

BASIC FINANCIAL STATEMENTS

**INDEPENDENT SCHOOL DISTRICT #347
WILLMAR, MINNESOTA
STATEMENT OF NET ASSETS
JUNE 30, 2004
(WITH COMPARATIVE INFORMATION AS OF JUNE 30, 2003)**

	Governmental Activities	
	2004	2003
ASSETS		
Cash and Temporary Investments	4,652,987	\$ 7,579,993
Investments	2,545,583	5,000,000
Receivables		
Property Taxes	2,322,564	2,367,377
Accounts Receivable	190,810	50,422
Interest Receivable	35,853	54,623
Due From Other MN School Districts	1,100,000	1,100,000
Due From MN Department Of Education	7,751,218	6,620,470
Due From Other Governmental Units	3,903	-
Inventories	66,682	65,788
Prepaid Expenditures	317,778	180,048
Unamortized Bond Issuance Costs	10,916	-
Capital Assets		
Land	623,282	630,422
Other Capital Assets, Net of Depreciation	31,773,961	32,539,252
Total Assets	<u>51,395,537</u>	<u>56,188,395</u>
LIABILITIES		
Accounts Payable	1,043,702	665,146
Salaries Payable	2,768,638	2,787,722
Interest Payable	478,384	636,461
Due To Other Districts	192,310	174,813
Due To Other Governmental Units	1,155	6,523
Deferred Revenue	235,159	144,384
Property Taxes Levied for Subsequent Year's Expenditures	3,448,534	3,951,324
Aid Anticipation Certificates Payable	2,537,065	8,475,687
Noncurrent Liabilities		
Due Within One Year	1,956,247	1,838,349
Due in More Than One Year	21,323,063	22,854,287
Total Liabilities	<u>33,984,257</u>	<u>41,534,696</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	12,018,714	11,314,674
Restricted for		
Capital Asset Acquisition	274,641	213,591
Other Purposes	1,723,912	1,479,686
Unrestricted	<u>3,394,013</u>	<u>1,645,748</u>
Total Net Assets	<u>\$ 17,411,280</u>	<u>\$ 14,653,699</u>

See accompanying Notes to Financial Statements.

**INDEPENDENT SCHOOL DISTRICT #347
WILLMAR, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2004
(WITH PARTIAL COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2003)**

Functions	2004		
	Expenses	Charges for Services	Program Operating Grants and Contributions
Governmental Activities			
Administration	\$ 1,199,931	\$ 16	\$ -
District Support Services	798,273	-	124,362
Regular Instruction	17,896,044	248,156	6,285,153
Vocational Education Instruction	956,619	26,791	136,243
Special Education Instruction	7,354,987	1,072,490	3,939,923
Instructional Support Services	2,000,604	9,850	349,578
Pupil Support Services	2,683,324	-	165,994
Sites and Buildings	3,256,881	49,606	-
Fiscal and Other Fixed Cost Programs	264,007	-	-
Food Service	1,846,894	669,556	1,055,793
Community Service	1,673,941	591,610	986,765
Interest and Fiscal Charges on Long-Term Liabilities	1,094,590	-	-
Total School District	<u>\$ 41,026,095</u>	<u>\$ 2,668,075</u>	<u>\$ 13,043,811</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.

	2004	2003
Revenues	Net (Expense) Revenue and Changes in Net Assets	Net (Expense) Revenue and Changes in Net Assets
Capital Grants and Contributions	Total Governmental Activities	Total Governmental Activities
\$ 4,830	\$ (1,195,085)	(1,192,060)
1,536	(672,375)	(1,465,676)
181,510	(11,181,225)	(9,008,993)
2,028	(791,557)	(875,061)
2,822	(2,339,752)	(2,064,500)
268,795	(1,372,381)	(1,019,023)
-	(2,517,330)	(2,264,327)
544,693	(2,662,582)	(2,518,183)
-	(264,007)	(300,954)
-	(121,545)	170,724
-	(95,566)	(207,141)
-	(1,094,590)	(1,164,807)
\$ 1,006,214	(24,307,995)	(21,910,001)

2,077,862	1,450,890
242,495	74,427
2,250,811	2,218,386
22,383,185	22,545,637
110,285	178,094
-	1,050
938	10,108
27,065,576	26,478,592
2,757,581	4,568,591
14,653,699	10,085,108
\$ 17,411,280	\$ 14,653,699

**INDEPENDENT SCHOOL DISTRICT #347
WILLMAR, MINNESOTA
BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2004
(WITH PARTIAL COMPARATIVE INFORMATION AS OF JUNE 30, 2003)**

	Major		
	General	Food Service	Community Service
ASSETS			
Cash and Temporary Investments	\$ 1,508,869	\$ 424,904	\$ 291,862
Investments	2,545,583	-	-
Receivables			
Current Taxes	792,480	-	54,896
Delinquent Taxes	21,183	-	2,035
Accounts Receivable	102,770	107	7,227
Interest Receivable	35,853	-	-
Due From Other MN School Districts	1,100,000	-	-
Due From MN Department of Education	7,405,638	19,777	325,803
Due From Other Funds	28,950	-	-
Due From Other Governmental Units	-	-	3,903
Inventory	31,754	34,928	-
Prepaid Expenditures	287,038	28,238	2,502
Total Assets	<u>\$ 13,860,118</u>	<u>\$ 507,954</u>	<u>\$ 688,228</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts Payable	\$ 701,796	\$ 177,053	\$ 48,251
Salaries And Wages Payable	2,630,526	39,152	98,960
Interest Payable	37,240	-	-
Due To Other Districts	192,310	-	-
Due to Other Governmental Units	1,155	-	-
Deferred Revenue	132,503	-	125,874
Property Taxes Levied For Subsequent Years' Expenditures	773,926	-	57,091
Aid Anticipation Certificates Payable	2,537,065	-	-
Total Liabilities	<u>7,006,521</u>	<u>216,205</u>	<u>330,176</u>
Fund Balances			
Reserved for			
Staff Development	209,418	-	-
Health and Safety	(50,838)	-	-
Reemployment	-	-	-
Severance Pay	872,617	-	-
Operating Capital	274,641	-	-
Disabled Accessibility	-	-	-
Area Learning Center	138,461	-	-
Community Education	-	-	164,951
Early Childhood Family Education	-	-	40,235
School Readiness	-	-	17,931
Undesignated, Reported in			
General Fund	5,409,298	-	-
Capital Projects Fund	-	-	-
Debt Service Fund	-	-	-
Special Revenue Funds	-	291,749	134,935
Total Fund Balances	<u>6,853,597</u>	<u>291,749</u>	<u>358,052</u>
Total Liabilities and Fund Balances	<u>\$ 13,860,118</u>	<u>\$ 507,954</u>	<u>\$ 688,228</u>

See accompanying Notes to Financial Statements.

Funds		2004	2003
Building Construction	Debt Service	Total Governmental Funds	
\$ 474,837	\$ 1,952,515	\$ 4,652,987	\$ 7,579,993
-	-	2,545,583	5,000,000
-	1,425,475	2,272,851	2,312,025
-	26,495	49,713	55,352
-	80,706	190,810	50,422
-	-	35,853	54,623
-	-	1,100,000	1,100,000
-	-	7,751,218	6,620,470
-	-	28,950	63,357
-	-	3,903	-
-	-	66,682	65,788
-	-	317,778	180,048
<u>\$ 474,837</u>	<u>\$ 3,485,191</u>	<u>\$ 19,016,328</u>	<u>\$ 23,082,078</u>
\$ 111,887	\$ 375	1,039,362	661,921
-	-	2,768,638	2,787,722
-	-	37,240	164,057
-	-	192,310	174,813
-	-	1,155	6,523
-	26,495	284,872	199,736
-	2,617,517	3,448,534	3,951,324
-	-	2,537,065	8,475,687
<u>111,887</u>	<u>2,644,387</u>	<u>10,309,176</u>	<u>16,421,783</u>
-	-	209,418	341,981
-	-	(50,838)	(71,046)
-	-	-	1,666
-	-	872,617	892,461
-	-	274,641	213,591
-	-	-	4,617
-	-	138,461	203,158
-	-	164,951	17,117
-	-	40,235	58,111
-	-	17,931	16,711
-	-	5,409,298	3,536,006
362,950	-	362,950	-
-	840,804	840,804	907,371
-	-	426,684	538,551
<u>362,950</u>	<u>840,804</u>	<u>8,707,152</u>	<u>6,660,295</u>
<u>\$ 474,837</u>	<u>\$ 3,485,191</u>	<u>\$ 19,016,328</u>	<u>\$ 23,082,078</u>

**INDEPENDENT SCHOOL DISTRICT #347
WILLMAR, MINNESOTA
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
YEAR ENDED JUNE 30, 2004**

Total Fund Balances for Governmental Funds \$ 8,707,152

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	\$ 623,282	
Other Capital Assets, Net of \$19,802,063		
Accumulated Depreciation	31,773,961	32,397,243

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.		49,713
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Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.		(441,144)
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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:		(33,290)
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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	(20,752,395)	
Bond Issuance Costs	10,916	
U.S. EPA Loan Payable	(10,425)	
Special Assessments	(56,559)	
Accrued Vacation	(146,682)	
Separation and Severance Payable	(2,313,249)	(23,268,394)

Total Net Assets of Governmental Activities		\$ 17,411,280
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**INDEPENDENT SCHOOL DISTRICT #347
WILLMAR, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2004**

(WITH PARTIAL COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2003)

	General	Food Service	Major Community Service
REVENUES			
Local Property Tax Levies	\$ 2,082,070	\$ -	\$ 242,331
Other Local and County Revenues	2,023,592	3,733	762,851
Revenues from State Sources	31,101,721	112,955	740,561
Revenues from Federal Sources	2,045,563	942,719	369,686
Sales and Other Conversion of Assets	15,695	669,556	-
Total Revenues	<u>37,268,641</u>	<u>1,728,963</u>	<u>2,115,429</u>
EXPENDITURES			
Administration	1,376,206	-	-
District Support Services	740,807	-	-
Regular Instruction	16,819,619	-	306,667
Vocational Education Instruction	957,412	-	-
Special Education Instruction	7,403,802	-	-
Instructional Support Services	1,971,743	-	-
Pupil Support Services	2,664,190	-	10,008
Sites and Buildings	3,340,554	-	-
Fiscal and Other Fixed Cost Programs	263,145	-	-
Food Service	-	1,836,175	-
Community Service	-	-	1,672,231
Debt Service			
Principal	-	-	-
Interest and Fiscal Charges	-	-	-
Total Expenditures	<u>35,537,478</u>	<u>1,836,175</u>	<u>1,988,906</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>1,731,163</u>	<u>(107,212)</u>	<u>126,523</u>
OTHER FINANCING SOURCES (USES)			
Sale of Capital Assets	-	-	-
Payment From Escrow Agent	-	-	-
Bond Proceeds	-	-	-
Total Other Financing Sources	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	1,731,163	(107,212)	126,523
Fund Balances - Beginning	<u>5,122,434</u>	<u>398,961</u>	<u>231,529</u>
Fund Balances - Ending	<u>\$ 6,853,597</u>	<u>\$ 291,749</u>	<u>\$ 358,052</u>

See accompanying Notes to Financial Statements.

Funds		2004	2003
Building Construction	Debt Service	Total Governmental Funds	
\$ -	\$ 2,252,407	\$ 4,576,808	\$ 3,754,328
-	20,342	2,810,518	2,711,652
-	403,534	32,358,771	33,557,111
-	-	3,357,968	2,582,305
-	-	685,251	726,447
-	2,676,283	43,789,316	43,331,843
-	-	1,376,206	1,188,380
-	-	740,807	1,496,621
-	-	17,126,286	14,834,612
-	-	957,412	1,016,872
-	-	7,403,802	6,965,758
-	-	1,971,743	1,786,264
-	-	2,674,198	2,531,695
135,529	-	3,476,083	3,310,991
-	-	263,145	300,092
-	-	1,836,175	1,630,041
-	-	1,672,231	1,761,632
-	1,620,000	1,620,000	1,545,000
-	1,139,082	1,139,082	1,195,935
135,529	2,759,082	42,257,170	39,563,893
(135,529)	(82,799)	1,532,146	3,767,950
-	-	-	1,050
-	(875,000)	(875,000)	-
498,479	891,232	1,389,711	-
498,479	16,232	514,711	1,050
362,950	(66,567)	2,046,857	3,769,000
-	907,371	6,660,295	2,891,295
\$ 362,950	\$ 840,804	\$ 8,707,152	\$ 6,660,295

**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, 2004**

Net Change in Fund Balances - Total Governmental Funds \$ 2,046,857

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	352,746	
Depreciation Expense	(1,113,036)	(760,290)

In the Statement of Activities, the loss on disposition of capital assets is reported. The loss is not a list of current resources and thus not reported in the fund statements. (12,141)

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	2,495,000	
Issuance of Bonds	(1,380,000)	
Bond Premium	(9,711)	
Amortization of Bond Premium	2,316	
Bond Issuance Costs	15,282	
Amortization of Bond Issuance Costs	(4,366)	
Repayment of Special Assessments	23,537	
Interest Expense - General Obligation Bonds	31,260	1,173,318

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. (5,639)

In the statement of activities, certain operating expense - compensated absences (vacations), special termination benefits (early retirement) - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). During this year, accrued vacation increased by \$17,317 and early retirement payable decreased by \$299,501. 282,184

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. 33,292

Change in Net Assets of Governmental Activities \$ 2,757,581

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

YEAR ENDED JUNE 30, 2004

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2003)

	2004			Over (Under) Final Budget	2003
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
REVENUES					
Local Property Tax Levies	\$ 1,547,655	\$ 1,547,655	\$ 2,082,070	\$ 534,415	\$ 1,462,929
Other Local and County Revenues	1,741,342	1,862,971	2,023,592	160,621	1,921,687
Revenues from State Sources	31,080,879	31,967,425	31,101,721	(865,704)	32,194,247
Revenues from Federal Sources	1,547,981	2,061,633	2,045,563	(16,070)	1,593,643
Sales and Other Conversion of Assets	-	17,745	15,695	(2,050)	36,194
Total Revenues	<u>35,917,857</u>	<u>37,457,429</u>	<u>37,268,641</u>	<u>(188,788)</u>	<u>37,208,700</u>
EXPENDITURES					
Current					
Administration	1,187,411	1,357,585	1,376,206	18,621	1,188,380
District Support Services	2,056,204	1,029,423	740,807	(288,616)	1,496,621
Regular Instruction	15,492,416	16,532,280	16,819,619	287,339	14,792,484
Vocational Education Instruction	975,097	921,882	957,412	35,530	1,016,872
Special Education Instruction	7,245,519	7,443,711	7,403,802	(39,909)	6,965,758
Instructional Support Services	2,528,283	2,572,397	1,971,743	(600,654)	1,786,264
Pupil Support Services	2,560,207	2,643,264	2,664,190	20,926	2,522,229
Sites and Buildings	3,318,531	3,326,378	3,340,554	14,176	3,310,991
Fiscal and Other Fixed Cost Programs	384,098	263,645	263,145	(500)	300,092
Total Expenditures	<u>35,747,766</u>	<u>36,090,565</u>	<u>35,537,478</u>	<u>(553,087)</u>	<u>33,379,691</u>
Excess of Revenues Over Expenditures	<u>170,091</u>	<u>1,366,864</u>	<u>1,731,163</u>	<u>364,299</u>	<u>3,829,009</u>
OTHER FINANCING SOURCES					
Proceeds from Sale of General Fixed Assets	-	-	-	-	1,050
Net Change in Fund Balances	<u>\$ 170,091</u>	<u>\$ 1,366,864</u>	<u>1,731,163</u>	<u>\$ 364,299</u>	<u>3,830,059</u>
Fund Balances					
Beginning of Year			<u>5,122,434</u>		<u>1,292,375</u>
End of Year			<u>\$ 6,853,597</u>		<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, 2004**

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2003)

	2004			Over (Under) Final Budget	2003
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
REVENUES					
Other Local and County Revenues	\$ -	\$ -	\$ 3,733	\$ 3,733	\$ 6,999
Revenues from State Sources	199,717	143,360	112,955	(30,405)	212,584
Revenues from Federal Sources	919,301	947,254	942,719	(4,535)	903,820
Sales and Other Conversion of Assets	605,690	658,929	669,556	10,627	689,411
Total Revenues	1,724,708	1,749,543	1,728,963	(20,580)	1,812,814
EXPENDITURES					
Current					
Pupil Support Services	1,724,708	1,813,702	1,836,175	22,473	1,630,041
Total Expenditures	1,724,708	1,813,702	1,836,175	22,473	1,630,041
Excess of Revenues Over Expenditures	\$ -	\$ (64,159)	(107,212)	\$ (43,053)	182,773
Fund Balances					
Beginning of Year			398,961		216,188
End of Year			\$ 291,749		\$ 398,961

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, 2004**

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2003)

	2004			Over (Under) Final Budget	2003
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
REVENUES					
Local Property Tax Levies	\$ 224,112	\$ 224,112	\$ 242,331	\$ 18,219	\$ 73,418
Other Local and County Revenues	574,628	583,292	762,851	179,559	758,420
Revenues from State Sources	650,901	748,690	740,561	(8,129)	737,513
Revenues from Federal Sources	224,900	238,900	369,686	130,786	84,842
Sales and Other Conversion of Assets	-	-	-	-	842
Total Revenues	1,674,541	1,794,994	2,115,429	320,435	1,655,035
EXPENDITURES					
Current					
Regular Instruction	232,475	203,605	306,667	103,062	42,128
Community Education and Services	1,538,139	1,664,877	1,672,231	7,354	1,761,632
Pupil Support Services	8,000	9,331	10,008	677	9,466
Total Expenditures	1,778,614	1,877,813	1,988,906	111,093	1,813,226
Excess of Revenues Over Expenditures	\$ (104,073)	\$ (82,819)	126,523	\$ 209,342	(158,191)
Fund Balances					
Beginning of Year			231,529		389,720
End of Year			\$ 358,052		\$ 231,529

See accompanying Notes to Financial Statements.

INDEPENDENT SCHOOL DISTRICT #347
WILLMAR, MINNESOTA
STATEMENT OF FUND NET ASSETS
PROPRIETARY FUND
JUNE 30, 2004
(WITH COMPARATIVE TOTALS AS OF JUNE 30, 2003)

	Governmental Activities - Internal Service Fund	
	2004	2003
Liabilities:		
Current Liabilities:		
Accounts Payable	\$ 4,340	\$ 3,225
Total current liabilities	4,340	3,225
Noncurrent Liabilities:		
Advances from Other Funds	28,950	63,357
Total Liabilities	33,290	66,582
Net Assets:		
Unrestricted	(33,290)	(66,582)
Total Net Assets	\$ (33,290)	\$ (66,582)

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, 2004
(WITH COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2003)**

	Governmental Activities - Internal Service Fund	
	2004	2003
OPERATING REVENUES		
Charges for Services	\$ 236,795	\$ 223,423
OPERATING EXPENSES		
Administration Fees	25,630	27,922
Dental Claim Payments	177,873	177,477
Total Operating Expenses	203,503	205,399
Operating Income	33,292	18,024
Total Net Assets - Beginning	(66,582)	(84,606)
Total Net Assets - Ending	\$ (33,290)	\$ (66,582)

See accompanying Notes to Financial Statements.

**INDEPENDENT SCHOOL DISTRICT #347
WILLMAR, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2004
(WITH COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2003)**

	Governmental Activities - Internal Service Fund	
	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Interfund Services Provided	\$ 236,795	\$ 223,423
Payments for Dental Fees and Insurance Claims	(202,389)	(220,489)
Net Cash Provided by Operating Activities	34,406	2,934
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfer to Other Funds	(34,406)	(2,934)
Net Increase in Cash and Cash Equivalents	-	-
Cash and Cash Equivalents - Beginning	-	-
Cash and Cash Equivalents - Ending	\$ -	\$ -
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ 33,292	\$ 18,024
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Increase (Decrease) in Accounts Payable	1,114	(15,090)
Net Cash Provided by Operating Activities	\$ 34,406	\$ 2,934

See accompanying Notes to Financial Statements.

**INDEPENDENT SCHOOL DISTRICT #347
WILLMAR, MINNESOTA
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2004**

	<u>Private Purpose Trust Fund</u>
Assets:	
Cash and Temporary Investments	\$ 35,060
Interest Receivable	160
Total Assets	<u>\$ 35,220</u>
Liabilities:	
Current liabilities:	
Accounts payable	<u>400</u>
Total current liabilities	400
Net Assets	
Held in Trust for Scholarships	<u>34,820</u>
Total Liabilities	<u>\$ 35,220</u>

**INDEPENDENT SCHOOL DISTRICT #347
WILLMAR, MINNESOTA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
JUNE 30, 2004**

	<u>Private Purpose Trust Fund</u>
Additions:	
Contributions	\$ 2,000
Interest Income	302
Total Additions	<u>2,302</u>
Reductions:	
Scholarship Obligations	<u>3,300</u>
Total Reductions	3,300
Change in Net Assets	(998)
Net Assets	
Beginning of Year	<u>35,818</u>
End of Year	<u>\$ 34,820</u>

See accompanying Notes to Financial Statements.

**INDEPENDENT SCHOOL DISTRICT #347
WILLMAR, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

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, 2004**

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, 2004**

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 accounting principles generally accepted in the United States of America. Minnesota Statutes include state aid funding formulas for specific fiscal years. Federal revenue is recorded in the year in which the related expenditure is made. Food service sales, community education tuition, and other miscellaneous revenue (except investment earnings) are recorded as revenues when received because they are generally not measurable until then. Investment earnings are recorded when earned because they are measurable and available. A six-month availability period is generally used for other fund revenue.
2. Recording of Expenditures – Expenditures are generally recorded when a liability is incurred. However, expenditures are recorded as prepaid for approved disbursements or liabilities incurred in advance of the year in which the item is to be used. Principal and interest on long-term debt issues are recognized on their due dates.

The District 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, 2004**

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 is 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.

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

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

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, 2004**

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 \$1,539,572 and \$342,799, 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, 2004**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Cash and Temporary Investments

Cash and temporary investments consist of demand deposit accounts and non-negotiable certificates of deposit.

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 a government agency security. The negotiable certificates of deposit are recorded at fair value and the government agency security is recorded at amortized cost.

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, 2004**

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) for the district that is advance recognized as revenue in fiscal year 2004 with no corresponding state aid adjustment. Starting in fiscal year 2004, the shift was expanded to include all other general and community service fund levies (net of credits). State aids are then reduced in fiscal year 2004 by this expanded shift amount, making this portion of the tax shift revenue neutral to districts. This resulted in a significant increase in the advance recognition of tax revenue in the General Fund (and corresponding state aid holdback totaling \$498,368) but also included an advance recognition tax shift in the District's Community Service Fund (and corresponding state aid holdback totaling \$43,712). Since advance collections of Pay 2004 levy amounts at June 30, 2004 were sufficient to cover the amount required to be advance recognized as revenue in fiscal year 2004, 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 2005 general education aid be advance recognized. Certain other portions of the District's 2003 Pay 2004 levy, normally revenue for the 2004-05 fiscal year, are also advance recognized at June 30, 2004, as required by state statute to match revenue with the same fiscal year as the related expenditures. Amounts allocated to fiscal year 2005 are recorded as deferred revenue (property taxes levied for subsequent year).

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, 2004, 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, 2004**

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 improvable 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, 2004**

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, 2004, unpaid vacation pay totaling \$146,682 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 55 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, less any TSA match the District contributed.

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 57 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. For special education paraprofessionals, the early retirement payment is reduced by any TSA match the District contributed.

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 55 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, 2004**

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 65 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, less any TSA match the District contributed.

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, less any TSA match the District contributed.

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 55 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 55 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 700 hours, less any TSA match the District contributed.

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. 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 2004, total expenditures for early retirement incentive payments and post-employment health care benefits totaled \$389,554. At June 30, 2004, a liability for early retirement incentive payments and post-employment

**INDEPENDENT SCHOOL DISTRICT #347
WILLMAR, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

health care benefits totaling \$2,313,249 is recorded on the Statement of Net Assets.

**INDEPENDENT SCHOOL DISTRICT #347
WILLMAR, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

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 excess tax increment financing receipts in the General Fund. 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.

**INDEPENDENT SCHOOL DISTRICT #347
WILLMAR, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 2 STEWARDSHIP AND ACCOUNTABILITY

A. Excess of Expenditures Over Budget

Expenditures exceeded budgeted amounts in the following funds at June 30, 2004.

	Budget	Expenditures	Excess
Special Revenue Fund			
Food Service Fund	\$ 1,813,702	\$ 1,836,175	\$ 22,473
Community Service Fund	\$ 1,877,813	\$ 1,988,906	\$ 111,093

The Internal Service Fund had deficit net assets of \$33,290 at June 30, 2004. The District will eliminate the deficit through future operations.

The District had the following interfund receivable and payable at June 30, 2004:

	Due from Other Fund	Due to Other Fund
General Fund	\$ 28,950	\$ -
Internal Service Fund	-	28,950
	\$ 28,950	\$ 28,950

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.

**INDEPENDENT SCHOOL DISTRICT #347
WILLMAR, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

A. Deposits (Continued)

Deposit balances at June 30, 2004 are as follows:

	Bank Balance	Carrying Amount
Insured or collateralized by Securities held by the District or its agent in the District's name.	\$ 5,039,062	\$ 4,688,047

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, 2004**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

	Custodial Credit Risk Category			Carrying and Fair Value
	1	2	3	
Certificates of Deposit	\$ 2,000,515	\$ -	\$ -	\$ 2,000,515
Government Securities	545,068	-	-	545,068
	<u>\$ 2,545,583</u>	<u>\$ -</u>	<u>\$ -</u>	<u>2,545,583</u>
Cash and Temporary Investments				4,688,047
Total Cash and Investments				<u>\$ 7,233,630</u>
Reconciliation of Cash and Temporary Investments:				
Cash and Temporary Investments on Statement of Net Assets				\$ 4,652,987
Cash and Temporary Investments on Fiduciary Statement of Net Assets				35,060
Investments on Statement of Fiduciary Net Assets				<u>2,545,583</u>
				<u>\$ 7,233,630</u>

NOTE 4 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2004 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets, Not Being Depreciated				
Land	\$ 630,422	\$ -	\$ (7,140)	\$ 623,282
Total Capital Assets, Not Being Depreciated	630,422	-	(7,140)	623,282
Capital Assets, Being Depreciated				
Land Improvements	1,891,210	2,609	-	1,893,819
Buildings and Improvements	45,999,552	-	-	45,999,552
Equipment and Transportation Vehicles	3,358,440	350,137	(25,924)	3,682,653
Total Capital Assets, Being Depreciated	51,249,202	352,746	(25,924)	51,576,024
Accumulated Depreciation for:				
Land Improvements	1,271,752	79,859	-	1,351,611
Buildings and Improvements	14,744,997	887,464	-	15,632,461
Equipment and Transportation	2,693,201	145,713	(20,923)	2,817,991
Total Accumulated Depreciation	<u>18,709,950</u>	<u>1,113,036</u>	<u>(20,923)</u>	<u>19,802,063</u>
Total Capital Assets, Being Depreciated, Net	<u>32,539,252</u>	<u>(760,290)</u>	<u>(5,001)</u>	<u>31,773,961</u>
Governmental Activities Capital Assets, Net	<u>\$ 33,169,674</u>	<u>\$ (760,290)</u>	<u>\$ (12,141)</u>	<u>\$ 32,397,243</u>

**INDEPENDENT SCHOOL DISTRICT #347
WILLMAR, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 4 CAPITAL ASSETS (CONTINUED)

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

Governmental Activities:

Administration	\$ 3,201
District Support Services	374
Elementary and Secondary Regular Instruction	985,627
Vocational Education Instruction	475
Special Education Instruction	2,810
Instructional Support Services	69,818
Pupil Support Services	9,527
Sites and Buildings	22,900
Fiscal and Other Fixed Cost Programs	862
Food Service	10,144
Community Service	<u>7,298</u>
Total Depreciation Expense, Governmental Activities	<u><u>\$ 1,113,036</u></u>

**INDEPENDENT SCHOOL DISTRICT #347
WILLMAR, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

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	\$ 355,000	\$ 355,000
6/1/97	4.65-5.35%	20,650,000	2/1/2015	905,000	19,010,000
11/1/03	2.00-2.5%	495,000	2/1/2008	15,000	495,000
11/1/03	2.000%	885,000	2/1/2006	460,000	885,000
Unamortized Bond Premiums				3,474	7,395
Total General Obligation Bonds				1,738,474	20,752,395
United States EPA Loan Payable				5,000	10,425
Special Assessments Payable				11,362	56,559
Vacation Payable				132,014	146,682
Severance and Health Benefits Payable				69,397	2,313,249
Total Long-term Liabilities				<u>\$ 1,956,247</u>	<u>\$ 23,279,310</u>

**INDEPENDENT SCHOOL DISTRICT #347
WILLMAR, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

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
2005	\$ 1,735,000	\$ 1,042,841	\$ 5,000	\$ -	\$ 11,362	\$ 3,760
2006	1,595,000	964,918	5,000	-	10,338	3,002
2007	1,745,000	902,928	425	-	10,338	2,315
2008	1,870,000	819,678	-	-	8,052	1,628
2009	1,810,000	729,578	-	-	8,052	1,090
2010 - 2014	10,910,000	2,092,657	-	-	8,417	694
2015	1,080,000	57,780	-	-	-	-
	<u>\$ 20,745,000</u>	<u>\$ 6,610,380</u>	<u>\$ 10,425</u>	<u>\$ -</u>	<u>\$ 56,559</u>	<u>\$ 12,489</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 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.

On November 1, 2003, the District issued \$495,000 of General Obligation Capital Facilities Bonds, Series 2003A. The proceeds of this issue were used to finance various school roofing and parking lot improvements. 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 November 1, 2003, the District issued \$885,000 of General Obligation Refunding Bonds, Series 2003B to advance refund the General Obligation Refunding Bonds, Series 1996A. The District reduced its total debt service payments over two years by almost \$21,000 and obtained an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$19,027. Future ad valorem tax levies are dedicated to the retirement of these bonds.

**INDEPENDENT SCHOOL DISTRICT #347
WILLMAR, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 5 GENERAL LONG-TERM DEBT (CONTINUED)

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.

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, 2004.

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, 2003	Net Additions	Retirements	Changes in Vacation Payable and Severance and Health Benefits	June 30, 2004
General Obligation Bonds	\$ 21,855,000	\$ 1,380,000	\$ 2,490,000	\$ -	\$ 20,745,000
Bond Premiums	-	9,711	2,316		7,395
U.S. EPA Loan Payable	15,425	-	5,000	-	10,425
Special Assessments	80,096	-	23,537	-	56,559
Subtotal	21,950,521	1,389,711	2,520,853	-	20,819,379
Vacation Payable	129,365	-	-	17,317	146,682
Severance and Health Benefits	2,612,750	-	-	(299,501)	2,313,249
	<u>\$ 24,692,636</u>	<u>\$ 1,389,711</u>	<u>\$ 2,520,853</u>	<u>\$ (282,184)</u>	<u>\$ 23,279,310</u>

**INDEPENDENT SCHOOL DISTRICT #347
WILLMAR, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 6 SHORT-TERM DEBT

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

	June 30, 2003	Additions	Retirements	June 30, 2004
2002 Aid Anticipation Certificate	\$ 8,475,687	\$ -	\$ 8,475,687	\$ -
2003 Aid Anticipation Certificate	-	2,537,065	-	2,537,065
	<u>\$ 8,475,687</u>	<u>\$ 2,537,065</u>	<u>\$ 8,475,687</u>	<u>\$ 2,537,065</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 \$2,537,065. The Certificates were issued on August 27, 2003, bearing interest at an annual rate of 1.75%, and mature on August 27, 2004. The District will budget certain aid receipts for payments of the principal on the certificates in the General Fund.

NOTE 7 RESERVED FUND BALANCES

Fund Equity

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

A. Reserved for Staff Development

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

B. Reserved for 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 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 2005-2006.

**INDEPENDENT SCHOOL DISTRICT #347
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NOTES TO FINANCIAL STATEMENTS
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NOTE 7 RESERVED FUND BALANCES (CONTINUED)

D. 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

E. 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.

NOTE 8 PENSION PLANS

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

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

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NOTES TO FINANCIAL STATEMENTS
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consecutive years of allowable service, age, and years of credit at termination of service.

NOTE 8 PENSION PLANS (CONTINUED)

A. Teachers Retirement Association (TRA) (Continued)

1. Plan Description (Continued)

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, 2004, 2003 and 2002 were \$886,067, \$848,177 and \$804,644, respectively, equal to the required contributions for each year as set by state statute.

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.

**INDEPENDENT SCHOOL DISTRICT #347
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 9 PENSION PLANS (CONTINUED)

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

2. Funding Policy

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

The District was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members, 5.53% for Coordinated Plan PERF members. The contribution requirements of plan members and the District are established by and may be amended by State Statute. The District's contributions for the years ending June 30, 2004, 2003, and 2002, were \$295,454, \$286,077 and \$253,743, respectively, equal to the contractually required contributions for each year as set by state statute.

NOTE 9 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 \$177,873 for the year ended June 30, 2004.

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

Unpaid Claims, Beginning of Year	\$ 3,225
Incurred Claims	177,873
Claims Payments	<u>(176,758)</u>
Unpaid Claims, End of Year	<u><u>\$ 4,340</u></u>

**INDEPENDENT SCHOOL DISTRICT #347
WILLMAR, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 10 COMMITMENTS AND CONTINGENCIES

A. Federal and State Programs

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

B. Contingencies

The District is a defendant in a disability discrimination claim. 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 11 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.

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, adult and youth athletic programs and administer the daily operations of the Dorothy A. Olson Aquatic Center. 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 \$22,105 for the year ended June 30, 2004. The City paid the District for its provision of services \$19,426 for the year ended June 30, 2004. This agreement is perpetual but may be canceled upon six months written notice by either party.