sources	<u>\$ 37,268,641</u>	<u>\$ 37,209,750</u>	<u>\$ 58,891</u>	.016%

Total General Fund revenue increased by \$58,891, or .16%, 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.

Property taxes in 2004 were \$619,141, or 42.32%, higher than the prior year. The increase is mainly the result revenue totaling \$498,368 from Property Tax Shift Recognition. This same amount was then reduced from State revenue. State sources of revenue declined by \$1.09 million, or 3.39%, from 2003. The decrease is a function of the above-mentioned Property Tax Shift Recognition, lower than expected Special Education aid and continued declining enrollment. Federal revenues increased \$451,920, or 28.36%, from the previous year. This increase is largely due to the new Reading First Grant of \$284,000.

**INDEPENDENT SCHOOL DISTRICT # 347**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
YEAR ENDED JUNE 30, 2004**

**GENERAL FUND (Continued)**

The following schedule presents a summary of General Fund expenditures:

<b>Table 5</b>					
<b>Independent School District #347</b>					
<b>General Fund Expenditures</b>					
	<b>Year Ended</b>	<b>Year Ended</b>	<b>Amount of</b>	<b>Percent</b>	
	<b>June 30, 2004</b>	<b>June 30, 2003</b>	<b>Increase</b>	<b>Increase</b>	
			<b>(Decrease)</b>	<b>(Decrease)</b>	
Salaries	\$ 21,994,739	\$ 21,395,957	\$ 598,782	2.80%	
Employee Benefits	5,556,544	4,780,820	775,724	16.23%	
Purchased Services	5,577,725	4,687,872	889,853	18.98%	
Supplies & Materials	1,500,252	1,259,670	240,582	19.10%	
Capital Expenditures	738,792	1,001,832	(263,040)	-26.26%	
Other Expenditures	169,426	253,540	(84,114)	-33.18%	
<b>Total General Fund Expenditures</b>	<b>\$ 35,537,478</b>	<b>\$ 33,379,691</b>	<b>\$ 2,157,787</b>	<b>6.46%</b>	

Total General Fund expenditures increased \$2,157,787 or 6.46% from the previous year.

In fiscal year 2003-2004 salaries increased 2.8%. The increase in salaries is due to board-approved contractual agreements. Employee benefits increased by 16.23% compared to last year. This increase is largely due to double-digit increases in the cost of health insurance premiums. The District continues to look at various cost containment measures to minimize the effect of rising health insurance premiums on the costs of the District's employee compensation packages.

Non-payroll expenditures (Purchased Services, Supplies & Materials, Capital Expenditures and Other Expenditures) increased by 783,282, or 9.81%, compared to last year. The increase is primarily due to several factors. First, mandated Integration Collaborative expenditure budget increased by \$274,000. Second, the majority of the \$284,000 Reading First Grant expenditures fall into this category.

In summary, 2003-2004 General Fund revenues exceeded General Fund expenditures by \$1,731,163. As a result, the total fund balance increased to \$6,853,597 at June 30, 2004. After deducting statutory reserves, the unreserved-undesignated fund balance increased from \$3,536,006 on June 30, 2003 to \$5,409,298 on June 30, 2004.

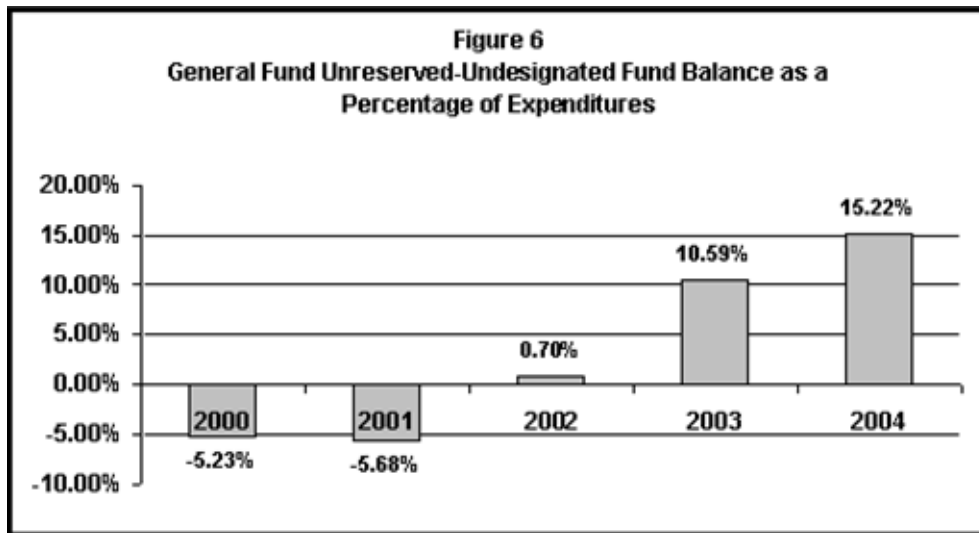
**INDEPENDENT SCHOOL DISTRICT # 347**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
YEAR ENDED JUNE 30, 2004**

**GENERAL FUND (Continued)**

Both Table 6 and Figure 6, below, depict the General Fund unreserved-undesignated fund balance as a percentage of expenditures for fiscal years 2000 - 2004:

<b>Table 6 Independent School District No. 347 General Fund Unreserved-Undesignated Fund Balance and Expenditures</b>					
	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
<b>Unreserved-undesignated Fund Balance</b>	\$ (1,740,905)	\$ (2,024,688)	\$ 224,214	\$ 3,536,006	\$ 5,409,298
<b>% Change</b>	-45.90%	-16.30%	111.07%	1477.07%	52.98%
<b>Expenditures</b>	\$ 33,310,257	\$ 35,648,597	\$ 31,927,739	\$ 33,379,691	\$ 35,537,478
<b>% Change</b>	0.64%	7.02%	-10.44%	4.55%	6.46%
<b>% of Fund Balance to Exp.</b>	-5.23%	-5.68%	0.70%	10.59%	15.22%



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 \$5,409,298 on June 30, 2004 represents 15.22% of annual expenditures or about 7.9 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, 2004

#### GENERAL FUND (Continued)

##### *General Fund Budgetary Highlights*

The District is required to adopt an operating budget prior to the beginning of its fiscal year (July 1). Over the course of the year, the District revised the annual operating budget two times. These budget amendments usually fall into two categories:

- Implementing budgets for specially funded projects, which may include grants, adjusting staffing and various instructional building allocations based on enrollment, and budgeting for certain unspent funds that are required to be carried over from fiscal year 2003.
- Changes in appropriations for significant unbudgeted costs.

While the District's final budget for the general fund anticipated that revenues would exceed expenditures by \$1.37 million, the actual results for the year show that revenues exceeded expenditures by \$1.73 million.

- Actual revenues were \$188,788, or 0.5%, less than budget, due largely to declining enrollment and to lower than expected special education revenues.
- Actual expenditures were \$553,087, or 1.5%, less than budget.
  - Most of the expenditure budget savings are a result of positive variances in non-salary and benefit budgets, highlighted by the following areas: 1) \$258,740 under budget on supplies and materials 2) \$222,726 under budget on travel/conferences; and 3) \$145,837 under budget on tuition bills payable.

#### FOOD SERVICE FUND

The Food Service Fund revenue for 2003-2004 totaled \$1.73 million and expenditures were \$1.84 million, resulting in a fund balance decrease of \$107,212. The fund balance decrease was planned for and is primarily a result of the district's initiative to upgrade kitchen code compliance and take advantage of process flow opportunities. Several of these kitchen projects were completed during the year. The June 30, 2004 Food Service fund balance is \$291,749.

#### COMMUNITY SERVICE FUND

In 2003-2004, the total revenues for the Community Service Fund were \$2.12 million and total expenditures were \$1.99 million. Total revenues exceeded expenditures by \$126,523, resulting in an increase of the same amount in the June 30, 2004 fund balance. This fund balance increase is a function of both successful grant writing and a cautious use of resources. Note that the Community Service Fund Revenues were reduced by \$183,566 in 2003 due to unexpected Community Service finance legislation passed by the state legislature during the that fiscal year. The Community Service Fund fund balance as of June 30, 2004 is \$358,052.

#### CAPITAL PROJECTS - BUILDING CONSTRUCTION FUND

The Building Fund represents funds the District obtained by issuing \$495,000 of general obligation capital facilities bonds dated November 1, 2003. The bonds were issued to finance repair and maintenance projects at the Jr. High, Sr. High and Washington Learning Center. The work on these projects crosses into both Fiscal Year's 2004 and 2005. It is anticipated that the year-end fund balance of \$362,950 will be expended during FY 2005 as these projects are completed in the early part of that year.

**INDEPENDENT SCHOOL DISTRICT # 347**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
YEAR ENDED JUNE 30, 2004**

**DEBT SERVICE FUND**

Revenues and expenditures for the District's Debt Service Fund are tied directly to the District's bond principal and interest payment schedules. The Debt Service Fund expenditures exceeded revenues by \$66,567 in 2003-2004. The remaining fund balance of \$840,804 at June 30, 2004 is available for meeting future debt service obligations.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

By the end of 2004, the District had net capital assets of \$32,397,243 representing a broad range of capital assets, including school buildings, computer and audio-visual equipment, and other equipment for various instructional programs (see Table 7 below). 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.

<b>Table 7 Independent School District #347</b>			
<b>Capital Assets</b>			
	<u>2004</u>	<u>2003</u>	<b>Percentage Change</b>
Land	\$ 623,282	\$ 630,422	-1.13%
Land Improvements	1,893,819	1,891,210	0.14%
Buildings	45,999,552	45,999,552	0.00%
Equipment	3,413,230	3,069,016	11.22%
Vehicles	269,423	289,424	-6.91%
Less Accumulated Depreciation	<u>(19,802,063)</u>	<u>(18,709,950)</u>	5.84%
<b>Total</b>	<b><u>\$ 32,397,243</u></b>	<b><u>\$ 33,169,674</u></b>	-2.33%

**Construction Plan**

As of this writing, the District does not have any formal plan for additional large-scale construction projects in fiscal year 2005. The District began a comprehensive facilities planning study in fiscal year 2004. The results of that study will be presented to the School Board in late fall of fiscal year 2005.

**INDEPENDENT SCHOOL DISTRICT # 347**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
YEAR ENDED JUNE 30, 2004**

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

***Long-term Liabilities***

At year-end, the District had \$20.75 million in general obligation bonds outstanding. This is a decrease of 5.05% from the previous year - as shown in Table 8 below. The District also had \$2.31 million in separation and severance payable at June 30, 2004, a decrease of 11.46% from the previous year. Overall, the District's outstanding long-term liabilities decreased by 5.72% in fiscal year 2004. 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 \$2.49 million of outstanding bonds in the year ending June 30, 2004.
- The District issued \$885,000 of general obligation refunding bonds on November 1, 2003. Proceeds were used to refinance the District's general obligation refunding bonds, series 1996A. The refunding was conducted to achieve interest cost savings.
- The District issued \$495,000 of general obligation capital facilities bonds on November 1, 2003. Proceeds were used to finance various roof and parking lot projects. Operating Capital revenues under Minnesota statute are dedicated to the retirement of these bonds.

<b>Table 8</b>			
<b>Independent School District No. 347</b>			
<b>Outstanding Long-Term Liabilities</b>			
	<b>Total School District</b>		<b>Percent Change</b>
	<b>2004</b>	<b>2003</b>	
General Obligation Bonds	\$ 20,752,395	\$ 21,855,000	-5.05%
U.S. EPA Loan Payable	10,425	15,425	-32.41%
Special Assessments	56,559	80,096	-29.39%
Accrued Vacation	146,682	129,365	13.39%
Separation and Severance Payable	2,313,249	2,612,750	-11.46%
<b>Total</b>	<b>\$ 23,279,310</b>	<b>\$ 24,692,636</b>	<b>-5.72%</b>

***Bond Ratings***

The District's general obligation bonds carry a rating of Aa2 from Moody's investors Service on October 23, 2003.

***Limitations on Debt***

The State of Minnesota limits the amount of general obligation debt the District can issue to 15% of the assessed value of all taxable property within the District's boundaries. The District's outstanding debt is significantly below this limit - which is \$179 million for calendar year 2002.

## INDEPENDENT SCHOOL DISTRICT # 347

### MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) YEAR ENDED JUNE 30, 2004

#### **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, if any, 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. If state funding remains unchanged, we project General Fund budget deficits and a declining fund balance in subsequent years.

The District will strive to maintain its longstanding commitment to academic excellence and educational opportunity for students within a framework of financial fiduciary responsibility.

#### **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide District citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office, Independent School District 347, 611 5<sup>th</sup> St SW, Willmar, MN 56201, visit the District Finance Website at [www.willmar.k12.mn.us](http://www.willmar.k12.mn.us), or call us at 320-231-8500.

***See the online Financial Section to continue with page 35 of this report***