

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

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2005

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INDEPENDENT SCHOOL DISTRICT NO. 347
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INTRODUCTORY SECTION

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**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
BOARD OF EDUCATION AND ADMINISTRATION
JUNE 30, 2005**

Dion Warne	Chair
Mike Carlson	Vice Chair
Shawn Mueske	Treasurer
Eric Roberts	Clerk
Brad Schmidt	Director
Sandi Unger	Director
Wayne 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, 2005, 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, 2005 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 September 28, 2005, 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 21 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 of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the Uniform Financial Accounting and Reporting Standards Compliance Table are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the Uniform Financial Accounting and Reporting Standards Compliance Table have been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Larson, Allen, Weishair & Co., LLP

LARSON, ALLEN, WEISHAIR & CO., LLP

Austin, Minnesota
September 28, 2005

REQUIRED SUPPLEMENTARY INFORMATION

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005**

This section of Willmar Public Schools – Independent School District 347's (District) annual financial report presents management's discussion of the District's financial performance during the fiscal year (FY) ending June 30, 2005. 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 2004-2005 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 \$5,171,261, equivalent to 13.45% of expenditures. However, this key fund balance declined by \$238,037 compared to an increase of \$1.87 million last year.
- Net Assets increased 2% over the prior year.
- The combined Governmental Funds fund balance decreased by 14.1%, or \$1,226,866.
- The District reduced its outstanding long-term liabilities by \$1.78 million, or 7.7%.
- 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. On March 14, 2005 The School Board sold \$16,265,000 of new bonds which will be used to pay off the remaining Sr. High Bond Debt. The actual effective date of the bonds is November 1, 2005. This type of transaction is generally referred to as a "forward refunding" and does not impact our financial statements until FY 2006. The transaction takes place entirely in the Debt Service Fund, and will not impact the General Fund.
- The District received the Certificate of Excellence in Financial Reporting from the Association of School Business Officials (ASBO) for the 2004 Comprehensive Annual Financial Report. The Certificate of Excellence is the highest recognition of school district financial operations offered by ASBO, a professional organization with more than 6,000 members. Fewer than 4 percent of school districts in Minnesota received the Certificate of Excellence award last year.
- The District received the 2005 School Finance Award from the Minnesota Department of Education in recognition of its accomplishment of specific criteria that exhibit fiscal health, sound fiscal management and accountability. This award was received by just 9% of the state's districts. This is the 2nd year in a row that the District has received the award.

INDEPENDENT SCHOOL DISTRICT NO. 347
WILLMAR PUBLIC SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2005

FINANCIAL HIGHLIGHTS (CONTINUED)

- The School Board reduced the FY 2006 Budget by \$800,000 in May, 2005. The reductions were a combination of spending reductions and fee increases. This budget reduction was designed to help the district adjust to continued declining enrollment and to partially minimize the size of budgeted deficit spending for FY 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.

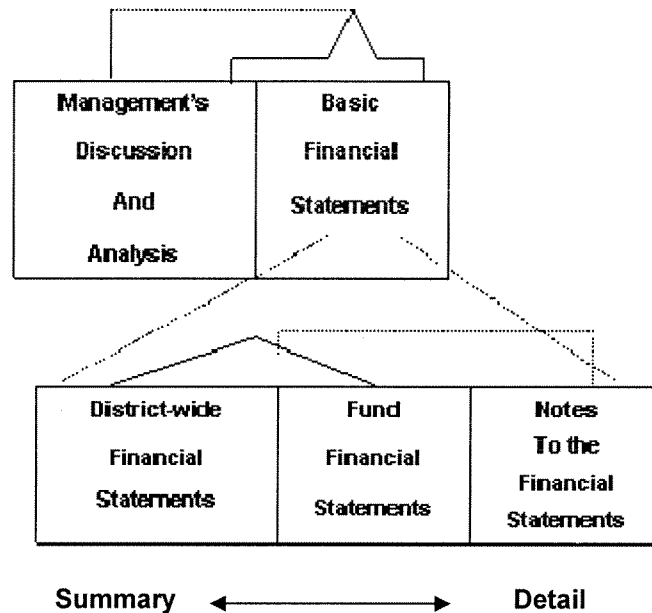
The financial statements also include notes that explain some of the information in the statements and provide more detailed data. Figure 1, shown below, shows how the various parts of this annual report are arranged and related to one another.

INDEPENDENT SCHOOL DISTRICT NO. 347
WILLMAR PUBLIC SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2005

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Figure 1 Organization of Willmar Public Schools Annual Financial Report



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

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2005**

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.

INDEPENDENT SCHOOL DISTRICT NO. 347
WILLMAR PUBLIC SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2005

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.

INDEPENDENT SCHOOL DISTRICT NO. 347
WILLMAR PUBLIC SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2005

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 \$17.76 million on June 30, 2005. This was an increase of 2% from the previous year total of \$17.41 million. (See Table 1 below). In comparison, net assets increased by 18.82% in FY 2004.

Table 1 Change in Net Assets			
	2005	2004	Percentage Change 2004 to 2005
Assets			
Current and Other Assets	\$ 14,957,830	\$ 18,998,294	-21.3%
Capital Assets	32,109,187	32,397,243	-0.9%
Total Assets	47,067,017	51,395,537	-8.4%
Liabilities			
Long-term Liabilities	19,102,712	21,323,063	-10.4%
Other Liabilities	10,205,001	12,661,194	-19.4%
Total Liabilities	29,307,713	33,984,257	-13.8%
Net Assets			
Invested in capital assets, net of related debt	13,049,010	12,018,714	8.6%
Restricted	1,112,183	1,998,553	-44.4%
Unrestricted	3,598,111	3,394,013	6.0%
Total Net Assets	\$ 17,759,304	\$ 17,411,280	2.0%

- The largest portion of the District's net assets (73.5%) 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.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2005**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

- An additional portion of the District's net assets (6%) represents resources that are subject to external restrictions on how they may be used.
- The remaining balance of the *unrestricted net assets* (20.5%) 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.

<p style="text-align: center;">Table 2 Change in Net Assets</p>			
	2005	2004	Percentage Change 2004 to 2005
Revenues			
Program Revenues			
Charges for Services	\$ 2,863,397	\$ 2,668,075	7.32%
Operating Grants and Contributions	14,061,382	13,043,811	7.80%
Capital Grants and Contributions	877,479	1,006,214	-12.79%
General Revenues			
Property Taxes	4,260,899	4,571,168	-6.79%
Unrestricted State Aid	22,475,565	22,383,185	0.41%
Investment Earnings	96,235	110,285	-12.74%
Other	3,358	938	258.00%
Total Revenues	44,638,315	43,783,676	1.95%
Expenses			
Administration	1,350,673	1,199,931	12.56%
District Support Services	873,179	798,273	9.38%
Regular Instruction	19,364,739	17,896,044	8.21%
Vocational Education Instruction	996,391	956,619	4.16%
Special Education Instruction	8,115,170	7,354,987	10.34%
Instructional Support Services	1,819,385	2,000,604	-9.06%
Pupil Support Services	2,948,745	2,683,324	9.89%
Sites and Buildings	3,340,723	3,256,881	2.57%
Fiscal and Other Fixed Cost Programs	223,001	264,007	-15.53%
Food Service	2,066,305	1,846,894	11.88%
Community Service	2,184,084	1,673,941	30.48%
Interest and fiscal charges on long-term liabilities	1,007,896	1,094,590	-7.92%
Total Expenses	44,290,291	41,026,095	7.96%
Increase in Net Assets	348,024	2,757,581	
Beginning Net Assets	17,411,280	14,653,699	
End of Year Net Assets	<u>\$ 17,759,304</u>	<u>\$ 17,411,280</u>	

Changes in Net Assets. The District's total revenues were \$44.64 million for the year ended June 30, 2005. This is a 1.95% increase over the prior year's revenues.

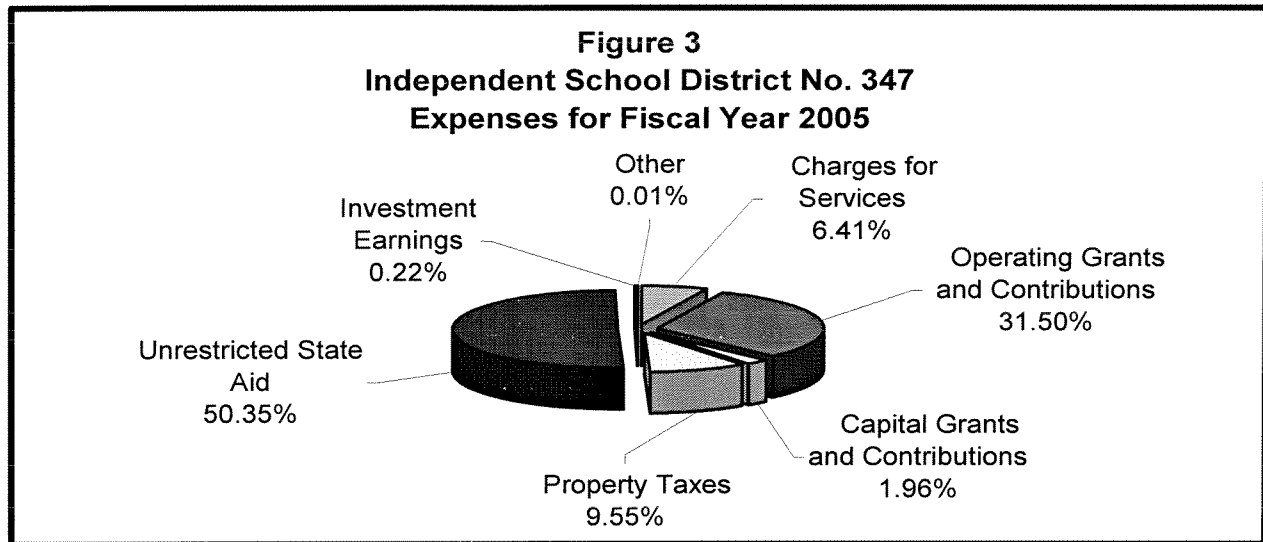
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**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2005**

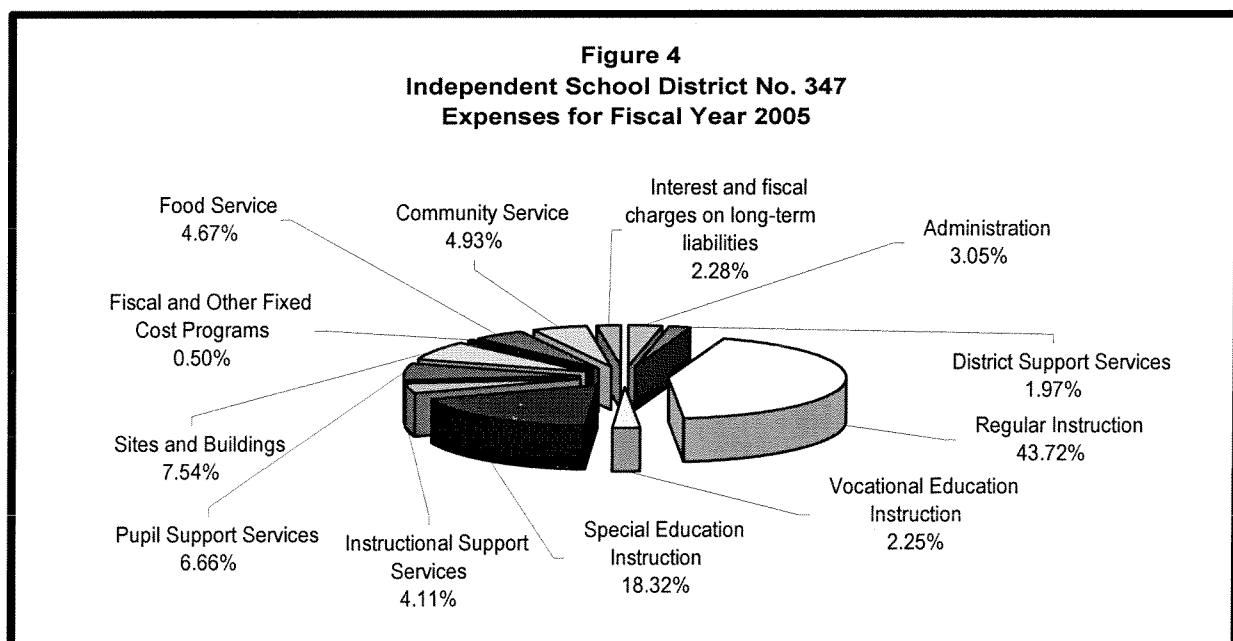
FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

State and federal aid along with local property taxes accounted for 59.9% of the total revenue for the year (see Figure 3 below). Another 0.2% came from other general revenue and the remaining 39.9% from program revenues.

Total revenues surpassed expenses, increasing net assets \$348,024 over last year.



The District's total expenditures for programs and services were \$44.29 million for the year ended June 30, 2005. This is a 7.96% increase over the prior year's expenditures. The District's expenses are predominantly related to student education (75.1%). (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, 2005**

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 \$44,290,291. 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 6.41%, or \$2,863,397 million of the costs.
 - The federal and state governments subsidized certain programs with grants and contributions. This totaled \$14,938,861, or 34.5% of the total costs for 2004-2005.
 - The remainder of the District's costs (\$26,488,033), however, were paid for by state taxpayers based on the statewide education aid formula and by District taxpayers.
 - Only \$99,593 of the total revenues came from investment earnings and other general revenues.

Table 3

Net Cost of Governmental Activities

	Total Cost of Services		Percent Change 2004-2005	Net Cost of Services		Percent Change 2004-2005
	2005	2004		2005	2004	
Administration	\$ 1,350,673	1,199,931	12.56%	\$ 1,350,673	\$ 1,195,085	13.02%
District Support Services	873,179	798,273	9.38%	790,613	672,375	17.59%
Regular Instruction	19,364,739	17,896,044	8.21%	12,268,279	11,181,225	9.72%
Vocational Education Instruction	996,391	956,619	4.16%	850,407	791,557	7.43%
Special Education Instruction	8,115,170	7,354,987	10.34%	2,529,591	2,339,752	8.11%
Instructional Support Services	1,819,385	2,000,604	-9.06%	1,309,916	1,372,381	-4.55%
Pupil Support Services	2,948,745	2,683,324	9.89%	2,724,117	2,517,330	8.21%
Sites and Buildings	3,340,723	3,256,881	2.57%	2,726,427	2,662,582	2.40%
Fiscal and Other Fixed Cost						
Programs	223,001	264,007	-15.53%	220,301	264,007	-16.55%
Food Service	2,066,305	1,846,894	11.88%	213,930	121,545	76.01%
Community Service	2,184,084	1,673,941	30.48%	495,883	95,566	418.89%
Interest and Fiscal Charges						
on Long-term Liabilities	1,007,896	1,094,590	-7.92%	1,007,896	1,094,590	-7.92%
Total	\$ 44,290,291	\$ 41,026,095	7.96%	\$ 26,488,033	\$ 24,307,995	8.97%

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2005**

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is also reflected in its governmental funds. At the end of the 2004-2005 fiscal year, the District's governmental funds reported a **combined** fund balance of \$7,480,286, a 14.1% decrease from last year's ending fund balance of \$8,707,152.

Revenues and other financing sources for the District's governmental funds totaled \$44,635,073 while total expenditures were \$45,861,939. As a result, the District completed the year with an excess of expenditures over revenues of (\$1,226,866). 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:

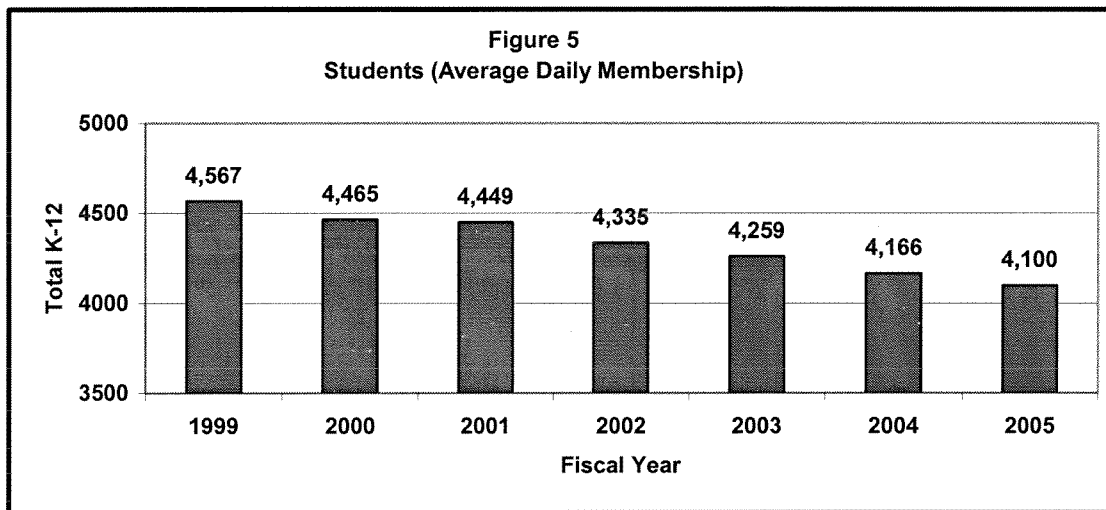
Table 4				
Revenues and Expenditures - Governmental Funds				
2005				
	Revenue	Expenditures	Other Financing Sources (Uses)	Fund Balance Increase (Decrease)
General Fund	\$ 38,045,109	\$ 38,453,279	\$ 2,778	\$ (405,392)
Food Service Fund	1,852,927	2,066,305	-	(213,378)
Community Service Fund	2,031,037	2,195,490	-	(164,453)
Building Construction Fund	-	362,950	-	(362,950)
Debt Service Fund	2,703,222	2,783,915	-	(80,693)
Totals	\$ 44,632,295	\$ 45,861,939	\$ 2,778	\$ (1,226,866)
2004				
	Revenue	Expenditures	Other Financing Sources (Uses)	Fund Balance Increase (Decrease)
General Fund	\$ 37,267,663	\$ 35,537,478	\$ 978	\$ 1,731,163
Food Service Fund	1,728,963	1,836,175	-	(107,212)
Community Service Fund	2,115,429	1,988,906	-	126,523
Building Construction Fund	-	135,529	498,479	362,950
Debt Service Fund	2,676,283	2,759,082	16,232	(66,567)
Totals	\$ 43,788,338	\$ 42,257,170	\$ 515,689	\$ 2,046,857

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2005**

GENERAL FUND

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

Enrollment. Funding for Minnesota school districts is largely driven by enrollment. The majority of Minnesota school districts are facing declining enrollment. Over the last six years, the District has averaged an annual 1.78% decline in the number of students. The Figure 5, below, shows that the number of students has decreased steadily over that period.



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 continue to decline, although with a less severe trend in the next several years, and then begin to level out by approximately 2008-2009. The District actively uses several state-of-the-art enrollment projection models and completed a thorough enrollment and demographic study two years ago.

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**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2005**

GENERAL FUND (CONTINUED)

The following table presents a summary of General Fund revenues:

Table 5				
General Fund Revenues				
	Year Ended June 30, 2005	Year Ended June 30, 2004	Amount of Increase (Decrease)	Percent Increase (Decrease)
Local Sources				
Property Taxes	\$ 1,645,621	\$ 2,082,070	\$ (436,449)	-21.0%
Interest Earnings	71,337	82,231	(10,894)	-13.2%
Other	2,037,954	1,957,056	80,898	4.1%
State Sources	31,476,589	31,101,721	374,868	1.2%
Federal Sources	2,813,608	2,045,563	768,045	37.5%
Total General Fund Revenue	<u>\$ 38,045,109</u>	<u>\$ 37,268,641</u>	<u>\$ 776,468</u>	2.1%

Total General Fund revenue increased by \$776,468, or 2.1%, 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 2005 were \$436,449, or 21%, less than the prior year. The decrease is mainly the result of \$384,619 less revenue from Property Tax Shift Recognition. A corresponding amount was then added to our State revenue. State sources of revenue increased by \$374,868, or 1.2%, from 2004. The increase is a function of the above-mentioned Property Tax Shift Recognition and higher Special Education aid. Federal revenues increased \$768,045, or 37.5%, from the previous year. This increase is largely due to the Reading First Grant which totaled \$354,000 more than last year, additional federal special education revenue and various increases in other federal programs.

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2005**

GENERAL FUND (CONTINUED)

The following table presents a summary of General Fund expenditures:

Table 6				
General Fund Expenditures				
	Year Ended June 30, 2005	Year Ended June 30, 2004	Amount of Increase (Decrease)	Percent Increase (Decrease)
Salaries	\$ 23,371,731	\$ 21,994,739	\$ 1,376,992	6.3%
Employee Benefits	6,046,762	5,556,544	490,218	8.8%
Purchased Services	6,392,936	5,577,725	815,211	14.6%
Supplies & Materials	1,655,562	1,500,252	155,310	10.4%
Capital Expenditures	850,751	738,792	111,959	15.2%
Other Expenditures	135,537	169,426	(33,889)	-20.0%
Total General Fund Expenditures	<u>\$ 38,453,279</u>	<u>\$ 35,537,478</u>	<u>\$ 2,915,801</u>	8.2%

Total General Fund expenditures increased \$2,915,801 or 8.2% from the previous year.

In fiscal year 2004-2005 salaries increased 6.3%. The increase in salaries is primarily due to board-approved contractual agreements and additional special education staff and increased federal program funding. Employee benefits increased by 8.8% compared to last year. This increase is largely the result of board-approved contractual agreements along with the impact of continued high cost increases for health insurance premiums. The District continues to look at various cost containment measures to minimize the effect of rising health insurance premiums on the costs of the District's employee compensation packages.

Non-payroll expenditures (Purchased Services, Supplies & Materials, Capital Expenditures and Other Expenditures) increased by \$1.049 million, or 13.13%, compared to last year. The increase is primarily due to several factors. First, the majority of the increased Reading First Grant expenditures fall into this category. Second, transportation costs were \$236,706 higher than last year due to a contract increase and the impact of the new half-day/every day kindergarten schedule. Third, tuition bills payable were \$112,301 higher than the prior year.

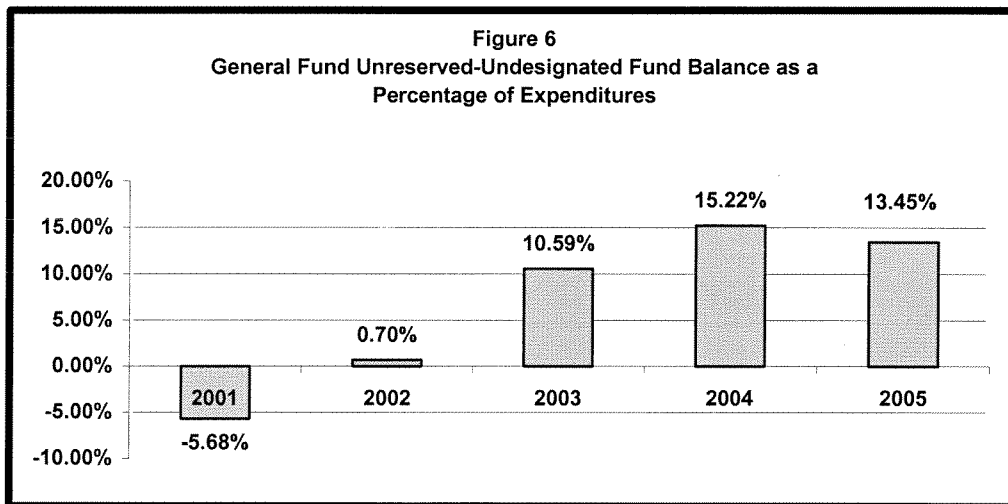
In summary, 2004-2005 General Fund expenditures exceeded General Fund revenues by \$408,170. As a result, and after factoring in \$2,778 of insurance recovery proceeds, the total fund balance decreased by \$405,392 to \$6,448,205 at June 30, 2005. After deducting statutory reserves, the unreserved-undesignated fund balance decreased from \$5,409,298 on June 30, 2004 to \$5,171,261 on June 30, 2005.

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2005**

GENERAL FUND (CONTINUED)

Both Table 7 and Figure 6, below, depict the General Fund unreserved-undesignated fund balance as a percentage of expenditures for fiscal years 2000 - 2005:

Table 7						
General Fund Unreserved-Undesignated Fund Balance and Expenditures						
	2001	2002	2003	2004	2005	
Unreserved Fund Balance	\$ (2,024,688)	\$ 224,214	\$ 3,536,006	\$ 5,409,298	\$ 5,171,261	
% Change	-16.30%	-111.07%	1477.07%	52.98%	-4.40%	
Expenditures	35,648,597	31,927,739	\$ 33,379,691	\$ 35,537,478	\$ 38,453,279	
% Change	7.02%	-10.44%	4.55%	6.46%	8.20%	
% of Fund Balance to Exp.	-5.68%	0.70%	10.59%	15.22%	13.45%	



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 \$5,171,261 on June 30, 2005 represents 13.45% of annual expenditures, or about 7 weeks of normal operating expenditures. This key fund balance decreased by \$238,037 in FY 2005, compared to an increase of \$1.87 million last year.

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.

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2005**

GENERAL FUND (CONTINUED)

General Fund Budgetary Highlights

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

- Implementing budgets for specially funded projects, which may include grants, adjusting staffing and various instructional building allocations based on enrollment, and budgeting for certain unspent funds that are required to be carried over from fiscal year 2004.
- Changes in appropriations for significant unbudgeted costs.

While the District's final budget for the general fund anticipated that expenditures would exceed revenues by \$637,097, the actual results for the year show that expenditures exceeded revenues by \$408,170.

- Actual revenues were \$158,337, or 0.41%, less than budget, due largely to lower than expected federal program revenues and special education revenues.
- Actual expenditures were \$387,264, or 1.0%, less than budget.
 - Most of the expenditure budget savings are a result of positive variances across nearly all expenditure categories, highlighted by the following areas: 1) \$294,219 under budget on supplies 2) \$81,655 under budget on capital expenditures; and 3) \$57,592 under budget on payroll and benefits.

FOOD SERVICE FUND

The Food Service Fund revenue for 2004-2005 totaled \$1.85 million and expenditures were \$2.07 million, resulting in a fund balance decrease of \$213,378. The fund balance decrease was planned for and is primarily a result of the district's initiative to upgrade kitchen code compliance and take advantage of process flow opportunities. Several of these kitchen projects were completed during the year. The June 30, 2005 Food Service fund balance is \$78,371.

The Food Service Fund is anticipating a fund balance increase for 2005-2006 due to raising lunch prices (for the first time in many years) and favorable new financial legislation.

COMMUNITY SERVICE FUND

In 2004-2005, total revenues for the Community Service Fund were \$2.03 million and total expenditures were \$2.2 million. Total expenditures exceeded revenues by \$164,453, resulting in a decrease of the same amount in the June 30, 2005 fund balance. The Community Service Fund fund balance as of June 30, 2005 is \$193,599. Providing necessary staffing needs for the ECFE program and the 21st Century Learning Grant program in support of critical learning opportunities was the main reason for using fund balance resources in FY 2005.

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2005**

CAPITAL PROJECTS - BUILDING CONSTRUCTION FUND

The Building Construction Fund represents funds the District obtained by issuing \$495,000 of general obligation capital facilities bonds dated November 1, 2003. The bonds were issued to finance repair and maintenance projects at the Jr. High, Sr. High and Washington Learning Center. The work on these projects crossed into both Fiscal Year's 2004 and 2005 and was completed in FY 2005, leaving a fund balance of \$0.00 on June 30, 2005.

DEBT SERVICE FUND

Revenues and expenditures for the District's Debt Service Fund are tied directly to the District's bond principal and interest payment schedules. The Debt Service Fund expenditures exceeded revenues by \$80,693 in 2004-2005. The remaining fund balance of \$760,111 at June 30, 2005 is available for meeting future debt service obligations.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2005, the District had net capital assets of \$32,109,187 representing a broad range of capital assets, including school buildings, computer and audio-visual equipment, and other equipment for various instructional programs (see Table 8 below). More detailed information about capital assets can be found in Note 4 to the financial statements. Total depreciation expense for the year was \$1.14 million.

Table 8			
Capital Assets			
	2005	2004	Percentage Change
Land	\$ 623,282	\$ 623,282	0.0%
Land Improvements	2,177,800	1,893,819	13.0%
Buildings	45,980,068	45,999,552	0.0%
Equipment	4,260,421	3,682,653	13.6%
Less Accumulated Depreciation	(20,932,384)	(19,802,063)	5.4%
Total	\$ 32,109,187	\$ 32,397,243	-0.9%

Construction Plans

As of this writing, the District does not have any formal plan for additional large-scale construction projects in fiscal year 2006. The District completed a comprehensive facilities maintenance assessment study in the fall of fiscal year 2005. Long-term facilities maintenance planning by the Board and Administration continues in fiscal year 2006.

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2005**

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

Long-term Liabilities

At year-end, the District had \$19.01 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 \$2.29 million in separation and severance payable at June 30, 2005, a decrease of 1% from the previous year. Overall, the District's outstanding long-term liabilities decreased by 7.7% in fiscal year 2005. 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 \$1.74 million of outstanding bonds in the year ending June 30, 2005.

Table 9			
Outstanding Long-Term Liabilities			
	Total School District		Percent Change
	2005	2004	
General Obligation Bonds	\$ 19,013,921	\$ 20,752,395	-8.4%
U.S. EPA Loan Payable	5,425	10,425	-48.0%
Special Assessments	45,197	56,559	-20.1%
Accrued Vacation	143,768	146,682	-2.0%
Separation and Severance Payable	2,289,517	2,313,249	-1.0%
Total	\$ 21,497,828	\$ 23,279,310	-7.7%
Long-term liabilities:			
Due within one year	\$ 2,395,116	\$ 1,956,247	
Due in more than one year	19,102,712	21,323,063	
	\$ 21,497,828	\$ 23,279,310	

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 \$168.9 million for calendar year 2004.

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2005**

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 approximately at or 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, respond to enrollment decline, 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. Also, Willmar was awarded the prestigious "All-American City" designation in June 2005. Willmar is only the 18th Minnesota city to receive this award since 1949. Finally, in August 2005 the School Board initiated All Day Every Day Kindergarten beginning in the fall of 2005. All of these factors offer the potential of improved enrollment trends and higher property values for the district in future years.

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

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BASIC FINANCIAL STATEMENTS

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**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
STATEMENT OF NET ASSETS
JUNE 30, 2005
(WITH COMPARATIVE INFORMATION AS OF JUNE 30, 2004)**

	Governmental Activities	
	2005	2004
ASSETS		
Cash and Investments	\$ 4,987,337	\$ 7,198,569
Receivables		
Property Taxes	2,392,279	2,322,564
Other Governments	7,299,333	8,933,285
Other	168,716	148,500
Prepaid Items	59,029	317,778
Inventories	46,770	66,682
Bond issuance costs, net	4,366	10,916
Capital Assets		
Land	623,282	623,282
Other Capital Assets, Net of Depreciation	31,485,905	31,773,961
Total Assets	<u>47,067,017</u>	<u>51,395,537</u>
LIABILITIES		
Aid Anticipation Certificates Payable	-	2,537,065
Salaries and Wages Payable	2,929,270	2,768,640
Accounts and Contracts Payable	575,391	1,043,700
Accrued Interest	402,049	478,384
Due to Other Governmental Units	203,542	193,465
Deferred Revenue		
Property Taxes	3,419,488	3,448,534
Local Sources	280,145	235,159
Long-Term Liabilities		
Portion Due Within One Year	2,395,116	1,956,247
Portion Due in More Than One Year	19,102,712	21,323,063
Total Liabilities	<u>29,307,713</u>	<u>33,984,257</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	13,049,010	12,018,714
Restricted for:		
Operating Capital Purposes	362,164	274,641
State-Mandated Reserves	119,987	297,041
Food Service	78,371	291,749
Community Service	193,599	358,052
Debt Service	358,062	414,120
Capital Projects - Building Construction	-	362,950
Unrestricted	3,598,111	3,394,013
Total Net Assets	<u>\$ 17,759,304</u>	<u>\$ 17,411,280</u>

See accompanying Notes to Financial Statements.

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005
(WITH COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2004)**

2005			
Functions	Expenses	Charges for Services	Program Operating Grants and Contributions
Governmental Activities			
Administration	\$ 1,366,717	\$ -	\$ -
District Support Services	871,804	-	66,582
Regular Instruction	19,331,810	255,136	6,641,223
Vocational Education Instruction	994,894	21,469	121,478
Special Education Instruction	8,106,444	1,129,130	4,455,581
Instructional Support Services	1,844,924	8,583	404,262
Pupil Support Services	2,947,488	-	224,628
Sites and Buildings	3,340,607	47,746	5,685
Fiscal and Other Fixed Cost Programs	223,001	-	2,700
Food Service	2,066,305	679,110	1,173,265
Community Service	2,182,154	722,223	965,978
Interest and Fiscal Charges on Long-Term Liabilities	1,007,896	-	-
Total School District	<u>\$ 44,284,044</u>	<u>\$ 2,863,397</u>	<u>\$ 14,061,382</u>

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 Financial Statements.

	2005	2004
	Net (Expense)	Net (Expense)
	Revenue and	Revenue and
	Changes in	Changes in
	Net Assets	Net Assets
Revenues	Total	Total
Capital	Governmental	Governmental
Grants and	Activities	Activities
Contributions		
\$ -	\$ (1,366,717)	\$ (1,195,085)
15,984	(789,238)	(672,375)
200,101	(12,235,350)	(11,181,225)
3,037	(848,910)	(791,557)
868	(2,520,865)	(2,339,752)
96,624	(1,335,455)	(1,372,381)
-	(2,722,860)	(2,517,330)
560,865	(2,726,311)	(2,662,582)
-	(220,301)	(264,007)
-	(213,930)	(121,545)
-	(493,953)	(95,566)
-	(1,007,896)	(1,094,590)
<u>\$ 877,479</u>	<u>(26,481,786)</u>	<u>(24,307,995)</u>

1,646,005	2,077,862
284,300	242,495
2,330,594	2,250,811
22,475,565	22,383,185
96,235	110,285
3,358	938
<u>26,836,057</u>	<u>27,065,576</u>
354,271	2,757,581
<u>17,405,033</u>	<u>14,653,699</u>
<u>\$ 17,759,304</u>	<u>\$ 17,411,280</u>

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2005
(WITH COMPARATIVE INFORMATION AS OF JUNE 30, 2004)**

	Major		
	General	Food Service	Community Service
ASSETS			
Cash and Investments	\$ 2,770,575	\$ 78,737	\$ 157,384
Receivables			
Current Property Taxes	916,275	-	143,023
Delinquent Property Taxes	21,567	-	1,755
Due from Other Minnesota School Districts	1,100,000	-	-
Due from Minnesota Department of Education	4,989,964	342	113,794
Due from Federal through Minnesota Department of Education	989,481	12,070	38,212
Due from Other Governmental Units	-	-	-
Other Receivables	120,552	45	48,119
Due from Other Funds	-	-	-
Prepaid Items	57,397	300	1,332
Inventory	13,187	33,583	-
Total Assets	<u>\$ 10,978,998</u>	<u>\$ 125,077</u>	<u>\$ 503,619</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Aid Anticipation Certificates Payable	\$ -	\$ -	\$ -
Salaries and Wages Payable	2,799,654	17,425	112,191
Accounts Payable	484,775	29,281	37,800
Due to Other Governmental Units	196,512	-	7,030
Accrued Interest Payable	-	-	-
Deferred Revenue:			
Property Taxes Levied for Subsequent Year	916,965	-	148,619
Delinquent Property Taxes	21,567	-	1,755
Local Sources	111,320	-	2,625
Total Liabilities	<u>4,530,793</u>	<u>46,706</u>	<u>310,020</u>
Fund Balance			
Reserved for			
Staff Development	119,987	-	-
Severance and Health Benefits	840,077	-	-
Area Learning Center	-	-	-
Health and Safety	(45,284)	-	-
Operating Capital	362,164	-	-
Community Education Programs	-	-	43,570
Early Childhood and Family Educations Programs	-	-	-
School Readiness	-	-	6,648
Building Construction	-	-	-
Unreserved			
Undesignated, Reported In			
General Fund	5,171,261	-	-
Debt Service Fund	-	-	-
Special Revenue Funds	-	78,371	143,381
Total Fund Balance	<u>6,448,205</u>	<u>78,371</u>	<u>193,599</u>
Total Liabilities and Fund Balance	<u>\$ 10,978,998</u>	<u>\$ 125,077</u>	<u>\$ 503,619</u>

See accompanying Notes to Financial Statements.

Funds		Total Governmental	
Capital Projects	Debt Service	Funds	
		2005	2004
\$ -	\$ 1,944,719	\$ 4,951,415	\$ 7,198,569
-	1,280,026	2,339,324	2,272,851
-	29,633	52,955	49,713
-	-	1,100,000	1,100,000
-	55,470	5,159,570	6,874,012
-	-	1,039,763	957,912
-	-	-	3,903
-	-	168,716	145,958
-	-	-	28,950
-	-	59,029	317,778
-	-	46,770	66,682
<u>\$ -</u>	<u>\$ 3,309,848</u>	<u>\$ 14,917,542</u>	<u>\$ 19,016,328</u>
\$ -	\$ -	\$ -	\$ 2,537,065
-	-	2,929,270	2,768,640
-	-	551,856	1,039,360
-	-	203,542	193,465
-	-	-	37,240
-	2,353,904	3,419,488	3,448,534
-	29,633	52,955	49,713
-	166,200	280,145	235,159
<u>-</u>	<u>2,549,737</u>	<u>7,437,256</u>	<u>10,309,176</u>
-	-	119,987	209,418
-	-	840,077	872,617
-	-	-	138,461
-	-	(45,284)	(50,838)
-	-	362,164	274,641
-	-	43,570	164,951
-	-	-	40,235
-	-	6,648	17,931
-	-	-	362,950
-	-	5,171,261	5,409,298
-	760,111	760,111	840,804
-	-	221,752	426,684
<u>-</u>	<u>760,111</u>	<u>7,480,286</u>	<u>8,707,152</u>
<u>\$ -</u>	<u>\$ 3,309,848</u>	<u>\$ 14,917,542</u>	<u>\$ 19,016,328</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
YEAR ENDED JUNE 30, 2005
(WITH COMPARATIVE INFORMATION AS OF JUNE 30, 2004)**

	<u>2005</u>	<u>2004</u>
Total Fund Balance for Governmental Funds	\$ 7,480,286	\$ 8,707,152
Total net assets reported for governmental activities in the statement of net assets is different because:		
Capital assets used in governmental funds are not financial resources and therefore are not reported in the funds. Those assets consist of:		
Land	623,282	623,282
Land Improvements, Net of Accumulated Depreciation	746,583	542,208
Buildings and Improvements, Net of Accumulated Depreciation	29,459,718	30,367,091
Equipment and Vehicles, Net of Accumulated Depreciation	1,279,604	864,662
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.		
	52,955	49,713
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.		
	(402,049)	(441,144)
Bond issuance costs are reported as expenditures in the governmental funds.		
	4,366	10,916
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:		
	12,387	(33,290)
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	(19,010,000)	(20,750,079)
Unamortized Premiums	(3,921)	(2,316)
Capital Improvement Loans Payable	(5,425)	(10,425)
Other Loan	(45,197)	(56,559)
Severance Benefits Payable	(2,289,517)	(2,313,249)
Compensated Absences Payable	(143,768)	(146,682)
Total Net Assets of Governmental Activities	<u>\$ 17,759,304</u>	<u>\$ 17,411,280</u>

See accompanying Notes to 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, 2005
(WITH COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2004)**

	Major		
	General	Food Service	Community Service
REVENUES			
Local Sources			
Property Taxes	\$ 1,645,621	\$ -	\$ 284,580
Earnings on Investments	71,337	549	1,898
Other	2,037,954	680,903	923,818
State Sources	31,476,589	173,595	657,680
Federal Sources	2,813,608	997,880	163,061
Total Revenues	38,045,109	1,852,927	2,031,037
EXPENDITURES			
Current			
Administration	1,367,749	-	-
District Support Services	848,471	-	-
Regular Instruction	18,203,152	-	-
Vocational Education Instruction	996,008	-	-
Special Education Instruction	8,050,284	-	-
Instructional Support Services	1,728,040	-	-
Pupil Support Services	3,038,442	-	-
Sites and Buildings	3,148,243	-	-
Fiscal and Other Fixed Cost Programs	222,139	-	-
Food Service	-	1,959,951	-
Community Service	-	-	2,168,927
Capital Outlay	850,751	106,354	26,563
Debt Service			
Principal	-	-	-
Interest and Fiscal Charges	-	-	-
Total Expenditures	38,453,279	2,066,305	2,195,490
Excess (Deficiency) of Revenues			
Over (Under) Expenditures	(408,170)	(213,378)	(164,453)
OTHER FINANCING SOURCES (USES)			
Insurance Recovery Proceeds	2,778	-	-
Sale of Bonds Proceeds	-	-	-
Payment to Refunded Bond Escrow Agent	-	-	-
Total Other Financing Sources (Uses)	2,778	-	-
Net Change in Fund Balances	(405,392)	(213,378)	(164,453)
Fund Balances - Beginning	6,853,597	291,749	358,052
Fund Balances - Ending	\$ 6,448,205	\$ 78,371	\$ 193,599

See accompanying Notes to Financial Statements.

Funds		Total Governmental	
Capital		Funds	
Projects -			
Building	Debt		
Construction	Service	2005	2004
\$ -	\$ 2,327,456	\$ 4,257,657	\$ 4,576,808
-	22,451	96,235	110,285
-	-	3,642,675	3,384,544
-	353,315	32,661,179	32,358,772
-	-	3,974,549	3,357,969
-	2,703,222	44,632,295	43,788,378
-	-	1,367,749	1,372,933
-	-	848,471	739,775
-	-	18,203,152	16,834,677
-	-	996,008	956,050
-	-	8,050,284	7,385,608
-	-	1,728,040	1,852,514
-	-	3,038,442	2,674,200
-	-	3,148,243	3,160,351
-	-	222,139	263,146
-	-	1,959,951	1,741,815
-	-	2,168,927	1,663,488
362,950	-	1,346,618	842,400
-	1,740,000	1,740,000	1,620,000
-	1,043,915	1,043,915	1,150,213
362,950	2,783,915	45,861,939	42,257,170
(362,950)	(80,693)	(1,229,644)	1,531,208
-	-	2,778	938
-	-	-	1,389,711
-	-	-	(875,000)
-	-	2,778	515,649
(362,950)	(80,693)	(1,226,866)	2,046,857
362,950	840,804	8,707,152	6,660,295
\$ -	\$ 760,111	\$ 7,480,286	\$ 8,707,152

**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, 2005
(WITH COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2004)**

	<u>2005</u>	<u>2004</u>
Net Change in Fund Balance-Total Governmental Funds	\$ (1,226,866)	\$ 2,046,857

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$2,500 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlays	861,006	352,746
Gain (Loss) on Disposal of Capital Assets	(6,247)	(12,141)
Depreciation Expense	(1,142,815)	(1,113,036)

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	-	(1,389,711)
Bond Issuance Costs	-	15,282
Repayment of Loan Principal	5,000	5,000
Payment of Special Assessment Principal	11,362	23,537
Repayment of Bond Principal	1,735,000	2,492,316
Change in Accrued Interest Expense - General Obligation Bonds	39,095	31,260
Amortization of Bond Issuance Costs	(6,550)	(4,366)
Amortization of Bond Premium	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.

3,242	(5,639)
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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).

26,646	282,184
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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.

45,677	33,292
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Change in Net Assets of Governmental Activities	<u>\$ 348,024</u>	<u>\$ 2,757,581</u>
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**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, 2005

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2004)

	2005			2004
	Budgeted Amounts		Over (Under) Final Budget	Actual Amounts
	Original	Final	Amounts	
REVENUES				
Local Sources				
Property Taxes	\$ 1,564,530	\$ 2,010,207	\$ 1,645,621	\$ (364,586) \$ 2,082,070
Earnings on Investments	75,000	60,000	71,337	11,337 82,231
Other	1,252,198	1,951,423	2,037,954	86,531 1,956,117
State Sources	31,598,705	31,277,878	31,476,589	198,711 31,101,722
Federal Sources	2,458,957	2,903,938	2,813,608	(90,330) 2,045,563
Total Revenues	36,949,390	38,203,446	38,045,109	(158,337) 37,267,703
EXPENDITURES				
Current:				
Administration	1,298,044	1,406,371	1,367,749	(38,622) 1,372,933
District Support Services	993,103	816,994	848,471	31,477 739,775
Regular Instruction	17,917,381	18,455,949	18,203,152	(252,797) 16,528,515
Vocational Education Instruction	850,156	1,017,994	996,008	(21,986) 956,050
Special Education Instruction	7,414,101	8,066,241	8,050,284	(15,957) 7,385,608
Instructional Support Services	1,770,260	1,758,829	1,728,040	(30,789) 1,852,514
Pupil Support Services	2,596,107	2,958,610	3,038,442	79,832 2,664,192
Sites and Buildings	3,056,646	3,205,007	3,148,243	(56,764) 3,035,953
Fiscal and Other Fixed				
Cost Programs	249,374	222,142	222,139	(3) 263,146
Capital Outlay	799,560	932,406	850,751	(81,655) 738,792
Total Expenditures	36,944,732	38,840,543	38,453,279	(387,264) 35,537,478
Excess (Deficiency) of Revenues Over (Under) Expenditures	4,658	(637,097)	(408,170)	228,927 1,730,225
OTHER FINANCING SOURCES (USES)				
Insurance Recovery Proceeds	2,500	2,778	2,778	- 938
Total Other Financing Sources (Uses)	2,500	2,778	2,778	- 938
Net Change in Fund Balances	\$ 7,158	\$ (634,319)	(405,392)	\$ 228,927 1,731,163
FUND BALANCE				
Beginning of Year			6,853,597	5,122,434
End of Year			\$ 6,448,205	\$ 6,853,597

See accompanying Notes to 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, 2005
(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2004)**

	2005			2004	
	Budgeted Amounts		Actual Amounts	Over (Under) Final Budget	Actual Amounts
	Original	Final			
REVENUES					
Local Sources					
Earnings on Investments	\$ 7,000	\$ 3,000	\$ 549	\$ (2,451)	\$ 3,614
Other - Primarily Meal Sales	645,604	618,497	680,903	62,406	669,675
State Sources	142,955	170,184	173,595	3,411	112,955
Federal Sources	937,329	975,510	997,880	22,370	942,719
Total Revenues	<u>1,732,888</u>	<u>1,767,191</u>	<u>1,852,927</u>	<u>85,736</u>	<u>1,728,963</u>
EXPENDITURES					
Current					
Food Service	1,792,709	1,896,528	1,959,951	63,423	1,741,815
Capital Outlay	122,870	75,299	106,354	31,055	94,360
Total Expenditures	<u>1,915,579</u>	<u>1,971,827</u>	<u>2,066,305</u>	<u>94,478</u>	<u>1,836,175</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ (182,691)</u>	<u>\$ (204,636)</u>	<u>(213,378)</u>	<u>\$ (8,742)</u>	<u>(107,212)</u>
FUND BALANCE					
Beginning of Year			<u>291,749</u>		<u>398,961</u>
End of Year			<u>\$ 78,371</u>		<u>\$ 291,749</u>

See accompanying Notes to 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, 2005
(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2004)**

	2005			2004	
	Budgeted Amounts		Actual Amounts	Over (Under) Final Budget	Actual Amounts
	Original	Final			
REVENUES					
Local Sources					
Property Taxes	\$ 217,716	\$ 219,297	\$ 284,580	\$ 65,283	\$ 242,332
Earnings on Investments	4,000	4,000	1,898	(2,102)	4,098
Other - Primarily Tuition and Fees	726,705	805,421	923,818	118,397	758,752
State Sources	851,780	729,717	657,680	(72,037)	740,560
Federal Sources	53,011	238,911	163,061	(75,850)	369,687
Total Revenues	1,853,212	1,997,346	2,031,037	33,691	2,115,429
EXPENDITURES					
Current					
Community Service	1,886,002	1,974,368	2,168,927	194,559	1,979,658
Capital Outlay	29,200	37,489	26,563	(10,926)	9,248
Total Expenditures	1,915,202	2,011,857	2,195,490	183,633	1,988,906
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ (61,990)	\$ (14,511)	(164,453)	\$ (149,942)	126,523
FUND BALANCE					
Beginning of Year			358,052		231,529
End of Year			\$ 193,599		\$ 358,052

See accompanying Notes to Financial Statements.

WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
STATEMENT OF FUND NET ASSETS
PROPRIETARY FUND
JUNE 30, 2005
(WITH COMPARATIVE TOTALS AS OF JUNE 30, 2004)

	Governmental Activities - Internal Service Funds	
	2005	2004
ASSETS		
Current Assets		
Cash and Investments	\$ 35,922	\$ -
Total Assets	<u>\$ 35,922</u>	<u>\$ -</u>
LIABILITIES		
Current Liabilities		
Accounts Payable	\$ 23,535	\$ 4,340
Noncurrent liabilities		
Advances from Other Funds	-	28,950
Total Liabilities	<u>23,535</u>	<u>33,290</u>
NET ASSETS		
Unrestricted	<u>12,387</u>	<u>(33,290)</u>
	<u>\$ 35,922</u>	<u>\$ -</u>

See accompanying Notes to 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, 2005
(WITH COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2004)

	Governmental Activities - Internal Service Funds	
	2005	2004
OPERATING REVENUES		
Charges for Services	\$ 242,181	\$ 236,795
Total Operating Revenues	242,181	236,795
OPERATING EXPENSES		
Dental Insurance Claim Payments	171,417	177,873
General Administration Fees	25,087	25,630
Total Operating Expenses	196,504	203,503
Operating Income	45,677	33,292
Total Net Assets - Beginning	(33,290)	(66,582)
Total Net Assets - Ending	\$ 12,387	\$ (33,290)

See accompanying Notes to Financial Statements.

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2005
(WITH COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2004)**

	Governmental Activities - Internal Service Funds	
	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Interfund Services Provided	\$ 242,181	\$ 236,795
Payments for Administrative Costs	(25,087)	(25,630)
Payments for Dental Fees and Insurance Claims	(152,222)	(176,759)
Net Cash Provided by Operating Activities	64,872	34,406
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers From Other Funds	(28,950)	(34,406)
Net Increase in Cash and Cash Equivalents	35,922	-
Cash and Cash Equivalents - Beginning	-	-
Cash and Cash Equivalents - Ending	\$ 35,922	\$ -
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	\$ 45,677	\$ 33,292
Adjustments to Reconcile Operating Income to Net Cash		
Provided by Operating Activities:		
Increase in Accounts Payable	19,195	1,114
Total Adjustments	19,195	1,114
Net Cash Provided by Operating Activities	\$ 64,872	\$ 34,406

See accompanying Notes to Financial Statements.

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2005**

	<u>Private- Purpose Trust</u>
ASSETS	
Cash and Investments	\$ 37,150
Interest receivable	190
Total Assets	<u>\$ 37,340</u>
LIABILITIES	
Accounts Payable	<u>\$ 1,200</u>
Total Liabilities	<u>\$ 1,200</u>
NET ASSETS	
Held in Trust for Scholarships	<u>\$ 36,140</u>
Total Net Assets	<u>\$ 36,140</u>

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
JUNE 30, 2005**

	<u>Private- Purpose Trust</u>
ADDITIONS	
Contributions	\$ 2,700
Interest Income	320
Total Additions	<u>3,020</u>
DEDUCTIONS	
Scholarship Obligations	<u>1,700</u>
Total Deductions	<u>1,700</u>
Change in Net Assets	1,320
Net Assets - Beginning of Year	34,820
Net Assets - End of Year	<u>\$ 36,140</u>

See accompanying Notes to Financial Statements.

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**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

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 U.S. generally accepted accounting principles for state and local governments.

This financial report has been prepared in conformity with GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, issued in June 1999.

B. Financial Reporting Entity

Independent School District 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.

U.S. Generally Accepted Accounting Principles (GAAP) require that the District's financial statements include all funds, account groups, departments, agencies, boards, commissions, and other organizations which are not legally separated from the District. In addition, the District's financial statements are to include all component units - entities for which the District is financially accountable.

Financial accountability includes such aspects as appointing a voting majority of the organization's governing body, significantly influencing the programs, projects, activities or level of services performed or provided by the organization or receiving specific financial benefits from, or imposing specific financial burden on, the organization. These financial statements include all funds and account groups of the District. There are no other entities for which the District is financially accountable.

Student activities are determined primarily by student participants under the guidance of an adult and are generally conducted outside school hours. The School Board does have a fiduciary responsibility in establishing broad policies and ensuring that appropriate financial records are maintained for student activities. However, in accordance with Minnesota State Statutes, the District's School Board has not elected to control or exercise oversight responsibility with respect to the underlying student activities. Accordingly, the student activity accounts are not included in these financial statements.

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

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 FINANCIAL STATEMENTS
JUNE 30, 2005**

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 FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

The District reports deferred revenue on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to incurring the qualifying expenditures. In subsequent periods when both revenue recognition criteria are met or when the District has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

Description of Funds

The existence of the various District funds has been established by the State of Minnesota, Department of Education. The accounts of the district are organized on the basis of funds, each of which is considered a separate accounting entity. A description of the funds included in this report is as follows:

Major Governmental Funds

General Fund – The General Fund is used to account for all financial resources except those required to be accounted for in another fund. It includes the general operations and pupil transportation activities of the district, as well as the capital related activities such as maintenance of facilities equipment purchases, health and safety projects, and disabled accessibility projects.

Food Service Special Revenue Fund - The Food Service Fund is used to account for food service revenues and expenditures.

Community Service Special Revenue Fund - The Community Service Fund is used to account for services provided to residents in the areas of recreation, civic activities, nonpublic pupils, veterans, adult or early childhood programs or other similar services.

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

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

Proprietary Fund

Internal Service Fund – The Internal Service Fund accounts for financing of goods or services provided by one department to other departments or agencies of the government, or to other governments, on a cost-reimbursement basis. The District's Internal Service Fund accounts for the District's dental self-insurance program. The self-insurance costs are charged to the various funds based on established premium rates.

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

Fiduciary Funds

Private Purpose Trust Fund – The Private Purpose Trust Fund is used to account for trust arrangements under which principal and income benefits individuals, private organizations, or other governments. This fund accounts for gifts and bequests that are to be used for scholarships.

E. Budgeting

Budgets presented in this report for comparison to actual amounts are presented in accordance with U.S. generally accepted accounting principles. Each June, the School Board adopts an annual budget for the following fiscal year for the General, Food Service, Community Service, and Debt Service Funds. The approved budget is published in summary form in the District's legal newspaper by October 1 of each year. Reported budget amounts represent the amended budget as adopted by the School Board. Legal budgetary control is at the fund level.

Procedurally, in establishing the budgetary data reflected in these financial statements, the Superintendent submits to the School Board prior to July 1, a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means to finance them. The budget is legally enacted by School Board action. Revisions to budgeted amounts must be approved by the School Board.

Total fund expenditures in excess of the budget require approval of the School Board. Spending control is established by the amount of expenditures budgeted for the fund, but management control is exercised at line item levels.

Budgeted amounts include mid-year budget amendments that increased the General Fund revenue and expenditure budgets by \$1,254,334 and \$1,895,807, respectively.

Unencumbered expenditure appropriations lapse at year-end. Encumbrances are generally not recorded.

Budget provisions for the Debt Service Fund are set by state law governing required debt service levels.

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.

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 School Board in December each year and are certified to the County for collection the following calendar year. In Minnesota, counties act as collection agents for all property taxes. The County spreads all levies over taxable property. Such taxes become a lien on January 1. Taxes are due on May 15 and October 15. The county generally remits taxes to the District at periodic intervals as they are collected. A portion of property taxes levied is paid through various state tax credits which are included in revenue from state sources in the financial statements.

Generally, tax revenue is recognized in the fiscal year ending June 30, following the calendar year in which the tax levy is collectible, while the current calendar year tax levy is recorded as deferred revenue (property taxes levied for subsequent year).

The majority of District revenue in the General and Special Revenue Funds is determined annually by statutory funding formulas. The total revenue allowed by these formulas is then allocated between taxes and state aids by the Legislature based on education funding priorities. Changes in this allocation are periodically accompanied by a change in property tax revenue recognition referred to as the "tax shift."

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Property Taxes (Continued)

In accordance with State law, the current tax shift consists of an amount equal to 31% of the District's 2000 Pay 2001 operating referendum levy (frozen at \$184,153) for the district that is advance recognized as revenue in fiscal year 2005 with no corresponding state aid adjustment. Starting in fiscal year 2004, the shift was expanded to include all other general and community service fund levies (net of credits). State aids are then reduced (or paid back to the District in the case of a reverse tax shift) by this expanded shift amount, making this portion of the tax shift revenue neutral to school districts. For 2005, this resulted in an increase in the advance recognition of tax revenue in the General Fund (and corresponding state aid holdback totaling \$113,749) and also included an advance recognition (tax shift) of tax in the District's Community Service Fund (and corresponding state aid holdback totaling \$70,681). Certain other portions of the District's 2004 Pay 2005 levy, normally revenue for the 2005-06 fiscal year, are also advance recognized at June 30, 2005, as required by state statute to match revenue with the same fiscal year as the related expenditures.

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, 2005, 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 FINANCIAL STATEMENTS
JUNE 30, 2005**

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, 2005, unpaid vacation pay totaling \$143,768 is recorded in the financial statements.

Sick Pay

Substantially all District employees are entitled to sick leave at various rates. For certain employees, unused sick leave enters into the calculation of severance pay upon termination.

Severance and Health Benefits

Severance and health benefits consist of early retirement incentive payments and post-employment healthcare benefits. Accounting policies for severance and health benefits are described below.

1. Early Retirement Incentive Payment – Secretarial Staff

An early retirement incentive payment is available to secretaries who have completed at least 15 years of continuous service with the District and are at least 55 years of age. An eligible individual will receive an amount equal to 75% of the number of unused accumulated sick leave hours multiplied by the employee's hourly rate of pay, not to exceed 600 hours, less any TSA match the District contributed.

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Accrued Employee Benefits (Continued)

2. Early Retirement Incentive Payment – Library Clerical Staff and Special Education Paraprofessionals

An early retirement incentive payment is available to library clerical staff and special education paraprofessionals who have completed at least 15 years of continuous service with the District and are at least 57 and 58 years of age, respectively. An eligible individual will receive an amount equal to 75% of the number of unused accumulated sick leave days multiplied by the employee's daily rate of pay, not to exceed 115 days. For special education paraprofessionals, the early retirement payment is reduced by any TSA match the District contributed.

3. Early Retirement Incentive Payment – Food Service Staff

An early retirement incentive payment is available to food service staff who have completed at least 15 years of continuous service with the District and are at least 55 years of age. An eligible individual will receive an amount equal to 75% of the number of unused accumulated sick leave hours multiplied by the employee's hourly rate of pay, not to exceed 430 hours.

4. Early Retirement Incentive Payment – Administrators

An early retirement incentive payment is available to administrators who have completed at least 10 years of continuous service with the District and are at least 55 years of age but not more than 65 years of age. An eligible administrator will receive an amount equal to the number of unused accumulated sick leave days multiplied by the employee's daily rate of pay, not to exceed 157 days, less any TSA match the District contributed.

5. Early Retirement Incentive Payment – Teachers

An early retirement incentive payment is available to teachers who have completed at least 15 years of continuous service with the District and are at 55 years of age. An eligible teacher will receive an amount equal to the 50% of the number of unused accumulated sick leave days multiplied by the employee's daily rate of pay, not to exceed 90 days, less any TSA match the District contributed.

Teachers that have completed at least 15 years of continuous service with the District and are at least 55 years of age are also eligible to receive a severance payment in an amount equal to the teacher's number of years of service multiplied by four and the employee's daily rate of pay, not to exceed 100 days, less any TSA match the District contributed.

6. Early Retirement Incentive Payment – Custodians

Custodians that have completed at least 15 years of continuous service with the District and are at least 55 years of age are eligible to receive a severance payment in amount equal to 75% of the number of years of service multiplied by 10 days, not to exceed 150 days, at the employee's daily rate of pay.

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Accrued Employee Benefits (Continued)

7. Early Retirement Incentive Payment – Confidential Employees

An early retirement incentive payment is available to confidential employees who have completed at least 15 years of continuous service with the District and are at least 55 years of age. An eligible individual will receive an amount equal to 75% of the number of unused accumulated sick leave hours multiplied by the employee's hourly rate of pay, not to exceed 700 hours, less any TSA match the District contributed.

8. Post-Employment Health Care Benefits

Under the terms of previous employment contracts, when teachers retired between the ages of 55 to 65, the District provided life and health insurance benefits which would cease when such employees attain the age of 65. This benefit is no longer available to employees; however the District continues to pay health insurance for qualified individuals that retired when this benefit was in effect.

During fiscal year 2005, total expenditures for early retirement incentive payments and post-employment health care benefits totaled \$689,280. At June 30, 2005, a liability for early retirement incentive payments and post-employment health care benefits totaling \$2,289,517 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.

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.

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. Risk Management (Continued)

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

A. Excess of Expenditures Over Budget

Expenditures exceeded budgeted amounts in the following funds at June 30, 2005.

	<u>Budget</u>	<u>Expenditures</u>	<u>Excess</u>
Special Revenue Funds			
Food Service Fund	\$ 1,971,827	\$ 2,066,305	\$ 94,478
Community Service Fund	2,011,857	2,195,490	183,633

NOTE 3 DEPOSITS AND INVESTMENTS

A. Deposits

The District maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash and 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, 2005 were entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota statutes.

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

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, 2005 the District did not have any investments.

C. Balance Sheet Presentation

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

Deposits	\$ 5,024,287
Cash on Hand	200
	<u>\$ 5,024,487</u>
Cash and Investments - Statement of Net Assets	\$ 4,987,337
Cash and Investments - Statement of Fiduciary Net Assets	37,150
Total Cash and Investments	<u>\$ 5,024,487</u>

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 4 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005 was as follows:

	Beginning Balance	Increases	Decreases	Adjustments	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	1,893,819	240,170	-	43,811	2,177,800
Buildings and Improvements	45,999,552	-	-	(19,484)	45,980,068
Equipment	3,682,653	620,836	(18,741)	(24,327)	4,260,421
Total Capital Assets, Being Depreciated	51,576,024	861,006	(18,741)	-	52,418,289
Accumulated Depreciation for					
Land Improvements	(1,351,611)	(79,606)	-	-	(1,431,217)
Buildings and Improvements	(15,632,461)	(887,676)	-	213	(16,519,924)
Equipment	(2,817,991)	(175,533)	12,494	(213)	(2,981,243)
Total Accumulated Depreciation	(19,802,063)	(1,142,815)	12,494	-	(20,932,384)
Total Capital Assets, Being Depreciated, Net	31,773,961	(281,809)	(6,247)	-	31,485,905
Governmental Activities Capital Assets, Net	<u>\$ 32,397,243</u>	<u>\$ (281,809)</u>	<u>\$ (6,247)</u>	<u>\$ -</u>	<u>\$ 32,109,187</u>

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 4 CAPITAL ASSETS (CONTINUED)

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

Governmental Activities		
Administration		\$ 1,620
District Support Services		1,140
Regular Instruction		1,006,734
Vocational Education Instruction		475
Special Education Instruction		3,328
Instructional Support Services		64,407
Pupil Support Services		18,512
Sites and Buildings		38,007
Fiscal and Other Fixed Cost Programs		862
Community Service		7,730
Total Depreciation Expense, Governmental Activities		<u>\$ 1,142,815</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:					
6/1/1997	4.65% - 5.35%	\$ 20,650,000	2/1/2015	\$ 1,020,000	\$ 18,105,000
11/1/2003	2.00% - 2.50%	495,000	2/1/2008	150,000	480,000
11/1/2003	2.00%	885,000	2/1/2006	425,000	425,000
Total General Obligation Bonds				1,595,000	19,010,000
Bond Premium - net				2,583	3,921
State Energy Loans Payable				5,000	5,425
Special Assessments Payable				10,338	45,197
Severance and Health Benefits Payable				652,804	2,289,517
Compensated Absences Payable				129,391	143,768
				\$ 2,395,116	\$ 21,497,828

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

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
2006	\$ 1,595,000	\$ 964,918	\$ 5,000	\$ -	\$ 10,338	\$ 3,002
2007	1,745,000	902,928	425	-	10,338	2,315
2008	1,870,000	819,677		-	8,052	1,628
2009	1,810,000	729,578	-	-	8,052	1,090
2010	1,945,000	636,362	-	-	8,417	694
2011 - 2015	10,045,000	1,514,075	-	-	-	-
2016 - 2020	-	-	-	-	-	-
	<u>\$ 19,010,000</u>	<u>\$ 5,567,538</u>	<u>\$ 5,425</u>	<u>\$ -</u>	<u>\$ 45,197</u>	<u>\$ 8,729</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. Future ad valorem tax levies are dedicated to the retirement of these bonds.

On November 1, 2003, the District issued \$495,000 of General Obligation Capital Facilities Bonds, Series 2003A. The proceeds of this issue were used to finance various school roofing and parking lot improvements. Capital facilities revenues under Minnesota Statute Section 124.2455, are dedicated to the retirement of these bonds. In the event the capital facilities revenues are not sufficient, the District will levy property taxes for the deficiency.

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

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.

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 5 GENERAL LONG-TERM DEBT (CONTINUED)

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, 2005.

Severance and Health Benefits Payable

Severance and health benefits payable consist of early retirement incentive payments, post-retirement health insurance benefits payable to employees upon retirement. Severance and health benefits have been paid by the General and Special Revenue Funds.

D. Changes in Long-Term Debt

	June 30, 2004	Net Additions	Retirements	Changes in Vacation & Severance Payable	June 30, 2005
Bonds Payable	\$ 20,745,000	\$ -	\$ 1,735,000	\$ -	\$ 19,010,000
Bond Premium	7,395	-	3,474	-	3,921
State Energy Loans Payable	10,425	-	5,000	-	5,425
Special Assessments Payable	56,559	-	11,362	-	45,197
Severance and Health Benefits Payable	2,313,249	-	-	(23,732)	2,289,517
Compensated Absences Payable - Net	146,682	-	-	(2,914)	143,768
	<u>\$ 23,279,310</u>	<u>\$ -</u>	<u>\$ 1,754,836</u>	<u>\$ (26,646)</u>	<u>\$ 21,497,828</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 (6.25% at June 30, 2005) and is unsecured. This line matures on October 12, 2006. There is no balance outstanding under this arrangement as of June 30, 2005.

NOTE 6 SHORT-TERM DEBT

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

	2004	Additions	Retirements	2005
2003 Aid Anticipation Certificate; matured August 27, 2004; including interest at 1.75%	<u>\$ 2,537,065</u>	<u>\$ -</u>	<u>\$ 2,537,065</u>	<u>\$ -</u>

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 7 RESERVED FUND BALANCES

Fund Equity

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

A. Reserved for Staff Development

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

B. Reserved for 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 non-teaching employees that are estimated to be paid in fiscal year 2005-2006.

C. Reserved for Area Learning Center

Represents available resources dedicated exclusively for students attending an area learning center as required by state statute.

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.

F. Reserved for Community Education Programs

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

G. 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.

H. 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.

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 7 RESERVED FUND BALANCES (CONTINUED)

I. Reserved for Building Construction

The fund balance reservation represents accumulated resources available to construct facilities.

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.

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, 2005, 2004 and 2003 were \$923,121, \$886,067 and \$848,177, respectively, equal to the required contributions for each year as set by state statute.

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 8 PENSION PLANS (CONTINUED)

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.

2. Funding Policy

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

The District was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members, 5.53% for Coordinated Plan PERF members. The contribution requirements of plan members and the District are established by and may be amended by State Statute. The District's contributions for the years ending June 30, 2005, 2004 and 2003, were \$316,713, \$295,454 and \$286,077, respectively, equal to the contractually required contributions for each year as set by state statute.

NOTE 9 SELF-INSURED DENTAL PLAN

The School District has elected to self-insure their employee dental insurance program. The School District has entered into an agreement with an insurance company to provide stop-loss insurance to limit the losses on individual and aggregate claims and to provide claims processing and other administrative duties. The individual stop-loss amount is \$1,000 per participant. The School District established an internal service fund to account for contributions from other funds for dental insurance and to establish a reserve for catastrophic losses. Contributions during the year were based on maximum claims before

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 9 SELF-INSURED DENTAL PLAN (CONTINUED)

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 \$171,417 for the year ended June 30, 2005.

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

Unpaid Claims, Beginning of Year	\$ 4,340
Incurred Claims	171,417
Claims Payments (cash basis)	<u>(152,222)</u>
Unpaid Claims, End of Year	<u>\$ 23,535</u>

NOTE 10 OPERATING LEASES

The District is committed under long-term operating leases for the rental of office, classroom, and storage facilities, the rental of office equipment, and the rental of maintenance equipment and vehicles. The facilities lease expires June 30, 2006. Rent of \$3,209 is payable monthly. Office equipment is leased under varying terms, with leases running through November 2007. The maintenance equipment lease requires monthly payments of \$435 and expires in November 2005. Vehicles are leased under varying terms with leases running through August 2006.

Total rent expense includes the following:

	Amount
Maintenance Equipment	\$ 4,745
Facilities	55,717
Office Equipment	44,451
Vehicles	15,352
Total	<u>\$ 120,265</u>

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

Minimum Lease Payments For the Year Ended June 30:	Amount
<u>2006</u>	<u>\$ 70,202</u>
2007	13,963
2008	<u>1,674</u>
Total	<u>\$ 85,839</u>

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

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.

C. Commitments

On March 14, 2005 the District sold \$16,265,000 of new bonds which will be used to pay off the remaining Sr. High Bond Debt. This action is expected to save local taxpayers \$1.1 million over the next nine years. The actual effective date of the bonds is November 1, 2005. This type of transaction is generally referred to as a "forward refunding" and does not impact the District's financial statements until the bonds are issued.

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 \$46,357 for the year ended June 30, 2005. The City paid the District for its provision of services \$51,333 for the year ended June 30, 2005. This agreement is perpetual but may be canceled upon six months written notice by either party.

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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, 2005**

Grantor/Program	CFDA Number	Pass-Through Number	Expenditures
US Department of Agriculture			
Pass-Through Minnesota Department of Education			
Type A Lunch	10.555	1-347-000	\$ 601,008
After School Snack	10.558	1-347-000	3,327
School Breakfast Program	10.553	1-347-000	276,191
Food Distribution (Commodities)	10.550	1-347-000	101,596
Commodities Rebates	10.550	1-347-000	11,797
Total US Department of Agriculture			<u>993,919</u>
US. Department of Education			
Pass-Through Minnesota Department of Education			
* Special Education - Flow Through	84.027	N/A	521,418
* Title I Grants to Local Education Agencies	84.010	N/A	812,711
Title I, Part C - Education of Migrant Children	84.011	N/A	205,171
Title I Comp Delinquent	84.013	N/A	135,609
Reading First	84.357	N/A	686,823
Title II, Part A - Teacher Quality	84.367	N/A	261,386
Title V, Part A - Innovative Programs	84.298	N/A	24,162
Title III, Part A - English Language Acquisition	84.365	N/A	73,601
Carl Perkins	84.048A	N/A	41,280
Title VI, Part A - Safe and Drug Free Schools	84.186	N/A	28,076
Title II, Part D - Enhancing Education Through Technology	84.318	N/A	26,110
Title IV, Part B - 21st Century Community Learning Centers	84.287	N/A	116,154
Federal Adult Basic Education	84.002	N/A	46,906
Total US Department of Education			<u>2,979,407</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE EXPENDED			<u><u>\$ 3,973,326</u></u>

* Major Program

See accompanying Notes to Schedule of Expenditures of Federal Awards

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2005**

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, 2005, the District had food commodities totaling \$33,583 in inventory.

**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, 2005, which collectively comprise Independent School District No. 347's basic financial statements and have issued our report thereon dated September 28, 2005. 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 September 28, 2005.

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
September 28, 2005

**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, 2005. 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, 2005.

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

LARSON, ALLEN, WEISHAIR & CO., LLP

Austin, Minnesota
September 28, 2005

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, 2005, and have issued our report thereon dated September 28, 2005.

We conducted our audit in accordance with U.S. generally accepted auditing standards 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.

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
LARSON, ALLEN, WEISHAIR & CO., LLP

Austin, Minnesota
September 28, 2005

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**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005**

A. SUMMARY OF AUDITORS' 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 programs tested as major programs included:

U.S. Department of Education:

Special Education Cluster
Title I Grants to Local Education Agencies

CFDA #84.027
CFDA #84.010

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

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005**

B. FINDINGS – FINANCIAL STATEMENT AUDIT

None

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

D. FINDINGS AND QUESTIONED COSTS – MINNESOTA LEGAL COMPLIANCE

None

WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS
COMPLIANCE TABLE
JUNE 30, 2005

01 GENERAL FUND

Total Revenue	\$ 38,047,887
Total Expenditures	\$ 38,453,279
<i>Reserved:</i>	
403 Staff Development	\$ 119,987
406 Health & Safety	\$ (45,284)
407 Capital Project Levy	\$ -
408 Cooperative Programs	\$ -
409 Deferred Maintenance	\$ -
410 Unemployment Compensation	\$ -
411 Severance Pay	\$ 840,077
412 Bus Purchase	\$ -
414 Operating Debt	\$ -
416 Levy Reduction	\$ -
419 Encumbrances	\$ -
423 Certain Teacher Programs	\$ -
424 Operating Capital	\$ 362,164
426 \$25 Taconite	\$ -
427 Disabled Accessibility	\$ -
428 Learning & Development	\$ -
429 Parental Involvement	\$ -
433 Student Transport Safety	\$ -
434 Area Learning Center	\$ -
435 Contracted Alt. Programs	\$ -
436 State Approved Alt. Program	\$ -
437 Grad Standards Staff Develop.	\$ -
438 Grad Standards Gifted & Talented	\$ -
439 Grad Standards	\$ -
441 Basic Skills Programs	\$ -
442 Class Size, All-Day	\$ -
Kindergarten and Special Education	\$ -
Student-to-Instructor Ratio Reduction	\$ -
443 Telecommunication Access Cost	\$ -
445 Career and Technical Programs	\$ -
446 First Grade Preparedness	\$ -
<i>Unreserved:</i>	
418 Severance - Ins. Premium	\$ -
422 Unreserved/Undesignated	\$ 5,171,261

02 FOOD SERVICE

Total Revenue	\$ 1,852,927
Total Expenditures	\$ 2,066,305
<i>Reserved:</i>	
411 Severance Pay	\$ -
419 Encumbrances	\$ -
<i>Unreserved:</i>	
418 Severance - Ins. Premium	\$ -
422 Unreserved/Undesignated	\$ 78,371

04 COMMUNITY SERVICE

Total Revenue	\$ 2,031,037
Total Expenditures	\$ 2,195,490
<i>Reserved:</i>	
411 Severance Pay	\$ -
419 Encumbrances	\$ -
426 \$25 Taconite	\$ -
431 Community Education	\$ 43,570
432 E.C.F.E.	\$ -
444 School Readiness	\$ 6,648
447 Adult Basic Education	\$ -
<i>Unreserved:</i>	
418 Severance Premium	\$ -
422 Unreserved/Undesignated	\$ 143,381

06 BUILDING CONSTRUCTION

Total Revenue	\$ -
Total Expenditures	\$ 362,950
<i>Reserved:</i>	
407 Capital Projects Levy	\$ -
409 Alternative Facility Program	\$ -
419 Encumbrances	\$ -
<i>Unreserved:</i>	
422 Unreserved/Undesignated	\$ -

07 DEBT SERVICE

Total Revenue	\$ 2,703,222
Total Expenditures	\$ 2,783,915
<i>Reserved:</i>	
425 Bond Refundings	\$ -
<i>Unreserved:</i>	
422 Unreserved/Undesignated	\$ 760,111

08 TRUST

Total Revenue	\$ 3,020
Total Expenditures	\$ 1,700
<i>Reserved:</i>	
419 Encumbrances	\$ -
<i>Unreserved:</i>	
422 Unreserved/Undesignated	\$ 36,140

09 AGENCY

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

20 INTERNAL SERVICE

Total Revenue	\$ 242,181
Total Expenditures	\$ 196,504
<i>Reserved:</i>	
419 Encumbrances	\$ -
<i>Unreserved:</i>	
422 Unreserved/Undesignated	\$ 12,387

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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, 2005. 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 the Note 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, 2005, and the revenues it received and the expenditures it paid for the year then ended on the basis of accounting described in the Note to Student Activity Fund Financial Statements.

Larson, Allen, Weishair & Co., LLP

LARSON, ALLEN, WEISHAIR & CO., LLP

Austin, Minnesota
September 28, 2005

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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, 2005**

<u>Funds</u>	<u>Balance 06/30/04</u>	<u>Transfer & Receipts</u>	<u>Disburse- ments</u>	<u>Balance 06/30/05</u>
Elementary Yearbook	<u>\$ 258</u>	<u>\$ 11,946</u>	<u>\$ 11,703</u>	<u>\$ 501</u>
Total	<u><u>\$ 258</u></u>	<u><u>\$ 11,946</u></u>	<u><u>\$ 11,703</u></u>	<u><u>\$ 501</u></u>

See Note 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, 2005**

<u>Funds</u>	<u>Balance 06/30/04</u>	<u>Transfer & Receipts</u>	<u>Disburse- ments</u>	<u>Balance 06/30/05</u>
Drama	\$ -	\$ 720	\$ 720	\$ -
Yearbook	80	9,645	9,255	470
Student Council	<u>2,139</u>	<u>23,356</u>	<u>22,753</u>	<u>2,742</u>
Total	<u>\$ 2,219</u>	<u>\$ 33,721</u>	<u>\$ 32,728</u>	<u>\$ 3,212</u>

See Note 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, 2005**

Funds	Balance 06/30/04	Transfer & Receipts	Disburse- ments	Balance 06/30/05
Class of 2004	\$ 766	\$ 1,239	\$ 2,005	\$ -
Class of 2005	6,207	22	6,229	-
Class of 2006	-	10,343	3,795	6,548
Cardettes	5,846	752	179	6,419
F.F.A.	1,487	261	718	1,030
French Club	53	-	45	8
Cross Country	44	102	109	37
Key Club	2,089	1,668	2,367	1,390
Nordic Ski	3,395	384	1,240	2,539
Seventh Rendition	24,328	259,618	273,270	10,676
Spanish Club	664	1,207	1,762	109
Student Council	1,548	9,590	8,948	2,190
Usher's Fund	234	200	273	161
"W" Fund	2,348	7,860	5,758	4,450
Wihisean	7,106	9,703	16,802	7
Orchestra	3,979	32,901	35,141	1,739
Willmar Athletics	8,530	18,159	8,193	18,496
Final Concessions	5,328	20,407	20,542	5,193
High Mileage	7	2,081	2,076	12
Gymnastics	841	1,344	1,700	485
Speech	44	-	7	37
Total	<u>\$ 74,844</u>	<u>\$ 377,841</u>	<u>\$ 391,159</u>	<u>\$ 61,526</u>

See Note to Student Activity Fund Financial Statements.

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 347
NOTE TO STUDENT ACTIVITY FUND FINANCIAL STATEMENTS
JUNE 30, 2005**

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.

Student Activity bank deposits are covered by deposit insurance or were properly collateralized.

REPORT ON LEGAL 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, 2005 and have issued our report thereon dated September 28, 2005.

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 complied, in all material respects.

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
LARSON, ALLEN, WEISHAIR & CO., LLP

Austin, Minnesota
September 28, 2005