

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

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2006

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INDEPENDENT SCHOOL DISTRICT NO. 347
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INTRODUCTORY SECTION

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
BOARD OF EDUCATION AND ADMINISTRATION
JUNE 30, 2006**

Dion Warne	Chair
Mike Carlson	Vice Chair
Shawn Mueske	Treasurer
Eric Roberts	Clerk
Brad Schmidt	Director
Sandi Unger	Director
Wayne "Lenny" Lenzmeier	Director

ADMINISTRATION

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

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

Board of Education
Independent School District No. 347
Willmar, Minnesota

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Independent School District No. 347 as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Independent School District No. 347's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 347 as of June 30, 2006 and the respective changes in financial position, cash flows, where applicable, and budgetary comparison for the General Fund, Food Service Fund, and Community Service Fund, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2006, on our consideration of Independent School District No. 347's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 4 through 20 is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise Independent School District No. 347's basic financial statements. The accompanying schedule included in the supplementary information section, the schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the Uniform Financial Accounting and Reporting Standards Compliance Table are presented for purposes of additional analysis and are not a required part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.


LARSON, ALLEN, WEISHAIR & CO., LLP

Austin, Minnesota
October 16, 2006

REQUIRED SUPPLEMENTARY INFORMATION

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2006**

This section of Willmar Public Schools – Independent School District No. 347's (District) annual financial report presents management's discussion of the District's financial performance during the fiscal year (FY) ending June 30, 2006. Please read it in conjunction with the District's financial statements, which follow this section.

The Management's Discussion and Analysis (MD&A) is an element of a new reporting model that is required by the Government Accounting Standard Board's (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued in June 1999. Statement No. 34 contains significant requirements that enhance financial reporting. These requirements are also designed to make annual reports easier for the public to understand and more useful to stakeholders. Specifically, Statement No. 34 establishes new reporting requirements that include new financial statements, expanded disclosure, and supplemental information, including the MD&A (this section).

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2005-2006 fiscal year include the following:

- The General Fund undesignated-unreserved fund balance again exceeded the School Board's fund balance goal of 6% of expenditures with a fund balance of \$5,397,098, equivalent to 13.75% of expenditures. Notably, this key fund balance increased by \$225,837, or 4.4%, compared to a decrease of \$238,037 last year.
- Net Assets increased 12.39% over the prior year.
- The combined Governmental Funds fund balance increased by 13.23%, or \$989,524.
- The District reduced its outstanding long-term liabilities by \$1.73 million, or 8%.
- Enrollment increased by 10 ADM's (Average Daily Membership) in FY 2006, the district's first enrollment increase in ten years.
- The School Board took action to refinance the District's Sr. High School Bonds saving local taxpayers \$1.1 million over the next nine years. The Board sold \$16,265,000 of new bonds that were used to pay off the remaining Sr. High Bond Debt. The effective date of the bonds was November 1, 2005. This type of transaction is generally referred to as a "forward refunding". The transaction took place entirely in the Debt Service Fund, and does not impact the General Fund.
- Two Financial Awards: The district's comprehensive annual financial report for the year ended June 30th, 2005 was awarded several prestigious financial reporting awards by the Government Finance Officers Association of the United States and Canada (GFOA) and the Association of School Business Officials (ASBO). Read the District's 2006 comprehensive annual financial report for more information about these awards.
- The School Board reduced the FY 2007 Budget by \$771,000 on May 8, 2006. The reductions were a combination of spending reductions and fee increases. This budget reduction was designed to help the district prepare for future financial challenges and to maintain a stable financial condition. Read the District's 2006 comprehensive annual financial report for more information about recent budget reductions.

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2006**

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

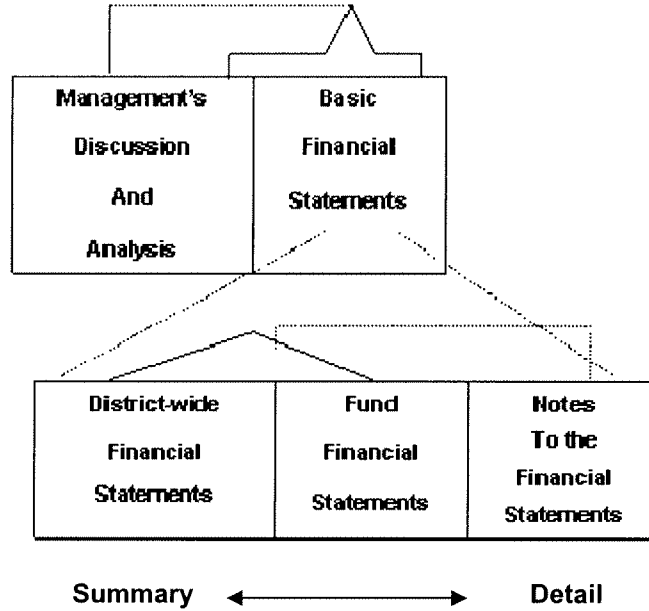
- The **district-wide financial statements**, including the Statement of Net Assets and the Statement of Activities, provide both **short-term** and **long-term** information about the District's **overall** financial status.
- The remaining statements are **fund financial statements** that focus on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

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

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2006**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Figure 1 Organization of Willmar Public Schools Annual Financial Report



**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2006**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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

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

District-wide Statements

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

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2006**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

The two district-wide statements report the District's **net assets** and how they have changed. Net assets – the difference between the District's assets and liabilities – is one way to measure the District's financial health or **position**.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, one needs to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

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

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

Fund Financial Statements

The fund financial statements provide more detailed information about the District's **funds** – focusing on its most significant or “major” funds – rather than the District as a whole.

Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

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

The District has three kinds of funds:

- **Governmental funds** – The District's basic services are included in governmental funds, which generally focus on: 1) how **cash and other financial assets** that can readily be converted to cash flow in and out, and 2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed **short-term** view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, additional information (reconciliation schedules) is provided at the bottom of the governmental funds statements that explains the relationship (or differences) between these two types of financial statement presentations.
- **Proprietary funds** – Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the district-wide statements. The District's sole Proprietary fund is an internal service fund.
 - The District uses internal service funds to report activities that provide supplies and services for the District's other programs and activities. The district currently has one internal service fund for the dental self-insurance program.

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2006**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

- **Fiduciary funds** – The District is a trustee, or fiduciary, for assets that belong to others, such as the Private Purpose Trust Fund. This fund accounts for scholarship gifts and bequests. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets and Statement of Changes in Fiduciary Net Assets. These activities are excluded from the district-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, its **combined** net assets were \$19.96 million on June 30, 2006. This was an increase of 12.39% from the previous year total of \$17.76 million. (See Table 1 below). In comparison, net assets increased by 2% in FY 2005.

**Table A-1
The District's Net Assets**

	Governmental Activities		Percentage Change
	2006	2005	
Current and Other Assets	\$ 22,117,147	\$ 14,957,830	47.86%
Capital and Non-Current Assets	31,487,343	32,109,187	-1.94%
Total Assets	<u>53,604,490</u>	<u>47,067,017</u>	13.89%
Current Liabilities	16,348,021	10,205,001	60.20%
Long Term Liabilities	17,296,222	19,102,712	-9.46%
Total Liabilities	<u>33,644,243</u>	<u>29,307,713</u>	14.80%
Net Assets			
Invested in Capital Assets			
Net of Related Debt	14,125,996	13,049,010	8.25%
Restricted	1,507,933	1,112,183	35.58%
Unrestricted	4,326,318	3,598,111	20.24%
Total Net Assets	<u>\$ 19,960,247</u>	<u>\$ 17,759,304</u>	12.39%

The largest portion of the District's net assets (71%) reflects its investment in capital assets (e.g., land, buildings and improvements, furniture, and equipment net of accumulated depreciation); less any related outstanding debt (such as general obligation bonds) used to acquire those assets. The District uses these capital assets to provide services to 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.

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2006**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

- An additional portion of the District's net assets (7.6%) represents resources that are subject to external restrictions on how they may be used.
- The remaining balance of the *unrestricted net assets* (21.4%) may be used to meet the District's obligations to students, employees and creditors and to honor next year's budget.

At the end of the current fiscal year, the District is able to report positive balances in all three categories of net assets. The same situation held true for the prior fiscal year.

A summary of the revenues and expenses for the last two fiscal years is presented in Table 2 below.

**Table A-2
Change in Net Assets**

	Governmental Activities for the		Total % Change
	fiscal year ended June 30,		
	2006	2005	
Revenues			
<u>Program Revenues</u>			
Charges for Services	\$ 3,573,901	\$ 2,863,397	24.81%
Operating Grants and Contributions	14,902,344	14,061,382	5.98%
Capital Grants and Contributions	847,130	877,479	-3.46%
<u>General Revenues</u>			
Property Taxes	3,451,819	4,260,899	-18.99%
Unrestricted State Aid	23,523,078	22,475,565	4.66%
Investment Earnings	418,315	96,235	334.68%
Other	29,394	3,358	775.34%
Total Revenues	<u>46,745,981</u>	<u>44,638,315</u>	4.72%
Expenses			
Administration	1,366,558	1,366,717	-0.01%
District Support Services	860,710	871,804	-1.27%
Regular Instruction	18,967,468	19,331,810	-1.88%
Vocational Education Instruction	815,835	994,894	-18.00%
Special Education Instruction	8,314,732	8,106,444	2.57%
Instructional Support Services	2,163,593	1,851,171	16.88%
Pupil Support Services	3,094,558	2,947,488	4.99%
Sites and Buildings	3,845,392	3,340,607	15.11%
Fiscal and Other Fixed Cost Programs	314,062	223,001	40.83%
Food Service	1,928,250	2,066,305	-6.68%
Community Service	1,990,208	2,182,154	-8.80%
Interest and Fiscal Charges on Long-Term Liabilities	883,672	1,007,896	-12.33%
Total Expenses	<u>44,545,038</u>	<u>44,290,291</u>	0.58%
Increase in Net Assets	2,200,943	348,024	
Beginning Net Assets	17,759,304	17,411,280	
Ending Net Assets	<u>\$ 19,960,247</u>	<u>\$ 17,759,304</u>	

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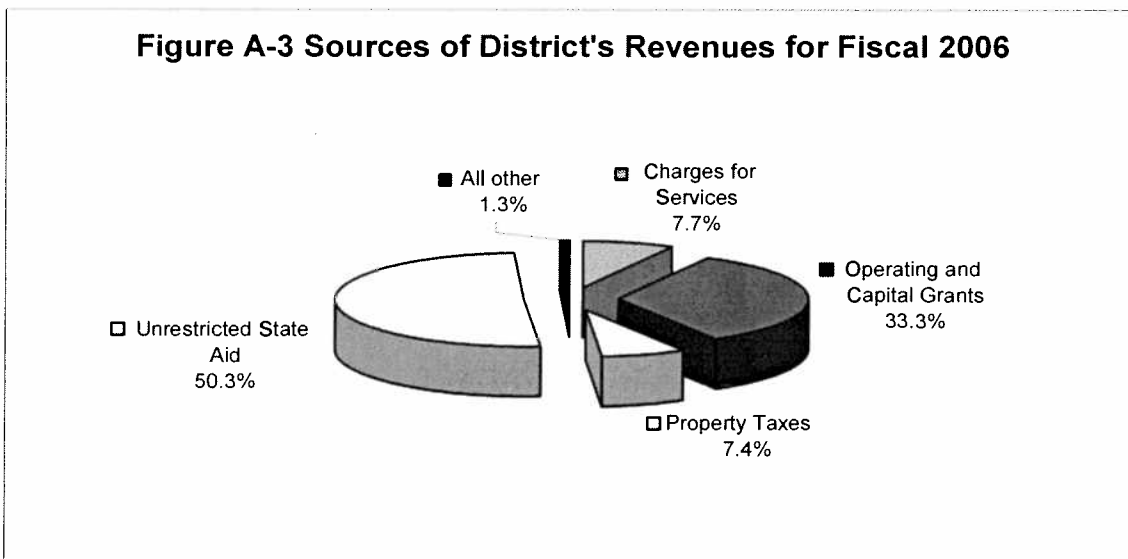
**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2006**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

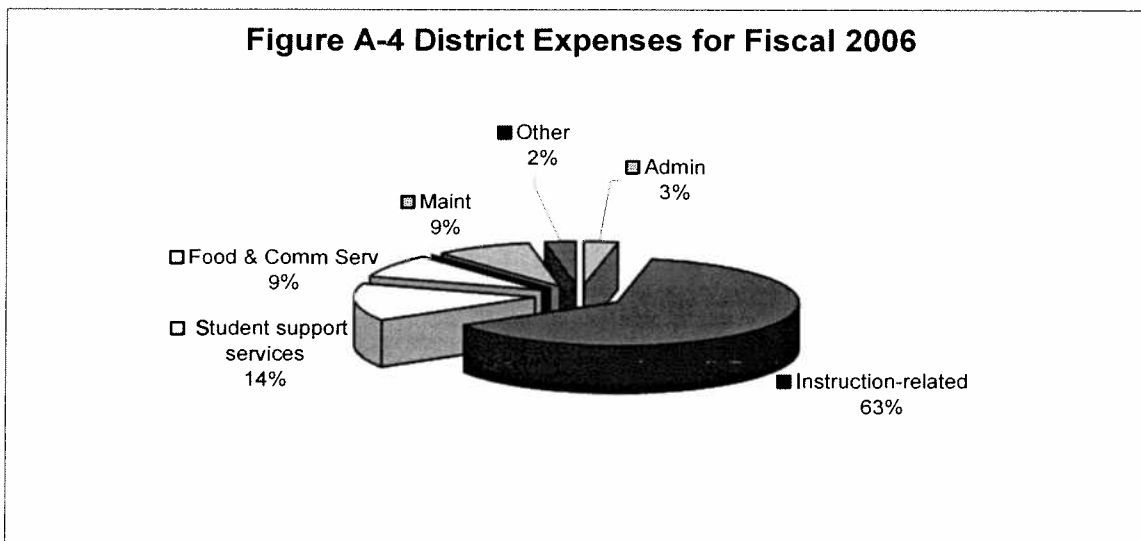
Changes in Net Assets. The District's total revenues were \$46.75 million for the year ended June 30, 2006. This is a 4.72% increase over the prior year's revenues.

State and federal aid along with local property taxes accounted for 57.7% of the total revenue for the year (see Figure 3 below). Another 41% came from program revenues and the remaining 1.3% from capital grants and contributions.

Total revenues surpassed expenses, increasing net assets \$2.20 million over last year.



The District's total expenditures for programs and services were \$44.55 million for the year ended June 30, 2006. This is a .58% increase over the prior year's expenditures. The District's expenses are predominantly related to student education (77%). (See Figure 4). The purely administrative activities of the District accounted for just 3.0% of total costs.



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**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2006**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

- The net cost of all **governmental** activities is their total costs less program revenues applicable to each category. The total cost of all governmental activities for this year was \$44,545,038. Table 3 presents the costs of twelve major District activities such as instruction, food service and others. The table also shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs).
 - The users of the District's programs paid for 8%, or \$3,573,901 of the costs.
 - The federal and state governments subsidized certain programs with grants and contributions. This totaled \$15,749,474, or 35.4% of the total costs for 2005-2006.
 - The remainder of the District's costs (\$25,221,663), however, were paid for by: 1) state taxpayers based on the statewide education aid formula, 2) by District taxpayers, and 3) by investment earnings.

**Table A-3
Change in Net Assets**

	<u>Total Cost of Services</u>		<u>Percentage Change</u>	<u>Net Cost of Services</u>		<u>Percentage Change</u>
	<u>2006</u>	<u>2005</u>		<u>2006</u>	<u>2005</u>	
Administration	\$ 1,366,558	\$ 1,366,717	-0.01%	\$ 1,366,175	\$ 1,366,717	-0.04%
District Support Services	860,710	871,804	-1.27%	707,430	789,238	-10.37%
Regular Instruction	18,967,468	19,331,810	-1.88%	11,488,750	12,235,350	-6.10%
Vocational Education Instruction	815,835	994,894	-18.00%	698,987	848,910	-17.66%
Special Education Instruction	8,314,732	8,106,444	2.57%	2,364,095	2,520,865	-6.22%
Instructional Support Services	2,163,593	1,851,171	16.88%	1,169,150	1,341,702	-12.86%
Pupil Support Services	3,094,558	2,947,488	4.99%	2,855,549	2,722,860	4.87%
Sites and Buildings	3,845,392	3,340,607	15.11%	3,246,361	2,726,311	19.08%
Fiscal and Other Fixed						
Cost Programs	314,062	223,001	40.83%	314,062	220,301	42.56%
Food Service	1,928,250	2,066,305	-6.68%	(14,861)	213,930	-106.95%
Community Service	1,990,208	2,182,154	-8.80%	312,175	493,953	-36.80%
Interest and Fiscal Charges on						
Long-Term Liabilities	883,672	1,007,896	-12.33%	713,790	1,007,896	-29.18%
Total	<u>\$ 44,545,038</u>	<u>\$ 44,290,291</u>	0.58%	<u>\$ 25,221,663</u>	<u>\$ 26,488,033</u>	-4.78%

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2006**

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds. At the end of the 2005-2006 fiscal year, the District's governmental funds reported a **combined** fund balance of \$8,469,810, a 13.23% increase from last year's ending fund balance of \$7,480,286.

Revenues for the District's governmental funds totaled \$46,726,982 while total expenditures were \$45,856,292. Other financing sources totaled \$118,834. As a result, the District completed the year with an excess of revenues and other financing sources over expenditures of \$989,524. Discussion about each governmental fund follows. A summary of the revenues and expenditures reported on the governmental fund financial statements for the past two years appears in Table 4 below:

**Table 4
Revenues and Expenditures - Governmental Funds**

	2006			Fund Balance Increase (Decrease)
	Revenue	Expenditures	Other Financing Sources (Uses)	
General Fund	\$ 40,049,974	\$ 39,210,139	\$ 24,574	\$ 864,409
Food Service Fund	1,944,532	1,928,250	500	16,782
Community Service Fund	2,093,053	2,059,993	-	33,060
Debt Service Fund	2,639,423	2,657,910	93,760	75,273
Totals	<u>\$ 46,726,982</u>	<u>\$ 45,856,292</u>	<u>\$ 118,834</u>	<u>\$ 989,524</u>
	2005			
	Revenue	Expenditures	Other Financing Sources (Uses)	Fund Balance Increase (Decrease)
General Fund	\$ 38,045,109	\$ 38,453,279	\$ 2,778	\$ (405,392)
Food Service Fund	1,852,927	2,066,305	-	(213,378)
Community Service Fund	2,031,037	2,195,490	-	(164,453)
Building Construction Fund	-	362,950	-	(362,950)
Debt Service Fund	2,703,222	2,783,915	-	(80,693)
Totals	<u>\$ 44,632,295</u>	<u>\$ 45,861,939</u>	<u>\$ 2,778</u>	<u>\$ (1,226,866)</u>

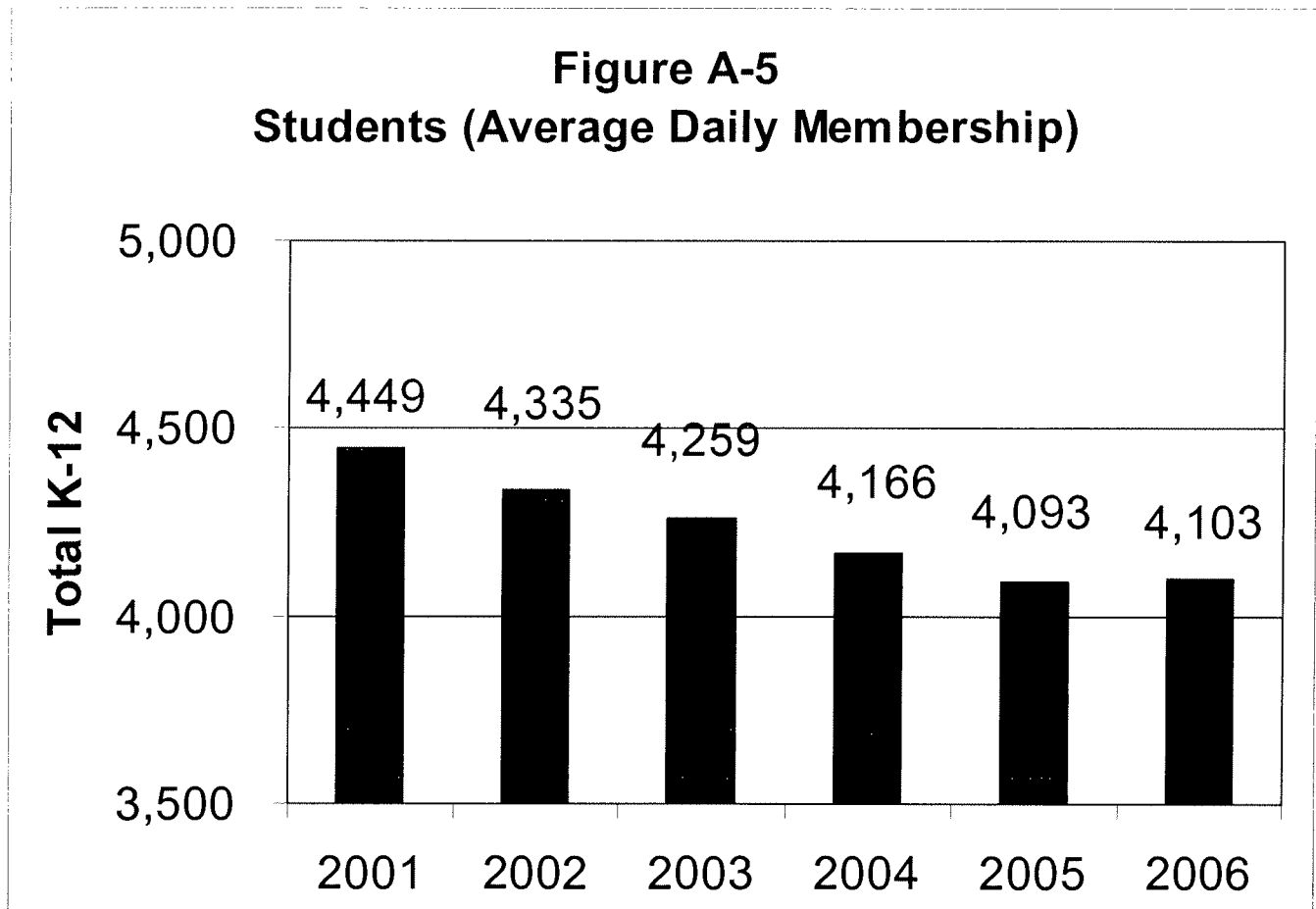
GENERAL FUND

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

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2006**

GENERAL FUND (CONTINUED)

Enrollment. Funding for Minnesota school districts is largely driven by enrollment. The majority of Minnesota school districts are facing declining enrollment. Over the last nine years, the District has averaged an annual 1.52% decline in the number of students. The Figure 5, below, shows that the number of students has decreased steadily through FY 2005 with enrollment leveling out in FY 2006.



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

Because of the above-mentioned demographic trends, and even factoring in promising economic development taking place in the Willmar area, the District projects that enrollment will decline slightly in FY 2007, and most likely level out again by 2007-2008. The District uses a deliberate and systematic enrollment projection process that includes several state-of-the-art and highly regarded enrollment projection models and the most up to date demographic resources. The District completed a comprehensive enrollment and demographic study in 2003 and again in 2006.

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**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2006**

GENERAL FUND (CONTINUED)

The following table presents a summary of General Fund revenues:

**Table A-5
General Fund Revenues**

Fund	Year Ended		Change	
	June 30, 2006	June 30, 2005	Increase (Decrease)	Percent
Local Sources				
Property Taxes	\$ 1,170,379	\$ 1,645,621	\$ (475,242)	-28.9%
Earnings on Investments	358,796	71,337	287,459	403.0%
Other	2,877,734	2,037,954	839,780	41.2%
State Sources	33,264,022	31,476,589	1,787,433	5.7%
Federal Sources	2,379,043	2,813,608	(434,565)	-15.4%
Total General Fund Revenue	<u>\$ 40,049,974</u>	<u>\$ 38,045,109</u>	<u>\$ 2,004,865</u>	5.3%

Total General Fund revenue increased by \$2 million, or 5.3%, from the previous year. Basic general education revenue is determined by a state per student funding formula. Other state-authorized revenue, including excess levy referendum, involves an equalized mix of property tax and state aid revenue. Therefore, the mix of property tax and state aid can change significantly from year to year without any net change in revenue.

Property taxes in 2006 were \$475,242, or 28.9%, less than the prior year. The decrease is mainly the result of \$612,116 less revenue due to the Legislature repaying the annual Property Tax Shift by reducing property taxes and increasing state revenue. Earnings on investments increased \$287,459 from the prior year as a result of rising interest rates and a better than expected cash position. Other local revenue increased by \$839,780 primarily because of a \$573,703 increase in Special Education Tuition billing over the prior year. State sources of revenue increased by \$1.79 million, or 5.7%, from 2005. The increase is a function of the above-mentioned Property Tax Shift Recognition, better than expected enrollment and the overall impact of new legislation passed in the summer of 2005. Federal revenues decreased \$434,565, or 15.4%, from the previous year. This decrease is largely due to the timing of the revenue from Part II of the Reading First grant.

The following table presents a summary of General Fund expenditures:

**Table A-6
General Fund Expenditures**

	Year Ended		Amount of Increase (Decrease)	Percent Increase (Decrease)
	June 30, 2006	June 30, 2005		
Salaries	\$ 23,357,830	\$ 23,371,731	\$ (13,901)	-0.1%
Employee Benefits	6,379,766	6,046,762	333,004	5.5%
Purchased Services	7,043,346	6,392,936	650,410	10.2%
Supplies and Materials	1,388,928	1,655,562	(266,634)	-16.1%
Capital Expenditures	711,020	850,751	(139,731)	-16.4%
Other Expenditures	329,249	135,537	193,712	142.9%
Total Expenditures	<u>\$ 39,210,139</u>	<u>\$ 38,453,279</u>	<u>\$ 756,860</u>	2.0%

Total General Fund expenditures increased \$756,860 or 2% from the previous year.

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**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2006**

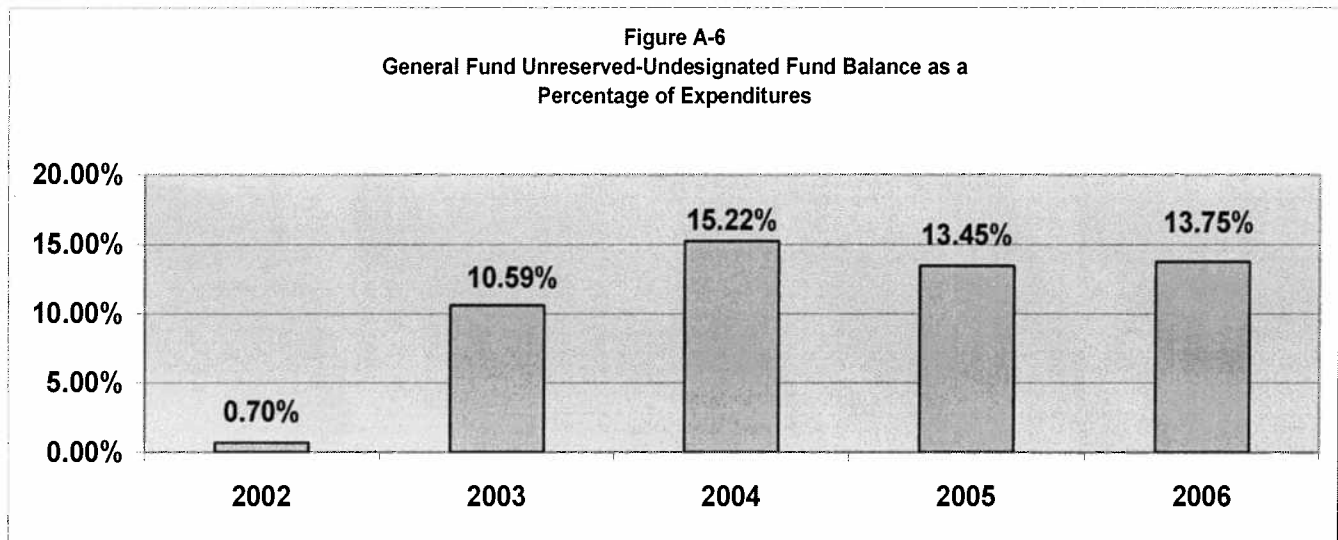
GENERAL FUND (CONTINUED)

In fiscal year 2005-2006 total salary expenditures remained level. This unusual circumstance is a function of the nearly \$800,000 expenditure reductions for FY 2006 that primarily impacted personnel. Employee benefits increased by 5.5% compared to last year. This increase is a function of board-approved contractual agreements along with the impact of continued high cost increases for health insurance premiums, offset somewhat by the personnel budget reductions noted above. The District continues to proactively pursue various cost containment measures to minimize the effect of rising health insurance premiums on the costs of the District's employee compensation packages.

Combined non-payroll expenditures (Purchased Services, Supplies & Materials, Capital Expenditures and Other Expenditures) increased by \$437,757 or 4.8%, compared to last year. The increase is primarily due to several significant factors. First, utilities and fuel costs were \$72,209 or 9.6% higher than last year. Second, tuition bills payable were \$72,293 or 19.6% higher than the prior year. Third, normal inflation had an impact on all non-payroll expenditures.

In summary, 2005-2006 General Fund revenues exceeded General Fund expenditures by \$839,835. As a result, and after factoring in \$24,574 of insurance recovery proceeds, the total fund balance increased by \$864,409 to \$7,312,614 at June 30, 2006. After deducting statutory reserves, the unreserved-undesignated fund balance increased from \$5,171,261 on June 30, 2005 to \$5,397,098 on June 30, 2006.

Both Table 7 and Figure 6, below, depict the General Fund unreserved-undesignated fund balance as a percentage of expenditures for fiscal years 2002 - 2006:



The graph and chart above, describing the District's unreserved-undesignated fund balance trend, offer the single best measure of the District's overall financial health. The unreserved-undesignated fund balance of \$5,397,098 on June 30, 2006 represents 13.75% of annual expenditures, or about 7 weeks of normal operating expenditures. This key fund balance increased by \$225,837 in FY 2006, compared to a decrease of \$238,037 last year.

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**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2006**

GENERAL FUND (CONTINUED)

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

General Fund Budgetary Highlights

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

- Implementing budgets for specially funded projects, which may include grants, adjusting staffing and various instructional building allocations based on enrollment, and budgeting for certain unspent funds that are required to be carried over from fiscal year 2005.
- Changes in appropriations for significant unbudgeted costs.

While the District's final budget for the general fund anticipated that expenditures would exceed revenues by \$736,209, the actual results for the year show that revenues and other financing sources exceeded expenditures by \$839,835.

- Actual revenues were 1.9% or \$766,719 more than budget, due largely to improved enrollment, higher than budgeted special education tuition billing and higher than budgeted investment earnings.
- Actual expenditures were \$809,325, or 2.0%, less than budget.
 - Most of the expenditure budget savings are a result of positive variances across many expenditure categories, highlighted by the following areas: 1) \$206,414 under budget on supplies, 2) \$173,583 under budget on travel and staff development, and 3) \$323,054 or 1% under budget on payroll and benefits.

FOOD SERVICE FUND

The Food Service Fund revenue for 2005-2006 totaled \$1.95 million and expenditures were \$1.93 million, resulting in a fund balance increase of \$16,782. This fund balance improvement was primarily a result of the continued effective cost control along with increasing lunch prices for the first time in six years. The June 30, 2006 Food Service fund balance is \$95,153.

The Food Service Fund is anticipating another modest fund balance increase for 2006-2007 due to raising lunch prices (for the second time in seven years).

COMMUNITY SERVICE FUND

In 2005-2006, total revenues for the Community Service Fund were \$2.09 million and total expenditures were \$2.06 million. Total revenues exceeded expenditures by \$33,060, resulting in an increase of the same amount in the June 30, 2006 fund balance. The Community Service Fund fund balance as of June 30, 2006 is \$226,659. A financially healthy ECFE program was the primary reason for the fund balance increase.

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2006**

DEBT SERVICE FUND

Revenues and expenditures for the District's Debt Service Fund are tied directly to the District's bond principal and interest payment schedules. The Debt Service Fund revenues and other financing sources exceeded expenditures by \$75,273 in 2005-2006. The resulting fund balance increase leaves the Debt Service Fund with a \$835,384 fund balance at June 30, 2006. This fund balance is available for meeting future debt service obligations.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2006, the District had net capital assets of \$31,487,343 representing a broad range of capital assets, including school buildings, computer and audio-visual equipment, and other equipment for various instructional programs (see Table 7 below). More detailed information about capital assets can be found in Note 4 to the financial statements. Total depreciation expense for the year was \$1.2 million.

**Table A-7
The District's Capital Assets**

	<u>2006</u>	<u>2005</u>	<u>Percentage Change</u>
Land	\$ 623,282	\$ 623,282	0.0%
Land Improvements	2,275,986	2,177,800	4.5%
Buildings and Improvements	46,089,491	45,980,068	0.2%
Equipment	4,628,221	4,260,421	8.6%
Less: Accumulated Depreciation	<u>(22,129,637)</u>	<u>(20,932,384)</u>	<u>5.7%</u>
Total	<u><u>\$ 31,487,343</u></u>	<u><u>\$ 32,109,187</u></u>	<u><u>-1.9%</u></u>

Construction Plans

As of this writing, the District does not have any formal plan for additional large-scale construction projects in fiscal year 2007. The District completed a comprehensive facilities maintenance assessment study in the fall of fiscal year 2005. This study recommended over \$18 million of basic repairs and upgrades to district owned buildings. Long-term facilities maintenance planning by the Board and Administration is expected to continue in fiscal year 2007.

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2006**

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

Long-term Liabilities

At year-end, the District had \$17.41 million in general obligation bonds outstanding. This is a decrease of 8.4% from the previous year - as shown in Table 9 below. The District also had \$2.17 million in separation and severance payable at June 30, 2006, a decrease of 5.4% from the previous year. Overall, the District's outstanding long-term liabilities decreased by 8% in fiscal year 2006. More detailed information about the District's long-term liabilities is presented in Note 5 to the financial statements.

- The District continues to pay down its debt, retiring \$1.6 million of outstanding bonds in the year ending June 30, 2006.

**Table A-8
The District's Long-Term Liabilities**

	<u>2006</u>	<u>2005</u>	<u>Percentage Change</u>
General Obligation Bonds	\$ 17,409,500	\$ 19,013,921	-8.4%
Energy Loans Payable	425	5,425	-92.2%
Special Assessments Payable	34,859	45,197	-22.9%
Severance Benefits Payable	2,166,122	2,289,517	-5.4%
Compensated Absences Payable	160,507	143,768	11.6%
Total	<u>\$ 19,771,413</u>	<u>\$ 21,497,828</u>	<u>-8.0%</u>
Long-Term Liabilities:			
Due Within One Year	\$ 2,475,191	\$ 2,395,116	
Due in More Than One Year	17,296,222	19,102,712	
	<u>\$ 19,771,413</u>	<u>\$ 21,497,828</u>	

Bond Ratings

The District's general obligation bonds carry a rating of Aa2 from Moody's investors Service on March 9, 2005.

Limitations on Debt

The State of Minnesota limits the amount of general obligation debt the District can issue to 15% of the assessed value of all taxable property within the District's boundaries. The District's outstanding debt is significantly below this limit - which is \$195.1 million for calendar year 2006.

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2006**

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

The 2005 Legislature approved a 4% increase in the General Education formula for 2005-2006 and 2006-2007. The set aside for staff development of 2% was reinstated, effectively reducing the 4% formula increase to 2%. Other additional revenues include improved equity and compensatory revenue. This funding formula is below the current annual rate of inflation. Accordingly, the District continues to utilize sophisticated enrollment and financial planning tools, along with detailed and conservative budgeting and budget monitoring processes. The District will continue to seek all available sources of funding, balance revenue to expenditures, and maintain systems that ensure financial stability. If state funding remains below inflation levels, we project growing General Fund budget deficits and a declining fund balance in subsequent years.

A number of significant economic development projects are currently taking place in the Willmar area. A new airport, enlarged industrial park, and a significant remodeling project at Rice Memorial Hospital are just a few of Willmar's exciting projects reaching completion in 2006. Another is the purchase of the former Regional Treatment Center property by MinnWest Technology Campus. This transaction is an excellent example of a positive private and public partnership that will bring future dividends to the City of Willmar, other local governments and the businesses. See the district's 2006 comprehensive annual financial report for more information on local economic development and community progress.

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide District citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives.

If you have questions about this report or need additional financial information, contact the Business Office, Independent School District 347, 611 5th St SW, Willmar, MN 56201-3297, visit the Finance section of the District website at www.willmar.k12.mn.us (click on At a Glance, District Services, and Finance), or contact Bob Haines, Director of Business and Finance, at hainesb@willmar.k12.mn.us and 320-231-8511.

BASIC FINANCIAL STATEMENTS

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**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
STATEMENT OF NET ASSETS
JUNE 30, 2006
(WITH COMPARATIVE DATA AS OF JUNE 30, 2005)**

	Governmental Activities	
	<u>2006</u>	<u>2005</u>
ASSETS		
Cash and Investments	\$ 12,924,653	\$ 4,987,337
Receivables		
Property Taxes	2,784,871	2,392,279
Other Governments	5,853,763	7,299,333
Other	347,988	168,716
Prepaid Items	73,996	59,029
Inventories	48,439	46,770
Bond issuance costs, net	83,437	4,366
Capital Assets		
Land	623,282	623,282
Other Capital Assets, Net of Depreciation	30,864,061	31,485,905
Total Assets	<u>53,604,490</u>	<u>47,067,017</u>
LIABILITIES		
Aid Anticipation Certificates Payable	3,957,811	-
Salaries and Wages Payable	3,118,181	2,929,270
Accounts and Contracts Payable	833,497	575,391
Accrued Interest	536,279	402,049
Due to Other Governmental Units	353,851	203,542
Unearned Revenue		
Property Taxes	4,915,837	3,419,488
Local Sources	157,374	280,145
Long-Term Liabilities		
Portion Due Within One Year	2,475,191	2,395,116
Portion Due in More Than One Year	17,296,222	19,102,712
Total Liabilities	<u>33,644,243</u>	<u>29,307,713</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	14,125,996	13,049,010
Restricted for:		
Operating Capital Purposes	356,566	362,164
State-Mandated Reserves	404,234	119,987
Food Service	95,153	78,371
Community Service	226,659	193,599
Debt Service	425,321	358,062
Unrestricted	<u>4,326,318</u>	<u>3,598,111</u>
Total Net Assets	<u>\$ 19,960,247</u>	<u>\$ 17,759,304</u>

See accompanying Notes to Basic Financial Statements.

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006
(WITH COMPARATIVE DATA FOR THE YEAR ENDED JUNE 30, 2005)**

	2006		
Functions	Expenses	Charges for Services	Program Operating Grants and Contributions
Governmental Activities			
Administration	\$ 1,366,558	\$ -	\$ -
District Support Services	860,710	-	152,896
Regular Instruction	18,967,468	608,852	6,687,514
Vocational Education Instruction	815,835	21,786	95,062
Special Education Instruction	8,314,732	1,473,992	4,474,791
Instructional Support Services	2,163,593	12,932	877,883
Pupil Support Services	3,094,558	-	236,759
Sites and Buildings	3,845,392	32,537	10,215
Fiscal and Other Fixed Cost Programs	314,062	-	-
Food Service	1,928,250	721,303	1,221,808
Community Service	1,990,208	702,499	975,534
Interest and Fiscal Charges on Long-Term Liabilities	883,672	-	169,882
Total School District	\$ 44,545,038	\$ 3,573,901	\$ 14,902,344

General Revenues

Property Taxes Levied for:
 General Purposes
 Community Service
 Debt Service
 State Aid Not Restricted to Specific Purposes
 Earnings on Investments
 Miscellaneous
 Total General Revenues

 Change in Net Assets
 Net Assets - Beginning
 Net Assets - Ending

See accompanying Notes to Basic Financial Statements.

	2006	2005
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
\$ 383	\$ (1,366,175)	\$ (1,366,717)
384	(707,430)	(789,238)
182,352	(11,488,750)	(12,235,350)
-	(698,987)	(848,910)
1,854	(2,364,095)	(2,520,865)
103,628	(1,169,150)	(1,341,702)
2,250	(2,855,549)	(2,722,860)
556,279	(3,246,361)	(2,726,311)
-	(314,062)	(220,301)
-	14,861	(213,930)
-	(312,175)	(493,953)
-	(713,790)	(1,007,896)
<u>\$ 847,130</u>	<u>(25,221,663)</u>	<u>(26,488,033)</u>

1,168,340	1,646,005
125,599	284,300
2,157,880	2,330,594
23,523,078	22,475,565
418,315	96,235
29,394	3,358
<u>27,422,606</u>	<u>26,836,057</u>
2,200,943	348,024
17,759,304	17,411,280
<u>\$ 19,960,247</u>	<u>\$ 17,759,304</u>

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2006
(WITH COMPARATIVE DATA AS OF JUNE 30, 2005)**

	Major		
	General	Food Service	Community Service
ASSETS			
Cash and Investments	\$ 10,390,183	\$ 146,929	\$ 365,086
Receivables			
Current Property Taxes	1,229,576	-	147,832
Delinquent Property Taxes	19,528	-	2,296
Due from Other Minnesota School Districts	1,307,661	-	-
Due from Minnesota Department of Education	3,609,310	-	67,886
Due from Federal through Minnesota Department of Education	773,601	4,944	64,876
Other Receivables	339,717	218	8,053
Prepaid Items	72,510	46	1,440
Inventory	17,361	31,078	-
Total Assets	<u>\$ 17,759,447</u>	<u>\$ 183,215</u>	<u>\$ 657,469</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Aid Anticipation Certificates Payable	\$ 3,957,811	\$ -	\$ -
Salaries and Wages Payable	2,985,232	21,581	111,368
Accounts Payable	757,159	21,177	29,579
Due to Other Governmental Units	338,205	-	15,646
Accrued Interest Payable	126,216	-	-
Deferred Revenue:			
Property Taxes Levied for Subsequent Year	2,151,362	-	271,171
Delinquent Property Taxes	19,528	-	2,296
Local Sources	111,320	45,304	750
Total Liabilities	<u>10,446,833</u>	<u>88,062</u>	<u>430,810</u>
Fund Balance			
Reserved for			
Staff Development	384,714	-	-
Severance and Health Benefits	1,200,000	-	-
Gifted and Talented	13,520	-	-
Health and Safety	(45,284)	-	-
Operating Capital	356,566	-	-
Safe Schools	6,000	-	-
Community Education Programs	-	-	56,468
Early Childhood and Family Educations Programs	-	-	18,812
School Readiness	-	-	6,149
Adult Basic Education	-	-	3,075
Unreserved			
Undesignated, Reported In			
General Fund	5,397,098	-	-
Debt Service Fund	-	-	-
Special Revenue Funds	-	95,153	142,155
Total Fund Balance	<u>7,312,614</u>	<u>95,153</u>	<u>226,659</u>
Total Liabilities and Fund Balance	<u>\$ 17,759,447</u>	<u>\$ 183,215</u>	<u>\$ 657,469</u>

See accompanying Notes to Basic Financial Statements.

Funds	Total Governmental	
	Debt Service	Funds
	2006	2005
\$ 1,943,120	\$ 12,845,318	\$ 4,951,415
1,360,083	2,737,491	2,339,324
25,556	47,380	52,955
-	1,307,661	1,100,000
25,485	3,702,681	5,159,570
-	843,421	1,039,763
-	347,988	168,716
-	73,996	59,029
-	48,439	46,770
<u>\$ 3,354,244</u>	<u>\$ 21,954,375</u>	<u>\$ 14,917,542</u>
\$ -	\$ 3,957,811	\$ -
-	3,118,181	2,929,270
-	807,915	551,856
-	353,851	203,542
-	126,216	-
2,493,304	4,915,837	3,419,488
25,556	47,380	52,955
-	157,374	280,145
<u>2,518,860</u>	<u>13,484,565</u>	<u>7,437,256</u>
-	384,714	119,987
-	1,200,000	840,077
-	13,520	-
-	(45,284)	(45,284)
-	356,566	362,164
-	6,000	-
-	56,468	43,570
-	18,812	-
-	6,149	6,648
-	3,075	-
-	5,397,098	5,171,261
835,384	835,384	760,111
-	237,308	221,752
<u>835,384</u>	<u>8,469,810</u>	<u>7,480,286</u>
<u>\$ 3,354,244</u>	<u>\$ 21,954,375</u>	<u>\$ 14,917,542</u>

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**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2006
(WITH COMPARATIVE DATA AS OF JUNE 30, 2005)**

	2006	2005
Total Fund Balance for Governmental Funds	\$ 8,469,810	\$ 7,480,286
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	623,282
Land Improvements, Net of Accumulated Depreciation	763,028	746,583
Buildings and Improvements, Net of Accumulated Depreciation	28,679,276	29,460,144
Equipment and Vehicles, Net of Accumulated Depreciation	1,421,757	1,279,178
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.	47,380	52,955
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.	(410,063)	(402,049)
Bond issuance costs are reported as expenditures in the governmental funds.	83,437	4,366
Internal service funds are used by management to charge the costs associated with Delta Dental Insurance. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. Internal service fund net assets at year-end are:	53,753	12,387
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	(16,595,000)	(19,010,000)
Unamortized Premiums	(814,500)	(3,921)
Capital Improvement Loans Payable	(425)	(5,425)
Other Loan	(34,859)	(45,197)
Severance Benefits Payable	(2,166,122)	(2,289,517)
Compensated Absences Payable	(160,507)	(143,768)
Total Net Assets of Governmental Activities	\$ 19,960,247	\$ 17,759,304

See accompanying Notes to Basic Financial Statements.

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006
(WITH COMPARATIVE DATA FOR THE YEAR ENDED JUNE 30, 2005)**

	Major		
	<u>General</u>	<u>Food Service</u>	<u>Community Service</u>
REVENUES			
Local Sources			
Property Taxes	\$ 1,170,379	\$ -	\$ 125,058
Earnings on Investments	358,796	1,421	5,362
Other	2,877,734	721,303	904,079
State Sources	33,264,022	163,578	851,693
Federal Sources	2,379,043	1,058,230	206,861
Total Revenues	<u>40,049,974</u>	<u>1,944,532</u>	<u>2,093,053</u>
EXPENDITURES			
Current			
Administration	1,396,790	-	-
District Support Services	855,165	-	-
Regular Instruction	17,799,589	-	-
Vocational Education Instruction	855,159	-	-
Special Education Instruction	8,303,384	-	-
Instructional Support Services	2,036,393	-	-
Pupil Support Services	3,098,484	-	-
Sites and Buildings	3,840,955	-	-
Fiscal and Other Fixed Cost Programs	313,200	-	-
Food Service	-	1,877,669	-
Community Service	-	-	2,037,256
Capital Outlay	711,020	50,581	22,737
Debt Service			
Principal	-	-	-
Interest and Fiscal Charges	-	-	-
Total Expenditures	<u>39,210,139</u>	<u>1,928,250</u>	<u>2,059,993</u>
Excess (Deficiency) of Revenues			
Over (Under) Expenditures	839,835	16,282	33,060
OTHER FINANCING SOURCES (USES)			
Sale of Equipment Proceeds	-	500	-
Insurance Recovery Proceeds	24,574	-	-
Sale of Bonds Proceeds	-	-	-
Bond Premium	-	-	-
Payment to Refunded Bond Escrow Agent	-	-	-
Total Other Financing Sources (Uses)	<u>24,574</u>	<u>500</u>	<u>-</u>
Net Change in Fund Balances	864,409	16,782	33,060
Fund Balances - Beginning	6,448,205	78,371	193,599
Fund Balances - Ending	<u>\$ 7,312,614</u>	<u>\$ 95,153</u>	<u>\$ 226,659</u>

See accompanying Notes to Basic Financial Statements.

<u>Funds</u>		<u>Total Governmental</u>	
<u>Debt</u>		<u>Funds</u>	
<u>Service</u>		<u>2006</u>	<u>2005</u>
\$ 2,161,957	\$	3,457,394	\$ 4,257,657
222,618		588,197	96,235
-		4,503,116	3,642,675
254,848		34,534,141	32,661,179
-		3,644,134	3,974,549
<u>2,639,423</u>		<u>46,726,982</u>	<u>44,632,295</u>
-		1,396,790	1,367,749
-		855,165	848,471
-		17,799,589	18,410,539
-		855,159	996,008
-		8,303,384	8,050,284
-		2,036,393	1,728,040
-		3,098,484	3,048,342
-		3,840,955	3,511,193
-		313,200	222,139
-		1,877,669	1,959,951
-		2,037,256	1,951,640
-		784,338	983,668
1,600,000		1,600,000	1,740,000
<u>1,057,910</u>		<u>1,057,910</u>	<u>1,043,915</u>
<u>2,657,910</u>		<u>45,856,292</u>	<u>45,861,939</u>
(18,487)		870,690	(1,229,644)
-		500	-
-		24,574	2,778
16,265,000		16,265,000	-
913,760		913,760	-
<u>(17,085,000)</u>		<u>(17,085,000)</u>	<u>-</u>
<u>93,760</u>		<u>118,834</u>	<u>2,778</u>
75,273		989,524	(1,226,866)
<u>760,111</u>		<u>7,480,286</u>	<u>8,707,152</u>
<u>\$ 835,384</u>	<u>\$</u>	<u>8,469,810</u>	<u>\$ 7,480,286</u>

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006
(WITH COMPARATIVE DATA FOR THE YEAR ENDED JUNE 30, 2005)**

	2006	2005
Net Change in Fund Balance-Total Governmental Funds	\$ 989,524	\$ (1,226,866)
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 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense.		
Capital Outlays	575,409	861,006
Gain (Loss) on Disposal of Capital Assets	500	(6,247)
Proceeds from Sales of Capital Assets	(500)	-
Depreciation Expense	(1,197,253)	(1,142,815)
The governmental funds report bond proceeds as financing sources, while repayment of bond principal is reported as an expenditure. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability. Also, governmental funds report the effect of issuance costs and premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. 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:		
General Obligation Bond Proceeds	(16,265,000)	-
Payment to Refunded Bond Escrow Agent	17,085,000	-
Bond Premium	(913,760)	-
Bond Issuance Costs	93,760	-
Repayment of Loan Principal	5,000	5,000
Payment of Special Assessment Principal	10,338	11,362
Repayment of Bond Principal	1,595,000	1,735,000
Change in Accrued Interest Expense - General Obligation Bonds	(8,014)	39,095
Amortization of Bond Issuance Costs	(14,689)	(6,550)
Amortization of Bond Premium	103,181	3,474
Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.	(5,575)	3,242
In the statement of activities, certain operating expenses - severance benefits and compensated absences - 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).	106,656	26,646
Internal service funds are used by the District to charge the costs associated with Delta Dental insurance. The net revenue of the internal service funds is reported with governmental activities.	41,366	45,677
Change in Net Assets of Governmental Activities	\$ 2,200,943	\$ 348,024

See accompanying Notes to Basic Financial Statements.

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2006
(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2005)**

	2006			Over (Under) Final Budget	2005
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
REVENUES					
Local Sources					
Property Taxes	\$ 1,790,907	\$ 1,887,159	\$ 1,170,379	\$ (716,780)	\$ 1,645,621
Earnings on Investments	85,000	251,600	358,796	107,196	71,337
Other	1,712,359	2,326,873	2,877,734	550,861	2,037,954
State Sources	31,390,295	32,291,814	33,264,022	972,208	31,476,589
Federal Sources	2,405,617	2,525,809	2,379,043	(146,766)	2,813,608
Total Revenues	37,384,178	39,283,255	40,049,974	766,719	38,045,109
EXPENDITURES					
Current:					
Administration	1,448,371	1,442,441	1,396,790	(45,651)	1,367,749
District Support Services	881,824	857,056	855,165	(1,891)	848,471
Regular Instruction	17,931,818	17,938,661	17,799,589	(139,072)	18,203,152
Vocational Education Instruction	888,470	850,194	855,159	4,965	996,008
Special Education Instruction	7,918,112	8,405,616	8,303,384	(102,232)	8,050,284
Instructional Support Services	1,843,555	2,320,756	2,036,393	(284,363)	1,728,040
Pupil Support Services	3,020,201	3,114,762	3,098,484	(16,278)	3,038,442
Sites and Buildings	3,361,030	3,934,397	3,840,955	(93,442)	3,148,243
Fiscal and Other Fixed					
Cost Programs	270,000	318,782	313,200	(5,582)	222,139
Capital Outlay	864,451	836,799	711,020	(125,779)	850,751
Total Expenditures	38,427,832	40,019,464	39,210,139	(809,325)	38,453,279
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,043,654)	(736,209)	839,835	1,576,044	(408,170)
OTHER FINANCING SOURCES (USES)					
Insurance Recovery Proceeds	-	-	24,574	24,574	2,778
Total Other Financing Sources (Uses)	-	-	24,574	24,574	2,778
Net Change in Fund Balances	\$ (1,043,654)	\$ (736,209)	864,409	\$ 1,600,618	(405,392)
FUND BALANCE					
Beginning of Year			6,448,205		6,853,597
End of Year			\$ 7,312,614		\$ 6,448,205

See accompanying Notes to Basic Financial Statements.

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOOD SERVICE FUND
YEAR ENDED JUNE 30, 2006
(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2005)**

	2006			2005	
	Budgeted Amounts		Actual Amounts	Over (Under) Final Budget	Actual Amounts
	Original	Final			
REVENUES					
Local Sources					
Earnings on Investments	\$ 3,000	\$ 3,000	\$ 1,421	\$ (1,579)	\$ 549
Other - Primarily Meal Sales	649,049	718,686	721,303	2,617	680,903
State Sources	141,718	169,376	163,578	(5,798)	173,595
Federal Sources	978,334	999,625	1,058,230	58,605	997,880
Total Revenues	<u>1,772,101</u>	<u>1,890,687</u>	<u>1,944,532</u>	<u>53,845</u>	<u>1,852,927</u>
EXPENDITURES					
Current					
Food Service	1,714,218	1,794,011	1,877,669	83,658	1,959,951
Capital Outlay	38,000	71,500	50,581	(20,919)	106,354
Total Expenditures	<u>1,752,218</u>	<u>1,865,511</u>	<u>1,928,250</u>	<u>62,739</u>	<u>2,066,305</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	19,883	25,176	16,282	(8,894)	(213,378)
OTHER FINANCING SOURCES (USES)					
Sale of Equipment Proceeds	-	-	500	500	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>500</u>	<u>500</u>	<u>-</u>
Net Change in Fund Balance	<u>\$ 19,883</u>	<u>\$ 25,176</u>	16,782	<u>\$ (8,394)</u>	(213,378)
FUND BALANCE					
Beginning of Year			<u>78,371</u>		<u>291,749</u>
End of Year			<u>\$ 95,153</u>		<u>\$ 78,371</u>

See accompanying Notes to Basic Financial Statements.

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
COMMUNITY SERVICE FUND
YEAR ENDED JUNE 30, 2006**

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2005)

	2006			Over (Under) Final Budget	2005
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
REVENUES					
Local Sources					
Property Taxes	\$ 253,388	\$ 261,437	\$ 125,058	\$ (136,379)	\$ 284,580
Earnings on Investments	4,250	1,000	5,362	4,362	1,898
Other - Primarily Tuition and Fees	720,400	807,684	904,079	96,395	923,818
State Sources	674,515	710,063	851,693	141,630	657,680
Federal Sources	213,633	216,580	206,861	(9,719)	163,061
Total Revenues	1,866,186	1,996,764	2,093,053	96,289	2,031,037
EXPENDITURES					
Current					
Community Service	1,765,922	1,994,072	2,037,256	43,184	2,168,927
Capital Outlay	19,300	20,308	22,737	2,429	26,563
Total Expenditures	1,785,222	2,014,380	2,059,993	45,613	2,195,490
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ 80,964	\$ (17,616)	33,060	\$ 50,676	(164,453)
FUND BALANCE					
Beginning of Year			193,599		358,052
End of Year			\$ 226,659		\$ 193,599

See accompanying Notes to Basic Financial Statements.

**WILLMAR PUBLIC SCHOOLS
 INDEPENDENT SCHOOL DISTRICT NO. 347
 STATEMENT OF FUND NET ASSETS
 PROPRIETARY FUND
 JUNE 30, 2006
 (WITH COMPARATIVE TOTALS AS OF JUNE 30, 2005)**

	Governmental Activities - Internal Service Funds	
	2006	2005
ASSETS		
Current Assets		
Cash and Investments	\$ 79,335	\$ 35,922
Total Current Assets	79,335	35,922
Total Assets	\$ 79,335	\$ 35,922
LIABILITIES		
Current Liabilities		
Accounts Payable	\$ 25,582	\$ 23,535
Total Current Liabilities	25,582	23,535
NET ASSETS		
Unrestricted	53,753	12,387
	\$ 53,753	\$ 12,387

See accompanying Notes to Basic Financial Statements.

WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2006
(WITH COMPARATIVE DATA FOR THE YEAR ENDED JUNE 30, 2005)

	Governmental Activities - Internal Service Funds	
	2006	2005
OPERATING REVENUES		
Charges for Services	\$ 253,350	\$ 242,181
Total Operating Revenues	253,350	242,181
OPERATING EXPENSES		
Dental Insurance Claim Payments	185,295	171,417
General Administration Fees	26,689	25,087
Total Operating Expenses	211,984	196,504
Operating Income	41,366	45,677
Total Net Assets - Beginning	12,387	(33,290)
Total Net Assets - Ending	\$ 53,753	\$ 12,387

See accompanying Notes to Basic Financial Statements.

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2006
(WITH COMPARATIVE DATA FOR THE YEAR ENDED JUNE 30, 2005)**

	Governmental Activities - Internal Service Funds	
	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Interfund Services Provided	\$ 253,350	\$ 242,181
Payments for Administrative Costs	(26,689)	(25,087)
Payments for Dental Fees and Insurance Claims	(183,248)	(152,222)
Net Cash Provided by Operating Activities	<u>43,413</u>	<u>64,872</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers From Other Funds	<u>-</u>	<u>(28,950)</u>
Net Increase in Cash and Cash Equivalents	43,413	35,922
Cash and Cash Equivalents - Beginning	<u>35,922</u>	<u>-</u>
Cash and Cash Equivalents - Ending	<u>\$ 79,335</u>	<u>\$ 35,922</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	\$ 41,366	\$ 45,677
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Increase in Accounts Payable	<u>2,047</u>	<u>19,195</u>
Total Adjustments	<u>2,047</u>	<u>19,195</u>
Net Cash Provided by Operating Activities	<u>\$ 43,413</u>	<u>\$ 64,872</u>

See accompanying Notes to Basic Financial Statements.

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2006**

	<u>Private- Purpose Trust</u>
ASSETS	
Cash and Investments	\$ 35,001
Interest receivable	463
Total Assets	<u>\$ 35,464</u>
LIABILITIES	
Accounts Payable	\$ 400
Total Liabilities	<u>\$ 400</u>
NET ASSETS	
Held in Trust for Scholarships	\$ 35,064
Total Net Assets	<u>\$ 35,064</u>

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
YEAR ENDED JUNE 30, 2006**

	<u>Private- Purpose Trust</u>
ADDITIONS	
Interest Income	\$ 724
Total Additions	<u>724</u>
DEDUCTIONS	
Scholarship Obligations	<u>1,800</u>
Total Deductions	<u>1,800</u>
Change in Net Assets	(1,076)
Net Assets - Beginning of Year	36,140
Net Assets - End of Year	<u>\$ 35,064</u>

See accompanying Notes to Basic Financial Statements.

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**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements of Independent School District No. 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 accounting principles generally accepted in the United States of America 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 No. 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.

Accounting Principles Generally Accepted in the United States of America (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.

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

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 is 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.

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

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.

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

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.

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.

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

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 accounting principles generally accepted in the United States of America. 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 revenue and expenditure budgets as follows:

	Original Budget	Amendments	Amended Budget
Revenues			
General Fund	\$ 37,384,178	\$ 1,899,077	\$ 39,283,255
Special Revenue Funds			
Food Service Fund	1,772,101	118,586	1,890,687
Community Service Fund	1,866,186	130,578	1,996,764
Debt Service Fund	19,745,624	247,115	19,992,739
Expenditures			
General Fund	38,427,832	1,591,632	40,019,464
Special Revenue Funds			
Food Service Fund	1,752,218	113,293	1,865,511
Community Service Fund	1,785,222	229,158	2,014,380
Debt Service Fund	19,649,918	92,842	19,742,760

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.

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Cash and Investments

Cash and investments consist of demand deposit accounts and non-negotiable certificates of deposit. The non-negotiable certificates of deposit are recorded at fair value.

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. Accounts Receivable

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.

H. 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.

I. Prepaid Items

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.

J. Property Taxes

Property tax levies are established by the Board of Education 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 Fund (and to a lesser extent in the District's

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Property Taxes (Continued)

Community Service Special Revenue Fund) 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. Starting in fiscal year 2004, the shift was expanded to include all other general and community service fund levies (net of credits) resulting in an advance recognition of property taxes and a corresponding reduction in state aids. In 2006, the Legislature repaid the tax shift. This resulted in a decrease in property tax revenues of \$612,116 and \$114,396 in the general fund and the community service fund, respectively, and a corresponding increase in state aid in each fund.

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, 2006, 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.

K. 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.

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Capital Assets (Continued)

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.

L. Non-Current Liabilities

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.

M. 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, 2006, unpaid vacation pay totaling \$160,507 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 severance payments and post-employment healthcare benefits. Accounting policies for severance and health benefits are described below.

Secretarial Staff

A severance 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. Employees hired after July 1, 2000 are not eligible for severance pay.

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Accrued Employee Benefits (Continued)

Library Clerical Staff and General Paraprofessionals

A severance payment is available to library clerical staff and general paraprofessionals 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 days multiplied by the employee's daily rate of pay, not to exceed 115 days.

Special Education Paraprofessionals and Sign Language Interpreters

A severance payment is available to special needs paraprofessionals and sign language interpreters who have completed at least 15 years of continuous service with the District and are at least 58 years of age. An eligible individual will receive an amount equal to 75% of the number of unused accumulated sick leave days multiplied by the employee's daily rate of pay, not to exceed 805 hours, less any TSA match the District contributed. Employees hired after July 1, 2002 will not be eligible for severance pay.

Food Service Staff

A severance 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.

Administrators

A severance 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. Administrators hired after July 1, 2000 are not eligible for severance pay.

Teachers

A severance 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.

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Accrued Employee Benefits (Continued)

Teachers (Continued)

The maximum combined total severance shall not exceed 150 days. Teachers hired after July 1, 2000 are not eligible for severance pay.

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 an amount equal to 7 ½ days for each year of service, not to exceed 112.5 days, at the employee's daily rate of pay.

Confidential Employees

A severance 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 805 hours, less any TSA match the District contributed. Employees hired after July 1, 2004 are not eligible for severance pay.

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 2006, total expenditures for severance payments and post-employment health care benefits totaled \$214,047. At June 30, 2006, a liability for severance payments and post-employment health care benefits totaling \$2,166,122 is recorded on the Statement of Net Assets.

N. 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 investments.

O. 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.

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. 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.

Q. 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.

R. 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.

S. Comparative Data

Comparative data for the prior year have been presented only for certain sections of the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operations.

NOTE 2 STEWARDSHIP AND ACCOUNTABILITY

Excess of Expenditures Over Budget

Expenditures exceeded budgeted amounts in the following funds at June 30, 2006.

	<u>Budget</u>	<u>Expenditures</u>	<u>Excess</u>
Special Revenue Funds			
Food Service Fund	\$ 1,865,511	\$ 1,928,250	\$ 62,739
Community Service Fund	2,014,380	2,059,993	45,613

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 3 DEPOSITS AND INVESTMENTS

A. Deposits

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District deposit policy for custodial credit risk indicates that the District follows Minnesota Statutes for 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 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.

The District's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota statutes.

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.

At June 30, 2006 the District did not have any investments.

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

C. Balance Sheet Presentation

Deposits and investments are presented on the combined balance sheet as follows:

Deposits, including Certificates of Deposit	\$ 12,959,454
Cash on Hand	200
Total	<u>\$ 12,959,654</u>
Cash and Investments - Statement of Net Assets	\$ 12,924,653
Cash and Investments - Statement of Fiduciary Net Assets	35,001
Total Cash and Investments	<u>\$ 12,959,654</u>

NOTE 4 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets, Not Being Depreciated				
Land	\$ 623,282	\$ -	\$ -	\$ 623,282
Total Capital Assets, Not Being Depreciated	623,282	-	-	623,282
Capital Assets, Being Depreciated				
Land Improvements	2,177,800	98,186	-	2,275,986
Buildings and Improvements	45,980,068	109,423	-	46,089,491
Equipment	4,260,421	367,800	-	4,628,221
Total Capital Assets, Being Depreciated	52,418,289	575,409	-	52,993,698
Accumulated Depreciation for				
Land Improvements	(1,431,217)	(81,741)	-	(1,512,958)
Buildings and Improvements	(16,519,924)	(890,291)	-	(17,410,215)
Equipment	(2,981,243)	(225,221)	-	(3,206,464)
Total Accumulated Depreciation	(20,932,384)	(1,197,253)	-	(22,129,637)
Total Capital Assets, Being Depreciated, Net	31,485,905	(621,844)	-	30,864,061
Governmental Activities Capital Assets, Net	\$ 32,109,187	\$ (621,844)	\$ -	\$ 31,487,343

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 4 CAPITAL ASSETS (CONTINUED)

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

Governmental Activities		
Administration		\$ 1,161
District Support Services		2,157
Regular Instruction		1,042,069
Vocational Education Instruction		3,102
Special Education Instruction		3,692
Instructional Support Services		60,090
Pupil Support Services		22,676
Sites and Buildings		52,617
Fiscal and Other Fixed Cost Programs		862
Community Service		8,827
		<u>8,827</u>
Total Depreciation Expense, Governmental Activities		<u>\$ 1,197,253</u>

NOTE 5 GENERAL LONG-TERM DEBT

A. Components of General Long-Term Debt

The District has issued general obligation school building bonds to finance the construction of capital facilities or refinance previous bond issues. Assets of the Debt Service Fund, together with scheduled future tax levies, are dedicated for the retirement of these bonds. These levies are subject to reduction if fund balance amounts exceed limitations imposed by Minnesota law.

Issue Date	Net Interest Rate	Original Issue	Final Maturity	Principal Outstanding	
				Due Within One Year	Total
General Obligation Bonds:					
11/1/2003	2.00% - 2.50%	495,000	2/1/2008	\$ 160,000	\$ 330,000
11/1/2005	5.00%	\$ 16,265,000	2/1/2015	1,345,000	16,265,000
Total General Obligation Bonds				1,505,000	16,595,000
Bond Premium - net				2,583	814,500
State Energy Loans Payable				425	425
Special Assessments Payable				10,343	34,859
Severance and Health Benefits Payable				844,485	2,166,122
Compensated Absences Payable				112,355	160,507
				<u>\$ 2,475,191</u>	<u>\$ 19,771,413</u>

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

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
2007	\$ 1,505,000	\$ 1,024,812	\$ 425	\$ -	\$ 10,343	\$ 2,310
2008	1,820,000	750,250	-	-	8,056	1,625
2009	1,745,000	663,500	-	-	8,051	1,091
2010	1,900,000	576,250	-	-	6,019	557
2011	2,000,000	481,250	-	-	2,393	159
2012 - 2016	7,625,000	873,750	-	-	-	-
2017 - 2021	-	-	-	-	-	-
	<u>\$ 16,595,000</u>	<u>\$ 4,369,812</u>	<u>\$ 425</u>	<u>\$ -</u>	<u>\$ 34,862</u>	<u>\$ 5,742</u>

C. Description of Long-Term Debt

General Obligation Bonds

On June 1, 1997, the District issued \$20,650,000 of General Obligation Refunding Bonds, Series 1997A. The proceeds of this issue were used to refund, in advance of their stated maturities, the remaining maturities of the District's 1992B General Obligation School Building Bonds and 1992C General Obligation School Building Bonds. These bonds were totally refunded during the year ended June 30, 2006 by proceeds from the 2005A Refunding 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. These bonds were totally paid off during the year ended June 30, 2006.

On November 1, 2005, the District issued \$16,265,000 of General Obligation Refunding Bonds, Series 2005A to advance refund the General Obligation Refunding Bonds, Series 1997A. The bonds are due in varying annual installments each February 1 from February 1, 2007 through February 1, 2015, with interest at a rate of 5.00% due semi-annually on February 1 and August 1. The District reduced its total debt service payments by \$1,098,563 and obtained an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$916,043. Future ad valorem tax levies are dedicated to the retirement of these bonds.

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 5 GENERAL LONG-TERM DEBT (CONTINUED)

C. Description of 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, 2006. In the past, vacation expense has been paid by the General Fund, the Food Service Fund, and the Community Service Fund.

Severance and Health Benefits Payable

Severance and health benefits payable consist of severance payments and 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

The following table summarizes changes in long term debt during the year ended June 30, 2006:

	June 30, 2005	Additions	Retirements	June 30, 2006
Bonds Payable	\$ 19,010,000	\$ 16,265,000	\$ 18,680,000	\$ 16,595,000
Bond Premium	3,921	913,760	103,181	814,500
State Energy Loans Payable	5,425	-	5,000	425
Special Assessments Payable	45,197	-	10,338	34,859
Severance and Health Benefits Payable	2,289,517	90,652	214,047	2,166,122
Compensated Absences Payable	143,768	120,337	103,598	160,507
	<u>\$ 21,497,828</u>	<u>\$ 17,389,749</u>	<u>\$ 19,116,164</u>	<u>\$ 19,771,413</u>

In addition, the District has available a \$750,000 line of credit with a local financial institution. The line bears interest at variable rates (8.25% at June 30, 2006) and is unsecured. This line matures on October 1, 2006. There is no balance outstanding under this arrangement as of June 30, 2006.

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 6 SHORT-TERM DEBT

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

	2005	Additions	Retirements	2006
2005 Aid Anticipation Certificate; matures September 7, 2006 including interest at 4.0%.	\$ -	\$ 3,957,811	\$ -	\$ 3,957,811

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, 2% of basic General Education revenue is allocated to staff development. The cumulative excess of such revenues over staff development expenditures is reported as a reservation of fund balance in the General Fund.

B. Reserved for Severance and Health Benefits

In accordance with state accounting regulations, a reserved fund balance is established for vested severance benefits. The reserved amount represents vested benefits for employees that are estimated to be paid in fiscal year 2007-2008.

C. Reserved for Gifted and Talented

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

D. 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.

E. Reserved for Operating Capital

The District levies taxes and receives state aid to be used for the purchase of equipment, books and vehicles and to purchase, rent, improve, and repair school facilities as allowed by state statute. The cumulative excess of such revenues over equipment and facilities expenditures is reported as a reservation of fund balance in the General Fund.

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 7 RESERVED FUND BALANCES (CONTINUED)

F. Reserved for Safe Schools

The fund balance reservation represents accumulated resources available to provide for safe schools programs in accordance with funding made available for that purpose.

G. Reserved for Community Education Programs

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

H. Reserved for Early Childhood and Family Education Programs

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

I. 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.

J. Reserved for Adult Basic Education

The fund balance reservation represents accumulated resources available to provide for adult basic education programs 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 consecutive years of allowable service, age, and years of credit at termination of service.

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

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, 2006, 2005 and 2004 were \$927,705, \$923,121 and \$886,067, 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.

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 8 PENSION PLANS (CONTINUED)

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

2. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for the 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 were required to contribute 9.10% and 5.10%, respectively, of their annual cover salary in 2005. Contribution rates in the Coordinated Plan increased in 2006 to 5.5%.

The District is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members and 5.53% for Coordinated Plan members. Employer contribution rates for the Coordinated Plan increased to 6.0% effective January 1, 2006. The contribution requirements of plan members and the District are established and may be amended by State Statute. The District's contributions for the years ending June 30, 2006, 2005 and 2004, were \$334,488, \$316,713 and \$295,454, respectively, equal to the contractually required contributions for each year as set by state statute.

NOTE 9 SELF-INSURED DENTAL PLAN

The 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 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 \$181,201 for the year ended June 30, 2006.

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

Unpaid Claims, Beginning of Year	\$ 23,535
Incurred Claims	185,295
Claims Payments (cash basis)	<u>(183,248)</u>
Unpaid Claims, End of Year	<u>\$ 25,582</u>

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 10 OPERATING LEASES

The District is committed under long-term operating leases for the rental of office equipment and vehicles. Office equipment is leased under varying terms, with leases running through November 2007. Vehicles are leased under varying terms with leases running through April 2008.

Total rent expense includes the following:

	Amount
Maintenance Equipment	\$ 5,432
Facilities	45,583
Office Equipment	33,543
Vehicles	20,516
Miscellaneous rental	26,354
Total	\$ 131,428

Future minimum lease payments due under existing operating leases are as follows.

Minimum Lease Payments For the Year Ended June 30:	Amount
2007	\$ 29,731
2008	25,121
2009	5,216
Total	\$ 60,068

NOTE 11 COMMITMENTS AND CONTINGENCIES

A. Federal and State Programs

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

B. Contingencies

The District is a defendant in a 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.

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 12 JOINT POWERS AGREEMENT

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

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 \$53,675 for the year ended June 30, 2006. The City paid the District for its provision of services \$70,584 for the year ended June 30, 2006. This agreement is perpetual but may be canceled upon six months written notice by either party.

SUPPLEMENTARY INFORMATION

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**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2006
(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2005)**

	2006			2005	
	Budgeted Amounts		Actual Regular Debt Service	Over (Under) Final Budget	Actual Amounts
	Original	Final			
REVENUES					
Local Sources					
Property Tax	\$ 2,353,762	\$ 2,353,762	\$ 2,161,957	\$ (191,805)	\$ 2,327,456
Earnings on Investments	18,001	205,365	222,618	17,253	22,451
State Sources	391,230	254,852	254,848	(4)	353,315
Total Revenues	<u>2,762,993</u>	<u>2,813,979</u>	<u>2,639,423</u>	<u>(174,556)</u>	<u>2,703,222</u>
EXPENDITURES					
Debt Service:					
Bond Principal	18,685,000	18,685,000	1,600,000	(17,085,000)	1,740,000
Bond Interest	964,918	964,918	964,918	-	1,042,840
Paying Agent Fees and Other	-	92,842	92,992	150	1,075
Total Expenditures	<u>19,649,918</u>	<u>19,742,760</u>	<u>2,657,910</u>	<u>(17,084,850)</u>	<u>2,783,915</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(16,886,925)	(16,928,781)	(18,487)	16,910,294	(80,693)
OTHER FINANCING SOURCES (USES)					
Sale of Bonds Proceeds	16,982,631	17,178,760	16,265,000	(913,760)	-
Bond Premium	-	-	913,760	913,760	-
Payment to Refunded Bond Escrow Agent	-	-	(17,085,000)	(17,085,000)	-
Total Other Financing Sources (Uses)	<u>16,982,631</u>	<u>17,178,760</u>	<u>93,760</u>	<u>(17,085,000)</u>	<u>-</u>
Net Change in Fund Balances	<u>\$ 95,706</u>	<u>\$ 249,979</u>	75,273	<u>\$ (174,706)</u>	(80,693)
Fund Balance - Beginning			<u>760,111</u>		<u>840,804</u>
Fund Balance - Ending			<u>\$ 835,384</u>		<u>\$ 760,111</u>

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SINGLE AUDIT AND OTHER REQUIRED REPORTS

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**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2006**

Grantor/Program	CFDA Number	Agency or Pass-Through Number	Expenditures
US Department of Agriculture			
Pass-Through Minnesota Department of Education			
Type A Lunch	10.555	1-347-000	\$ 652,645
After School Snack	10.558	1-347-000	4,482
Special Milk Program for Children	10.556	1-347-000	344
School Breakfast Program	10.553	1-347-000	301,803
Food Distribution (Commodities)	10.550	1-347-000	78,497
Commodities Rebates	10.550	1-347-000	15,131
Total US Department of Agriculture			<u>1,052,902</u>
US. Department of Education			
Pass-Through Minnesota Department of Education			
Special Education - Flow Through	84.027	N/A	446,393
Special Education - Summer Migrant	84.027A	N/A	3,733
Title I Grants to Local Education Agencies	84.010	N/A	742,926
Title I, Part C - Education of Migrant Children	84.011	N/A	114,716
Title I, Part C - Education of Migrant Children (Summer)	84.011A	N/A	119,766
Secondary Migrant Mentoring	84.011A	N/A	12,385
Title I Comp Delinquent	84.013	N/A	95,281
Reading First State Grants	84.357	N/A	423,942
Title II, Part A - Teacher Quality	84.367	N/A	240,925
Title V, Part A - Innovative Programs	84.298	N/A	13,465
Title III, Part A - English Language Acquisition	84.365	N/A	86,813
Carl Perkins	84.048A	N/A	38,141
Title IV, Part A - Safe and Drug Free Schools	84.186	N/A	28,859
Title II, Part D - Enhancing Education Through Technology	84.318	N/A	17,896
Title IV, Part B - 21st Century Community Learning Centers	84.287	N/A	142,559
Federal Adult Basic Education	84.002	N/A	52,178
Total US Department of Education			<u>2,579,978</u>
US. Department of Labor			
Pass-Through Minnesota Department of Education			
Federal WIA Incentive Grant	17.267	N/A	12,124
TOTAL FEDERAL FINANCIAL ASSISTANCE EXPENDED			<u><u>\$ 3,645,004</u></u>

See accompanying Notes to Schedule of Expenditures of Federal Awards

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**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2006**

NOTE 1 GENERAL

The accompanying Schedule of Expenditures of Federal Awards presents the expenditures of all federal financial assistance programs of Independent School District No. 347. The reporting entity is defined in Note 1 to the District's financial statements. All federal financial assistance received directly from federal agencies as well as federal financial assistance passed through other government agencies are included on the schedule.

NOTE 2 BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting, which is described in Note 1 to the District's financial statements.

NOTE 3 FOOD DISTRIBUTION

Non-monetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. At June 30, 2006, the District had food commodities totaling \$31,078 in inventory.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Education
Independent School District No. 347
Willmar, Minnesota

We have audited the financial statements of governmental activities, each major fund and the aggregate remaining fund information of Independent School District No. 347 as of and for the year ended June 30, 2006, which collectively comprise Independent School District No. 347's basic financial statements and have issued our report thereon dated October 16, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Independent School District No. 347's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain additional matters that were reported to the management of Independent School District No. 347 in a separate letter dated October 16, 2006.

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

Larson, Allen, Weishair & Co., LLP
LARSON, ALLEN, WEISHAIR & CO., LLP

Austin, Minnesota
October 16, 2006

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Education
Independent School District No. 347
Willmar, Minnesota

Compliance

We have audited the compliance of Independent School District No. 347 with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. Independent School District No. 347's major federal programs are identified in the summary of the auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements and laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Independent School District No. 347's management.

Our responsibility is to express an opinion on Independent School District No. 347's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Independent School District No. 347's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Independent School District No. 347's compliance with those requirements.

In our opinion, Independent School District No. 347 complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Independent School District No. 347 is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Independent School District No. 347's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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

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


LARSON, ALLEN, WEISHAIR & CO., LLP

Austin, Minnesota
October 16, 2006

REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of Education
Independent School District No. 347
Willmar, Minnesota

We have audited the financial statements of Independent School District No. 347 as of and for the year ended June 30, 2006, and have issued our report thereon dated October 16, 2006.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the Minnesota Legal Compliance Audit Guide for Local Government, promulgated by the Legal Compliance Task Force pursuant to Minn. Stat. §6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The Minnesota Legal Compliance Audit Guide for Local Government covers six main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and uniform financial accounting and reporting standards for school districts. Our study included all of the listed categories.

The results of our tests indicate that for the items tested the Independent School District No. 347 complied with the material terms and conditions of applicable legal provisions, except as described in the accompanying schedule of findings.

This report is intended solely for the information and use of the Independent School District No. 347, the Office of the State Auditor, and other state agencies, and is not intended to be and should not be used by anyone other than these specified parties.


LARSON, ALLEN, WEISHAIR & CO., LLP

Austin, Minnesota
October 16, 2006

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**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006**

PART I:SUMMARY OF AUDITOR'S RESULTS

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

U.S. Department of Education:

Reading First	CFDA #84.357
Title I, Part C – Migrant Education	CFDA #84.011 & #84.011A
Title II, Part A – Teacher Quality	CFDA #84.367

8. The threshold for distinguishing Types A and Type B programs was \$300,000.
9. Independent School District No. 347 was determined to be a low-risk auditee.

PART II:FINDINGS RELATED TO THE GENERAL PURPOSE FINANCIAL STATEMENTS:

None

PART III:FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS

None

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006**

PART IV: FINDINGS AND QUESTIONED COSTS – MINNESOTA LEGAL COMPLIANCE

06-IV-A

Condition: The District did not always pay invoices in a timely manner.

Criteria: Minnesota Statute 471.425, Subdivision 2, requires prompt payment of local government bills. The standard payment period is 35 days of the date of receipt for governing boards that meet at least once per month. In the event that a vendor is not paid in a timely manner, the District should pay an interest rate 1½ percent per month on any overdue balances.

Questioned Costs: None

Cause: Inadequate monitoring of aged invoices.

Effect: The District risks incurring additional liabilities from vendors who have not been paid.

Recommendations: The District should review aging schedules of accounts payable on a monthly basis to ensure that vendors are being paid in a timely manner.

Response: There is no disagreement with the finding.

06-IV-B

Condition: The District did not annually delegate authority to make electronic fund transfers (EFTs) to a designated business administrator, nor did the disbursing bank have a certified copy of such a delegation.

Criteria: Minnesota Statute 471.38, subdivisions 3 & 3a requires the School Board to make an annual designation of authority to make electronic fund transfers to a designated business administrator and for a certified copy of this delegation to be provided to the disbursing bank in order to allow the District to make EFTs.

Questioned Costs: None

Cause: Unfamiliarity with the statute.

Effect: The District risks incurring fraudulent EFT activity.

Recommendations: The District should develop a comprehensive policy addressing the use of EFT's and the Board annually address the delegation of authority.

Response: There is no disagreement with the finding.

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006**

<u>Comment Reference</u>	<u>Comment Title</u>	<u>Status</u>	<u>It not Corrected, Provide Planned Corrective Action or Other Explanation</u>
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No Prior Year Findings.

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS
COMPLIANCE TABLE
JUNE 30, 2006**

01 GENERAL FUND

Total Revenue	\$ 40,074,548
Total Expenditures	<u>\$ 39,210,139</u>
<i>Reserved:</i>	
403 Staff Development	\$ 384,714
406 Health & Safety	<u>\$ (45,284)</u>
407 Capital Project Levy	<u>\$ -</u>
408 Cooperative Programs	<u>\$ -</u>
409 Deferred Maintenance	<u>\$ -</u>
410 Unemployment Compensation	<u>\$ -</u>
411 Severance Pay	<u>\$ 1,200,000</u>
412 Bus Purchase	<u>\$ -</u>
414 Operating Debt	<u>\$ -</u>
416 Levy Reduction	<u>\$ -</u>
419 Encumbrances	<u>\$ -</u>
423 Certain Teacher Programs	<u>\$ -</u>
424 Operating Capital	<u>\$ 356,566</u>
426 \$25 Taconite	<u>\$ -</u>
427 Disabled Accessibility	<u>\$ -</u>
428 Learning & Development	<u>\$ -</u>
429 Parental Involvement	<u>\$ -</u>
433 Student Transport Safety	<u>\$ -</u>
434 Area Learning Center	<u>\$ -</u>
435 Contracted Alt. Programs	<u>\$ -</u>
436 State Approved Alt. Program	<u>\$ -</u>
437 Grad Standards Staff Develop.	<u>\$ -</u>
438 Grad Standards Gifted & Talented	<u>\$ 13,520</u>
439 Grad Standards	<u>\$ -</u>
441 Basic Skills Programs	<u>\$ -</u>
442 Class Size, All-Day Kindergarten and Special Education Student-to-Instructor Ratio Reduction	<u>\$ -</u>
443 Telecommunication Access Cost	<u>\$ -</u>
445 Career and Technical Programs	<u>\$ -</u>
446 First Grade Preparedness	<u>\$ -</u>
449 Safe Schools	<u>\$ 6,000</u>
<i>Unreserved:</i>	
418 Severance - Ins. Premium	<u>\$ -</u>
422 Unreserved/Undesignated	<u>\$ 5,397,098</u>

02 FOOD SERVICE

Total Revenue	\$ 1,944,532
Total Expenditures	<u>\$ 1,928,250</u>
<i>Reserved:</i>	
411 Severance Pay	<u>\$ -</u>
419 Encumbrances	<u>\$ -</u>
<i>Unreserved:</i>	
418 Severance - Ins. Premium	<u>\$ -</u>
422 Unreserved/Undesignated	<u>\$ 95,153</u>

04 COMMUNITY SERVICE

Total Revenue	\$ 2,093,053
Total Expenditures	<u>\$ 2,059,993</u>
<i>Reserved:</i>	
411 Severance Pay	<u>\$ -</u>
419 Encumbrances	<u>\$ -</u>
426 \$25 Taconite	<u>\$ -</u>
431 Community Education	<u>\$ 56,468</u>
432 E.C.F.E.	<u>\$ 18,812</u>
444 School Readiness	<u>\$ 6,149</u>
447 Adult Basic Education	<u>\$ 3,075</u>
<i>Unreserved:</i>	
418 Severance Premium	<u>\$ -</u>
422 Unreserved/Undesignated	<u>\$ 142,155</u>

06 BUILDING CONSTRUCTION

Total Revenue	\$ -
Total Expenditures	<u>\$ -</u>
<i>Reserved:</i>	
407 Capital Projects Levy	<u>\$ -</u>
409 Alternative Facility Program	<u>\$ -</u>
419 Encumbrances	<u>\$ -</u>
<i>Unreserved:</i>	
422 Unreserved/Undesignated	<u>\$ -</u>

07 DEBT SERVICE

Total Revenue	\$ 2,639,423
Total Expenditures	<u>\$ 2,657,910</u>
<i>Reserved:</i>	
425 Bond Refundings	<u>\$ -</u>
<i>Unreserved:</i>	
422 Unreserved/Undesignated	<u>\$ 835,384</u>

08 TRUST

Total Revenue	\$ 724
Total Expenditures	<u>\$ 1,800</u>
<i>Reserved:</i>	
419 Encumbrances	<u>\$ -</u>
<i>Unreserved:</i>	
422 Unreserved/Undesignated	<u>\$ 35,064</u>

09 AGENCY

<i>Unreserved: Should Always Be 0-</i>	
422 Unreserved/Undesignated	<u>\$ -</u>

20 INTERNAL SERVICE

Total Revenue	\$ 253,350
Total Expenditures	<u>\$ 211,984</u>
<i>Reserved:</i>	
419 Encumbrances	<u>\$ -</u>
<i>Unreserved:</i>	
422 Unreserved/Undesignated	<u>\$ 53,753</u>

STUDENT ACTIVITY FUNDS

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INDEPENDENT AUDITORS' REPORT

Board of Education
Independent School District No. 347
Willmar, Minnesota

We have audited the statement of cash receipts and disbursements of the Student Activity Funds of Independent School District No. 347 for the year ended June 30, 2006. This financial statement is the responsibility of the District's management. Our responsibility is to express an opinion on this financial statement based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

As described in Note 1 to Student Activity Fund Financial Statements, the financial statement is prepared on the cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, except for such adjustments, if any, as might have been determined to be necessary had the cash collections referred to above been susceptible to satisfactory audit tests, the financial statement referred to above presents fairly, in all material respects, the cash balances of the District's Student Activity Fund as of June 30, 2006, and the revenues it received and the expenditures it paid for the year then ended on the basis of accounting described in Note 1 to Student Activity Fund Financial Statements.


LARSON, ALLEN, WEISHAIR & CO., LLP

Austin, Minnesota
October 16, 2006

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**WILLMAR PUBLIC SCHOOLS
 INDEPENDENT SCHOOL DISTRICT NO. 347
 ELEMENTARY YEARBOOK ACTIVITY FUND
 STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
 YEAR ENDED JUNE 30, 2006**

Funds	Balance 06/30/05	Transfer & Receipts	Disburse- ments	Balance 06/30/06
Elementary Yearbook	\$ 501	\$ 12,353	\$ 12,757	\$ 97
Total	<u>\$ 501</u>	<u>\$ 12,353</u>	<u>\$ 12,757</u>	<u>\$ 97</u>

See Notes to Student Activity Fund Financial Statements.

WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
JUNIOR HIGH ACTIVITY FUND
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
YEAR ENDED JUNE 30, 2006

Funds	Balance 06/30/05	Transfer & Receipts	Disburse- ments	Balance 06/30/06
Musical	\$ -	\$ 827	\$ 824	\$ 3
Yearbook	470	9,328	9,798	-
Student Council	2,742	1,414	3,833	323
Total	<u>\$ 3,212</u>	<u>\$ 11,569</u>	<u>\$ 14,455</u>	<u>\$ 326</u>

See Notes to Student Activity Fund Financial Statements.

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
SENIOR HIGH ACTIVITY FUND
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
YEAR ENDED JUNE 30, 2006**

Funds	Balance 06/30/05	Transfer & Receipts	Disburse- ments	Balance 06/30/06
Class of 2007	\$ -	\$ 10,086	\$ 5,154	\$ 4,932
Class of 2006	6,548	58	412	6,194
Cardettes	6,419	3,158	2,341	7,236
F.F.A.	1,030	301	920	411
French Club	8	3,697	3,705	-
Cross Country	37	-	-	37
Key Club	1,390	2,220	1,906	1,704
National Honor Society	-	473	405	68
Nordic Ski	2,539	2,011	3,533	1,017
Seventh Rendition	10,676	36,393	25,534	21,535
Spanish Club	109	117,316	117,062	363
Student Council	2,190	7,691	9,127	754
Usher's Fund	161	320	328	153
"W" Fund	4,450	6,494	7,104	3,840
Wihisean	7	10,660	10,667	-
Orchestra	1,739	2,055	999	2,795
Willmar Athletics	18,496	21,507	30,638	9,365
Final Concessions	5,193	21,012	22,876	3,329
High Mileage	12	1,840	1,710	142
Gymnastics	485	733	49	1,169
Speech	37	688	455	270
BPA	-	6,498	6,498	-
Total	\$ 61,526	\$ 255,211	\$ 251,423	\$ 65,314

See Notes to Student Activity Fund Financial Statements.

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**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
NOTES TO STUDENT ACTIVITY FUND FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 1 BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

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

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

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

NOTE 2 COLLATERAL

Cash balances are held in demand accounts and in a certificate of deposit. In accordance with Minnesota statutes, the Student Activity Funds maintain deposits at those depository banks authorized by the Board of Education.

Minnesota statutes require that all district deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance.

As of June 30, 2006, the Student Activity Funds' deposits were entirely covered by federal depository insurance.

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REPORT ON COMPLIANCE

Board of Education
Independent School District No. 347
Willmar, Minnesota

We have audited the statement of cash receipts and disbursements of the extracurricular Student Activity Fund of Independent School District No. 347 for the year ended June 30, 2006 and have issued our report thereon dated October 16, 2006.

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

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

The results of our tests indicate that, with respect to the items tested, the District's extracurricular Student Activity Fund complied with the material terms and conditions of applicable legal provisions.

This report is intended solely for the information and use of the Board of Education, management, and students of Independent School District No. 347 and is not intended to be and should not be used by anyone other than these specified parties.



LARSON, ALLEN, WEISHAIR & CO., LLP

Austin, Minnesota
October 16, 2006

