



MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2003

This management's discussion and analysis provides an overview of the District's financial activities for the fiscal year ended June 30, 2003. Please read it along with the District's financial statements which begin on page 10.

FINANCIAL HIGHLIGHTS

The District's financial position was relatively stable in 2003 with net assets, revenue and expenses increasing 2% to 6%. While the District ranks well in achievement tests, advanced placement honors courses, college acceptance rates each year, our per student educational costs remain consistently within the lowest ranks of the State class A school district comparisons. This spring the District was successful in the first recorded passage of a general fund operation levy. The additional revenue from this levy will allow the District to increase wages and reinstate programs in many areas that have been cut or threatened over the past three years. Overall in 2003 the District's net assets increased by \$454,000 (6%) including increases in net assets invested in capital assets, increases in unrestricted net assets and increases in restricted net assets. ~~Our 2003 total revenues increased \$516,000 (5%) while expenses only increased \$155,000 (2%).~~

USING THIS ANNUAL REPORT

This annual report consists of financial statements for the District as a whole with more detailed information for certain District funds. The Statement of Net Assets and the Statement of Activities (pages 10 and 11) provide information about the activities of the District as a whole and present a long-term view of the District's finances (they include capital assets and long-term liabilities).

Fund financial statements (pages 12 through 15) present a short-term view of the District's activities. They include only current assets expected to be collected in the very near future and liabilities expected to be paid in the very near future. Generally accepted accounting principles require that only major funds are disclosed in these financial statements. These statements provide detailed information about the District's ~~general, impact aid, and debt service funds, which qualify as major funds.~~ Also attached are summarized financial reports about the student activity trust fund which the District oversees.

THE DISTRICT AS A WHOLE

One important question asked about the District's finances is, "Is the District better or worse off as a result the year's activities?" The information in the government-wide financial statements helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, with the addition of reporting depreciation on capital assets. This is similar to the basis of accounting used by most private-sector companies.

The change in net assets over time is one indicator of whether the District's financial health is improving or deteriorating. However, there are other nonfinancial factors that influence the District's fiscal health, such as changes in enrollment, changes in the State's funding of educational costs, changes in the economy, changes in the District's tax base, etc.

Changes in the District's net assets (rounded to the nearest \$1,000) were as follows:

	2003	2002	Change	%
Current assets	\$1,856,000	\$1,681,000	\$175,000	10%
Capital assets - net	18,464,000	18,742,000	(278,000)	-1%
Total assets	20,320,000	20,423,000	(103,000)	-1%
Current liabilities	671,000	652,000	19,000	3%
Non-current liabilities	11,241,000	11,817,000	(576,000)	-5%
Total liabilities	11,912,000	12,469,000	(557,000)	-4%
Net assets	\$8,408,000	\$7,954,000	\$454,000	6%
Net assets consist of:				
Invested in capital assets	\$6,784,000	\$6,515,000	\$269,000	4%
Restricted net assets	568,000	567,000	1,000	0%
Unrestricted net assets	1,056,000	872,000	184,000	21%
Net assets	\$8,408,000	\$7,954,000	\$454,000	6%

The \$454,000 increase in net assets was due to several factors including ~~the timing of payments for year end purchases, increased valuation on present buildings, the development of Kurtz Lane (a private road serving the high school, Head Start and the Ravalli Aquatics Center), the purchase of additional instructional equipment, maintenance equipment and vehicles.~~ Debt payments on the High School Bond reduced the non-current liabilities, in addition the ~~accounts payable was significantly higher at June 30, 2003 than at June 30, 2002.~~

Changes in the District's revenues (rounded to the nearest \$1,000) were as follows:

	2003	2002	Change	%
Program revenues:				
Federal program revenue	\$965,000	\$899,000	\$66,000	7%
State funding	357,000	342,000	15,000	4%
Other	355,000	300,000	55,000	18%
Total program revenue	1,677,000	1,541,000	136,000	9%
General revenue:				
Property taxes	2,609,000	2,325,000	284,000	12%
State equalization	4,617,000	4,486,000	131,000	3%
Other state revenue	594,000	571,000	23,000	4%
County property taxes	712,000	782,000	(70,000)	-9%
Investment earnings	16,000	38,000	(22,000)	-58%
Other	140,000	106,000	34,000	32%
Total general revenue	8,688,000	8,308,000	380,000	5%
Total revenue	\$10,365,000	\$9,849,000	\$516,000	5%

The changes in District revenues were primarily due to two factors. Funding increased for the ESEA Federal Title I program. Secondly, the failure of the above base levy in May 2002 for the 2002-2003 school year precipitated the reduction of several extracurricular and athletic programs. The community fund raised approximately \$48,000 to reinstate the programs. Other factors include the decrease in investment earnings due to reduced interest rates.

Changes in the District's expenses (rounded to the nearest \$1,000) were as follows:

	2003	2002	Change	%
Instruction:				
Regular programs	\$3,518,000	\$3,510,000	\$8,000	0%
Other programs	1,608,000	1,559,000	49,000	3%
Support Services	733,000	690,000	43,000	6%
Operation and maintenance	1,009,000	954,000	55,000	6%
Administration	896,000	872,000	24,000	3%
Student transportation	390,000	363,000	27,000	7%
School food	426,000	407,000	19,000	5%
Extracurricular	198,000	230,000	(32,000)	(14)%
Interest expense	618,000	653,000	(35,000)	(5)%
Unallocated depreciation	456,000	459,000	(3,000)	(1)%
Other	59,000	61,000	(2,000)	(3)%
Total expenses	9,911,000	9,758,000	155,000	2%
Less program revenues	1,677,000	1,541,000	136,000	9%
Net expenses	8,234,000	8,217,000	17,000	0%
Less general revenue	8,688,000	8,308,000	380,000	5%
Change in net assets	\$454,000	\$91,000	\$363,000	399%

~~The large change in extracurricular expenses was due to the programs cuts initiated by the failure of the general fund levy. The interest expense on the District bonds decreased due to the continued reduction in principal from annual payments. Other increases include negotiated labor contract increases, adding counselor time at Washington school, adding special education staff, and hefty increases in liability insurance. These increases drove overall expenses even though programs cuts included staff reductions, cutting the textbook budget, and cuts in Middle and High School Activities.~~

FUND FINANCIAL STATEMENTS

These fund financial statements provide detailed information about the most significant of the District's funds.

Major funds are defined as the general fund and other funds where the assets, liabilities, revenues, or expenditures exceed 10% of total government fund amounts. In the 2003 fiscal year, the assets, liabilities, revenues and expenditures of the debt service fund, and the assets of the impact aid fund exceeded the 10% thresholds. The impact aid fund is authorized by state law to account for the receipt and expenditure of Public Law 81-874 impact aid. The debt service fund is funded primarily by property taxes to pay the District's general obligation bonds.

The government funds provide a short-term view of the District's operations. They are reported using an accounting method called modified accrual accounting which measures amounts using only cash and other short-term assets and liabilities (receivables and payables) that will soon be converted to cash or will soon be paid with cash.

Total government fund balances increased \$116,000 in 2003 as compared to the government-wide increase in net assets of \$454,000. As shown on page 14, the primary reasons for the difference are as follows;

- 1) Capital outlay, which is reported as expenditures in the government funds, is an increase in assets in the government wide statement;
- 2) Principal payments on the bonds, which are reported as expenditures in the government funds statement, is a reduction of liabilities in the government-wide statement;
- 3) Depreciation expense which is not reported in the government funds statement, is reported as a decrease in assets in the government wide statements.

Only the general and debt services funds are required to have budgets. There were no significant variations between the budget and actual revenues and expenditures which are detailed on the supplemental schedule on page 26.

CAPITAL ASSET AND DEBT ADMINISTRATION

In 2003 the District constructed an ~~access road to the west side of the high school (Kurtz Lane)~~ to provide a safe and secure area to load and unload school buses. The road also reduced congestion at the high school's main entrance and provides additional access by emergency vehicles. The remainder of the ~~District's asset purchases were for equipment and vehicles~~ (see Note 4 to the financial statements).

The District's only significant change in long-term debt were the principal payments on its general obligation bonds (see Note 5 to the financial statements).

THE FUTURE OF THE DISTRICT

The passage of the general fund levy for the 2003-2004 school year allows the district to provide for staff salary increases, reinstatement of some programs and reduced reliance on community fund raising.

~~The district does not have a long range funding plan for technology replacement and intends to fund the immediate minimum needs through grants and donations.~~ While instructional and staff technology are currently on par or better than area districts, quality will decrease without the passage of a long term planned technology depreciation and replacement levy.

~~The failure of the boiler at the Middle School will require a large capital outlay during the upcoming year.~~ At this time, the Board has decided to attempt a temporary repair for the 2003-2004 school year to provide the time to evaluate the options for financing and replacement. The inability to address the problem immediately points out the need for a long term repair and routine maintenance plan for District infrastructure. As major repairs are postponed due to a lack of

Whitefish School District
Management Discussion and Analysis (MD&A)
For the Year Ended June 30, 2003

The Superintendent and Business Manager/Clerk of the Whitefish School District have provided this MD&A to give the reader of these statements an overview of the financial position and activities of the school district for the fiscal year ended June 30, 2003. Certain comparative information between the current year and the prior is required to be presented in the MD&A, however, Statement No. 34 permits the omission of this comparative data in the first year of adoption of the new reporting model. Subsequent reports will include the comparative information.

Using This Financial Report

The general format of this report is required by Statement No. 34 of the Governmental Accounting Standards Board (GASB). Components and purposes of the report are explained below.

Reporting the School District as a Whole

The report includes two district-wide statements that focus on operations of the district as a whole. These statements measure inputs and outflows using an economic resources measurement focus, and use the accrual basis of accounting. Activities that are fiduciary in nature are not included in these statements.

A. The Statement of Net Assets (page 10) shows the “assets” (what is owned), “liabilities” (what is owed) and the “net assets” (the resources that would remain if all obligations were settled) of the school district. The statement categorizes assets to show that some assets are very liquid, such as cash and cash equivalents. Some assets are restricted for certain purposes or reserved for emergencies and cash flow purposes. Some assets are invested in “fixed” or “capital” assets, such as buildings, equipment and other long-lived property; and some assets are available to fund budgets of the following year.

B. The Statement of Activities, (page 11) shows the amounts of program-specific and general school district revenues used to support the school district’s various functions.

The Statement of Net Assets and the Statement of Activities divide the activities of the school district into three categories:

Governmental activities – The school functions, including instruction, student services, administration, etc. Property taxes, state and federal revenues usually support most of these functions of the district.

Whitefish School District
Management Discussion and Analysis (MD&A)
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Reporting the District's Most Significant Funds

The fund statements provide detailed information about the funds used by the school district. State law and Generally Accepted Accounting Principles (GAAP) establish the fund structure of school districts. State law generally requires school districts to segregate money generated for certain specific purposes, like transportation and debt service, in separate fund accounts.

The fund statements report balances and activities of the most significant, or "major" funds separately and combine the activities of less significant funds under a single category. Significance of funds is determined based on the proportional size of the funds, the relative importance of the activities of the funds to the school district's operations, and the existence of legal budget requirements. Internal Service funds are never reported as major funds, but are combined and presented in a separate set of financial statements.

The Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance are shown for governmental funds such as the general funds, special revenue funds for transportation and school food service, and debt service and capital outlay funds. These funds use the modified accrual basis of accounting and represent the majority of the district's activities and programs.

Fund statements include a reconciliation of the governmental fund statements to the district-wide statements. Most significant differences result from the use of different presentation bases. The district-wide statements are presented using the accrual basis of accounting and the fund statements for governmental funds use the modified accrual basis. In addition, general capital assets and general long-term debt are reported in the district-wide statements but not in the fund statements.

Reporting the District's Trust and Fiduciary Responsibilities

The district is the trustee, or fiduciary, for endowments and the student extracurricular fund.

This report includes the activities in a separate Statement of Fiduciary Net Assets and Changes in Fiduciary Net Assets (page 17) because the district cannot use these assets to fund its operations.

The district is responsible for ensuring these assets are used for their intended purpose.

Budget –to-Actual Comparisons

The District's original and final budgets were identical for the year ended June 30, 2003.

The budgetary comparison schedules on page 31 show how actual expenditures compared to the original and final budgeted expenditures for the general fund.

The following significant variances between the final expenditure budget and the actual expenditures exist:

Supportive Services – A positive variance of \$65,129 exists because a high school School-to-Work Counseling position was not filled and the district estimated more than necessary for the cost of mandatory state-wide testing.

General administrative services – A negative variance of \$12,877 is the result of unexpected legal expenses and the cost of hepatitis B vaccinations for at-risk employees.

Food Services – A negative variance of \$50,000 exists because the district did not anticipate supplementing the food service program.

Capital Outlay – A negative variance of \$38,879 exists because of the difficulty of anticipating whether purchases will exceed the capital outlay threshold of \$5,000 and unanticipated remodeling projects.

Operating transfers out – A negative variance of \$18,000 is the result of the statutes governing funding compensated absences. The district may transfer excess budget to fund the liability resulting from employee sick leave and vacation accrual.

THE DISTRICT AS A WHOLE

Net assets may serve over time as a useful indicator of a government's financial position. In the District, assets exceeded liabilities by \$5,550,653 as of June 30, 2003. Less than half the District's net assets reflect its investment in capital assets (e.g. land, land improvements, buildings and improvements, machinery and equipment and construction in progress).

**Whitefish School District
Condensed Statement of Net Assets**

	Governmental Activities FY2003
Current and other assets	\$ 3,624,194
Capital assets	\$ 4,367,167
Total assets	\$ 7,991,361
Long-term debt outstanding	\$ 2,165,091
Other liabilities	\$ 275,617
Total liabilities	\$ 2,440,708
Net assets	
Invested in capital assets, net of related debt	\$ 2,517,167
Restricted	\$ 89,901
Unrestricted	\$ 2,943,585
Total net assets	\$ 5,550,653

**Whitefish School District
Changes in Net Assets**

	Governmental Activities FY2003
Revenues	
Program Revenues:	
Charges for services	\$ 217,331
Operating grants and contributions	\$ 1,456,337
Capital grants and contributions	
General Revenues:	
Property taxes	\$ 4,547,905
State equalization	\$ 5,353,804
Other general revenues	\$ 1,367,022
Total Revenues	\$ 12,942,399
 Program Expenses	
Regular programs	\$ 6,532,484
Special programs	\$ 1,644,852
Vocational programs	\$ 413,181
Adult education programs	\$ 18,641
Other programs	\$ 9,693
Operation and maintenance	\$ 1,176,956
School food	\$ 276,857
Extracurricular	\$ 341,519
Student transportation	\$ 417,700
Administration	\$ 1,125,223
Interest expense	\$ 100,021
Unallocated depreciation	\$ 221,521
Total expenses	\$ 12,278,648
Excess (deficiency) before special items and transfers	\$ 663,751
Special items	
Transfers	
Increase (decrease) in net assets	\$ 663,751

The districts total revenues for the fiscal year ended June 30, 2003 were \$12.95 million. The total cost of all programs and services was \$12.3 million which generated an increase in net assets of approximately \$650,000. District taxpayers paid approximately \$4.5 million of the \$12.95 million in revenues. The remainder was financed through charges for services, operating grants and contributions, other state revenues and investment earnings.

Whitefish School District
Spending Levels Compared to Resource Levels

	FY 2003-04	
Expenditures Supported with General Revenues (from taxes and other sources for general school use)	\$ 10,604,980	86%
Expenditures Support with Program Revenues	\$ 1,673,668	14%
Total Expenditures Related to Governmental Activities	\$ 12,278,648	100%

Analysis of Financial Information

The fund balance in the Elementary Building Fund decreased \$117,700 due to the beginning of a three-year building project and payments to architects for design and development. The fund balance of the General Fund decreased approximately \$50,000 due to liquidation of prior year encumbrances.

Capital Assets

As of June 30, 2003, the District had invested \$9.8 million in capital assets including land, buildings, construction in progress, and machinery and equipment. This represents a net increase of \$270,000 prior to depreciation. Total depreciation expense for the year was \$221,521. The following schedule presents capital asset balances net of depreciation for the fiscal year ended June 30, 2003:

Land	\$ 72,489
Land improvements	\$ 188,237
Buildings and improvements	\$ 3,828,783
Machinery and equipment	\$ 186,185
Construction in Progress	\$ 91,473
Total	\$ 4,367,167

Significant increases to the capital assets included \$91,000 construction in progress for architect design fees for the new Central Middle School and energy efficient lighting retrofit for the buildings.

Debt Administration

At June 30, 2003, the District had \$2,165,091 in general obligation bonds and other long-term debt outstanding, of which \$140,895 is due within one year. A summary of the District's outstanding long-term debt for the year ended June 30, 2003 is presented below:

General obligation bonds	\$ 1,850,000
Compensated absences	\$ 183,086
Other post-employment benefits	\$ 132,005
Total	\$ 2,165,091

The District maintains an "A" rating from Standard and Poor's for general obligation debt.

The District's Future

The following will be major factors in the future of the District

The District will begin construction of a new Central Middle School facility in 2003, funded by \$10.2 million in general obligation bonds. A \$9.5 million issue was sold in July 2003 and the remaining \$700,000 will be sold in February 2004.

The District ratified a three-year Collective Bargaining Agreement with the Whitefish Education Association including a salary schedule increase on the base of 3.5%, 4% and 5%, as well as 10%, 8% and 7% increases in district-paid health insurance premiums.

The monetary commitments to staff will impact the District's budgets significantly.

Contact for Additional Information

If you have questions about this report or need additional information, contact the Director of Business Services at the Whitefish School District, 600 E. Second St., Whitefish, MT 59937, 406-862-8643.

SCHOOL DISTRICT NUMBER 9-9
MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the financial performance provides an overview of the government's financial activities for the fiscal year ended June 30, 2003. Please read it in conjunction with our financial statements which begin on page 6.

FINANCIAL HIGHLIGHTS

In September 2002, the District issued \$606,000 of bonds to refund the 1992 bonds. This reduced total future debt service requirements by \$77,731. The net present value of those savings was \$43,813.

The high school district amended and increased the General fund budget by \$11,590. The amendment was allowed due to an unexpected increased enrollment. The amendment was funded by direct state aid revenues received from the State of Montana.

Finally, the District's General fund budget increased by approximately \$40,000 due to increased entitlement amounts and an increase in elementary enrollment. Growth in the budget came in spite of a decline in enrollment at the high school

USING THIS AUDIT REPORT

This audit report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the government as a whole and present a longer-term view of the finances. For governmental activities, fund statements tell how these services were financed in the short term, as well as, what remains for future spending. Fund financial statements also report the government's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which the government acts solely as a trustee or agent for the benefit of those outside of the government.

OVERVIEW OF THE FINANCIAL STATEMENTS

Government-wide financial statements One of the most important questions asked about the government's finances is, "Is the school district as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities (pages 6 and 7) report information about the government as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the net assets and changes in them. You can think of net assets—the difference between assets and liabilities—as one way to measure the financial health, or financial position. Over time, increases or decreases in net assets are one indicator of whether the government's financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the property tax base, economy, enrollment and changes in the State's funding of educational costs to assess the overall health.

Fund financial statements The fund financial statements (pages 8 and 10) provide detailed information about the most significant funds—not the government as a whole. Some funds are required to be established by State law. Also, the governing body establishes many other funds to help it control and manage money for particular purposes or to meet legal responsibilities for using certain taxes, grants and other money. We utilize the following funds:

Governmental funds—Basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliations (pages 9 and 11, respectively).

Fiduciary funds—Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds use the accrual basis of accounting. We exclude these activities from the other financial statements because we cannot use these assets to finance our operations. We are responsible for ensuring that the assets reported in these funds are used for their intended purposes.

THE GOVERNMENT AS A WHOLE

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In our case, assets exceeded liabilities by \$941,443 as of June 30, 2003. The increase in net assets is mainly attributable to increases in taxes and state aid. Taxes

SCHOOL DISTRICT NUMBER 9-9
MANAGEMENT'S DISCUSSION AND ANALYSIS

increase for two reasons: 1) \$44,000 was reappropriated for fiscal year 2002 and in fiscal year 2003, no money was available to reappropriate and 2) taxpayers approved a voted levy of \$20,508. State aid increased due to increased enrollment.

NET ASSETS:	<u>2003</u>	<u>2002</u>
Current and other assets	\$ 322,856	\$ 279,916
Capital assets	<u>1,214,725</u>	<u>1,314,449</u>
 Total assets	 1,537,581	 1,594,365
 Current liabilities	 54,114	 117,275
Long-term liabilities	<u>542,024</u>	<u>606,561</u>
 Total liabilities	 596,138	 723,836
 Net assets:		
Invested in capital assets, net of related debt	659,725	724,449
Restricted	116,407	-
Unrestricted	<u>165,311</u>	<u>146,080</u>
 Total net assets	 <u>\$ 941,443</u>	 <u>\$ 870,529</u>
 CHANGE IN NET ASSETS:		
Revenues:		
Program revenues:		
Charges for services	\$ 21,757	\$ 20,067
Operating grants and contributions	205,518	172,061
General revenues:		
Taxes	331,912	229,846
State aid	506,623	343,385
Other state sources	73,249	174,337
County sources	86,707	99,413
Other	-	982
Interest	<u>4,139</u>	<u>8,513</u>
 Total revenues	 <u>1,229,905</u>	 <u>1,048,604</u>
 Expenses:		
Instruction	648,775	543,172
Support services-students	20,364	18,241
Support services-instructional staff	19,511	39,837
Support services-general admin.	53,453	39,830
Support services-administration	44,929	-
Support services-business	69,138	57,217
Operation and maintenance	97,545	87,637
Student transportation	74,944	54,753
Food services	53,687	40,644
Extracurricular	39,318	32,212
Depreciation-unallocated	-	59,354
Interest on long-term debt	<u>15,964</u>	<u>36,420</u>
 Total expenses	 <u>1,137,628</u>	 <u>1,009,317</u>
 Increase in net assets	 92,277	 39,287
 Net assets, beginning	 870,529	 831,242
Change in accounting principle	(47,496)	-
Prior period adjustment	<u>26,133</u>	<u>-</u>
 Net assets, ending	 <u>\$ 941,443</u>	 <u>\$ 870,529</u>

SCHOOL DISTRICT NUMBER 9-9
MANAGEMENT'S DISCUSSION AND ANALYSIS

FUND FINANCIAL STATEMENTS

The fund financial statements provide detailed information about the major (most significant) funds. To be reported as a major fund, total assets, liabilities, revenues, or expenditures of an individual fund must be at least 10 percent of the corresponding element total (assets, liabilities, etc.) for all funds. The General fund is always reported as a major fund.

General fund revenues were up over the prior year by approximately \$78,000. The increase occurred because no money was available to reappropriate. As a result of no fund balance available to reappropriate, the tax levy increased and taxpayers approved a voted levy in the high school in the amount of \$20,508. Additionally, overall enrollment increased, therefore, state sources increased. Expenditures remained relatively unchanged, with an increase over 2002 of only \$25,000 or 3.5 percent.

The high school district amended and increased the General fund budget by \$11,590. The amendment was allowed due to an unexpected increased enrollment. The amendment was funded by direct state aid revenues received from the State of Montana.

The District's General fund budget increased by approximately \$40,000 due to increased entitlement amounts and an increase in elementary enrollment. Growth in the budget came in spite of a decline in enrollment at the high school.

CAPITAL ASSET AND DEBT ADMINISTRATION

The District made significant additions to capital assets in 2003. These additions included a bus barn and a new heating and boiler system for the elementary. The District's capital asset capitalization threshold is \$5,000. Items costing less than this threshold are not capitalized.

In September 2002, the District refunded its 1992 bond issue to take advantage of lower interest rates. The net present value of the savings was \$43,813.

THE GOVERNMENT'S FUTURE

The District is funded mainly by taxes and state aid. Because state aid revenue is based on enrollment, increased changes in enrollment have had a positive impact on the District's financial picture. Enrollment in the District has risen over the past eleven years and will increase again for fiscal year 2004. Growth in the Reed Point area is attributable to three new subdivisions and the Stillwater Mining Company.

**BOZEMAN SCHOOL DISTRICT NO. 7
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2003**

Our discussion and analysis of the Bozeman School District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2003. Please read it in conjunction with the transmittal letter on page 1 and the District's financial statements, which begin on page 26.

USING THIS COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR)

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand Bozeman School District No. 7 as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Assets and Statement of Activities* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements show how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant fund (General Fund) with all other nonmajor funds presented in total in one column.

Overview of the financial statements

Statement of Net Assets and the Statement of Activities

The Statement of Net Assets and the Statement of Activities answer the question "How did we do financially during 2003?" These government-wide statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School District's property tax base, facility conditions, required educational programs and other factors.

In the Statement of Net Assets and the Statement of Activities, the School District's governmental activities are presented. These activities include most of the District's programs and services including instruction, support services, administration, operations and maintenance, pupil transportation, food services and certain extracurricular activities.

Fund Financial Statements

A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on how money flows into and out of its funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual accounting*, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains twenty-five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, which is considered to be a major fund. Data from the other twenty-four governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* and *schedules* elsewhere in this report.

The District adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary funds - The District maintains one proprietary fund type. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the District's various functions. When the School District charges customers for the services it provides, whether to outside customers or to other departments of the District, these services are generally reported in proprietary funds. The District uses two internal service funds to account for services provided to all the other funds of the District: purchasing and self-insurance. The internal service funds use the same accounting method as the government-wide statements and are included with the governmental activities shown on those statements.

The two internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of *combining statements* on pages 97-100 of this report. The basic proprietary fund financial statements can be found on pages 35-37 of this report.

Fiduciary funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs. The accrual basis of accounting is used for fiduciary funds. The *basic fiduciary fund financial statements* can be found on pages 38-39 of this report and the *combining fiduciary fund statements* can be found on pages 101-103.

Notes to the financial statements - The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 43.

THE SCHOOL DISTRICT AS A WHOLE

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$24,586,175 as of June 30, 2003. Table 1 presents a comparative summary of the District's net assets for the fiscal years ended June 30, 2003 and 2002.

By far the largest portion of the District's net assets (72.8 percent) reflects its investment in capital assets (e.g., land, land improvements, buildings and improvements, machinery and equipment and construction in progress), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Fifteen percent of the District's net assets were subject to external restrictions on how they may be used. Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements total \$2,990,458 at the end of this year.

Table 1
BOZEMAN SCHOOL DISTRICT NO. 7
Net Assets

	Governmental Activities	
	2003	2002
Current and other assets	\$ 10,462,582	\$ 8,851,760
Capital assets	29,787,966	29,973,416
Total assets	40,250,548	38,825,176
Current liabilities	2,934,478	2,483,910
Long-term debt outstanding	12,729,895	13,615,333
Total liabilities	15,664,373	16,099,243
Net assets:		
Invested in capital assets, net of related debt	17,896,966	17,153,416
Restricted	3,698,751	2,771,750
Unrestricted	2,990,458	2,800,767
Total net assets	\$ 24,586,175	\$ 22,725,933

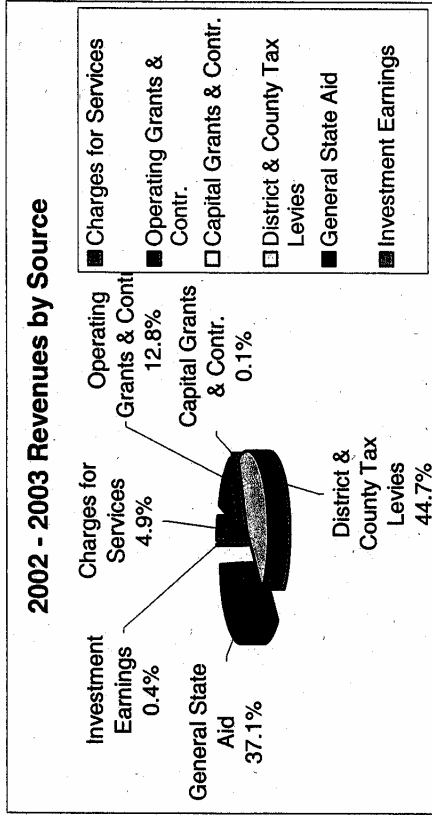
The District's net assets increased by \$1,860,242 during the current fiscal year. Approximately half of this increase lies in the restricted net assets where actual expenditures were well below the budgets legally allowed. One third of the increase was the result of capital purchases and reduction of debt exceeding current depreciation. The remainder of the increase indicates that unrestricted revenues are outpacing the accompanying expenditures.

Changes in net assets - As can be seen on Table 2, the Bozeman School District's governmental activities increased net assets by \$1,860,242, thereby accounting for 100 percent of the total growth in the net assets.

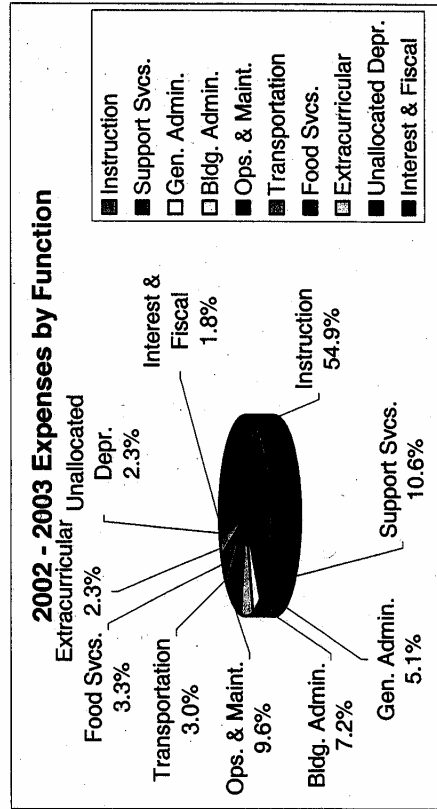
Table 2
BOZEMAN SCHOOL DISTRICT NO. 7
Changes in Net Assets

	Governmental Activities	
	2003	2002
Revenues		
Program revenues:		
Charges for Services	\$ 1,782,957	\$ 1,673,981
Operating grants and contributions	4,651,015	4,091,397
Capital grants and contributions	39,920	-
General revenues:		
District tax-leivies	13,027,975	11,514,050
County distribution - retirement	3,165,298	2,883,197
State equalization	10,126,609	9,999,354
State guaranteed tax base subsidy	1,183,932	1,197,663
HB 124 school block grant	1,886,909	1,936,130
Other state revenue	252,068	153,771
Investment earnings	134,527	242,352
Total revenues	36,251,210	33,691,895
Program Expenses		
Instruction	18,888,292	18,247,225
Support services	3,630,049	3,562,598
General administration	1,752,069	1,518,732
Building administration	2,470,692	2,241,411
Operations and maintenance	3,309,869	3,151,222
Student transportation	1,045,895	1,070,139
Food services	1,133,804	1,062,232
Extracurricular activities	777,879	750,381
Unallocated depreciation	777,729	723,997
Interest and fiscal charges	604,690	693,821
Total expenses	34,390,968	33,021,758
Increase (decrease) in net assets	1,860,242	670,137
Net assets, beginning of year	22,725,933	22,055,796
Net assets, end of year	\$ 24,586,175	\$ 22,725,933

Seventy percent of the increase in total revenues on Table 2 was generated by local taxpayers through general district tax levies and a county retirement levy. The state of Montana was responsible for 10 percent of the revenue increase with the newly funded Flexibility fund providing the largest share of the ten percent. The remainder of the revenue increase is derived from increased charges for services and additional non-state grants and contributions awarded to the District. The following chart illustrates the breakout of revenues by source.



Total expenses on Table 2 increased by \$1,369,210 (4.1%) and was largely attributable to cost of living salary and benefit increases incurred to keep up with the demand for services. The following chart illustrates the breakout of expenses by function.



FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds (as presented in the balance sheet on page 30) reported a combined fund balance of \$6,575,945, an increase of \$685,388 due primarily to a reduction in capital projects expenditures and an increase in special revenue funding. At the combined fund balance level, approximately \$1.64 million is reserved or designated to indicate that it is not available for spending because it has already been committed as follows:

- \$105,314 to pay encumbrances
- \$142,351 for prepaid items
- \$83,132 to pay debt service
- \$1,311,305 for capital projects

General fund budgetary highlights

The general fund's original and final budget were identical for the year ended June 30, 2003. The District did not amend the general fund's or any other budgeted governmental fund's budget in the current fiscal year. Actual revenues fell short of budgeted general fund revenues by \$215,401, which was largely due to tax collections falling short of expectations and a further decline in return on the District's investments.

General fund expenditures and operating transfers out utilized 100% of the general fund budget. The instructional and capital outlay variance represent the most significant financial difference in the expenditure area. These variances are related and are common due to the fact that the District budgets expenditures to cover more day-to-day operational expenditures (61.7% is comprised of the instructional budget). Near the end of a given fiscal year, if the District has available general fund dollars, it supports ongoing building reserve projects which many times include capital outlay.

General fund balance reserves dropped by one percent in 2003 from 8.6% to 7.6%. This percentage is still a very healthy reserve and is 76% of the state mandated 10% maximum allowed.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2003, the District had invested \$40.9 million in capital assets, including school land, buildings, construction in progress, and machinery and equipment. This amount represents an increase prior to depreciation of \$766,564. Total depreciation expense for the year was \$952,014. The following schedule presents capital asset balances net of depreciation for the fiscal year ended June 30, 2003.

	Amount
Land	\$ 1,761,247
Land improvements	1,015,284
Buildings and improvements	25,906,885
Machinery and equipment	970,673
Construction in progress	133,877
Total	<u>\$29,787,966</u>

Additional information on the District's capital assets can be found in Note III C on page 53 of this report.

Debt Administration

At year-end, the District had \$14,449,341 in general obligation bonds and other long-term debt outstanding, of which \$1,719,446 is due within one year. A summary of the District's outstanding long-term debt for the year ended June 30, 2003, is presented below:

	Amount
General obligation bonds	\$11,891,000
Compensated absences	2,309,863
Other postemployment benefits	248,478
Total	<u>\$14,449,341</u>

The District maintains an "A2" rating from Moody's for general obligation debt. State statutes currently limit the amount of the general obligation debt a District may issue. The current debt limitation for the District is \$74,207,489, which is substantially more than the District's outstanding general obligation debt.

During the current fiscal year, the District took advantage of declining interest rates and terms and conditions of the outstanding bonds to refund all three general obligation bonds that were outstanding on June 30, 2002. As a result of the refundings, the District's debt service payments over the next 7 to 12 years were reduced in total by \$820,918 with an economic gain of \$728,546.

Additional information on the District's long-term debt can be found in Note III E on pages 55-57 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Many factors were considered by the District's administration during the process of developing the fiscal year 2003-2004 budget. The primary factors were the District's student population, collective bargaining agreements, inflation rates, and the local economy.

These indicators were considered when adopting the budget for fiscal year 2003-2004. Budgeted expenditures in the General Fund increased by 2.0% to \$24,674,846 in fiscal year 2003-2004. Increased payroll and employee benefit costs are the primary reason for the increase.

Inflation rates continue to remain at relatively low levels. Inflation in calendar year 2002 was 1.6% with estimates predicting that it will probably rise to 2.1% in 2003. While many argue that the local cost of living within the Bozeman School District exceeds that of the national economy, no reliable data is available for the immediate area. Consequently, when evaluating the cost of living during collective bargaining negotiations, the District utilized the national CPI indexes.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the resources it receives. If you have questions about this report or need additional information, contact the Assistant Superintendent of Business and Operations, at the Bozeman School District, 404 West Main Street, Bozeman, Montana 59715.

The changes in net assets (the difference between total assets and total liabilities) over time are one indicator of whether the District's financial health is improving or deteriorating. However you need to consider other non-financial factors in making an assessment of the District's health, such as changes in enrollment, changes in the State's funding of educational costs, changes in the economy, changes in the District's tax base, etc. to assess the overall health of the District.

Changes in the District's net assets (rounded to the nearest \$1,000) were as follows:

	2004	2003	Change	%
Current assets	\$958,000	\$873,000	\$ 85,000	10%
Capital assets - net	2,027,000	2,107,000	(80,000)	-4%
Total assets	<u>2,985,000</u>	<u>2,980,000</u>	5,000	0%
Current liabilities	24,000	44,000	(20,000)	-45%
Non-current liabilities	108,000	93,000	15,000	16%
Total liabilities	<u>132,000</u>	<u>137,000</u>	(5,000)	-4%
Net assets	<u>2,853,000</u>	<u>2,843,000</u>	10,000	0%
Net assets consist of:				
Investment in capital assets	2,027,000	2,107,000	(80,000)	-4%
Restricted net assets	322,000	235,000	87,000	37%
Unrestricted net assets	504,000	501,000	3,000	1%
Net assets	<u>2,853,000</u>	<u>2,843,000</u>	10,000	0%

Current assets increased primarily because of a \$152,119 increase in cash and investments, including increases in the budgeted funds. Property taxes receivable however, decreased by \$89,509.

Capital assets decreased \$80,000 or 4% because of the accumulated depreciation (page 19). Restricted net assets increased by \$87,000 or 37% because of the carryover in budgeted funds including transportation, bus depreciation, tuition, technology, retirement, and building reserves.

Changes in program revenues (rounded to the nearest \$1,000) were as follows:

	2004	2003	Change	%
Program revenues:				
Federal grants	276,000	308,000	(32,000)	-10%
State funding	101,000	97,000	4,000	4%
County transportation funding	19,000	18,000	1,000	6%
Tuition and fees	80,000	39,000	41,000	105%
Total program revenue	<u>476,000</u>	<u>462,000</u>	<u>14,000</u>	3%

Program revenues increased by \$14,000 or 3%. Federal revenues decreased by \$32,000 or 10% primarily because of reductions in the 21st Century Grant of \$60,000. Title I increased \$25,000. Tuition revenues increased by \$41,000 because of increased enrollment and rate increases at the Galen Aware program.

Changes in general revenues (rounded to the nearest \$1,000) were as follows:

	2004	2003	Change	%
General revenues:				
Property taxes	988,000	974,000	14,000	1%
County assistance	190,000	191,000	(1,000)	-1%
State assistance	1,239,000	1,267,000	(28,000)	-2%
Investment earnings	8,000	13,000	(5,000)	-38%
Other revenue	18,000	10,000	8,000	80%
Total general revenue	<u>2,443,000</u>	<u>2,455,000</u>	<u>(12,000)</u>	0%
Total program revenue	<u>476,000</u>	<u>462,000</u>	<u>14,000</u>	3%
Total revenue	<u><u>2,919,000</u></u>	<u><u>2,917,000</u></u>	<u><u>2,000</u></u>	0%

General revenues decreased \$12,000 primarily due to the reduction in State assistance and the decline in interest rates, which reduced investment earnings.

Changes in the District's expenses (rounded to the nearest \$1,000) were as follows:

	2004	2003	Change	%
Expenses:				
Instructional services	1,181,000	1,061,000	120,000	11%
Supportive services	40,000	113,000	(73,000)	-65%
Educational media	72,000	72,000	0	0%
General administration	137,000	137,000	0	0%
School administration	101,000	106,000	(5,000)	-5%
Business administration	60,000	61,000	(1,000)	-2%
Operations and maintenance	311,000	299,000	12,000	4%
Student transportation	109,000	111,000	(2,000)	-2%
Special programs	477,000	381,000	96,000	25%
Vocational programs	62,000	49,000	13,000	27%
After school learning program	167,000	227,000	(60,000)	-26%
Extracurricular	147,000	139,000	8,000	6%
Unallocated depreciation	45,000	54,000	(9,000)	-17%
Total expenses	<u>2,909,000</u>	<u>2,810,000</u>	99,000	4%
Less program revenues	476,000	462,000	14,000	3%
Net expenses	<u>2,433,000</u>	<u>2,348,000</u>	85,000	4%
Less general revenue	2,443,000	2,455,000	(12,000)	0%
Change in net assets	<u>10,000</u>	<u>107,000</u>	<u>(97,000)</u>	

Supportive Services decreased \$73,000 primarily because of costs related to the replacement of the counselor and reduction in contracted services. Instructional services increased \$120,000 or 11% because of increases in salaries and benefits. The 21st Century after school learning program decreased \$60,000 because of a decrease in the grant allocation. Other changes in expenses were due to a variety of causes and were not significant.

CAPITAL ASSET AND DEBT ADMINISTRATION

The District's investment in capital assets, as of June 30, 2004, amounts to \$2,027,083 (net of accumulated depreciation). Capital assets include school buildings and grounds, buses, vehicles, and other equipment. There were no additions or deletions to capital assets. Depreciation expense for the year was \$80,000, which explains the change in net assets between fiscal years 2003 and 2004. The District currently has no outstanding debt.

FUND FINANCIAL STATEMENTS

The fund financial statements provide detailed information about the most significant of the District's funds. Under this new reporting model, the District is required to provide detailed information for its major funds.

The major funds are defined as the general fund and other funds where the assets, liabilities, revenues, or expenditures exceed 10% of total governmental amounts. In 2004, the revenues and expenditures of the miscellaneous fund exceeded the 10% threshold.

The governmental funds provide a short-term view of the District's operations. They are reported using an accounting method called modified accrual accounting, which measures amounts using only cash and other short-term assets and liabilities (receivables and payables) that will soon be converted to cash or will soon be paid with cash.

As shown on page 12, the total governmental fund balances increased \$164,619 in 2004 as compared to an increase of \$10,212 in government-wide net assets. The difference is explained on page 13.

THE FUTURE OF THE DISTRICT

The 2005 general fund budget increased insignificantly, less than 1 % or \$5,000, above the 2004 budget. The District's enrollment decreased by five on the October 2005 ANB count from the 2004 ANB entitlement count. Based on current enrollment numbers and projections, ANB will continue to fall next year and subsequent years.

While the overall expenditures of the District increased by \$100,000 in FY 2004, the reduction in the total levies during the past two years has reduced the financial burden on local taxpayers.

Budget reserve limits are at the allowable maximum. There is not a foreseeable need at this time to request funds from reserves.

A recent order by the Montana Supreme Court and anticipated action by the 2005 Legislative Session will more clearly address the funding issues of decreasing enrollment and school funding.

Lockwood School District No. 26
Management's Discussion and Analysis of Annual Audit Report
June 30, 2004

Management's Discussion And Analysis – June 30, 2004

This Management Discussion and Analysis (MD&A) written by the Business Manager/District Clerk and Superintendent of the Lockwood School District provides an overview of the financial position and governmental financial activities for the fiscal year ended June 30, 2004. Please read it in conjunction with our audit report and financial statements.

Certain comparative information between the current year and the prior year is required to be presented in the MD&A. However, GASB Statement No. 34 permits the omission of this comparative data in the first year of the adoption of the new reporting model. In future years, when prior-year information is available, a comparative analysis of government-wide data will be presented.

Financial Highlights For 2004:

The financial position of the school district is basically unchanged as a result of operations for fiscal year 2004. This is substantiated by a nominal overall increase in net assets, totaling \$5,120.

A 1.2 million dollar Building Reserve Levy was passed by the Lockwood voters. This levy will be collected over a three-year period at \$416,666 per year. This is the third three-year 1.2 million dollar levy passed since 1998. This shows a clear commitment by the Lockwood voters to support continued maintenance, safety, remodeling, construction, and technology in Lockwood Schools.

An \$800,000 building project for additional classrooms, multipurpose room and storage was started in June 2004. The expected completion date is December 2004. This facility will provide additional classrooms for special education and regular programs and areas for group educational activities. The addition will alleviate crowding and improve the learning environment.

Using This Audit Report

Statement No. 34 of the Governmental Accounting Standards Board (GASB) requires the general format of this report. Components and purposes of the report are explained below.

Lockwood School District No. 26

Management's Discussion and Analysis of Annual Audit Report

June 30, 2004

Reporting The District As A Whole

One important question asked about school district finances is, "Is the District, as a whole, in a better or worse financial position as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities (Pages 10 and 11) report information about the district as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the basis of accounting used by most private-sector companies. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

The change in net assets over time is one indicator of whether the District's financial health is improving or deteriorating. However, there are other non-financial factors that influence the financial health of the school district, such as enrollment changes, changes in how the State of Montana funds educational costs, and changes in the tax base of the school district.

The report includes two district-wide statements that focus on operations of the district as a whole. These statements measure inputs and outflows using an economic resources measurement focus, and use the accrual basis of accounting. Activities that are fiduciary in nature are not included in these statements.

A. The Statement of Net Assets on Page 10 shows the assets, liabilities, and the net assets of the school district. The statement categorizes assets to show that some assets are very liquid, such as cash and cash equivalents. Some assets are restricted for certain purposes or reserved for emergencies and cash flow purposes. Some assets are invested in fixed or capital assets, such as buildings, equipment and other long-lived property; and some assets are available to fund budgets of the following year. Assets exceed liabilities by \$5,712,277 as of 6/30/04. Capital assets and restricted net assets compose 72% of the total net assets; 28% are unrestricted or liquid.

B. The Statement of Activities on Page 11 shows the amounts of program-specific and general school district revenues used to support the various functions of the school district. 83% of expenditures were supported with general revenues, from taxes and other sources for general school use. 17% of expenditures were supported with sources other than taxes, called program revenues. Program revenues for Lockwood Schools include grants and Community Education fees.

Lockwood Schools are reported under the category of Governmental Activities. These funds provide a short-term view of the district's operations. Basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other short-term assets and liabilities (receivables and payables) that can readily be converted to cash or will soon be paid with cash. The governmental fund statements provide a detailed short-term view of the general government operations and the basic services it provides.

Lockwood School District No. 26

Management's Discussion and Analysis of Annual Audit Report

June 30, 2004

Reporting The District's Most Significant Funds

The fund statements provide detailed information about the funds used by the school district. State law and Generally Accepted Accounting Principles (GAAP) establish the fund structure of school districts. State law generally requires school districts to segregate money generated for certain specific purposes, such as transportation, into separate fund accounts.

The fund statements report balances and activities of the most significant or major funds separately and combine activities of less significant funds under a single category. To be reported as a major fund, total assets, liabilities, revenues, or expenditures of an individual fund must be at least 10 percent of the corresponding element totals (assets, liabilities, etc) for all funds. The general fund is always reported as a major fund. The retirement fund and the building reserve fund are also considered major funds in our district. The retirement fund and the building reserve fund have accumulated enough cash reserves over the past several years \$315,052 and \$970,048 respectively to be considered major funds.

The Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance are shown for governmental funds such as general funds, special revenue funds for transportation and school food service, and capital outlay funds. These funds use the modified accrual basis of accounting and represent the majority of the district's activities and programs.

Fund statements include a reconciliation of the governmental fund statements to the district-wide statements. Most significant differences result from the use of different presentation bases. The district-wide statements are presented using the accrual basis of accounting and the fund statements for governmental funds use the modified accrual basis. In addition, general capital assets and general long-term debt are reported in the district-wide statements but not in the fund statements.

Reporting The District's Trust And Fiduciary Responsibilities

Fiduciary funds: The district is the trustee or fiduciary for the student extracurricular fund. This report includes the activities in a separate Statement of Fiduciary Net Assets and Changes in Fiduciary Net Assets (Page 16) because the district cannot use these assets to fund its operations. The district is responsible for ensuring these assets are used for their intended purpose.

Budget To Actual Comparisons

The district's original and final budgets were identical for the year ended June 30, 2004. There were no budget amendments adopted during the year.

Variances were determined by functionality and reported as significant if there was a variance greater than five percent between budget and actual. There was a significant negative variance of \$54,293 between the final expenditure budget and actual expenditures for support services. This variance is the result of: a) Paying for more of staff development costs for salary and travel from general funds instead of grants due to reductions in grants; b) Paying \$5,000 additional for technology salary due to delayed e-rate payment; c) Spending year-end budget positive variances available from other functions due to health insurance costs and utilities costs being less than anticipated for additional library supplies and technology supplies and minor equipment.

Lockwood School District No. 26
Management's Discussion and Analysis of Annual Audit Report
June 30, 2004

The District As A Whole

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The district experienced a minor increase in net assets of \$5,120.

Net Assets:	
Current assets	2,233,412
Capital assets - net	4,072,262
Total assets	<u>6,305,674</u>
Current liabilities	140,415
Non-current liabilities	452,982
Total liabilities	<u>593,397</u>
Net assets:	
Invested in capital assets, net of related debt	4,072,262
Restricted	
Compensated absences	57,209
Unrestricted	1,582,806
Total net assets	<u><u>5,712,277</u></u>

Lockwood School District No. 26
 Management's Discussion and Analysis of Annual Audit Report
 June 30, 2004

Revenues:	
Program revenues:	
Charges for services	1,892
Federal grants	945,389
State program funding	330,344
Other	147,025
Total program revenues	<u>1,424,650</u>
General revenues:	
Property taxes	2,335,659
County retirement distribution	643,645
State aid	3,621,632
Interest	32,711
Other	40,956
Total general revenues	<u>6,674,603</u>
Expenses:	
Regular programs	3,810,023
Special programs	591,457
Vocational programs	194,556
Adult education	4,928
Supporting services	1,705,061
Operations and maintenance	952,604
Student transportation	316,293
Food services	486,924
Extracurricular	35,287
Total expenses	<u>8,097,133</u>

Combined ending fund balances for all funds increased by \$61,622. Revenues and transfers in exceeded expenses in that amount. Details of the changes in the major funds are explained below:

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The fund balance of the General Fund decreased approximately \$114,442 primarily due to liquidation of prior year encumbrances. General Fund expenditures exceeded prior year by approximately 8.9% due to salary increases, increased staffing, increased health insurance costs, and liquidation of 2002-03 encumbrances. Retirement Fund Balance decreased \$29,727 due to insufficient tax collections in the amount of \$43,000 by Yellowstone County to fund the countywide distribution for retirement.

Building Reserve Fund Balance is \$168,759 greater than last year due to revenues exceeding expenditures in that amount. We were building resources for the purpose of starting the classroom addition capital building project.

Capital Assets

Capital Assets – The district's investment in capital assets as of June 30, 2004, totaled \$4,072,262. This investment in capital assets includes land, land improvements, buildings and improvements, machinery and equipment and construction in progress. The following schedule presents capital asset balances net of depreciation for the fiscal year ended June 30, 2004:

Land	\$	277,490
Land Improvements	\$	609,438
Buildings & Improvements	\$	2,981,280
Machinery & Equipment	\$	136,875
Construction in Progress	\$	67,179
TOTAL	\$	<u>4,072,262</u>

The net increase to the district's assets was \$214,167, which included: adjustments to reflect a change in capitalization policy and a physical inventory count, sprinkler system, paving the front parking lot, middle school office remodeling, purchase of a copy machine and tractor/mower, and the \$67,179 reported under construction-in-progress is reflective of the architect and permit fees expended to begin the project. Depreciation expense for the year amounted to \$225,746.

Debt Administration

Debt Administration: The district is in a very healthy position with regard to long-term liabilities. We have no capital leases outstanding, nor any outstanding bonds. The only long-term liability of the district is for the future payout of vacation leave, sick leave, and termination/severance pay for all employees of the district in the amount of \$453,600. This amount of the liability increased \$16,131 over last year mainly due to increased salaries.

The Future Of The District

Lockwood experienced an increase in Average Number Belonging of 41 students over the prior year, so funding from state sources will be increased. The increase of ANB is helpful in maintaining the elementary programs of the district. It is the expectation that enrollment at Lockwood Schools will grow in the near future, because there are some significant housing developments under construction in the community.

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The Lockwood voters passed the General Fund mill levy in the amount of \$78,720 for the purpose of proper maintenance and operation of the school programs for the 2004-2005 school year. The Lockwood community is very supportive of the school and they have passed the General Fund Levies in seven of the last eight years.

Classroom Addition funded via the Building Reserve Levy: As a result of this levy and the previous three-year Building Reserve Levy (2001-04) we have started a building project to add six classrooms, a multi-purpose room, storage, and two bathrooms. This project will add approximately 11,000 square feet of much needed space for educational activities and for the cooperative after school program with the Boys' and Girls' Club. When complete this project will add approximately \$800,000-\$850,000 to the capital assets of the district.

The Lockwood School Board has established a Growth Committee to research and review proposed growth in the community and recommend a plan of development for future educational needs.