

INDEPENDENT SCHOOL DISTRICT NO. 318
GRAND RAPIDS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2007

As management of Independent School District No. 318 (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2007.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2006-2007 fiscal year include the following:

- Net assets increased \$1,818,081 or 7.14 percent over the prior year.
- Overall actual revenues in the Statement of Activities were \$43,575,145 and expenditures were \$41,757,064; leaving revenues \$1,818,081 over expenditures.
- General Fund unreserved fund balance increased \$1,186,945 from the prior year.
- The District decreased its current long-term liabilities in outstanding bonds and capital leases by \$2,683,000 or 8 percent.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of four parts - Independent Auditor's Report, required supplementary information which includes the Management's Discussion and Analysis (this section), the basic financial statements and supplemental information. The basic financial statements include two kinds of statements that present different views of the District.

District-wide Statements

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

The two district-wide statements report the District's net assets and how they have changed.

The *statement of net assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. To assess the overall health of the District you need 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.

The *statement of activities* presents information showing how the District's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (i.e., uncollected taxes and earned but unused compensated absences).

The district-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation, and operation of non-instructional services.

INDEPENDENT SCHOOL DISTRICT NO. 318
GRAND RAPIDS, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2007
(Continued)

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements, state statutes, and to control and manage money for particular purposes. All of the funds of the District can be divided into two categories: *governmental funds* and *fiduciary funds*.

Governmental funds - Most of the District's basic services are included in governmental funds. Governmental fund financial statements focus on near-term inflows of cash and other financial assets that can readily be converted to cash, as well as the balances at year-end that are available for spending. Consequently, the government 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, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the district-wide financial statements. A reconciliation is provided to facilitate a comparison between government funds financial statements and district-wide financial statements.

Fiduciary funds - The District is the trustee, or fiduciary, for assets that belong to others, such as the student activity funds, employee insurance and employee flex benefit plan. 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. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operation.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net assets may serve over time as a useful indicator of a district's financial position. In the case of the District, assets exceeded liabilities by \$27,280,235 as of June 30, 2007.

Independent School District No. 318
Statement of Net Assets
June 30,

	<u>2007</u>	<u>2006</u>
Capital assets	\$ 60,374,342	\$ 59,695,739
Other assets	<u>23,351,021</u>	<u>23,998,412</u>
Total assets	<u>83,725,363</u>	<u>83,694,151</u>
Long-term liabilities	46,163,000	47,654,000
Other liabilities	<u>10,282,128</u>	<u>10,577,997</u>
Total liabilities	<u>56,445,128</u>	<u>58,231,997</u>
Net assets		
Invested in capital assets, net of related debt	34,381,557	33,119,435
Restricted	960,826	1,256,992
Unrestricted	<u>(8,062,148)</u>	<u>(8,914,273)</u>
Total net assets	<u>\$ 27,280,235</u>	<u>\$ 25,462,154</u>

INDEPENDENT SCHOOL DISTRICT NO. 318
GRAND RAPIDS, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2007
(Continued)

Change in Net Assets
For the years ended June 30,

	<u>2007</u>	<u>2006</u>
Revenues		
Program revenues		
Charges for service	\$ 3,660,560	\$ 3,477,441
Operating grants and contributions	7,974,224	8,425,619
Capital grants and contributions	214,536	1,496,468
General revenues		
Property taxes	7,977,829	7,533,436
State aids	22,412,427	21,795,323
Other	1,335,569	544,648
Total revenues	<u>43,575,145</u>	<u>43,272,935</u>
Expenses		
District and school administration	2,226,660	2,116,095
District support services	743,725	635,118
Regular instruction	18,217,566	18,592,875
Vocational instruction	574,996	548,905
Exceptional instruction	6,136,853	5,896,021
Instructional support services	1,362,086	1,326,944
Pupil support services	2,706,016	2,750,199
Sites and buildings	4,751,081	4,070,402
Food service	1,412,260	1,323,937
Community service	365,966	723,912
Interest and fiscal charges on long-term debt	1,429,507	1,699,597
Fiscal and other fixed cost programs	146,813	
Unallocated depreciation expense	1,683,535	1,576,502
Total Expenses	<u>41,757,064</u>	<u>41,260,507</u>
Change in net assets	1,818,081	2,012,428
Beginning of year net assets	<u>25,462,154</u>	<u>23,449,726</u>
End of year net assets	<u>\$27,280,235</u>	<u>\$25,462,154</u>

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The District has previously reported all financial information on a fund accounting basis. While GASB 34 presentations are designed to present users with a more complete picture of the District's financial position and results of operation, traditional fund accounting basis provides users with cash flow and available resources information.

INDEPENDENT SCHOOL DISTRICT NO. 318
GRAND RAPIDS, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2007
(Continued)

The general fund balance increased \$1,609,601. The building construction fund decreased \$776,606, due to a combination construction projects partially completed that were approved by the voters in 1996 and 2001 and the sale of Air Quality Bonds in 2004. The debt service fund balance decreased \$296,166.

GENERAL FUND BUDGETARY HIGHLIGHTS

The general fund (which includes the District's general, transportation and capital funds) adopted an original revenue budget of \$35,523,249, which was revised to \$36,650,547, as a result of the Legislature not passing final financial legislation until after the budget was adopted and the addition of a \$600,000 Taconite Deferred Maintenance Grant and over \$288,000 in Microsoft Settlement Revenues.

The general fund adopted an original expenditure budget of \$35,628,356, which was revised to \$37,005,605, as a result of the addition of a \$600,000 Taconite Deferred Maintenance Grant and \$288,000 in Microsoft Settlement expenditures.

While the District's final budget for the general fund anticipated that expenditures would exceed revenues by \$355,058, the actual results for the year showed revenues exceeding expenditures by \$1,609,601.

- Expenditures were less due to the new State tuition billing process. In addition, Blackduck students were open enrolled verses budgeted as a tuition expense and the State Correction Facility in Togo had lower costs than anticipated.
- Revenues were more than anticipated because of increased interest income and increased Tuitions due to the new State tuition billing system.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Asset

By the end of fiscal year 2007, the District had invested \$88,624,298 in capital assets, including school buildings and technology equipment. Total depreciation expense for the year was \$2,249,989. More detailed information about the District's capital assets is presented in Note 3 to the financial statements.

Debt Administration

At June 30, 2007 the District had \$30,441,000 in general obligation bonds and capital lease obligations. The District's debt rating from the State Of Minnesota Credit Enhancement Program is Aa2. Under current state statues, the District's general obligation bonded debt issuances are subject to a legal limitation of 10 percent of the fair market value of property in the District. The District is within its legal authority for bonded debt.

The District also had \$15,722,000 in compensated absences, severance and post employment health benefits payable at June 30, 2007.

More detailed information about the District's long-term liabilities is presented in Note 4 and 5 to the financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 318
GRAND RAPIDS, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2007
(Continued)

FACTORS BEARING ON THE DISTRICT'S FUTURE

Declining enrollment - the population of school age children in the District has declined and the immigration of nonresident students exceeds the resident students migrating out. These trends have been monitored for the past several years and have resulted in massive budget cuts over this time period. The decline of students will continue at the secondary level for at least the next four to five years.

State budget - the budget deficit in the State funds is of considerable concern to the District. The recent shift in school district funding from the local taxpayers to the State leaves school districts vulnerable to the priorities of politicians. The past legislative session approved changes in cash flow, reductions in some formulas and elimination or shifting of aids back to the local level. The District will be impacted each year as the State deals with the lack of adequate funding.

Medical insurance - premiums have continued to increase at an average rate of 10% per year due to increased utilization of prescription drugs and medical services.

Retiree benefits (severance) - this area is actually decreasing each year since the District moved to the 457-annuity match program several years ago. Obligations are now more currently funded, requiring less for the District to set aside for future obligations. Retiree Benefits (health insurance) continues to be a future funding concern for the District.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact the Business Office, Independent School District No. 318, 820 N.W. First Avenue, Grand Rapids, MN 55744 or call Ben Hawkins, Business Manager, (218) 327-5703.