
Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2008



Independent School District No. 347

Willmar, Minnesota

NCA accredited



Preparing All Students for a Successful Tomorrow

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year ended June 30, 2008**

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

**611 5th Street SW
Willmar, Minnesota 56201-3218**

**Prepared by
Business Office Staff**

INTRODUCTORY SECTION



**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT 347
TABLE OF CONTENTS
JUNE 30, 2008**

| | | |
|------------|----------------------------------------------------------------------------------------------------------------------------------------------------|----|
| I. | INTRODUCTORY SECTION | |
| | School Board and Administration | 5 |
| | Organizational Chart | 6 |
| | Letter of Transmittal | 7 |
| | Certificate of Achievement for Excellence in Financial Reporting | 14 |
| | Certificate of Excellence in Financial Reporting | 15 |
| | | |
| II. | FINANCIAL SECTION | |
| | Independent Auditor's Report | 17 |
| | Required Supplementary Information | |
| | Management's Discussion and Analysis | 19 |
| | Basic Financial Statements | |
| | Statement of Net Assets | 35 |
| | Statement of Activities | 36 |
| | Balance Sheet – Governmental Funds | 37 |
| | Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets | 38 |
| | Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds | 39 |
| | Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities | 40 |
| | Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund | 41 |
| | Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Food Service Fund | 42 |
| | Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Community Service Fund | 43 |
| | Statement of Fund Net Assets – Proprietary Fund | 44 |
| | Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Fund | 45 |
| | Statement of Cash Flows – Proprietary Fund | 46 |
| | Statement of Fiduciary Net Assets | 47 |
| | Statement of Changes in Fiduciary Net Assets | 47 |
| | Notes to Basic Financial Statements (These notes are an integral part of the Basic Financial Statements) | 48 |
| | Supplementary Information | |
| | Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Debt Service Fund | 72 |

**WILLMAR PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT 347
TABLE OF CONTENTS (continued)**

III. STATISTICAL SECTION (Unaudited)

| | |
|------------------------------------------------------------------|----|
| Net Assets by Component | 74 |
| Expenses, Program Revenues, and Net (Expense)/Revenue | 75 |
| General Revenues and Total Changes in Net Assets | 76 |
| Fund Balances, Governmental Funds | 77 |
| Governmental Funds Revenues | 78 |
| Governmental Funds Expenditures and Debt Service Ratio | 79 |
| Other Financing Sources and Uses and Net Change in Fund Balances | 80 |
| Assessed Value and Actual Value of Taxable Property | 81 |
| Direct and Overlapping Property Tax Rates | 82 |
| Principal Property Tax Payers | 83 |
| Property Tax Levies and Collections | 84 |
| Outstanding Debt by Type | 85 |
| Direct and Overlapping Governmental Activities Debt | 86 |
| Legal Debt Margin Information | 87 |
| Ratios of Outstanding Debt by Type | 88 |
| Demographic and Economic Statistics | 89 |
| Principal Employers | 90 |
| Full-time-Equivalent District Employees by Type | 91 |
| Operating Statistics | 92 |
| Teacher Base Salaries | 93 |
| School Building Information – Owned Buildings | 94 |
| Schedule of Insurance Coverage | 96 |

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2008**

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

**SCHOOL BOARD AND ADMINISTRATION
JUNE 30, 2008**

SCHOOL BOARD

| <u>NAME</u> | <u>TERM EXPIRES</u> | <u>POSITION</u> |
|-----------------|---------------------|------------------|
| Mike Carlson | 12/31/2010 | Chairperson |
| Brad Schmidt | 12/31/2010 | Vice-Chairperson |
| Eric Roberts | 12/31/2008 | Clerk |
| Wayne Lenzmeier | 12/31/2008 | Treasurer |
| Sandra Unger | 12/31/2008 | Director |
| Shawn Mueske | 12/31/2008 | Director |
| Dion Warne | 12/31/2010 | Director |

CENTRAL ADMINISTRATION

| <u>NAME</u> | <u>POSITION</u> |
|-------------------|----------------------------------|
| Kathryn Leedom | Superintendent |
| Pamela Harrington | Director of Business and Finance |
| William Busta | Director of Human Resources |

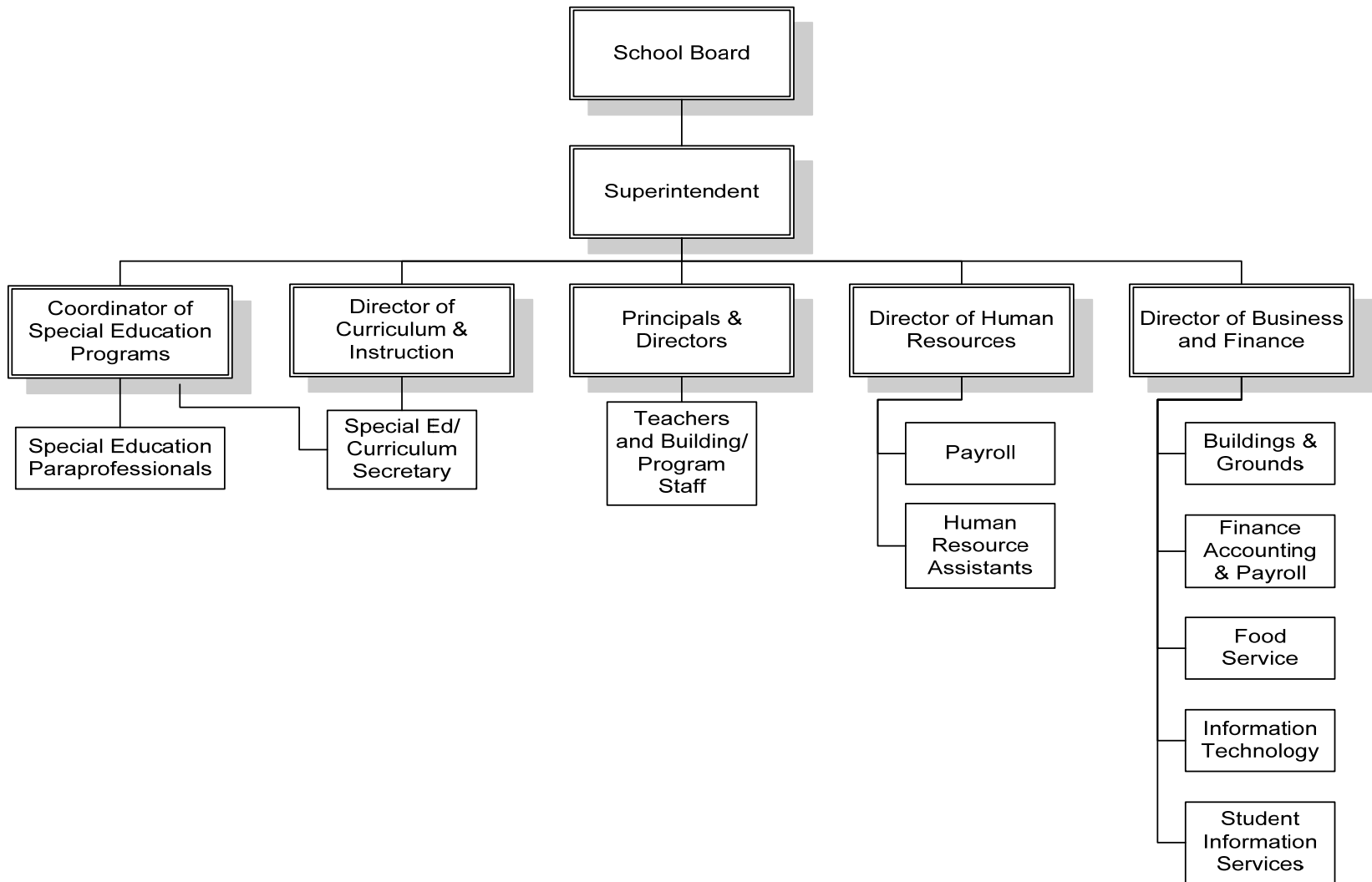
* - Retired July 31, 2008 and has been replaced with Dr. Jerry Kjergaard effective July 1, 2008.

District Offices:

Willmar Public Schools
Independent School District No. 347
611 5th St. SW
Willmar, MN 56201-3218
320-231-8500
www.willmar.k12.mn.us

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

**ORGANIZATIONAL CHART
JUNE 30, 2008**



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The Willmar Public Schools

Independent School District 347
611 SW 5th St., Willmar, MN 56201
Phone: 320/231-8500
Fax: 320/231-8504
www.willmar.k12.mn.us

December 17, 2008

To: Citizens of Independent School District 347
Members of the Board of Education
Employees of the District

INTRODUCTION

The Comprehensive Annual Financial Report of Willmar Public Schools – Independent School District No. 347 (District) is submitted for the fiscal year (FY) ended June 30, 2008. The enclosed information is accurate in all material respects and reported in a manner that fairly presents the District's financial position and results of operations. The District Administration accepts full responsibility for the accuracy, completeness and fairness of this presentation.

This report is prepared in conformance with United States Generally Accepted Accounting Principles (GAAP). This report is also consistent with legal reporting requirements of the State of Minnesota. In addition to meeting legal requirements, this report is intended to present a comprehensive summary of significant financial data to meet the needs of citizens, taxpayers, employees, financial institutions, and the School Board.

Since the implementation of Governmental Accounting Standards Board (GASB) Statement No. 34, the readers of this financial report will notice that the two main financial statements created by this standard, the Statement of Net Assets along with the Statement of Activities, do not contain numerous columns for various funds that have been included in past governmental financial statements. These two statements consolidate much of the information contained in fund-based financial statements of the past into two statements which help to answer the question: "Is the District better or worse off financially than it was in the previous year?" A comparison of net assets should help the reader in answering that question. Also required as part of the "Required Supplemental Information" by GASB Statement No. 34 is a "Management's Discussion and Analysis" (MD&A) which allows the District to explain in layman's terms its financial position and results of operations of the past fiscal year.

REPORT FORMAT

The comprehensive annual financial report is presented in three sections.

Introductory Section – includes this letter of transmittal, an organization chart, and a list of School Board members and administrative personnel. The Introductory Section is not audited.

Financial Section – includes the independent auditor's report, Management's Discussion and Analysis (MD&A), basic financial statements, and notes to the basic financial statements.

Statistical Section – includes selected financial, demographic and economic information, generally presented on a multi-year comparative basis. The Statistical Section is not audited.

REPORTING ENTITY AND ITS SERVICES

Independent School District No. 347, also known as the Willmar Public Schools, is an instrumentality of the State of Minnesota established to function as an educational institution. The District is an independent entity governed by an elected seven member School Board. The School Board has the power and duty to set budgets, certify tax levies, issue debt and perform other tasks necessary to the operation of the District. The District is subject to the oversight of the Minnesota Department of Education. The District does not have any component units.

The District, established in 1881, serves the communities of Blomkest, Kandiyohi, Pennock and Willmar. The District is located in west-central Minnesota, approximately 100 miles west of the Minneapolis/St. Paul metropolitan area. The District encompasses an area of approximately 149,294 acres in Kandiyohi County with an estimated population of 24,605 citizens, including a population of 19,040 in Willmar. All school buildings are located in Willmar. The District currently operates nine owned buildings with a total square footage of 865,804 square feet and an average age of over 52 years, with the oldest building built in 1924.

The Willmar Public Schools enrollment for FY 2008 is 4,023 ADM's (Average Daily Membership), and had been steadily declining since 1995. The District projects that enrollment will decline slightly again until FY 2010 and then begin to level out. The projected enrollment for FY 2009 is 4,014 ADM's. More detailed enrollment information is included in the Financial Section in the MD&A.

The District provides a full range of public education services appropriate to our students in grade levels ranging from pre-kindergarten through grade 12. These services include regular and enriched academic education, special education and career/vocational education. Food service and transportation are provided as supporting programs. The District's community education program includes Early Childhood and Family Education programs, Adult Basic Education programs, School Readiness and a wide variety of classes for lifelong learning experiences for children and adults.

ECONOMIC CONDITION AND OUTLOOK

The area is fortunate to have an expanding economic base with an excellent quality of life. The City of Willmar serves as a growing regional center for medical care, retail, trade, education and small industries. The diversity of the economic base has provided steady growth and stability.

The City of Willmar was named an "All American City" in June 2005 by the National Civic League. Since 1949, only 18 Minnesota cities have received this significant honor.

There are a number of very positive economic related developments that took place in Willmar in 2007-2008, including: 1) beginning construction of the Waste Water Treatment Plant; 2) Other retail development and expansion; 3) completed road projects; 4) construction of a 16 bed mental health hospital and many other exciting developments.

With the exception of voter approved operating and bond referendums, the District is dependent on the State of Minnesota for its revenue authority. Recent experience demonstrates that legislated revenue increases are not sufficient to meet instructional program needs and increased costs due to inflation. As a result of these pressures, the District has had to rely on a property tax referendum to support its educational programs. The voters approved an operating referendum in 2001, scheduled to sunset in calendar year 2012. An increase in revenues from the 2001 operating referendum began in FY 2003. The voters approved an additional operating referendum in 2008 that will begin in FY 2010.

In addition to passing the operating referendum, the School Board cut \$1.8 million in expenditures from the FY 2002 Budget. Additional budget cuts (primarily personnel) were enacted for FY 2006 (\$800,000) and FY 2007 (\$771,000). The District carefully added approximately \$800,000 in programming and services to positively impact student learning during the FY 2008 school year. Budget reductions again occurred for the FY 2009 school year in the amount of \$1,300,000.

The District will continue to be proactive in its financial management by seeking all available sources of revenue, responding to declining enrollment, controlling expenditures and seeking maximum efficiencies. Continued use of state of the art enrollment and long-range financial planning software, a Finance Advisory Committee (including community members), updated budgeting processes, and a business office culture of continuous improvement all will continue contributing towards the quest for financial stability into the future.

The financial future for the District looks challenging. The 2007 Legislature approved a 2% increase in the General Education formula for 2007-2008 and a 1% increase in 2008-2009. Other additional revenues include increased funding for kindergarten, gifted and talented programs and safe schools levy. However, the result of this funding formula appears to be below the current annual rate of inflation. Accordingly, the District continues to utilize sophisticated enrollment and financial planning tools, along with detailed and conservative budgeting and budget monitoring processes. The District will continue to seek all available sources of funding, balance revenue to expenditures, and maintain systems that ensure financial stability. If state funding remains below inflation levels, General Fund budget deficits will grow and the fund balance will decline in subsequent years. The legislature will be back in session in January of 2009 setting education funding for 2009-2010 and 2010-2011. Preliminary predictions indicate a bleak funding outcome.

MISSION STATEMENT

Preparing All Students for a Successful Tomorrow

Purposeful Thinker
Effective Communicator
Self Directed Learner
Productive Group Participant
Responsible Citizen

Long Term District Wide Goal

Increase the academic proficiency of all students through effective instruction and appropriate curriculum and assessments in partnership with all staff as well as parents, guardians and community members.

In order to meet our mission and reach our goal it is understood that we must all work collaboratively to provide for the social, physical and emotional well being of every child.

The School Board completed a new long-range planning process in FY 2005. The major district-wide goals that resulted from this process are:

- Provide a world class education
- Improve the lives of students
- Ensure achievement for all students
- Continue responsible financial stewardship
- Enhance school and community relationship

The School Board approved a comprehensive strategic planning document based on these goals, supported by activities and initiatives throughout the district, in February of 2005. A copy of this document is available in the District Office or from a building Administrator. The Board and staff are currently in the process of updating the comprehensive strategic planning document in FY 2009.

FINANCIAL AND BUDGETARY CONTROL

The District complies with the Uniform Financial Accounting and Reporting Standards (UFARS) for Minnesota schools. UFARS, established in 1976, dictates a modified accrual basis of accounting. An audited annual financial report is required to be provided to the Minnesota Department of Education by December 31, subsequent to the year end on June 30.

The District has established and maintained internal controls designed to ensure that the assets of the District are protected from theft, misuse or losses. These controls are also designed to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) and Minnesota UFARS. The internal control system is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: 1) the cost of a control should not exceed the benefits likely to be derived, and 2) the valuation of the costs and benefits requires estimates and judgments by management.

Minnesota school finance law requires that the budget fiscal year begin July 1 and end June 30. The District develops a General Fund Budget, Food Service Fund Budget, Community Education & Recreation Budget, Debt Service Budget and other necessary budgets on an annual basis.

The budget process is comprised of five phases – planning, preparation, adoption, implementation, and evaluation. Planning and preparation for the FY 2008 budget began in January of 2007 with approval of the budget development plan and analysis of the student enrollment trend. The current enrollment status provided the data to update allocations for site non-payroll budgets. Expenditure estimates were updated both on a site basis and district-wide in the spring. An enrollment projection was developed in early May and provided the key data for the budget's revenue projection. The FY 2008 Budget was adopted in June of 2007 and implemented on July 1, 2007. The District completes two budget revisions during the fiscal year, in January and April.

To accurately track and report financial activities with a focus on site responsibility, approximately 8,863 account codes have been defined in the District's chart of accounts.

The District's budget and financial management practices are evidenced by the following District policies:

Fund Balance Policy #703: Requires the District to maintain a minimum General Fund unreserved fund balance of 6% of the annual operating budget. When the unreserved fund balance is equal to or less than 6% of the expenditure budget, the administration shall alert the School Board and propose alternative measures such as, seeking additional funds through a referendum and/or reducing expenditures by curtailing program services.

Budgeting Policy #709 and 709.1: Requires the District to comply with the budget process as explained above.

MAJOR INITIATIVES

Fiscal and Operational Integrity

The District is committed to maintaining the General Fund according to Board Fund Balance Policy. The Willmar Public Schools is also committed to implementing and maintaining systems that ensure financial stability and operational efficiency.

Due to the combined effort of the Community, School Board, staff and students, the District's General Fund has remained at a reasonable and responsible level. The District's sound fiscal management has a long-term positive impact on the student success.

A sophisticated long-range financial planning model, a detailed enrollment projection model, a Finance Advisory Committee, enhanced communication, consistently improved financial accuracy and compliance, and improved budgeting and accounting processes all have played a role in the District's financial stability.

The District encourages constituents to look closely at the financial performance and management. The District welcomes the opportunity to be fully accountable to the School Board, Staff and Community.

Major fiscal and operational initiatives from FY 2008 include:

- **The School Board decreased the FY 2009 Budget approximately \$1,300,000 in June 2008.** Positions were reduced and programs were impacted by budget reductions following a very deliberate prioritization process.
- **Three National Financial Awards and one State Financial Award were received in 2008** – See the Financial Awards section on page 13 for more information.
- **The Food & Nutrition Services Department implemented the Farm to School program** – The Farm to School program provides locally grown fruits and vegetables to be served in the schools. In addition, the students learn about the growing process, as well as, the local economy.

- **The District redesigned the websites** – The District's websites were redesigned to be more uniform while still maintaining some individuality at the school sites, as well as, more user friendly.
- **The Finance Advisory Committee met four times in FY 2008** - to review district financial issues and make recommendations to the School Board – this committee is comprised of members from the community, school board and staff.
- **Continued use of a more sophisticated energy procurement strategy** – the district continues to use an improved energy procurement strategy balancing contract hedging for a portion of our natural gas needs while using flow-through pricing for over half of our needs. This long-term strategy should contribute to lower energy expenses, risk reduction and maintaining budgeted energy amounts.
- **Planning and passage of one out of two operating referendum questions** – The District successfully passed one out of two operating referendum questions that were posed to the public in November 2008. The referendum will begin in FY 2010.
- **Retirement and replacement of Superintendent** – Kathy Leedom retired as the District's Superintendent effective July 31, 2008. Dr. Jerry Kjergaard who was previously with the Waconia School District became Willmar Public Schools Superintendent on July 1, 2008.
- **Infinite Campus Messenger implemented for wide spread communications** – Infinite Campus Messenger was implemented for disbursing communications to parents, staff and others district-wide. This system will notify parents regarding emergencies, student absences, low lunch account balances and other items.

Student Achievement

The District's mission is "To Prepare All Students for a Successful Tomorrow." That mission is met with an intense effort at all levels of the Willmar Public Schools.

In order to have our mission become a reality, academic standards of the Willmar Public Schools are high. We continue to work on the North Central Association of Schools and Colleges (NCA) accreditation renewal process. All of our regular education schools are currently accredited. In order to maintain this accreditation, an improvement process centered on increasing student achievement has been implemented at each site. Academic goals have been established by a committee of teachers, administrators, parents and community members. An improvement plan was developed, which included identification of needs, strategies to meet the goals, and multiple means of assessing progress. Schools are implementing their plans and are initiating activities to reach their goals.

Teaching our students to become contributing members of our society is also a high priority. Students, teachers and support staff participate in many community-building initiatives, such as service clubs, community service classes, volunteering to help younger students on a regular basis, adopting nursing homes for monthly visits and organizing a "community helper day." Character education is an integrated and important part of the education of all students.

Our high school leads all area schools in offering Advanced Placement (AP) opportunities in numerous subject areas. All students in grades 2 – 8 take the Northwest Educational Assessment (NWEA) exams twice a year in reading and mathematics. Students in grades 9-10 also take these tests, as appropriate to their course of study. Progress reports are sent to all students and parents. Growth is measured individually, as well as by classroom and district. NWEA testing in science is being used at grades 6 and 7 to evaluate progress on implementing the new state science standards and to determine placement in advanced science courses. The Social Studies department has developed course/grade assessments that align with the required state Social Studies Standards. Opportunities for remediation and acceleration are the norm. In addition to national standardized tests and state assessments, formative and summative assessments are an expectation for all classroom teachers for all students.

The federal No Child Left Behind (NCLB) law requires schools to demonstrate that students are meeting Adequate Year Progress (AYP) goals. This progress is measured by the Minnesota Comprehensive Assessments (MCA). Each year the achievement bar is set higher for districts as expectations are heightened leading to the overall goal

of all students being proficient in reading and math by 2013-2014. For the 2007-08 school year, Willmar Public Schools made AYP in participation in all categories for math and reading, in attendance in all categories, and for proficiency in reading in all categories. The District did not make AYP for proficiency for all students in math. The District is reviewing the sub-group information. Numerous interventions have been put in place to assist in remediation efforts and the District continues to operate all-day, everyday kindergarten for all students as a way to assist in closing the achievement gap early in a child's learning experience.

Student Achievement Programs & Improvements:

- Continue to offer all-day, everyday kindergarten to better serve the needs our young learners as well as to attempt to close the achievement gap early.
- Continue to use NWEA testing in math and reading in grades 2-10 as a means of assessing student growth, as well as program and instructional quality. Use the NWEA science test at grades 6 and 7.
- Maintain and update a comprehensive strategic work plan that addresses goals and objectives for all district sites.
- Offered a Mandarin Chinese language class at the Sr. High School in FY 2007- 2009. The program exceeded expectations and the instructor has gone from part-time to full-time in order to meet student interest.
- Curriculum maps are developed according to the curriculum review cycle. These "maps" are available on our website to insure public awareness of curriculum content, assessment and implementation of standards.
- Secured approval to offer Project Lead the Way during the 2007-08 school year. Staff were trained, curriculum designed and technology acquired to offer this pre-engineering course of study.
- Maintained an active Curriculum Advisory Committee comprised of interested community members, parents and students.
- Expanded Targeted Services summer and after-school programming for students needing academic and social development. Enrollment in the program is very strong.
- Involved the District Site Council in all staff development initiatives as well as in curriculum and program improvement. Funded teacher-generated "Best Practices" initiatives.
- Continued Gifted Education mini-grant program allowing teaching staff to provide additional opportunities for students needing acceleration and enrichments.
- Capitalized on volunteers, foundations, and the Parent-Teacher-Student-Association's willingness to bring value added opportunities to students via curriculum enhancements, student life enhancements, and hundreds of hours of assistance in the classroom.

CASH MANAGEMENT

Temporary cash balances during the year are invested in various securities per the District Investment Policy and statute. The District uses a twelve month cash flow projection, updated monthly, to guide investment terms. The District's investment policy is structured to minimize risk while maintaining a competitive yield. Accordingly, deposits are either insured by federal depository insurance or collateralized in compliance with Minnesota statutes. Investment yield during FY 2008 ranged from 2.27% to 5.44%, resulting in a total net return of \$409,573.

DEBT ADMINISTRATION

As of June 30, 2008, the District had net bonded debt (including bond premiums) of \$14,378,808, well below the legal limit of \$305,117,138, or fifteen percent of the actual value of all taxable property in the District. Outstanding bonds are reviewed on a continuous basis by the District and its bond consultant to determine if refunding is feasible. The District's bond rating is at the A2 level.

RISK MANAGEMENT

The District maintains a comprehensive risk management program that includes a property/casualty insurance program specifically designed to meet school district needs. Other key aspects of the risk management program include a health & safety consultation arrangement, an active health & safety committee, annual safety inspections and periodic review of policies to assure regulatory compliance and adherence to legal constructs.

INDEPENDENT AUDIT

District policy and state statutes require an annual financial audit by independent certified public accountants. The District engaged Conway, Deuth & Schmiesing, PLLP to conduct the annual audit. The District also engaged Conway, Deuth & Schmiesing, PLLP to perform the audit of its federal programs in accordance with U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The District's federal programs are discussed in a report separate from the comprehensive annual financial report.

FINANCIAL AWARDS

The Association of School Business Officials (ASBO) International awarded the Certificate of Excellence in Financial Reporting to the District for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2007. This is the third year in a row the district received this award. Less than 5% of Minnesota school district's received this award last year. Achieving recognition by this program provides a clear indication of the District's high standards for financial reporting and financial stewardship. It is the belief that this current report conforms to the Certificate of Excellence program requirements. This report will be submitted to ASBO to determine its eligibility for the certificate.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Willmar Public Schools for its comprehensive annual financial report for the fiscal year ended June 30, 2007. This was the third year that the district has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. It is the belief that this current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and it is being submitted to the GFOA to determine its eligibility for another certificate.

The Minnesota Department of Education awarded a School Finance Award for FY 2008 to the Willmar Public Schools for its exhibition of sound fiscal health and financial management policies and procedures. The award is based on compliance with state statute on a number of finance issues and other means of demonstrating fiscal health. The last time the District received the award was in FY 2005.

ACKNOWLEDGEMENTS

Preparation of this report could not have been accomplished without the efficient and dedicated services of the Business Office staff. In particular, we want to acknowledge the contribution from Shannon Groothuis, District Accountant. We very much appreciate the hard work and expertise from our auditors, Conway, Deuth & Schmiesing, PLLP. Their work has been instrumental in the preparation of this document. Finally, thanks also go to Sam Modderman, Kandiyohi County Auditor/Treasurer and his staff for their assistance with this project.

We would like to express our appreciation to the School Board for the interest and support in planning and conducting the financial operations of the District in a responsible and progressive manner.

Sincerely,



Dr. Jerry Kjergaard
Superintendent



Pam Harrington
Director of Business and Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Willmar Public Schools
ISD #347, Minnesota

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Oliver S. Cox

President

Jeffrey R. Emer

Executive Director

**ASSOCIATION OF SCHOOL BUSINESS OFFICIALS
INTERNATIONAL**



This Certificate of Excellence in Financial Reporting is presented to

WILLMAR PUBLIC SCHOOLS ISD # 347

For its Comprehensive Annual Financial Report (CAFR)

For the Fiscal Year Ended June 30, 2007

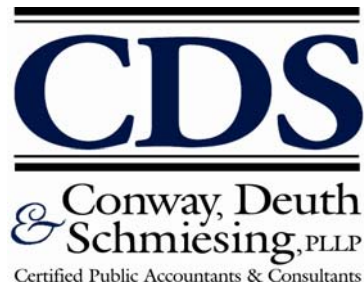
Upon recommendation of the Association's Panel of Review which has judged that the Report substantially conforms to principles and standards of ASBO's Certificate of Excellence Program

President

Executive Director

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FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

To The Board of Education
Independent School District #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 #347, Willmar, Minnesota, as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year partial comparative information has been derived from the District's 2007 financial statements as audited by another firm and, in their report dated October 15, 2007, they expressed unqualified opinions on the respective financial statements of the governmental activities, each major fund, and the aggregate remaining fund information.

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 respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District #347, Willmar, Minnesota, as of June 30, 2008, and the respective changes in financial position, and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund and the Food Service and Community Service Special Revenue Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2008, on our consideration of the District'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 important for assessing the results of our audit.

The management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by 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 conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The statement listed in the table of contents as supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The introductory and statistical sections listed in the table of contents are not necessary for a fair presentation of the basic financial statements, but are presented as additional analytical data. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we express no opinion on them.

Conway, Deuth & Schmiesing, PLLP

CONWAY, DEUTH & SCHMIESING, PLLP
Certified Public Accountants
Willmar, Minnesota

October 27, 2008

INDEPENDENT SCHOOL DISTRICT # 347

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2008

This section of Willmar Public Schools – Independent School District No. 347's (District) annual financial report presents management's discussion of the District's financial performance during the fiscal year (FY) ending June 30, 2008. 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 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 reporting requirements that include financial statements, expanded disclosure, and supplemental information, including the MD&A (this section).

FINANCIAL REVIEW

Key financial items for the 2007-2008 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 \$4,397,084, equivalent to 10.3% of expenditures. Notably, this key fund balance decreased by \$1,430,119, or 24.5%, compared to an increase of \$430,105 last year.
- Net Assets decreased 2.2% from the prior year. A prior period adjustment was made to the financial statements. The beginning net assets of the governmental activities have been increased to reflect an understatement of capital assets as of June 30, 2007. The beginning net assets of the governmental activities have been decreased to reflect an understatement of severance payable as of June 30, 2007. Beginning governmental activities net assets have been restated from \$21,782,944 to \$19,458,038 (a net decrease of \$2,324,906).
- The combined Governmental Funds fund balance decreased by 22.5%, or \$2,193,180.
- The District reduced its outstanding long-term liabilities by \$1,978,410, or 9.3%.
- Enrollment decreased by 38 ADM's (Average Daily Membership) in FY 2008.
- Four Financial Awards: The District's comprehensive annual financial report for the year ended June 30th, 2007 was awarded several prestigious financial reporting awards by the Government Finance Officers Association of the United States and Canada (GFOA) and the Association of School Business Officials (ASBO). The District's Original 2007-08 Budget received the ASBO Meritorious Budget Award. The District also received the Minnesota Department of Education 2008 School Finance Award. Read the District's 2008 comprehensive annual financial report for more information about these awards.

INDEPENDENT SCHOOL DISTRICT # 347

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2008

OVERVIEW OF THE FINANCIAL STATEMENTS

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

- Independent Auditor's 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 **government-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 government-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.

Government-wide Statements

The government-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.

The two government-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.

INDEPENDENT SCHOOL DISTRICT # 347

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2008

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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

- **Governmental Activities** – 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 government-wide statements, additional information (reconciliation schedules) is provided following 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 government-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.
- **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 government-wide financial statements because the District cannot use these assets to finance its operations.

INDEPENDENT SCHOOL DISTRICT # 347

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2008**

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. A prior period adjustment was made to the financial statements. The beginning net assets of the governmental activities have been increased to reflect an understatement of capital assets as of June 30, 2007. The beginning net assets of the governmental activities have been decreased to reflect an understatement of severance payable as of June 30, 2007. Beginning governmental activities net assets have been restated from \$21,782,944 to \$19,458,038 (a net decrease of \$2,324,906). The District's *combined* net assets were \$19,021,751 on June 30, 2008. This was a decrease of 2.2% from the previous year (see Table A-1 below).

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

| | <u>Governmental Activities</u> | | <u>Percentage Change</u> |
|------------------------------------------------|--------------------------------|----------------------|------------------------------|
| | <u>2008</u> | <u>2007</u> | |
| Current and Other Assets | \$ 17,427,849 | \$ 19,722,026 | -11.63% |
| Capital and Non-Current Assets | 30,896,968 | 31,161,499 | -0.85% |
| Total Assets | <u>48,324,817</u> | <u>50,883,525</u> | -5.03% |
| Current Liabilities | \$ 9,972,253 | \$ 10,116,264 | -1.42% |
| Long-term Liabilities | 19,330,813 | 21,309,223 | -9.28% |
| Total Liabilities | <u>29,303,066</u> | <u>31,425,487</u> | -6.75% |
| Net Assets | | | |
| Invested in Capital Assets Net of Related Debt | \$ 16,590,276 | \$ 15,416,819 | 7.61% |
| Restricted | 1,657,445 | 2,015,439 | -17.76% |
| Unrestricted | 774,030 | 2,025,780 | -61.79% |
| Total Net Assets | <u>\$ 19,021,751</u> | <u>\$ 19,458,038</u> | -2.24% |

The largest portion of the District's net assets (87.2%) 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 # 347

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2008**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

- An additional portion of the District's net assets (8.7%) represents resources that are subject to external restrictions on how they may be used.
- The remaining balance of the *unrestricted net assets* (4.1%) 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 A-2 below.

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

| | Governmental Activities for the fiscal year ended June 30, | | Percentage Change |
|------------------------------------------------------|-----------------------------------------------------------------------|----------------------|------------------------------|
| | 2008 | 2007 | |
| Revenues | | | |
| <u>Program Revenues</u> | | | |
| Charges for Services | \$ 2,043,736 | \$ 2,907,983 | -29.72% |
| Operating Grants and Contributions | 15,705,789 | 14,945,418 | 5.09% |
| Capital Grants and Contributions | 697,859 | 652,077 | 7.02% |
| <u>General Revenues</u> | | | |
| Property Taxes | 5,407,585 | 4,918,683 | 9.94% |
| Unrestricted State Aid | 23,903,451 | 23,461,186 | 1.89% |
| Investment Earnings | 408,458 | 491,828 | -16.95% |
| Other | 36,524 | 128,986 | -71.68% |
| Total Revenues | <u>48,203,402</u> | <u>47,506,161</u> | 1.47% |
| Expenses | | | |
| Administration | \$ 1,544,907 | \$ 1,614,112 | -4.29% |
| District Support Services | 885,154 | 919,392 | -3.72% |
| Regular Instruction | 21,704,551 | 19,617,570 | 10.64% |
| Vocational Education Instruction | 730,195 | 627,729 | 16.32% |
| Special Education Instruction | 8,055,217 | 7,731,391 | 4.19% |
| Instructional Support Services | 2,492,349 | 2,047,363 | 21.73% |
| Pupil Support Services | 3,397,152 | 3,233,078 | 5.07% |
| Sites and Buildings | 4,722,635 | 4,586,523 | 2.97% |
| Fiscal and Other Fixed Costs Programs | 159,340 | 240,254 | -33.68% |
| Food Service | 2,208,624 | 1,961,452 | 12.60% |
| Community Service | 2,094,012 | 2,049,275 | 2.18% |
| Interest and Fiscal Charges on Long-Term Liabilities | 645,553 | 829,447 | -22.17% |
| Total Expenses | <u>48,639,689</u> | <u>45,457,586</u> | 7.00% |
| Change in Net Assets | \$ (436,287) | \$ 2,048,575 | -121.30% |
| Beginning Net Assets | <u>19,458,038</u> | <u>17,409,463</u> | 11.77% |
| Ending Net Assets | <u>\$ 19,021,751</u> | <u>\$ 19,458,038</u> | -2.24% |

INDEPENDENT SCHOOL DISTRICT # 347

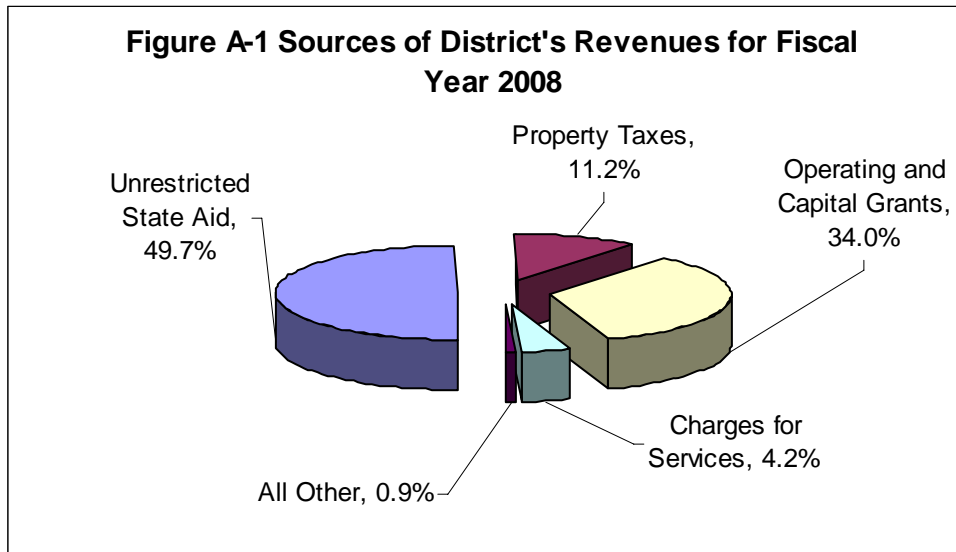
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2008

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

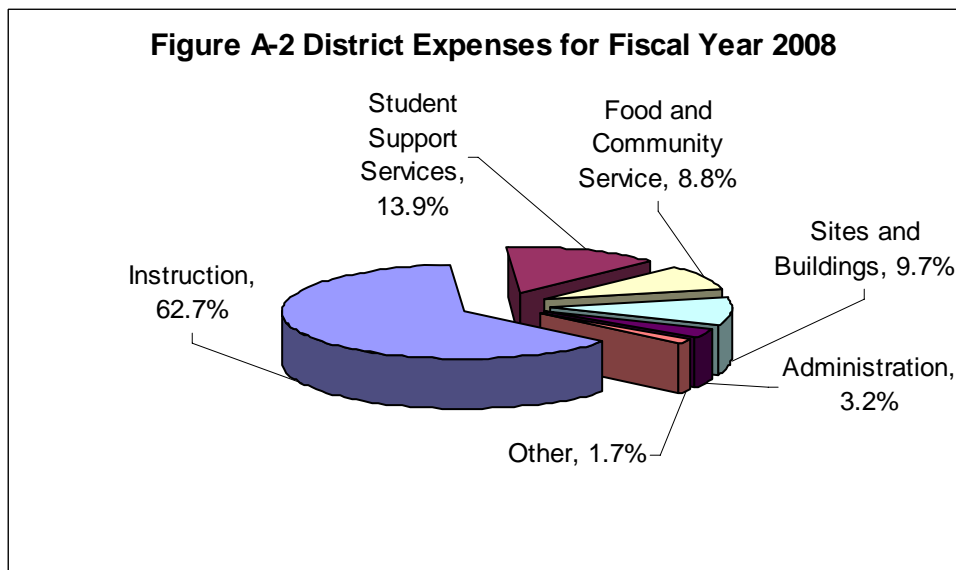
Changes in Net Assets. The District's total revenues were \$48,203,402 for the year ended June 30, 2008. This is a 1.47% increase over the prior year's revenues.

State and federal aid along with local property taxes accounted for 60.9% of the total revenue for the year (see Figure A-1 below). Another 38.2% came from program revenues and the remaining 0.9% from earnings on investments and other.

Total expenses surpassed revenues, decreasing net assets \$436,287 from last year.



The District's total expenditures for programs and services were \$48,639,689 for the year ended June 30, 2008. This is a 7.0% increase over the prior year's expenditures. The District's expenses are predominantly related to student education (76.6%). (See Figure A-2). The purely administrative activities of the District accounted for just 3.2% of total costs.



INDEPENDENT SCHOOL DISTRICT # 347

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2008**

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 \$48,639,689. Table A-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 4.2%, or \$2,043,736 of the costs.
 - The federal and state governments subsidized certain programs with grants and contributions. This totaled \$16,403,648, or 33.7% of the total costs for 2007-2008.
 - The remainder of the District's costs (\$30,192,305), however, were paid for by: 1) state taxpayers based on the statewide education aid formula, 2) by District taxpayers, and 3) by investment earnings.

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

| | <u>Total Cost of Services</u> | | <u>Percentage Change</u> | <u>Net Cost of Services</u> | | <u>Percentage Change</u> |
|------------------------------------------------------|-------------------------------|----------------------|------------------------------|-----------------------------|----------------------|------------------------------|
| | <u>2008</u> | <u>2007</u> | | <u>2008</u> | <u>2007</u> | |
| Administration | \$ 1,544,907 | \$ 1,614,112 | -4.29% | \$ 1,544,907 | \$ 1,613,571 | -4.26% |
| District Support Services | 885,154 | 919,392 | -3.72% | 855,476 | 807,601 | 5.93% |
| Regular Instruction | 21,704,551 | 19,617,570 | 10.64% | 14,531,240 | 11,887,276 | 22.24% |
| Vocational Education Instruction | 730,195 | 627,729 | 16.32% | 609,343 | 527,495 | 15.52% |
| Special Education Instruction | 8,055,217 | 7,731,391 | 4.19% | 2,882,473 | 2,593,393 | 11.15% |
| Instructional Support Services | 2,492,349 | 2,047,363 | 21.73% | 1,813,049 | 1,342,834 | 35.02% |
| Pupil Support Services | 3,397,152 | 3,233,078 | 5.07% | 3,140,410 | 2,914,068 | 7.77% |
| Sites and Buildings | 4,722,635 | 4,586,523 | 2.97% | 3,781,515 | 4,423,398 | -14.51% |
| Fiscal and Other Fixed Costs Programs | 159,340 | 240,254 | -33.68% | 159,340 | (265,680) | -159.97% |
| Food Service | 2,208,624 | 1,961,452 | 12.60% | 978 | (90,958) | -101.08% |
| Community Service | 2,094,012 | 2,049,275 | 2.18% | 228,021 | 369,663 | -38.32% |
| Interest and Fiscal Charges on Long-Term Liabilities | 645,553 | 829,447 | -22.17% | 645,553 | 829,447 | -22.17% |
| Total | <u>\$ 48,639,689</u> | <u>\$ 45,457,586</u> | 7.00% | <u>\$ 30,192,305</u> | <u>\$ 26,952,108</u> | 12.02% |

INDEPENDENT SCHOOL DISTRICT # 347

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2008**

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds. At the end of the 2007-2008 fiscal year, the District's governmental funds reported a **combined** fund balance of \$7,539,635, a 22.5% decrease from last year's ending fund balance of \$9,732,815.

Revenues for the District's governmental funds totaled \$48,096,194 while total expenditures were \$50,384,509. Other financing sources totaled \$95,135. As a result, the District completed the year with an excess of expenditures over revenues and other financing sources of \$2,193,180. 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 A-4 below:

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

| | 2008 | | | Fund Balance Increase (Decrease) |
|------------------------|----------------------|----------------------|-------------------------------------|----------------------------------------|
| | Revenues | Expenditures | Other Financing Sources(Uses) | |
| General Fund | \$ 41,038,954 | \$ 42,897,780 | \$ 95,135 | \$ (1,763,691) |
| Food Service Fund | 2,212,999 | 2,208,624 | | 4,375 |
| Community Service Fund | 2,196,730 | 2,280,929 | | (84,199) |
| Capital Projects Fund | 473 | 413,346 | | (412,873) |
| Debt Service Fund | 2,647,038 | 2,583,830 | | 63,208 |
| Totals | <u>\$ 48,096,194</u> | <u>\$ 50,384,509</u> | <u>\$ 95,135</u> | <u>\$ (2,193,180)</u> |

| | 2007 | | | Fund Balance Increase (Decrease) |
|------------------------|----------------------|----------------------|-------------------------------------|----------------------------------------|
| | Revenues | Expenditures | Other Financing Sources(Uses) | |
| General Fund | \$ 40,370,308 | \$ 40,136,576 | \$ 332,832 | \$ 566,564 |
| Food Service Fund | 2,055,222 | 1,961,452 | | 93,770 |
| Community Service Fund | 2,168,039 | 2,045,631 | | 122,408 |
| Capital Projects Fund | | 75,692 | 488,565 | 412,873 |
| Debt Service Fund | 2,592,276 | 2,533,563 | 8,677 | 67,390 |
| Totals | <u>\$ 47,185,845</u> | <u>\$ 46,752,914</u> | <u>\$ 830,074</u> | <u>\$ 1,263,005</u> |

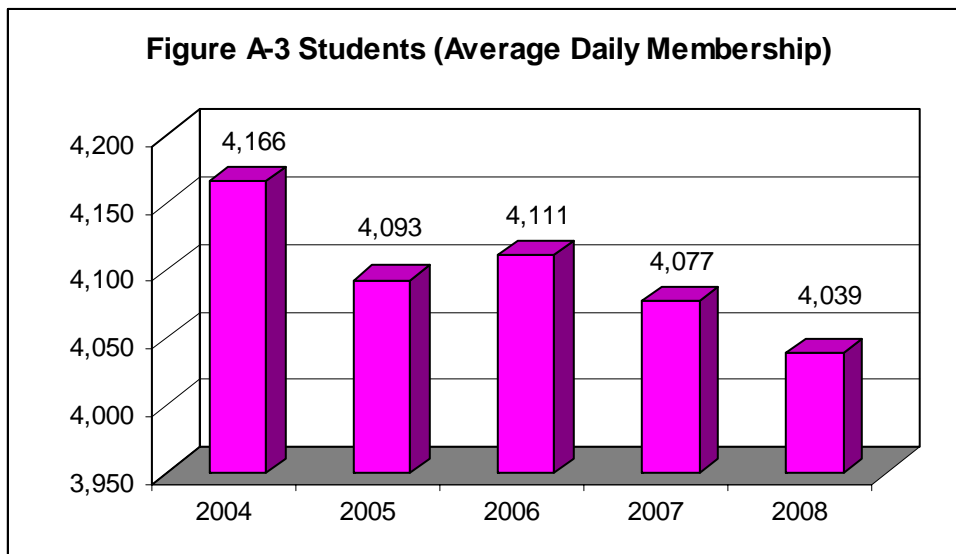
INDEPENDENT SCHOOL DISTRICT # 347

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2008**

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 five years, the District has averaged an annual 1.05% decline in the number of students. Figure A-3, below, shows that the number of students has generally decreased steadily through FY 2008 with enrollment increasing slightly in FY 2006.



In general, the District's long-term enrollment decline is a function of demographic trends affecting the majority of Minnesota school districts. These trends include a decline in the number of households with children, lower overall populations of children, and increased mobility. In addition, the District also faces typical enrollment challenges from open enrollment options, drop outs and competition from local private schools and home schooling options.

Looking into the near future, demographic trends point to a more level enrollment trend. This conclusion is based on a detailed demographic study completed in the spring of 2006 along with recent trends and analysis. There are a number of signs that point to successful economic development trends in Kandiyohi County. It is too early to tell how positively this economic expansion will affect enrollment.

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 begin to level out, based on the information available to us. However, the leveling out will include slight increases or decreases to enrollment each year.

INDEPENDENT SCHOOL DISTRICT # 347

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2008**

GENERAL FUND (CONTINUED)

The following table presents a summary of General Fund revenues:

**Table A-5
General Fund Revenues**

| Fund | Year Ended June 30, | | Amount Difference | Percent Change |
|-----------------------------|----------------------------|----------------------|------------------------------|---------------------------|
| | 2008 | 2007 | | |
| Local Sources | | | | |
| Property Taxes | \$ 2,769,568 | \$ 2,411,863 | \$ 357,705 | 14.8% |
| Interest Earnings | 318,763 | 401,290 | (82,527) | -20.6% |
| Other | 1,156,755 | 1,949,742 | (792,987) | -40.7% |
| State Sources | 34,914,994 | 34,111,061 | 803,933 | 2.4% |
| Federal Sources | 1,878,874 | 1,496,352 | 382,522 | 25.6% |
| Total General Fund Revenues | <u>\$ 41,038,954</u> | <u>\$ 40,370,308</u> | <u>\$ 668,646</u> | 1.7% |

Total General Fund revenue increased \$668,646, or 1.7%, from the previous year. Basic general education revenue is determined by a state per student funding formula. Other state-authorized revenue, including operating 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 2008 were \$357,705, or 14.8%, more than the prior year. The increase is mainly the result of higher property values which causes an increase to the local levy. Interest earnings decreased \$82,527 from the prior year as a result of declining interest rates. Other local sources decreased \$792,987 primarily due to federal flow through revenue being recorded as a federal source versus other local source as in the prior year. In addition, the District received less donations and grants. State sources of revenue increased by \$803,933, or 2.4%, from 2007. The increase is due to an increase in the formula allowance, school technology and operating capital and deferred maintenance. Federal revenues increased \$382,522, or 25.6%, from the previous year. This increase is due to federal flow through revenue recorded as a federal source instead of as other local source.

The following table presents a summary of General Fund expenditures:

**Table A-6
General Fund Expenditures**

| Fund | Year Ended June 30, | | Amount Difference | Percent Change |
|---------------------------------|----------------------------|----------------------|------------------------------|---------------------------|
| | 2008 | 2007 | | |
| Salaries | \$ 24,849,960 | \$ 23,442,117 | \$ 1,407,843 | 6.0% |
| Employee Benefits | 7,458,981 | 6,548,812 | 910,169 | 13.9% |
| Purchased Services | 7,239,809 | 7,485,085 | (245,276) | -3.3% |
| Supplies and Materials | 1,950,430 | 1,352,765 | 597,665 | 44.2% |
| Capital Expenditures | 1,245,459 | 1,075,893 | 169,566 | 15.8% |
| Other Expenditures | 153,140 | 231,904 | (78,764) | -34.0% |
| Total General Fund Expenditures | <u>\$ 42,897,780</u> | <u>\$ 40,136,576</u> | <u>\$ 2,761,204</u> | 6.9% |

Total General Fund expenditures increased \$2,761,204 or 6.9% from the previous year.

INDEPENDENT SCHOOL DISTRICT # 347

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2008**

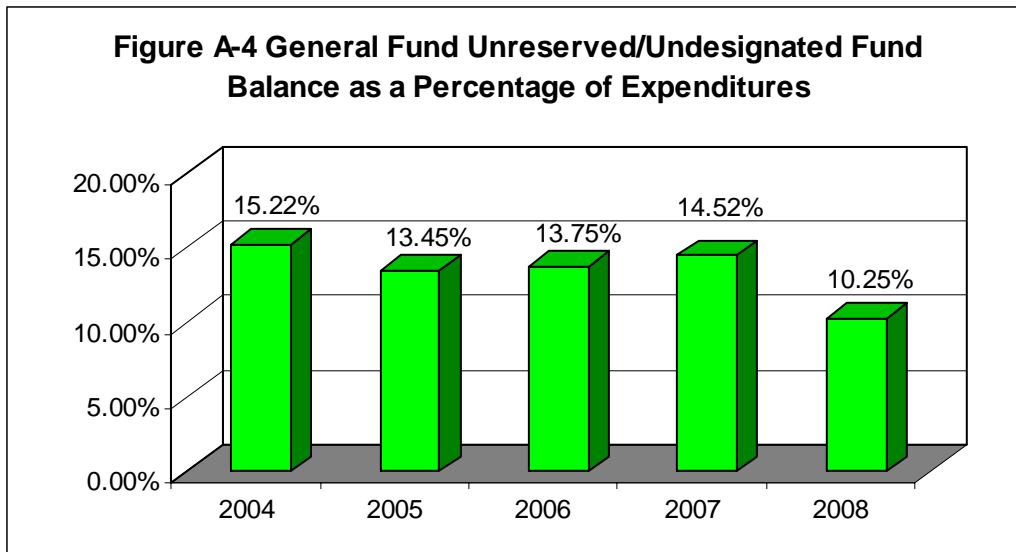
GENERAL FUND (CONTINUED)

Salaries and employee benefits increased due to the settlement of the 2007-2009 contracts and the District's decision to add back some programming. Benefits also increased due to an increase in health insurance premiums, TRA and PERA contributions. The District continues to proactively pursue various cost containment measures to minimize the effect of rising health insurance premiums on the costs of the District's employee compensation packages.

Combined non-payroll expenditures (Purchased Services, Supplies & Materials, Capital Expenditures and Other Expenditures) increased by \$443,191 or 4.4%, compared to last year. The increase is primarily due to the increased cost of fuel which caused an increase in more than just the purchase of gasoline but also in the cost of various supplies and fuel charge costs added by suppliers.

In summary, 2007-2008 General Fund expenditures exceeded General Fund revenues by \$1,858,826. As a result, and after factoring in \$1,999 from the sale of capital assets and \$93,136 of insurance recovery and Microsoft settlement proceeds, the total fund balance decreased by \$1,763,691 to \$6,115,487 at June 30, 2008. After deducting statutory reserves, the unreserved-undesignated fund balance decreased from \$5,827,203 on June 30, 2007 to \$4,397,084 on June 30, 2008.

Figure A-4, below, depicts the General Fund unreserved-undesignated fund balance as a percentage of expenditures for fiscal years 2004 - 2008:



The graph above describing the District's unreserved-undesignated fund balance trend, offers the single best measure of the District's overall financial health. The unreserved-undesignated fund balance of \$4,397,084 on June 30, 2008 represents 10.25% of annual expenditures.

INDEPENDENT SCHOOL DISTRICT # 347

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2008**

GENERAL FUND (CONTINUED)

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

General Fund Budgetary Highlights

The District is required to adopt an operating budget prior to the beginning of its fiscal year (July 1). Over the course of the year, the District revised the annual operating budget once. The budget amendment usually falls 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 2007.
- Changes in appropriations for significant unbudgeted costs.

While the District's final budget for the general fund anticipated that expenditures would exceed revenues by \$1,887,138, the actual results for the year show that expenditures exceeded revenues by \$1,858,826. Actual results were very close to the budget.

FOOD SERVICE FUND

The Food Service Fund revenue for 2007-2008 totaled \$2,212,999 and expenditures were \$2,208,624, resulting in a fund balance increase of \$4,375. This fund balance improvement was primarily a result of continued effective cost control. The June 30, 2008 Food Service fund balance is \$193,298.

The Food Service Fund is anticipating another modest fund balance increase for 2008-2009.

COMMUNITY SERVICE FUND

In 2007-2008, total revenues for the Community Service Fund were \$2,196,730 and total expenditures were \$2,280,929. Total expenditures exceeded revenues by \$84,199, resulting in a decrease of the same amount in the June 30, 2008 fund balance. The Community Service Fund fund balance as of June 30, 2008 is \$264,868. Community Service continues to monitor the fund balance and make adjustments that allow for the optimal level of programming for the District.

DEBT SERVICE FUND

Revenues and expenditures for the District's Debt Service Fund are tied directly to the District's bond principal and interest payment schedules. The Debt Service Fund revenues and other financing sources exceeded expenditures by \$63,208 in 2007-2008. The resulting fund balance increase leaves the Debt Service Fund with a \$965,982 fund balance at June 30, 2008. This fund balance is available for meeting future debt service obligations.

INDEPENDENT SCHOOL DISTRICT # 347

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2008

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2008, the District had net capital assets of \$30,896,968 representing a broad range of capital assets, including school buildings, computer and audio-visual equipment, and other equipment for various instructional programs (see Table A-7 below). Total depreciation expense for the year was \$1,293,447. More detailed information about capital assets can be found in Note 4 to the financial statements.

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

| Fund | 2008 | 2007 | Percent Change |
|--------------------------------|----------------------|----------------------|---------------------------|
| Land | \$ 623,282 | \$ 623,282 | 0.0% |
| Land Improvements | 3,054,702 | 2,656,664 | 15.0% |
| Buildings and Improvements | 45,982,312 | 45,859,270 | 0.3% |
| Equipment | 5,400,442 | 5,173,667 | 4.4% |
| Less: Accumulated Depreciation | <u>(24,163,770)</u> | <u>(23,151,384)</u> | 4.4% |
| Total Net Capital Assets | <u>\$ 30,896,968</u> | <u>\$ 31,161,499</u> | -0.8% |

Construction Plans

The School Board has postponed any activity related to a potential bond referendum for facility needs due to the need to address increasing revenue through an operating referendum.

The School Board will continue to meet in a workshop setting with other local governmental entities annually to be apprised of other projects coming up in the District that will impact constituents of the city, county, and school district.

Long-term Liabilities

At year-end, the District had \$14,378,808 in general obligation bonds outstanding. This is a decrease of 11.8% from the previous year - as shown in Table A-8 below. The District also had \$4,779,946 in severance and health benefits payable at June 30, 2008, a decrease of 1.4% from the previous year. Overall, the District's outstanding long-term liabilities decreased by 9.3% in fiscal year 2008. 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 \$1,820,000 of outstanding bonds in the year ending June 30, 2008.

INDEPENDENT SCHOOL DISTRICT # 347

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2008**

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

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|---------------------------------------|------------------------------|-------------------|---------------------|---------------------------|--------------------------------|
| Bonds Payable | \$ 15,585,000 | \$ | \$ 1,820,000 | \$ 13,765,000 | \$ 1,835,000 |
| Bond Premium | 715,074 | | 101,266 | 613,808 | 100,999 |
| Severance and Health Benefits Payable | 4,845,628 | 354,693 | 420,375 | 4,779,946 | 477,995 |
| Compensated Absences Payable | 163,521 | 155,917 | 147,379 | 172,059 | 154,853 |
| Total | <u>\$ 21,309,223</u> | <u>\$ 510,610</u> | <u>\$ 2,489,020</u> | <u>\$ 19,330,813</u> | <u>\$ 2,568,847</u> |

FACTORS BEARING ON THE DISTRICT'S FUTURE

With the exception of a voter-approved 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 2007 Legislative Session was completed in May. The basic formula for 2007-2008 was increased by 2% for the 2007-2008 school year and 1% for the 2008-2009 school year. Additional one time money was added for operating capital/technology aid. This calculation is \$40 per pupil unit for 2007-2008 and \$55 for 2008-2009. Kindergarten weighting was increased from .557 to .612. Gifted and Talented Revenue was increased from \$9 per AMCPU to \$12 beginning in FY 2008. Equity revenue increased from \$23 to \$46. Safe schools levy increased from \$27 to \$30. The ECFE revenue was increased from \$112 to \$120 per resident under the age of five. State school lunch reimbursement was increased from 10.5 cents per meal to 12 cents per meal.

The District is going to the voters in November, 2008 to ask for additional operating revenue. The first operating referendum, if passed, would increase revenue an additional \$201.51 per pupil. The second operating referendum question, if passed, would increase revenue an additional \$374.36 per pupil. If neither question passes, the District is projecting budget reductions of approximately \$2,544,081 for 2009-2010.

The Willmar area continues to develop from an economic standpoint. Additional retail entities have located or expanded in Willmar, and industrial development is also on the horizon. A new airport has been completed as well as a major renovation project at Rice Memorial Hospital. A revised and enhanced industrial park will be completed in the next few years. City infrastructure is also being addressed through projects such as the new wastewater treatment facility that is being planned. Storm water retention issues are challenges that the City of Willmar is dealing with at the current time. The Willmar Municipal Utilities is going forward with the construction of wind turbines. Rice Hospital is making plans to construct a new nursing home and long-term care facility. A new psychiatric hospital was built in Willmar. The City of Willmar and Kandiyohi County Economic Development Commission is working to secure a Veterans Home in Willmar. They have also worked to bring in a biomass pellet plant production company to the community. The MinnWest Technology Campus that began development three years ago is continuing to thrive and secure new technology based businesses for their campus. Many of the above-mentioned projects have come to fruition as a result of public entities working collaboratively as well as public and private partnerships that have formed on behalf of economic development.

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

INDEPENDENT SCHOOL DISTRICT # 347

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2008**

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

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

BASIC FINANCIAL STATEMENTS

INDEPENDENT SCHOOL DISTRICT #347

STATEMENT OF NET ASSETS

JUNE 30, 2008

WITH PARTIAL COMPARATIVE AMOUNTS AS OF JUNE 30, 2007

| | Governmental Activities | |
|-------------------------------------------------|-------------------------|----------------------|
| | 2008 | 2007 |
| ASSETS | | |
| Cash and investments | \$ 9,315,708 | \$ 11,513,398 |
| Receivables | | |
| Property taxes | 2,966,770 | 3,009,356 |
| Other governments | 4,765,792 | 4,573,832 |
| Other | 178,778 | 461,586 |
| Prepaid items | 72,745 | 27,984 |
| Inventories | 55,940 | 52,754 |
| Bond issuance costs, net | 72,116 | 83,116 |
| Capital assets: | | |
| Land | 623,282 | 623,282 |
| Other capital assets, net of depreciation | 30,273,686 | 30,538,217 |
| Total Assets | \$ 48,324,817 | \$ 50,883,525 |
| LIABILITIES AND NET ASSETS | | |
| Liabilities | | |
| Salaries and wages payable | \$ 3,624,788 | \$ 3,259,242 |
| Accounts and contracts payable | 565,689 | 990,492 |
| Due to other governmental units | 44,411 | 16,894 |
| Accrued interest | 284,708 | 312,719 |
| Unearned revenue | | |
| Property taxes | 5,312,339 | 5,366,327 |
| Local sources | 140,318 | 170,590 |
| Noncurrent liabilities | | |
| Due within one year | 2,568,847 | 2,553,266 |
| Due in more than one year | 16,761,966 | 18,755,957 |
| Total Liabilities | 29,303,066 | 31,425,487 |
| Net Assets | | |
| Invested in capital assets, net of related debt | 16,590,276 | 15,416,819 |
| Restricted for | | |
| Operating capital purposes | 340,076 | 485,009 |
| State-mandated reserves | 177,929 | 402,385 |
| Food service | 193,298 | 188,923 |
| Community service | 264,868 | 349,067 |
| Debt service | 681,274 | 590,055 |
| Unrestricted | 774,030 | 2,025,780 |
| Total Net Assets | 19,021,751 | 19,458,038 |
| Total Liabilities and Net Assets | \$ 48,324,817 | \$ 50,883,525 |

See accompanying Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT #347

STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2008
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2007

| | 2008 | | | | 2007 | |
|------------------------------------------------------|----------------------|-------------------------|------------------------------------------|----------------------------------------------------------|----------------------------------------------------------|----------------------------|
| | Expenses | Program Revenues | | Net (Expense) Revenue and Changes in Net Assets | Net (Expense) Revenue and Changes in Net Assets | |
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Governmental Activities |
| GOVERNMENTAL ACTIVITIES: | | | | | | |
| Administration | \$ 1,544,907 | \$ | \$ | \$ (1,544,907) | \$ (1,613,571) | |
| District support services | 885,154 | | 29,678 | (855,476) | (807,601) | |
| Regular instruction | 21,704,551 | 421,324 | 6,751,987 | (14,531,240) | (11,887,276) | |
| Vocational education instruction | 730,195 | 27,160 | 93,692 | (609,343) | (527,495) | |
| Special education instruction | 8,055,217 | 104,241 | 5,068,503 | (2,882,473) | (2,593,393) | |
| Instructional support services | 2,492,349 | 15,799 | 663,501 | (1,813,049) | (1,342,834) | |
| Pupil support services | 3,397,152 | | 256,742 | (3,140,410) | (2,914,068) | |
| Sites and buildings | 4,722,635 | 34,394 | 208,867 | 697,859 | (3,781,515) | (4,423,398) |
| Fiscal and other fixed costs programs | 159,340 | | | (159,340) | 265,680 | |
| Food service | 2,208,624 | 773,685 | 1,433,961 | (978) | 90,958 | |
| Community service | 2,094,012 | 667,133 | 1,198,858 | (228,021) | (369,663) | |
| Interest and fiscal charges on long-term liabilities | 645,553 | | | (645,553) | (829,447) | |
| Total Governmental Activities | <u>\$ 48,639,689</u> | <u>\$ 2,043,736</u> | <u>\$ 15,705,789</u> | <u>\$ 697,859</u> | <u>(30,192,305)</u> | <u>(26,952,108)</u> |
| GENERAL REVENUES: | | | | | | |
| Property taxes levied for: | | | | | | |
| General purposes | | | | 2,776,231 | 2,408,339 | |
| Community service | | | | 281,805 | 246,165 | |
| Debt service | | | | 2,349,549 | 2,264,179 | |
| State aid not restricted to specific purposes | | | | 23,903,451 | 23,461,186 | |
| Interest earnings | | | | 408,458 | 491,828 | |
| Gain on sale of capital assets | | | | 1,999 | 128,986 | |
| Miscellaneous | | | | 34,525 | | |
| Total General Revenues | | | | <u>29,756,018</u> | <u>29,000,683</u> | |
| Change in Net Assets | | | | (436,287) | 2,048,575 | |
| NET ASSETS, BEGINNING OF YEAR, AS ORIGINALLY STATED | | | | 19,458,038 | 19,960,247 | |
| PRIOR PERIOD ADJUSTMENT | | | | | (2,550,784) | |
| NET ASSETS, BEGINNING OF YEAR, AS RESTATED | | | | <u>19,458,038</u> | <u>17,409,463</u> | |
| NET ASSETS, END OF YEAR | | | | <u>\$ 19,021,751</u> | <u>\$ 19,458,038</u> | |

See accompanying Notes to the Financial Statements

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INDEPENDENT SCHOOL DISTRICT #347

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008

WITH PARTIAL COMPARATIVE AMOUNTS AS OF JUNE 30, 2007

| | ASSETS | | | | | |
|------------------------------------------------------------|------------------------------|-------------------|-------------------|---------------------|-------------------------------|-------------------------------|
| | General | Food Service | Community Service | Debt Service | Total Governmental Funds 2008 | Total Governmental Funds 2007 |
| Cash and investments | \$ 6,727,141 | \$ 91,427 | \$ 416,937 | \$ 1,976,037 | \$ 9,211,542 | \$ 11,420,075 |
| Receivables | | | | | | |
| Current property taxes | 1,538,029 | | 163,005 | 1,218,799 | 2,919,833 | 2,974,492 |
| Delinquent property taxes | 22,666 | | 2,434 | 21,837 | 46,937 | 34,864 |
| Due from other Minnesota school districts | 258,406 | | | | 258,406 | 253,358 |
| Due from Minnesota Department of Education | 3,733,168 | 22,508 | 76,222 | 23,332 | 3,855,230 | 3,836,360 |
| Due from Federal through Minnesota Department of Education | 312,070 | 150,805 | 52,001 | | 514,876 | 387,856 |
| Due from Federal Government received directly | 66,021 | | | | 66,021 | 95,709 |
| Due from other governmental units | 71,259 | | | | 71,259 | 549 |
| Other receivables | 158,324 | 3,713 | 16,741 | | 178,778 | 461,586 |
| Prepaid items | 62,466 | 773 | 9,506 | | 72,745 | 27,984 |
| Inventories | 28,882 | 27,058 | | | 55,940 | 52,754 |
| Total Assets | \$ 12,978,432 | \$ 296,284 | \$ 736,846 | \$ 3,240,005 | \$ 17,251,567 | \$ 19,545,587 |
| | LIABILITIES AND FUND BALANCE | | | | | |
| Liabilities | | | | | | |
| Salaries and wages payable | \$ 3,469,223 | \$ 45,578 | \$ 109,987 | \$ | \$ 3,624,788 | \$ 3,259,242 |
| Accounts and contracts payable | 501,101 | 16,362 | 25,676 | | 543,139 | 964,855 |
| Due to other governmental units | 15,539 | | 28,872 | | 44,411 | 16,894 |
| Deferred revenue | | | | | | |
| Property taxes levied for subsequent year | 2,755,144 | | 305,009 | 2,252,186 | 5,312,339 | 5,366,327 |
| Delinquent property taxes | 22,666 | | 2,434 | 21,837 | 46,937 | 34,864 |
| Local sources | 99,272 | 41,046 | | | 140,318 | 170,590 |
| Total Liabilities | 6,862,945 | 102,986 | 471,978 | 2,274,023 | 9,711,932 | 9,812,772 |
| Fund Balance | | | | | | |
| Reserved for | | | | | | |
| Staff development | 169,842 | | | | 169,842 | 363,222 |
| Severance and health benefits | 1,200,000 | | | | 1,200,000 | 1,200,000 |
| Gifted and talented | 36,369 | | | | 36,369 | 39,163 |
| Health and safety | (28,282) | | | | (28,282) | (35,419) |
| Operating capital | 340,076 | | | | 340,076 | 485,009 |
| Community education programs | | | 96,337 | | 96,337 | 159,229 |
| Early childhood and family educations programs | | | | | | 12,611 |
| School readiness | | | 1,660 | | 1,660 | |
| Safe schools | 398 | | | | 398 | |
| Building construction | | | | | | 412,873 |
| Unreserved, undesignated, reported in | | | | | | |
| General fund | 4,397,084 | | | | 4,397,084 | 5,827,203 |
| Debt service fund | | | | 965,982 | 965,982 | 902,774 |
| Special revenue funds | | 193,298 | 166,871 | | 360,169 | 366,150 |
| Total Fund Balance | 6,115,487 | 193,298 | 264,868 | 965,982 | 7,539,635 | 9,732,815 |
| Total Liabilities and Fund Balance | \$ 12,978,432 | \$ 296,284 | \$ 736,846 | \$ 3,240,005 | \$ 17,251,567 | \$ 19,545,587 |

See accompanying Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT #347

RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS

JUNE 30, 2008

WITH PARTIAL COMPARATIVE AMOUNTS AS OF JUNE 30, 2007

| | <u>2008</u> | <u>2007</u> |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|----------------------|
| Total Fund Balances - Governmental Funds | \$ 7,539,635 | \$ 9,732,815 |
| <p>Amounts reported for governmental activities in the statement of net assets are different because:</p> | | |
| <p>Capital assets used in governmental funds are not financial resources and therefore are not reported as assets in the governmental funds. Those assets consist of:</p> | | |
| Land | 623,282 | 623,282 |
| Land improvements, net of accumulated depreciation | 1,496,857 | 1,059,303 |
| Buildings and improvements, net of accumulated depreciation | 27,042,225 | 27,795,640 |
| Equipment and vehicles, net of accumulated depreciation | 1,734,604 | 1,683,274 |
| <p>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.</p> | | |
| | 46,937 | 34,864 |
| <p>Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.</p> | | |
| | (284,708) | (312,719) |
| <p>Governmental funds report debt issuance costs as expenditures at the time of issuance. Issuance costs are reported as an unamortized asset in the government-wide financial statements.</p> | | |
| | 72,116 | 83,116 |
| <p>Internal service funds are used by management to charge the costs associated with Delta Dental Insurance. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.</p> | | |
| | 81,616 | 67,686 |
| <p>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:</p> | | |
| Bonds payable | (13,765,000) | (15,585,000) |
| Unamortized premiums | (613,808) | (715,074) |
| Severance and health benefits payable | (4,779,946) | (4,845,628) |
| Compensated absences payable | (172,059) | (163,521) |
| | <u>(19,330,813)</u> | <u>(19,309,229)</u> |
| Total Net Assets - Governmental Activities | <u>\$ 19,021,751</u> | <u>\$ 19,458,038</u> |

See accompanying Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT #347

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2008
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2007

| | General | Food Service | Community Service | Capital Projects | Debt Service | Total Governmental Funds | |
|-----------------------------------------------------------|--------------|--------------|-------------------|------------------|--------------|--------------------------|--------------|
| | | | | | | 2008 | 2007 |
| REVENUES | | | | | | | |
| Local sources | | | | | | | |
| Property taxes | \$ 2,769,568 | \$ | \$ 281,075 | \$ | \$ 2,344,867 | \$ 5,395,510 | \$ 4,931,199 |
| Interest earnings | 318,763 | 5,354 | 15,013 | 473 | 68,856 | 408,459 | 491,828 |
| Other | 1,156,755 | 775,699 | 949,856 | | | 2,882,310 | 3,592,946 |
| State sources | 34,914,994 | 189,131 | 883,652 | | 233,315 | 36,221,092 | 35,315,441 |
| Federal sources | 1,878,874 | 1,242,815 | 67,134 | | | 3,188,823 | 2,854,431 |
| Total Revenues | 41,038,954 | 2,212,999 | 2,196,730 | 473 | 2,647,038 | 48,096,194 | 47,185,845 |
| EXPENDITURES | | | | | | | |
| Current | | | | | | | |
| Administration | 1,546,127 | | | | | 1,546,127 | 1,543,232 |
| District support services | 872,978 | | | | | 872,978 | 959,115 |
| Regular instruction | 19,967,831 | | | | | 19,967,831 | 18,220,574 |
| Vocational education instruction | 744,309 | | | | | 744,309 | 612,387 |
| Special education instruction | 8,112,649 | | | | | 8,112,649 | 7,593,015 |
| Instructional support services | 2,398,440 | | | | | 2,398,440 | 1,953,089 |
| Pupil support services | 3,393,865 | | | | | 3,393,865 | 3,158,359 |
| Sites and buildings | 4,457,644 | | | 166,723 | | 4,624,367 | 4,781,520 |
| Fiscal and other fixed costs programs | 158,478 | | | | | 158,478 | 239,392 |
| Food service | | 2,156,016 | | | | 2,156,016 | 1,951,394 |
| Community service | | | 2,094,107 | | | 2,094,107 | 2,025,813 |
| Capital outlay | 1,245,459 | 52,608 | 186,822 | 246,623 | | 1,731,512 | 1,181,461 |
| Debt service | | | | | | | |
| Principal | | | | | 1,820,000 | 1,820,000 | 1,505,425 |
| Interest and fiscal charges | | | | | 763,830 | 763,830 | 1,028,138 |
| Total Expenditures | 42,897,780 | 2,208,624 | 2,280,929 | 413,346 | 2,583,830 | 50,384,509 | 46,752,914 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (1,858,826) | 4,375 | (84,199) | (412,873) | 63,208 | (2,288,315) | 432,931 |
| OTHER FINANCING SOURCES | | | | | | | |
| Sale of real property proceeds | 1,999 | | | | | 1,999 | 128,986 |
| Judgments for school districts | 93,136 | | | | | 93,136 | 203,846 |
| Sale of bonds proceeds | | | | | | | 495,000 |
| Bond premium | | | | | | | 2,242 |
| Total Other Financing Sources | 95,135 | 0 | 0 | 0 | 0 | 95,135 | 830,074 |
| Net Change in Fund Balances | (1,763,691) | 4,375 | (84,199) | (412,873) | 63,208 | (2,193,180) | 1,263,005 |
| FUND BALANCE, BEGINNING OF YEAR | 7,879,178 | 188,923 | 349,067 | 412,873 | 902,774 | 9,732,815 | 8,469,810 |
| FUND BALANCE, END OF YEAR | \$ 6,115,487 | \$ 193,298 | \$ 264,868 | \$ 0 | \$ 965,982 | \$ 7,539,635 | \$ 9,732,815 |

See accompanying Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT #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, 2008
WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2007

| | <u>2008</u> | <u>2007</u> |
|--------------------------------------------------------|----------------|--------------|
| Total Net Change in Fund Balances - Governmental Funds | \$ (2,193,180) | \$ 1,263,005 |

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

Capital outlay is reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.

| | | |
|---------------------------------------|-------------|-------------|
| Capital outlay | 1,051,284 | 933,937 |
| Gain on disposal of capital assets | 1,999 | 128,986 |
| Proceeds from sales of capital assets | (1,999) | (128,986) |
| Depreciation expense | (1,293,447) | (1,259,781) |
| Loss on disposal of capital assets | (22,368) | |

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 is as follows:

| | | |
|--------------------------------------------------|-----------|-----------|
| General obligation bond proceeds | | (495,000) |
| Bond premium | | (2,242) |
| Bond issuance costs | | 11,357 |
| Payment of loan and special assessment principal | | 35,284 |
| Payment of bond principal | 1,820,000 | 1,505,000 |
| Change in accrued interest expense | 28,011 | 97,344 |
| Amortization of bond issuance costs | (11,000) | (11,678) |
| Amortization of bond premium | 101,266 | 101,668 |

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.

| | |
|--------|----------|
| 12,073 | (12,516) |
|--------|----------|

In the statement of activities, certain operating expenses-severance and health 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).

| | |
|--------|-----------|
| 57,144 | (131,736) |
|--------|-----------|

An internal service fund is used to charge the costs associated with Delta Dental insurance. The net income of the fund is reported with governmental activities.

| | |
|---------------|---------------|
| <u>13,930</u> | <u>13,933</u> |
|---------------|---------------|

Change in Net Assets - Governmental Activities

| | |
|---------------------|---------------------|
| <u>\$ (436,287)</u> | <u>\$ 2,048,575</u> |
|---------------------|---------------------|

See accompanying Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT #347

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 GENERAL FUND
 YEAR ENDED JUNE 30, 2008
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2007

| | 2008 | | | Over (Under) Final Budget | 2007 |
|--------------------------------------------------------------|---------------------|-----------------------|---------------------|---------------------------------|---------------------|
| | Budgeted Amounts | | Actual | | Actual |
| | Original | Final | | | |
| REVENUES | | | | | |
| Local sources | | | | | |
| Property taxes | \$ 2,767,862 | \$ 2,672,184 | \$ 2,769,568 | \$ 97,384 | \$ 2,411,863 |
| Interest earnings | 300,000 | 368,119 | 318,763 | (49,356) | 401,290 |
| Other | 1,438,555 | 1,541,308 | 1,156,755 | (384,553) | 1,949,742 |
| State sources | 35,661,786 | 35,463,377 | 34,914,994 | (548,383) | 34,111,061 |
| Federal sources | 1,844,687 | 1,433,556 | 1,878,874 | 445,318 | 1,496,352 |
| Total Revenues | 42,012,890 | 41,478,544 | 41,038,954 | (439,590) | 40,370,308 |
| EXPENDITURES | | | | | |
| Current | | | | | |
| Administration | 1,576,591 | 1,614,801 | 1,546,127 | (68,674) | 1,543,232 |
| District support services | 893,226 | 938,786 | 872,978 | (65,808) | 959,115 |
| Regular instruction | 19,649,738 | 19,710,004 | 19,967,831 | 257,827 | 18,220,574 |
| Vocational education instruction | 794,359 | 723,810 | 744,309 | 20,499 | 612,387 |
| Special education instruction | 8,376,506 | 8,378,479 | 8,112,649 | (265,830) | 7,593,015 |
| Instructional support services | 2,338,831 | 2,565,600 | 2,398,440 | (167,160) | 1,953,089 |
| Pupil support services | 3,374,507 | 3,454,349 | 3,393,865 | (60,484) | 3,158,359 |
| Sites and buildings | 4,604,060 | 4,691,790 | 4,457,644 | (234,146) | 4,781,520 |
| Fiscal and other fixed costs programs | 213,515 | 160,000 | 158,478 | (1,522) | 239,392 |
| Capital outlay | 1,128,063 | 1,128,063 | 1,245,459 | 117,396 | 1,075,893 |
| Total Expenditures | 42,949,396 | 43,365,682 | 42,897,780 | (467,902) | 40,136,576 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (936,506) | (1,887,138) | (1,858,826) | 28,312 | 233,732 |
| OTHER FINANCING SOURCES | | | | | |
| Sale of real property proceeds | | | 1,999 | 1,999 | 128,986 |
| Judgments for school districts | 200,000 | 233,638 | 93,136 | (140,502) | 203,846 |
| Total Other Financing Sources | 200,000 | 233,638 | 95,135 | (138,503) | 332,832 |
| Net Change in Fund Balances | \$ (736,506) | \$ (1,653,500) | (1,763,691) | \$ (110,191) | 566,564 |
| FUND BALANCE, BEGINNING OF YEAR | | | 7,879,178 | | 7,312,614 |
| FUND BALANCE, END OF YEAR | | | \$ 6,115,487 | | \$ 7,879,178 |

See accompanying Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT #347

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 FOOD SERVICE SPECIAL REVENUE FUND
 YEAR ENDED JUNE 30, 2008
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2007

| | 2008 | | | Over (Under) Final Budget | 2007 |
|----------------------------------------|------------------|------------------|-------------------|---------------------------------|-------------------|
| | Budgeted Amounts | | Actual | | Actual |
| | Original | Final | | | |
| REVENUES | | | | | |
| Local sources | | | | | |
| Interest earnings | \$ 3,000 | \$ 4,489 | \$ 5,354 | \$ 865 | \$ 2,812 |
| Other-primarily meal sales | 752,701 | 779,958 | 775,699 | (4,259) | 780,817 |
| State sources | 185,500 | 211,038 | 189,131 | (21,907) | 159,811 |
| Federal sources | 1,151,508 | 1,174,272 | 1,242,815 | 68,543 | 1,111,782 |
| Total Revenues | 2,092,709 | 2,169,757 | 2,212,999 | 43,242 | 2,055,222 |
| EXPENDITURES | | | | | |
| Current | | | | | |
| Food service | 2,003,533 | 2,051,527 | 2,156,016 | 104,489 | 1,951,394 |
| Capital outlay | 59,030 | 67,580 | 52,608 | (14,972) | 10,058 |
| Total Expenditures | 2,062,563 | 2,119,107 | 2,208,624 | 89,517 | 1,961,452 |
| Net Change in Fund Balances | \$ 30,146 | \$ 50,650 | 4,375 | \$ (46,275) | 93,770 |
| FUND BALANCE, BEGINNING OF YEAR | | | 188,923 | | 95,153 |
| FUND BALANCE, END OF YEAR | | | \$ 193,298 | | \$ 188,923 |

See accompanying Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT #347

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 COMMUNITY SERVICE SPECIAL REVENUE FUND
 YEAR ENDED JUNE 30, 2008
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2007

| | 2008 | | | Over (Under) Final Budget | 2007 |
|----------------------------------------|------------------|--------------------|-------------------|---------------------------------|-------------------|
| | Budgeted Amounts | | Actual | | Actual |
| | Original | Final | | | |
| REVENUES | | | | | |
| Local sources | | | | | |
| Property taxes | \$ 284,335 | \$ 281,430 | \$ 281,075 | \$ (355) | \$ 246,756 |
| Interest earnings | 3,500 | 13,497 | 15,013 | 1,516 | 16,487 |
| Other-primarily tuition and fees | 708,075 | 829,598 | 949,856 | 120,258 | 862,387 |
| State sources | 784,926 | 889,674 | 883,652 | (6,022) | 796,112 |
| Federal sources | 49,000 | 67,982 | 67,134 | (848) | 246,297 |
| Total Revenues | 1,829,836 | 2,082,181 | 2,196,730 | 114,549 | 2,168,039 |
| EXPENDITURES | | | | | |
| Current | | | | | |
| Community service | 1,809,675 | 1,953,788 | 2,094,107 | 140,319 | 2,025,813 |
| Capital outlay | 7,200 | 182,223 | 186,822 | 4,599 | 19,818 |
| Total Expenditures | 1,816,875 | 2,136,011 | 2,280,929 | 144,918 | 2,045,631 |
| Net Change in Fund Balances | \$ 12,961 | \$ (53,830) | (84,199) | \$ (30,369) | 122,408 |
| FUND BALANCE, BEGINNING OF YEAR | | | 349,067 | | 226,659 |
| FUND BALANCE, END OF YEAR | | | \$ 264,868 | | \$ 349,067 |

See accompanying Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT #347

STATEMENT OF NET ASSETS
 PROPRIETARY FUND
 JUNE 30, 2008

WITH PARTIAL COMPARATIVE AMOUNTS AS OF JUNE 30, 2007

| | | Governmental Activities- Internal Service Fund | |
|----------------------------------|--|---------------------------------------------------|-----------|
| | | 2008 | 2007 |
| ASSETS | | | |
| Current Assets | | | |
| Cash and investments | | \$ 104,166 | \$ 93,323 |
| LIABILITIES AND NET ASSETS | | | |
| Current Liabilities | | | |
| Accounts payable | | \$ 22,550 | \$ 25,637 |
| Net Assets | | | |
| Unrestricted | | 81,616 | 67,686 |
| Total Liabilities and Net Assets | | \$ 104,166 | \$ 93,323 |

INDEPENDENT SCHOOL DISTRICT #347

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 PROPRIETARY FUND
 YEAR ENDED JUNE 30, 2008
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2007

| | Governmental Activities- Internal Service Fund | |
|---------------------------------|---------------------------------------------------|------------|
| | 2008 | 2007 |
| OPERATING REVENUES | | |
| Charges for services | \$ 243,164 | \$ 246,460 |
| OPERATING EXPENSES | | |
| Dental insurance claim payments | 200,000 | 203,198 |
| General administration costs | 29,234 | 29,329 |
| Total Operating Expenses | 229,234 | 232,527 |
| Net Change in Net Assets | 13,930 | 13,933 |
| NET ASSETS, BEGINNING OF YEAR | 67,686 | 53,753 |
| NET ASSETS, END OF YEAR | \$ 81,616 | \$ 67,686 |

See accompanying Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT #347

STATEMENT OF CASH FLOWS
 PROPRIETARY FUND
 YEAR ENDED JUNE 30, 2008
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2007

| | Governmental Activities- Internal Service Fund | |
|--------------------------------------------------------------------------------------------|---------------------------------------------------|------------------------|
| | 2008 | 2007 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Receipts from interfund services provided | \$ 243,164 | \$ 246,460 |
| Payments for administrative costs | (29,234) | (29,329) |
| Payments for dental fees and insurance claims | (203,087) | (203,143) |
| | <hr/> | <hr/> |
| Net Increase in Cash and Cash Equivalents | 10,843 | 13,988 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | <hr/> 93,323 | <hr/> 79,335 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <hr/> <u>\$ 104,166</u> | <hr/> <u>\$ 93,323</u> |
| RECONCILIATION OF OPERATING INCOME TO CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Operating income | \$ 13,930 | \$ 13,933 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Increase (Decrease) in: | | |
| Accounts payable | (3,087) | 55 |
| | <hr/> | <hr/> |
| Net Cash Provided By Operating Activities | <hr/> <u>\$ 10,843</u> | <hr/> <u>\$ 13,988</u> |

See accompanying Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT #347

STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2008

| | | Private- Purpose Trust Fund |
|--------------------------------|--|-----------------------------------|
| ASSETS | | |
| Cash and investments | | \$ 36,509 |
| Interest receivable | | 430 |
| | | <hr/> |
| Total Assets | | <u>\$ 36,939</u> |
| NET ASSETS | | |
| Net Assets | | |
| Held in trust for scholarships | | <u>\$ 36,939</u> |

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
YEAR ENDED JUNE 30, 2008

| | | Private- Purpose Trust Fund |
|-------------------------------|--|-----------------------------------|
| ADDITIONS | | |
| Interest earnings | | \$ 1,115 |
| DEDUCTIONS | | |
| Scholarship obligations | | 400 |
| | | <hr/> |
| Change in Net Assets | | 715 |
| NET ASSETS, BEGINNING OF YEAR | | <hr/> 36,224 |
| NET ASSETS, END OF YEAR | | <u>\$ 36,939</u> |

See accompanying Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Independent School District #347 have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The GASB pronouncements are recognized as accounting principles generally accepted in the United States of America. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The District has the option to apply FASB pronouncements issued after that date to its proprietary funds and has chosen to do so. The more significant of the government's accounting policies are described below.

A. REPORTING ENTITY

The Independent School District #347 Board of Education ("District") is the basic level of government which has the financial accountability and control over all activities related to the public school education for the Willmar School District. The District receives funding from local, state, and federal sources and must comply with the expenditure requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined by the GASB pronouncement, since Board members are elected by the public and have decision making authority, the authority to levy taxes, the power to designate management, and the ability to significantly influence operations and primary accountability for fiscal matters. In addition, there are no component units as defined by GASB Statement 14 which are included in the District's reporting entity.

Student activities are determined primarily by student participants under the guidance of an adult and are generally conducted outside school hours. The School Board has a fiduciary responsibility in establishing broad policies and ensuring that appropriate financial records are maintained for student activities. However, in accordance with Minnesota 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.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-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 fiduciary funds. Fiduciary funds are only reported 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.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Elimination of all charges would distort the direct costs and program revenue reported for the various functions concerned.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Cont'd)

Separate 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. 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 government-wide financial 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 activities 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 nonoperating 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 nonoperating revenues and expenses.

C. 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 or 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.

The governmental fund financial statements are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting, in which revenues are recognized when they become measurable and available. Revenues are considered to be measurable when the amount of the transaction can be determined and available when they are collectible within the current period or soon enough thereafter 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 interest earnings) are recorded as revenues when received because they are generally not measurable until then. Interest earnings are recorded when earned because they are measurable and available. A six-month availability period is generally used for other fund revenue.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (Cont'd)

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. The District does not use encumbrances for either budgeting or financial reporting purposes.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

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:

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.

The Food Service Special Revenue Fund accounts for all activities associated with the preparation and serving of regular and incidental meals, lunches or snacks in connection with school activities.

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

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

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

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (Cont'd)

Proprietary 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.

Fiduciary 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.

D. BUDGETS AND BUDGETARY ACCOUNTING

Budgets presented in this report for comparison to actual amounts are presented in accordance with accounting principles generally accepted in the United States of America. Each June, the School Board adopts an annual budget for the following fiscal year for the General, Food Service, Community Service, and Debt Service Funds. The approved budget is published in summary form in the District's legal newspaper by November 30 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.

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.

E. ASSETS, LIABILITIES AND EQUITY

Cash and Investments:

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

Cash balances from all funds of the District are pooled and invested, to the extent available, in allowable cash management accounts. Earnings from such accounts are allocated to the respective funds on the basis of applicable cash balance participation by each fund.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

E. ASSETS, LIABILITIES AND EQUITY (Cont'd)

Cash and Investments: (Cont'd)

For purposes of the statement of cash flows, the District considers cash in bank and all highly liquid instruments (including restricted assets) to be cash and cash equivalents in its proprietary fund.

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.

Current Property Taxes Receivable:

Current property taxes receivable represent current real and personal property tax levies, certified the previous December and collectible in the current calendar year, which have not been received by the District.

Delinquent Property Taxes Receivable:

Delinquent property taxes receivable represent taxes collectible in the years 2001 to 2007 that remain uncollected at June 30, 2008. They are equally offset by a deferred revenue amount in the liabilities of the fund financial statements.

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.

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 invoice cost, computed on a first-in, first-out method.

Property Taxes Levied for Subsequent Years:

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, 2008, are included in this account to indicate that, while they are current assets, they will not be recognized as revenue until the following year.

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.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

E. ASSETS, LIABILITIES AND EQUITY (Cont'd)

Capital Assets: (Cont'd)

Capital assets are recorded in the government-wide financial statements, but are not reported in the fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the District, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 20 to 50 years for land improvements and buildings, and 5 to 15 years for equipment.

Capital assets not being depreciated include land.

The District does not possess any material amounts of infrastructure capital assets. Items such as sidewalks and other land improvements are considered to be part of the cost of buildings or other improvable property.

Long-Term Obligations:

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs, if material, are reported as an asset 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.

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, 2008, unpaid vacation pay totaling \$172,059 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.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

E. ASSETS, LIABILITIES AND EQUITY (Cont'd)

Accrued Employee Benefits: (Cont'd)

Severance and Health Benefits:

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

Secretarial Staff:

A severance payment is available to secretaries who have completed at least 15 years of continuous service with the District and are at least 55 years of age. An eligible individual will receive an amount equal to 75% of the number of unused accumulated sick leave hours multiplied by the employee's hourly rate of pay, not to exceed 600 hours, less any TSA match the District contributed. Employees hired after July 1, 2000 are not eligible for severance pay.

Library Clerical Staff and General Paraprofessionals:

A severance payment is available to library clerical staff and general paraprofessionals who have completed at least 15 years of continuous service with the District and are at least 55 years of age. An eligible individual will receive an amount equal to 75% of the number of unused accumulated sick leave days multiplied by the employee's daily rate of pay, not to exceed 115 days.

Special Needs Paraprofessionals and Sign Language Interpreters:

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

Food Service Staff:

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

Administrators:

A severance payment is available to administrators who have completed at least 10 years of continuous service with the District and are at least 55 years of age but not more than 65 years of age. An eligible administrator will receive an amount equal to the number of unused accumulated sick leave days multiplied by the employee's daily rate of pay, not to exceed 175 days, less any TSA match the District contributed. Administrators hired after July 1, 2000 are not eligible for severance pay.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

E. ASSETS, LIABILITIES AND EQUITY (Cont'd)

Accrued Employee Benefits: (Cont'd)

Severance and Health Benefits: (Cont'd)

Teachers:

A severance payment is available to teachers who have completed at least 15 years of continuous service with the District and are at least 55 years of age. An eligible teacher will receive an amount equal to 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.

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

Custodians:

Custodians shall earn ten days of severance pay credit for each full year of service, with accumulation to 150 days. Upon resignation of the employee at age 55 or older, the District shall pay severance equal to 75% of an employee's accumulated severance pay days up to a maximum of 112.5 days, at the employee's daily rate of pay.

Confidential Employees:

A severance payment is available to confidential employees who have completed at least 15 years of continuous service with the District and are at least 55 years of age. An eligible individual will receive an amount equal to 75% of the number of unused accumulated sick leave hours multiplied by the employee's hourly rate of pay, not to exceed 805 hours, less any TSA match the District contributed. Employees hired after July 1, 2004 are not eligible for severance pay.

Post-Employment Health Care Benefits:

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

During fiscal year 2008, total expenditures for severance payments and post-employment health care benefits totaled \$420,375. At June 30, 2008, a liability for severance payments and post-employment health care benefits totaling \$4,779,946.

Deferred Revenue:

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.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

E. ASSETS, LIABILITIES AND EQUITY (Cont'd)

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.

Net Assets:

Net assets represent the difference between assets and liabilities in the government-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 government-wide financial statements when there are limitations imposed on their use through external restrictions by creditors, grantors, or laws or regulations of other governments.

F. REVENUES AND EXPENDITURES

Revenues:

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

Generally, tax revenue is recognized in the fiscal year ending June 30, following the calendar year in which the tax levy is collectible, while the current calendar year tax levy is recorded as deferred revenue (property taxes levied for subsequent year). The majority of District revenue in the General Fund (and to a lesser extent in the District's Community Service Special Revenue Fund) is determined annually by statutory funding formulas. The total revenue allowed by these formulas is then allocated between taxes and state aids by the Legislature based on education funding priorities. Changes in this allocation are periodically accompanied by a change in property tax revenue recognition referred to as the "tax shift."

In accordance with State law, the current tax shift consists of an amount equal to 31% of the District's 2000 Pay 2001 operating referendum which is frozen at \$184,153 for the District. The tax shift also includes certain other levies that are recognized early based on statutory requirements.

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, 2008, are included in Property Taxes Levied for Subsequent Year to indicate that, while they are current assets, they will not be recognized as revenue until the following year.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

F. REVENUES AND EXPENDITURES (Cont'd)

Expenditures:

Expenditure recognition for governmental fund types is limited to amounts represented by current liabilities. Noncurrent liabilities are not recognized as governmental fund expenditures or liabilities.

G. USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

H. PRIOR YEAR INFORMATION

The basic financial statements include certain prior-year partial comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the government's financial statements for the year ended June 30, 2007, from which the partial information was derived.

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. VIOLATIONS OF FINANCE-RELATED OBLIGATIONS

There were no violations of finance-related obligations.

B. DEFICIT FUND BALANCES

The District had no deficit fund balances as of June 30, 2008. As noted on the Balance Sheet - Governmental Funds, the Reserved Fund Balance for Health and Safety in the General Fund has a deficit balance of \$28,282.

C. EXCESS OF EXPENDITURES OVER BUDGET

The Food Service Fund had expenditures of \$2,208,624 and a budget of \$2,119,107, resulting in an excess of expenditures over budget of \$89,517. The Community Service Fund had expenditures of \$2,280,929 and a budget of \$2,136,011, resulting in an excess of expenditures over budget of \$144,918. No other funds of the District have excess expenditures over budget as of June 30, 2008.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 3. CASH AND INVESTMENTS

Cash and investments as of June 30, 2008, are as follows:

| | <u>Book Balance</u> |
|----------------------------------------|-------------------------|
| Governmental Activities | |
| Cash and investments | |
| Pooled cash in checking accounts | \$ 4,802,750 |
| Petty cash | 200 |
| Individual fund savings account | 12,758 |
| Negotiable certificates of deposit | <u>4,500,000</u> |
| Total Cash and investments | <u>\$ 9,315,708</u> |
| Fiduciary Fund | |
| Cash and investments | |
| Pooled cash in checking accounts | \$ 11,509 |
| Non-negotiable certificates of deposit | <u>25,000</u> |
| Total Cash and investments | <u>\$ 36,509</u> |

A. DEPOSITS

Custodial Credit Risk. Custodial credit risk is the risk that in the event of bank failure, the District's deposits may not be returned to it. Minnesota Statutes require all District deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds.

Authorized collateral includes the legal investments described below, as well as certain first mortgage notes, and certain other state or local government obligations. Minnesota Statutes require that securities pledged as collateral be held in safekeeping by the District treasurer or in a financial institution other than that furnishing the collateral. The District does not have a policy that would further limit its collateral choices.

B. INVESTMENTS

Credit Risk. Minnesota Statutes authorize the District to invest in obligations of the U.S. Treasury, agencies, and instrumentalities, share of investment companies whose only investments are in the aforementioned securities, obligations of the State of Minnesota or its municipalities, bankers' acceptances, futures contracts, repurchase and reverse repurchase agreements, and commercial paper of the highest quality with a maturity of no longer than 270 days. The District's investment policy does not further limit its investment choices. The negotiable certificates of deposit are unrated.

Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investment in negotiable certificates of deposit are held by an outside party, not in the name of the District.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008, was as follows:

| | Beginning Balance | Increase | Decrease | Ending Balance |
|------------------------------------------------|----------------------|---------------------|--------------------|----------------------|
| Governmental Activities | | | | |
| Capital assets, not being depreciated | | | | |
| Land | \$ 623,282 | \$ | \$ | \$ 623,282 |
| Capital assets, being depreciated | | | | |
| Land improvements | 2,656,664 | 552,333 | (154,295) | 3,054,702 |
| Buildings and improvements | 45,859,270 | 123,042 | | 45,982,312 |
| Equipment | 5,173,667 | 375,909 | (149,134) | 5,400,442 |
| Total capital assets, being depreciated | 53,689,601 | 1,051,284 | (303,429) | 54,437,456 |
| Less accumulated depreciation for | | | | |
| Land improvements | (1,597,361) | (99,349) | 138,865 | (1,557,845) |
| Buildings and improvements | (18,063,630) | (876,457) | | (18,940,087) |
| Equipment | (3,490,393) | (317,641) | 142,196 | (3,665,838) |
| Total accumulated depreciation | (23,151,384) | (1,293,447) | 281,061 | (24,163,770) |
| Total capital assets being depreciated, net | 30,538,217 | (242,163) | (22,368) | 30,273,686 |
| Governmental Activities | | | | |
| Net Capital Assets | <u>\$ 31,161,499</u> | <u>\$ (242,163)</u> | <u>\$ (22,368)</u> | <u>\$ 30,896,968</u> |

Depreciation expense was charged to functions/programs as follows:

| | |
|------------------------------------------------------|---------------------|
| Governmental Activities | |
| Administration | \$ 1,161 |
| District support services | 2,407 |
| Regular instruction | 1,117,394 |
| Vocational education instruction | 8,053 |
| Special education instruction | 2,553 |
| Instructional support services | 26,504 |
| Pupil support services | 24,397 |
| Sites and buildings | 93,317 |
| Fiscal and other fixed cost programs | 862 |
| Community service | 16,799 |
| Total depreciation expense - Governmental Activities | <u>\$ 1,293,447</u> |

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 5. LONG-TERM DEBT

A. COMPONENTS OF 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.

| | <u>Original Amount Issued</u> | <u>Final Maturity Date</u> | <u>Interest Rate</u> | <u>Balance Outstanding</u> |
|---------------------------------------|---------------------------------------|------------------------------------|--------------------------|--------------------------------|
| <u>Governmental Activities</u> | | | | |
| General Obligation Bonds | | | | |
| Refunding Bonds, Series 2005A | \$ 16,265,000 | 02/01/15 | 5.00% | \$ 13,270,000 |
| Capital Facilities, Series 2007A | 495,000 | 02/01/13 | 4.00% | <u>495,000</u> |
| Total General Obligation Bonds | | | | 13,765,000 |
| Bond premium - net | | | | 613,808 |
| Severance and health benefits payable | | | | 4,779,946 |
| Compensated absences payable | | | | <u>172,059</u> |
| Total Governmental Activities | | | | <u><u>\$ 19,330,813</u></u> |

B. MINIMUM DEBT PAYMENTS

Minimum annual principal and interest payments required to retire long-term debt, not including severance and health benefits payable and compensated absences payable are as follows:

| <u>Year Ending June 30,</u> | <u>General Obligation Bonds Payable</u> | |
|---------------------------------|---------------------------------------------|----------------------------|
| | <u>Principal</u> | <u>Interest</u> |
| 2009 | \$ 1,835,000 | \$ 683,300 |
| 2010 | 1,995,000 | 592,450 |
| 2011 | 2,100,000 | 493,650 |
| 2012 | 2,200,000 | 389,650 |
| 2013 | 2,315,000 | 280,700 |
| 2014-2015 | <u>3,320,000</u> | <u>216,000</u> |
| | <u><u>\$ 13,765,000</u></u> | <u><u>\$ 2,655,750</u></u> |

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 5. LONG-TERM DEBT (Cont'd)

C. DESCRIPTION OF LONG-TERM DEBT

General Obligation 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. This bond was fully paid in 2008.

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

On June 15, 2007, the District issued \$495,000 of General Obligation Capital Facilities Bonds, Series 2007A. 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.

Severance and Health Benefits Payable:

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

Compensated Absences Payable:

Compensated absences payable consists of unused vacation at June 30, 2008. In the past, vacation expense has been paid by the General, Food Service, and the Community Service Funds.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 5. LONG-TERM DEBT (Cont'd)

D. CHANGES IN LONG-TERM DEBT

The following table summarizes changes in long-term debt during the year ended June 30, 2008:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|------------------------------------------|----------------------|-------------------|-----------------------|----------------------|---------------------------|
| <u>Governmental Activities</u> | | | | | |
| Bonds payable | \$ 15,585,000 | \$ | \$ (1,820,000) | \$ 13,765,000 | \$ 1,835,000 |
| Bond premium | 715,074 | | (101,266) | 613,808 | 100,999 |
| Severance and health benefits payable | 4,845,628 | 354,693 | (420,375) | 4,779,946 | 477,995 |
| Compensated absences payable | 163,521 | 155,917 | (147,379) | 172,059 | 154,853 |
| Total Governmental Activities | <u>\$ 21,309,223</u> | <u>\$ 510,610</u> | <u>\$ (2,489,020)</u> | <u>\$ 19,330,813</u> | <u>\$ 2,568,847</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 (5.0% at June 30, 2008) and is unsecured. This line matures on October 1, 2008. There is no balance outstanding under this arrangement as of June 30, 2008.

NOTE 6. 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, and based upon a majority vote of licensed teachers and the School Board, 1% of basic General Education revenue is allocated to staff development. The cumulative excess of such revenues over staff development expenditures is reported as a reservation of fund balance in the General Fund.

B. RESERVED FOR SEVERANCE AND HEALTH BENEFITS

In accordance with state accounting regulations, a reserved fund balance is established for vested severance benefits. The reserved amount represents vested benefits for employees that are estimated to be paid in fiscal year 2009-2010.

C. RESERVED FOR GIFTED AND TALENTED

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

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 6. RESERVED FUND BALANCES (Cont'd)

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 SAFE SCHOOLS

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

G. RESERVED FOR COMMUNITY EDUCATION PROGRAMS

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

H. RESERVED FOR EARLY CHILDHOOD AND FAMILY EDUCATION PROGRAMS

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

I. RESERVED FOR SCHOOL READINESS

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

J. RESERVED FOR BUILDING CONSTRUCTION

The fund balance reservation represents unexpended funds available for current construction projects.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 7. DEFINED BENEFIT PENSION PLANS - STATEWIDE

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

A. TEACHERS RETIREMENT ASSOCIATION

Plan Description:

All teachers employed by the District are covered by defined benefit plans administered by the Teachers Retirement Association (TRA). TRA members belong to either the Coordinated or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All Basic members were first hired prior to July 1, 1989. All new members must participate in the Coordinated Plan. The plans are established and administered in accordance with Minnesota Statutes, Chapters 354 and 356.

TRA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by Minnesota Statute and vest after three years of service credit. The defined retirement benefits are based on a member's highest average salary for any five consecutive years of allowable service, age, and a formula multiplier based on years of credit at termination of service.

Two methods are used to compute benefits for TRA's Coordinated and Basic Plan members. Members first employed before July 1, 1989, receive the greater of the Tier I or Tier II as described:

| Tier I | Step Rate Formula | Percentage |
|-------------|-----------------------------------------------------------------------|---------------|
| Basic | 1st ten years if service years are prior to July 1, 2006 | 2.2% per year |
| | 1st ten years if service years are July 1, 2006 or after | 2.7% per year |
| Coordinated | 1st ten years if service years are prior to July 1, 2006 | 1.2% per year |
| | 1st ten years if service years are July 1, 2006 or after | 1.4% per year |
| | All other years of service if service years are prior to July 1, 2006 | 1.7% per year |
| | All other years of service if service years are July 1, 2006 or after | 1.9% per year |

With these provisions:

- a. Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.
- b. 3% per year early retirement reduction factors for all years under normal retirement age.
- c. Unreduced benefits for early retirement under a Rule-of-90 (age plus allowable service equals 90 or more.)

-or-

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 7. DEFINED BENEFIT PENSION PLANS - STATEWIDE (Cont'd)

A. TEACHERS RETIREMENT ASSOCIATION (Cont'd)

Tier II: For years of service prior to July 1, 2006, a level formula of 1.7 percent per year for coordinated members and 2.7 percent per year for basic members. For years of service July 1, 2006 and after, a level formula of 1.9 percent per year for Coordinated members and 2.7 for Basic members applies. Actuarially equivalent early retirement reduction factors with augmentation are used for early retirement before the normal age of 65. These reduction factors average approximately 4 to 5.5 percent per year.

Members first employed after June 30, 1989, receive only the Tier II calculation with a normal retirement age that is their retirement age for full Social Security retirement benefits, but not to exceed age 66.

Six different types of annuities are available to members upon retirement. The No Refund Life Plan is a lifetime annuity that ceases upon the death of the retiree - no survivor annuity is payable. A retiring member may also choose to provide survivor benefits to a designated beneficiary(ies) by selecting one of the five plans which have survivorship features. Vested members may also leave their contributions in the TRA Fund upon termination of service in order to qualify for a deferred annuity at retirement age. Any member terminating service is eligible for a refund of their employee contributions plus interest.

The benefit provisions stated apply to active plan participants. Vested, terminated employees who are entitled to benefits but not yet receiving them are bound by the provisions in effect at the time they last terminated their public service.

TRA publicly issues a Comprehensive Annual Financial Report (CAFR) presenting financial statements, supplemental information on funding levels, investment performance, and further information on benefits provisions. The report may be accessed at the TRA web site www.tra.state.mn.us. Alternatively, a copy of the report may be obtained by writing or calling TRA:

Teachers Retirement Association
60 Empire Drive, Suite 400
St. Paul, MN 55103-1855
651-296-6449
800-657-3853

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. As of July 1, 2006, Coordinated and Basic Plan members are required to contribute 5.5 percent and 9.0 percent, respectively, of their annual covered salary as employee contributions. Prior to July 1, 2007, the employer contribution rates were 5.0 percent for Coordinated members and 9.0 percent for Basic members. Effective July 1, 2007, the employer contribution rate for Coordinated members rose to 5.5 percent and 9.5 percent for Basic members. Total covered payroll salaries for all TRA members statewide during fiscal year ended June 30, 2007 was approximately \$3.532 billion.

The District contributions for the years ending June 30, 2008, 2007, and 2006 were \$1,089,337, \$945,664, and \$927,705, respectively, equal to the required contributions for each year as set by state statute.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2008

NOTE 7. DEFINED BENEFIT PENSION PLANS - STATEWIDE (Cont'd)

B. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF MINNESOTA

Plan Description:

All full-time and certain part-time employees (other than teachers) of the District are covered by defined benefit plans 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.

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For all PERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90.

Normal retirement age is 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree--no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives.

Members may also leave their contributions in the fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 7. DEFINED BENEFIT PENSION PLANS - STATEWIDE (Cont'd)

B. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF MINNESOTA (Cont'd)

PERA issues a publicly available financial report that includes financial statements and required supplementary information for PERF. That report may be obtained on the Internet at www.mnpera.org, by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

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 were required to contribute 9.10% and 5.75%, respectively, of their annual covered salary in 2007. Contribution rates in the Coordinated Plan increased in 2008 to 6.0%. The District is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members, and 6.25% for Coordinated Plan PERF members. Employer contribution rates for the Coordinated Plan increased to 6.5% effective January 1, 2008.

The District's contributions to the Public Employees Retirement Fund for the years ending June 30, 2008, 2007, and 2006, were \$382,372, \$353,321, and \$334,488, respectively. The District's contributions were equal to the contractually required contributions for each year as set by state statute.

NOTE 8. SELF-INSURED DENTAL PLAN

The District has elected to self-insure their employee dental insurance program. The District has entered into an agreement with an insurance company to provide stop-loss insurance to limit the losses on individual and aggregate claims and to provide claims processing and other administrative duties. The individual stop-loss amount is \$1,000 per participant. The District established an internal service fund to account for contributions from other funds for dental insurance and to establish a reserve for catastrophic losses. Contributions during the year were based on maximum claims before reinsurance is effective. The amounts charged to expenses include administrative fees, stop-loss insurance premiums, claims paid and accruals for claims incurred but not paid at year end. The District recorded expenses of \$229,234 for the year ended June 30, 2008.

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

| | |
|----------------------------------|------------------|
| Unpaid Claims, Beginning of Year | \$ 25,637 |
| Incurred Claims | 200,000 |
| Claims Payments (cash basis) | <u>(203,087)</u> |
| Unpaid Claims, End of Year | <u>\$ 22,550</u> |

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 9. OPERATING LEASES

The District is committed under long-term operating leases for the rental of office equipment and vehicles. Office equipment is leased under varying terms, with leases running through September 2011. Vehicles are leased under varying terms with leases running through July 2012.

Total rent expense includes the following:

| | <u>Amount</u> |
|-----------------------|-------------------|
| Maintenance equipment | \$ 15,672 |
| Facilities | 54,102 |
| Office equipment | 44,381 |
| Vehicles | 19,042 |
| Miscellaneous rental | <u>30,943</u> |
| Total | <u>\$ 164,140</u> |

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

| <u>Year Ending June 30,</u> | |
|-----------------------------|-------------------|
| 2009 | \$ 69,990 |
| 2010 | 37,090 |
| 2011 | 19,153 |
| 2012 | 6,286 |
| 2013 | <u>355</u> |
| | <u>\$ 132,874</u> |

NOTE 10. COMMITMENTS AND CONTINGENCIES

A. FEDERAL AND STATE PROGRAMS

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

B. CONTINGENCIES

The District is a defendant in a disability discrimination claim. Although the outcome of this claim is not presently determinable, the District believes that the resolution of the matter will not have a material adverse effect on its financial condition.

C. COMMITMENTS

The District had a project in progress at June 30, 2008 with Alliance Building Corporation. The contract amount is \$174,907 with \$73,299 complete at June 30, 2008.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2008

NOTE 11. 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. The District participates in the Minnesota Board of Education Association Insurance Trust (MSBA Trust), a public entity risk pool, for its workers' compensation insurance, property, liability, and other insurance coverages. The MSBA Trust operates as a common risk management and insurance program for approximately 375 member districts. The District pays an annual premium to the MSBA Trust for its insurance coverage. The MSBA Trust agreement provides that the MSBA Trust will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of certain limits for each insured event. The reinsurance point is \$100,000 per occurrence for medical and hospitalization.

The District has joined together with other school districts in Minnesota in the South Central - West Central Service Cooperative Gross Self-Insured Health Insurance Plan, a public entity risk pool currently operating as common risk management and insurance program for member districts. The District pays an annual premium to this plan for its health insurance coverage. These premiums are used to purchase reinsurance through commercial companies. The administrators of the plan believe assessment to participating districts for future losses sustained is extremely remote.

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.

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. This agreement is perpetual but may be canceled upon six months written notice by either party.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 13. PRIOR PERIOD ADJUSTMENT

The beginning net assets of the governmental activities have been increased to reflect an understatement of capital assets as of June 30, 2007. The beginning net assets of the governmental activities have been decreased to reflect an understatement of severance payable as of June 30, 2007. Beginning governmental activities net assets have been restated from \$21,782,944 to \$19,458,038 (a net decrease of \$2,324,906).

SUPPLEMENTARY INFORMATION

INDEPENDENT SCHOOL DISTRICT #347

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 DEBT SERVICE FUND
 YEAR ENDED JUNE 30, 2008
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2007

| | 2008 | | | Over (Under) Final Budget | 2007 |
|-------------------------------------------------|------------------|------------------|-------------------|---------------------------------|-------------------|
| | Budgeted Amounts | | Actual | | Actual |
| | Original | Final | | | |
| REVENUES | | | | | |
| Local sources | | | | | |
| Property taxes | \$ 2,332,951 | \$ 2,340,601 | \$ 2,344,867 | \$ 4,266 | \$ 2,272,580 |
| Interest earnings | 40,000 | 62,849 | 68,856 | 6,007 | 71,239 |
| State sources | 240,685 | 233,035 | 233,315 | 280 | 248,457 |
| Total Revenues | 2,613,636 | 2,636,485 | 2,647,038 | 10,553 | 2,592,276 |
| EXPENDITURES | | | | | |
| Debt service | | | | | |
| Bond principal | 1,820,000 | 1,820,000 | 1,820,000 | | 1,505,425 |
| Bond interest | 750,250 | 762,680 | 762,680 | | 1,024,813 |
| Paying agent fees and other | 1,200 | 1,500 | 1,150 | (350) | 3,325 |
| Total Expenditures | 2,571,450 | 2,584,180 | 2,583,830 | (350) | 2,533,563 |
| Excess of Revenues Over Expenditures | 42,186 | 52,305 | 63,208 | 10,903 | 58,713 |
| OTHER FINANCING SOURCES | | | | | |
| Sale of bonds proceeds | | | | | 6,435 |
| Bond premium | | | | | 2,242 |
| Total Other Financing Sources | 0 | 0 | 0 | 0 | 8,677 |
| Net Change in Fund Balances | \$ 42,186 | \$ 52,305 | 63,208 | \$ 10,903 | 67,390 |
| FUND BALANCE, BEGINNING OF YEAR | | | 902,774 | | 835,384 |
| FUND BALANCE, END OF YEAR | | | \$ 965,982 | | \$ 902,774 |

STATISTICAL SECTION (Unaudited)



This part of the comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government's overall financial health.

| Contents: | Page |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|
| Financial Trends <i>These schedules contain trend information to help the reader understand how the School District's financial information and well-being have changed over time.</i> | 74-80 |
| Revenue Capacity <i>These schedules contain information to help the reader assess the School District's most significant local revenue source, the property tax.</i> | 81-84 |
| Debt Capacity <i>These schedules present information to help the reader assess the affordability of the School District's current levels of outstanding debt and the School District's ability to issue additional debt in the future.</i> | 85-88 |
| Demographic and Economic Information <i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the School District's financial activities take place.</i> | 89-91 |
| Operating Information <i>These schedules contain service and infrastructure data to help the reader understand how the information in the School District's financial report relates to the services the School District provides and the activities it performs.</i> | 92-96 |

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

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Willmar Public Schools
Net Assets by Component
Last Six Fiscal Years
(accrual basis of accounting)

| | Fiscal Year | | | | | |
|-------------------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
| Governmental activities | | | | | | |
| Invested in Capital Assets, Net of Related Debt | \$ 11,314,674 | \$ 12,018,714 | \$ 13,049,010 | \$ 14,125,996 | \$ 15,416,819 | \$ 16,590,276 |
| Restricted | 1,693,277 | 1,998,553 | 1,112,183 | 1,507,933 | 2,015,439 | 1,657,445 |
| Unrestricted | 1,645,748 | 3,394,013 | 3,598,111 | 4,326,318 | 2,025,780 | 774,030 |
| Total Net Assets | <u>\$ 14,653,699</u> | <u>\$ 17,411,280</u> | <u>\$ 17,759,304</u> | <u>\$ 19,960,247</u> | <u>\$ 19,458,038</u> | <u>\$ 19,021,751</u> |

Note: The District implemented GASB Statement 34 in 2003. This information is not available for previous fiscal years.

Source: The District's Annual Independent Auditor Reports.

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Willmar Public Schools
Expenses, Program Revenues, and Net (Expense)/Revenue
Last Six Fiscal Years
(accrual basis of accounting)

| | Fiscal Year | | | | | |
|----------------------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
| Expenses | | | | | | |
| Governmental activities: | | | | | | |
| Administration | \$ 1,192,060 | \$ 1,199,931 | \$ 1,366,717 | \$ 1,366,558 | \$ 1,614,112 | \$ 1,544,907 |
| District Support Services | 1,493,396 | 798,273 | 871,804 | 860,710 | 919,392 | 885,154 |
| Regular Instruction | 15,612,289 | 17,896,044 | 19,331,810 | 18,967,468 | 19,617,570 | 21,704,551 |
| Vocational Education Instruction | 1,009,389 | 956,619 | 994,894 | 815,835 | 627,729 | 730,195 |
| Special Education Instruction | 6,967,950 | 7,354,987 | 8,106,444 | 8,314,732 | 7,731,391 | 8,055,217 |
| Instructional Support Services | 1,857,142 | 2,000,604 | 1,844,924 | 2,163,593 | 2,047,363 | 2,492,349 |
| Pupil Support Services | 2,529,455 | 2,683,324 | 2,947,488 | 3,094,558 | 3,233,078 | 3,397,152 |
| Sites and Buildings | 3,233,977 | 3,256,881 | 3,340,607 | 3,845,392 | 4,586,523 | 4,722,635 |
| Fiscal and Other Fixed Cost Programs | 300,954 | 264,007 | 223,001 | 314,062 | 240,254 | 159,340 |
| Food Service | 1,638,630 | 1,846,894 | 2,066,305 | 1,928,250 | 1,961,452 | 2,208,624 |
| Community Service | 1,753,628 | 1,673,941 | 2,182,154 | 1,990,208 | 2,049,275 | 2,094,012 |
| Interest and Fiscal Charges on | | | | | | |
| Long-Term Liabilities | 1,164,807 | 1,094,590 | 1,007,896 | 883,672 | 829,447 | 645,553 |
| Total School District Expenses | <u>38,753,677</u> | <u>41,026,095</u> | <u>44,284,044</u> | <u>44,545,038</u> | <u>45,457,586</u> | <u>48,639,689</u> |
| Program Revenues | | | | | | |
| Governmental Activities: | | | | | | |
| Charges for Services | 2,561,176 | 2,668,075 | 2,863,397 | 3,573,901 | 2,907,983 | 2,043,736 |
| Operating Grants and Contributions | 13,288,073 | 13,043,811 | 14,061,382 | 14,902,344 | 14,945,418 | 15,705,789 |
| Capital Grants and Contributions | 994,427 | 1,006,214 | 877,479 | 847,130 | 652,077 | 697,859 |
| Total governmental program revenues | <u>16,843,676</u> | <u>16,718,100</u> | <u>17,802,258</u> | <u>19,323,375</u> | <u>18,505,478</u> | <u>18,447,384</u> |
| Net (Expense)/Revenue | | | | | | |
| Total primary governmental net expense | <u>\$ (21,910,001)</u> | <u>\$ (24,307,995)</u> | <u>\$ (26,481,786)</u> | <u>\$ (25,221,663)</u> | <u>\$ (26,952,108)</u> | <u>\$ (30,192,305)</u> |

Note: The District implemented GASB Statement 34 in 2003. This information is not available for previous fiscal years.

Source: The District's Annual Independent Auditor Reports

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Willmar Public Schools
General Revenues and Total Change in Net Assets
Last Six Fiscal Years
(accrual basis of accounting)

| | Fiscal Year | | | | | |
|---------------------------------------------------|---------------------|---------------------|-------------------|---------------------|---------------------|---------------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
| Net (Expense)/Revenue | | | | | | |
| Total primary governmental net expense | \$ (21,910,001) | \$ (24,307,995) | \$ (26,481,786) | \$ (25,221,663) | \$ (26,952,108) | \$ (30,192,305) |
| General Revenues and Changes in Net Assets | | | | | | |
| Governmental Activities: | | | | | | |
| Property Taxes Levied for | | | | | | |
| General Purposes | 1,450,890 | 2,077,862 | 1,646,005 | 1,168,340 | 2,408,339 | 2,776,231 |
| Community Service | 74,427 | 242,495 | 284,300 | 125,599 | 246,165 | 281,805 |
| Debt Service | 2,218,386 | 2,250,811 | 2,330,594 | 2,157,880 | 2,264,179 | 2,349,549 |
| State Aid Not Restricted to Specific Purposes | 22,545,637 | 22,383,185 | 22,475,565 | 23,523,078 | 23,461,186 | 23,903,451 |
| Earnings on Investments | 178,094 | 110,285 | 96,235 | 418,315 | 491,828 | 408,458 |
| Miscellaneous | 11,158 | 938 | 3,358 | 29,394 | 128,986 | 36,524 |
| Total General Revenues | <u>26,478,592</u> | <u>27,065,576</u> | <u>26,836,057</u> | <u>27,422,606</u> | <u>29,000,683</u> | <u>29,756,018</u> |
| Change in Net Assets | | | | | | |
| Total primary government | <u>\$ 4,568,591</u> | <u>\$ 2,757,581</u> | <u>\$ 354,271</u> | <u>\$ 2,200,943</u> | <u>\$ 2,048,575</u> | <u>\$ (436,287)</u> |

Note: The District implemented GASB Statement 34 in 2003. This information is not available for previous fiscal years.

Source: The District's Annual Independent Auditor Reports

Willmar Public Schools
Fund Balances, Governmental Funds
Last Six Fiscal Years
(modified accrual basis of accounting)

| | Fiscal Year | | | | | |
|------------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
| General Fund | | | | | | |
| Reserved | \$ 1,586,428 | \$ 1,444,299 | \$ 1,276,944 | \$ 1,918,516 | \$ 2,051,975 | \$ 1,718,403 |
| Unreserved | 3,536,006 | 5,409,298 | 5,171,261 | 5,394,098 | 5,827,203 | 4,397,084 |
| Total General Fund | <u>\$ 5,122,434</u> | <u>\$ 6,853,597</u> | <u>\$ 6,448,205</u> | <u>\$ 7,312,614</u> | <u>\$ 7,879,178</u> | <u>\$ 6,115,487</u> |
| | | | | | | |
| All Other Governmental Funds | | | | | | |
| Reserved | \$ 91,939 | \$ 223,117 | \$ 50,218 | \$ 84,504 | \$ 171,840 | \$ 97,997 |
| Unreserved: | | | | | | |
| Building Construction Fund | - | 362,950 | - | - | 412,873 | - |
| Debt Service Fund | 907,371 | 840,804 | 760,111 | 835,384 | 902,774 | 965,982 |
| Special Revenue Funds | 538,551 | 426,684 | 221,752 | 237,308 | 366,150 | 360,169 |
| Total all other governmental funds | <u>\$ 1,537,861</u> | <u>\$ 1,853,555</u> | <u>\$ 1,032,081</u> | <u>\$ 1,157,196</u> | <u>\$ 1,853,637</u> | <u>\$ 1,424,148</u> |

Note: The District implemented GASB Statement 34 in 2003. This information is not available for previous fiscal years.

Source: The District's Annual Independent Auditor Reports

Willmar Public Schools
Governmental Funds Revenues
Last Six Fiscal Years
(modified accrual basis of accounting)

| | Fiscal Year | | | | | |
|-----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
| Federal sources: | | | | | | |
| Federal grants | \$ 1,892,894 | \$ 2,415,250 | \$ 2,976,667 | \$ 2,585,904 | \$ 1,742,649 | \$ 1,946,008 |
| Food Service | 689,411 | 942,719 | 997,882 | 1,058,230 | 1,111,782 | 1,242,815 |
| Total Federal sources | <u>2,582,305</u> | <u>3,357,969</u> | <u>3,974,549</u> | <u>3,644,134</u> | <u>2,854,431</u> | <u>3,188,823</u> |
| State sources: | | | | | | |
| General Education aid | 32,194,247 | 31,101,721 | 31,476,589 | 33,264,022 | 34,111,061 | 34,914,994 |
| Food Service | 212,584 | 112,955 | 173,595 | 163,578 | 159,811 | 189,131 |
| Community Service | 737,513 | 740,561 | 657,680 | 851,693 | 796,112 | 883,652 |
| Debt Service aid | 412,767 | 403,534 | 353,315 | 254,848 | 248,457 | 233,315 |
| Total State sources | <u>33,557,111</u> | <u>32,358,771</u> | <u>32,661,179</u> | <u>34,534,141</u> | <u>35,315,441</u> | <u>36,221,092</u> |
| Local sources: | | | | | | |
| Property Taxes | 3,754,328 | 4,576,808 | 4,257,657 | 3,457,394 | 4,931,199 | 5,395,510 |
| Food Service sales | 689,411 | 669,556 | 680,903 | 721,303 | 780,817 | 775,699 |
| Other Revenues | 2,748,688 | 2,825,273 | 3,058,007 | 4,370,010 | 3,303,957 | 2,515,070 |
| Total Local sources | <u>7,192,427</u> | <u>8,071,637</u> | <u>7,996,567</u> | <u>8,548,707</u> | <u>9,015,973</u> | <u>8,686,279</u> |
| Total Revenues | <u>\$ 43,331,843</u> | <u>\$ 43,788,377</u> | <u>\$ 44,632,295</u> | <u>\$ 46,726,982</u> | <u>\$ 47,185,845</u> | <u>\$ 48,096,194</u> |

Note: The District implemented GASB Statement 34 in 2003.

Source: The District's Annual Independent Auditor Reports

Willmar Public Schools
Governmental Funds Expenditures and Debt Service Ratio
Last Six Fiscal Years
(modified accrual basis of accounting)

| | Fiscal Year | | | | | |
|------------------------------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
| Administration | \$ 1,188,380 | \$ 1,372,933 | \$ 1,367,749 | \$ 1,396,790 | \$ 1,543,232 | \$ 1,546,127 |
| District Support Services | 1,496,621 | 739,775 | 848,471 | 855,165 | 959,115 | 872,978 |
| Regular Instruction | 14,834,612 | 16,834,677 | 18,410,539 | 17,799,589 | 18,220,574 | 19,967,831 |
| Vocational Education Instruction | 1,016,872 | 956,050 | 996,008 | 855,159 | 612,387 | 744,309 |
| Special Education Instruction | 6,965,758 | 7,385,608 | 8,050,284 | 8,303,384 | 7,593,015 | 8,112,649 |
| Instructional Support Services | 1,786,264 | 1,852,514 | 1,728,040 | 2,036,393 | 1,953,089 | 2,398,440 |
| Pupil Support Services | 2,531,695 | 2,674,200 | 3,048,342 | 3,098,484 | 3,158,359 | 3,393,865 |
| Sites and Buildings | 3,310,991 | 3,160,351 | 3,511,193 | 3,840,955 | 4,781,520 | 4,624,367 |
| Fiscal and Other Fixed Costs | 300,092 | 263,146 | 222,139 | 313,200 | 239,392 | 158,478 |
| Food Service | 1,630,041 | 1,741,815 | 1,959,951 | 1,877,669 | 1,951,394 | 2,156,016 |
| Community Service | 1,761,632 | 1,663,488 | 1,951,640 | 2,037,256 | 2,025,813 | 2,094,107 |
| Capital Outlay | - | 842,400 | 983,668 | 784,338 | 1,181,461 | 1,731,512 |
| Debt Services | | | | | | |
| Principal | 1,545,000 | 1,620,000 | 1,740,000 | 1,600,000 | 1,505,425 | 1,820,000 |
| Interest and Fiscal Charges | 1,195,935 | 1,150,213 | 1,043,915 | 1,057,910 | 1,028,138 | 763,830 |
| Total Expenditures | <u>\$ 39,563,893</u> | <u>\$ 42,257,170</u> | <u>\$ 45,861,939</u> | <u>\$ 45,856,292</u> | <u>\$ 46,752,914</u> | <u>\$ 50,384,509</u> |
| Debt Service as a percentage of noncapital expenditures | 6.97% | 6.61% | 6.19% | 5.87% | 5.48% | 5.24% |

Note: The District implemented GASB Statement 34 in 2003.

Source: The District's Annual Independent Auditor Reports

Willmar Public Schools
Governmental Funds Other Financing Sources and Uses and Net Change in Fund Balances
Last Six Fiscal Years
(modified accrual basis of accounting)

| | Fiscal Year | | | | | |
|---------------------------------------------------------|---------------------|---------------------|-----------------------|-------------------|---------------------|-----------------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
| Excess of revenues over (under) expenditures | \$ 3,767,950 | \$ 1,531,208 | \$ (1,229,644) | \$ 870,690 | \$ 432,931 | \$ (2,288,315) |
| Other Financing Sources (Uses) | | | | | | |
| Insurance Recovery Proceeds | - | 938 | 2,778 | 24,574 | 203,846 | 93,136 |
| Sale of Bonds Proceeds | - | 1,389,711 | - | 16,265,000 | 495,000 | - |
| Bond Premium | - | - | - | 913,760 | 2,242 | - |
| Payment to Refunded Bond Escrow Agent | - | (875,000) | - | (17,085,000) | - | - |
| Sale of Capital Assets | 1,050 | - | - | 500 | - | - |
| Sale of Real Property Proceeds | - | - | - | - | 128,986 | 1,999 |
| Total Other Financing Sources (Uses) | <u>1,050</u> | <u>515,649</u> | <u>2,778</u> | <u>118,834</u> | <u>830,074</u> | <u>95,135</u> |
| Net Change in Fund Balances | <u>\$ 3,769,000</u> | <u>\$ 2,046,857</u> | <u>\$ (1,226,866)</u> | <u>\$ 989,524</u> | <u>\$ 1,263,005</u> | <u>\$ (2,193,180)</u> |

Note: The District implemented GASB Statement 34 in 2003.

Source: The District's Annual Independent Auditor Reports

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**Willmar Public Schools
Assessed Value and Actual Value of Taxable Property
Last Ten Fiscal Years**

| For Taxes Collectible | Tax Capacity Valuation | | | | | Taxable Market Value | Tax Capacity as a Percentage of Market Value | Total Direct Tax Rate |
|--------------------------|------------------------|------------------|------------|---------------|---------------|-------------------------|----------------------------------------------------|--------------------------|
| | Agricultural | Non-Agricultural | Personal | Tax Increment | Total Taxable | | | |
| 1999 | \$ 1,668,152 | \$ 11,516,470 | \$ 217,319 | \$ (380,819) | \$ 13,021,122 | \$ 858,101,506 | 1.52% | 63.312 |
| 2000 | 1,653,329 | 11,926,703 | 225,634 | (231,130) | 13,574,536 | 897,664,165 | 1.51% | 62.748 |
| 2001 | 1,640,027 | 12,422,571 | 260,075 | (278,741) | 14,043,932 | 928,334,516 | 1.51% | 53.952 |
| 2002 | 1,495,010 | 9,678,935 | 177,535 | (116,286) | 11,235,194 | 840,410,870 | 1.34% | 24.656 |
| 2003 | 1,587,299 | 10,015,812 | 220,226 | (114,863) | 11,708,474 | 884,638,900 | 1.32% | 25.149 |
| 2004 | 1,713,199 | 10,589,903 | 257,189 | (100,081) | 12,460,210 | 942,034,900 | 1.32% | 25.826 |
| 2005 | 1,982,217 | 11,817,783 | 281,114 | (31,314) | 14,049,800 | 1,050,845,800 | 1.34% | 23.799 |
| 2006 | 2,296,089 | 13,000,522 | 312,655 | (32,968) | 15,576,298 | 1,163,814,004 | 1.34% | 23.441 |
| 2007 | 2,632,195 | 14,547,853 | 307,961 | (35,833) | 17,452,176 | 1,293,283,775 | 1.35% | 22.798 |
| 2008 | 2,946,724 | 15,839,210 | 305,981 | (49,567) | 19,042,348 | 1,393,141,350 | 1.37% | 20.354 |

Source: State of Minnesota School Tax Report, Kandiyohi County Auditor

Willmar Public Schools
Direct and Overlapping Property Tax Rates
Last Ten Fiscal Years
(rate per \$1,000 of assessed value)

| For Taxes Collectible | District Direct Rates | | | Overlapping Rates | |
|----------------------------------|--------------------------------|-----------------------------|--------------|-----------------------------|----------------------------|
| | Referendum Purposes | General Purposes | Total | Kandiyohi County | City of Willmar |
| 1999 | 0.061 | 63.251 | 63.312 | 51.005 | 25.636 |
| 2000 | 0.062 | 62.686 | 62.748 | 55.784 | 26.094 |
| 2001 | 0.064 | 53.880 | 53.944 | 62.658 | 26.991 |
| 2002 | 0.157 | 24.499 | 24.656 | 79.752 | 26.355 |
| 2003 | 0.155 | 24.994 | 25.149 | 81.338 | 24.584 |
| 2004 | 0.114 | 25.712 | 25.826 | 79.176 | 26.196 |
| 2005 | 0.103 | 23.696 | 23.799 | 70.608 | 26.265 |
| 2006 | 0.132 | 23.309 | 23.441 | 65.319 | 24.102 |
| 2007 | 0.130 | 22.693 | 22.823 | 60.414 | 25.623 |
| 2008 | 0.125 | 20.229 | 20.354 | 56.711 | 28.236 |

Source: Kandiyohi County Auditor

**Willmar Public Schools
Principal Property Tax Payers
Current Year and Nine Years Ago**

| TAXPAYER | 2008 | | | 1999 | | |
|------------------------------|--------------------------|------|-------------------------------------------------|--------------------------|------|-------------------------------------------------|
| | 2008 NET TAX CAPACITY | RANK | % OF TOTAL NET TAX CAPACITY 19,042,348 | 1999 NET TAX CAPACITY | RANK | % OF TOTAL NET TAX CAPACITY 13,021,122 |
| Kandi Land 1999, LLC | \$190,532 | 1 | 1.00% | \$323,224 | 2 | 2.48% |
| Pioneer Health Systems, Inc. | 185,906 | 2 | 0.98% | 333,590 | 1 | 2.56% |
| Menard, Inc. | 178,818 | 3 | 0.94% | - | | 0.00% |
| Mills Properties, Inc. | 127,475 | 4 | 0.67% | - | | 0.00% |
| Jennie-O Turkey Store, Inc. | 115,228 | 5 | 0.61% | 235,599 | 3 | 1.81% |
| Alliance Pipeline | 107,908 | 6 | 0.57% | - | | 0.00% |
| Willmar Poultry Farms, Inc. | 92,919 | 7 | 0.49% | 106,871 | 8 | 0.82% |
| BNSF Railway Company | 92,400 | 8 | 0.49% | 157,859 | 4 | 1.21% |
| Minnegasco (Centerpoint) | 87,822 | 9 | 0.46% | 110,978 | 6 | 0.85% |
| Home Depot USA, Inc. | 84,474 | 10 | 0.44% | - | | 0.00% |
| Torgerson Properties | - | | 0.00% | 107,936 | 7 | 0.83% |
| ACGO Manufacturing Co. | - | | 0.00% | 119,654 | 5 | 0.92% |
| Dayton Hudson Corp. | - | | 0.00% | 90,399 | 9 | 0.69% |
| Barrington Lakes LTD Part. | - | | 0.00% | 77,717 | 10 | 0.60% |
| TOTAL | \$1,263,482 | | 6.64% | \$1,663,827 | | 12.78% |

Source: Kandiyohi County Auditor

**Willmar Public Schools
Property Tax Levies and Collections
Last Ten Fiscal Years**

| For Taxes Collectible | Adjusted Net Levy (1) | Collected within the Fiscal Year of the Levy | | Delinquent Tax Collections | Total Collections to Date | |
|----------------------------------|--------------------------------------|---------------------------------------------------------|----------------------|-------------------------------------------|----------------------------------|----------------------|
| | | Amount (2) | % of Levy | | Amount | % of Levy |
| 1999 | \$ 7,449,896 | \$ 7,352,961 | 98.70% | \$ 74,880 | \$ 7,427,841 | 99.70% |
| 2000 | 6,408,679 | 6,317,842 | 98.58% | 87,226 | 6,405,068 | 99.94% |
| 2001 | 6,347,540 | 6,246,103 | 98.40% | 92,219 | 6,338,322 | 99.85% |
| 2002 | 3,749,176 | 3,676,820 | 98.07% | 66,186 | 3,743,006 | 99.84% |
| 2003 | 3,962,277 | 3,902,664 | 98.50% | 52,110 | 3,954,774 | 99.81% |
| 2004 | 3,938,930 | 3,887,832 | 98.70% | 97,362 | 3,985,194 | 101.17% |
| 2005 | 4,058,509 | 4,007,232 | 98.74% | 47,974 | 4,055,206 | 99.92% |
| 2006 | 4,807,017 | 4,742,834 | 98.66% | 53,404 | 4,796,238 | 99.78% |
| 2007 | 5,292,329 | 5,222,338 | 98.68% | 39,311 | 5,261,649 | 99.42% |
| 2008 | 5,276,103 | 2,683,018 | 50.85% | 0 | 2,683,018 | 50.85% |

Note 1: Beginning with the levy collectible in FY 2003, the general education levy is eliminated due to the state's effort to fund general education entirely through state aid.

Note 2: A portion of the total levy is paid through various property tax credits which are paid through state aids and have been included in collections.

Source: Kandiyohi County Auditor

**Willmar Public Schools
Outstanding Debt by Type (1)
Last Ten Fiscal Years**

| Fiscal Year | Bonded Debt (2) | Aid & Tax Anticipation Certificates | EPA Loan | Total Primary Government | % of Personal Income¹ | Per Capita¹ |
|--------------------|------------------------|------------------------------------------------|-----------------|---------------------------------|-----------------------------------------|-------------------------------|
| 1998 | \$ 29,930,000 | \$ 5,000,000 | 0 | \$ 34,930,000 | 3.42% | \$ 846 |
| 1999 | 28,415,000 | 5,550,000 | 0 | 33,965,000 | 3.20% | 822 |
| 2000 | 26,820,000 | 6,923,047 | 0 | 33,743,047 | 3.06% | 820 |
| 2001 | 45,502,927 | 3,725,250 | 0 | 49,228,177 | 4.35% | 1,195 |
| 2002 | 23,395,000 | 3,975,120 | 20,425 | 27,390,545 | 2.36% | 669 |
| 2003 | 21,855,000 | 8,475,687 | 15,425 | 30,346,112 | 2.55% | 739 |
| 2004 | 20,752,395 | 2,537,065 | 10,425 | 23,299,885 | 1.86% | 567 |
| 2005 | 19,010,000 | 0 | 5,425 | 19,015,425 | 1.48% | 464 |
| 2006 | 16,595,000 | 3,957,811 | 425 | 20,553,236 | 1.53% | 503 |
| 2007 | 15,585,000 | 0 | 0 | 15,585,000 | N/A | 373 |
| 2008 | 13,765,000 | 0 | 0 | 13,765,000 | N/A | 330 |

N/A = not available.

Note 1: Details regarding the District's current outstanding debt can be found in the notes to basic financial statements.

Note 2: The District issued cross-over refunding bonds with an original principal of \$20.65 million in 1997 to refinance the original 1992 Sr. High bonds. The actual transaction to retire the original 1992 bonds took place during FY 2001, resulting in the temporary large increase in bonded debt.

¹ See the Schedule of Demographic and Economic Statistics for personal income and population data. These ratios were calculated using personal income and population for the prior calendar year.

Source: The District's annual Independent Auditor Reports, and District records.

**Willmar Public Schools
Direct and Overlapping Governmental Activities Debt
As of June 30, 2008**

| Governmental Unit (1) | G.O. Bonded Debt | Estimated Applicable Percentage (2) | Estimated Share of Direct and Overlapping Debt |
|-----------------------------------|---------------------------------|----------------------------------------------------|-----------------------------------------------------------|
| Kandiyohi County | \$ 30,590,000 | 46.10% | \$ 14,101,990 |
| Cities: | | | |
| Blomkest | 55,000 | 100.00% | 55,000 |
| Kandiyohi | 621,000 | 100.00% | 621,000 |
| Pennock | 915,000 | 100.00% | 915,000 |
| Willmar | 12,330,000 | 100.00% | 12,330,000 |
| Subtotal, overlapping debt | | | 28,022,990 |
| District direct debt | | | <u>13,765,000</u> |
| Total direct and overlapping debt | | | <u><u>\$ 41,787,990</u></u> |

Note 1: Only those taxing jurisdictions with general obligation debt outstanding are included in this section.

Note 2: Estimated Applicable Percentage is determined by dividing the Tax Capacity of Portion Within the School District by the Tax Capacity of the Entire Governmental Unit.

Source: Kandiyohi County Auditor

**Willmar Public Schools
Legal Debt Margin Information
Last Ten Fiscal Years
(dollars in thousands)**

Legal Debt Margin Calculation for Fiscal Year 2008

| | |
|------------------------------------|------------------|
| Assessed Value | \$ 1,712,677,980 |
| Debt Limit (15% of assessed value) | 256,901,697 |
| Debt applicable to limit | 13,765,000 |
| Legal debt margin | \$ 243,136,697 |

| | Fiscal Year | | | | | | | | | |
|----------------------------------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
| Debt Limit | \$ 133,663,455 | \$ 139,918,545 | \$ 144,717,511 | \$ 150,759,876 | \$ 158,567,400 | \$ 168,934,620 | \$ 189,409,695 | \$ 211,673,997 | \$ 236,997,950 | \$ 256,901,697 |
| Total net Debt applicable to limit | 33,965,000 | 33,743,047 | 49,228,177 | 27,390,545 | 30,346,112 | 23,299,885 | 19,015,425 | 16,595,000 | 15,585,000 | 13,765,000 |
| Legal debt margin | \$ 99,698,455 | \$ 106,175,498 | \$ 95,489,334 | \$ 123,369,331 | \$ 128,221,288 | \$ 145,634,735 | \$ 170,394,270 | \$ 195,078,997 | \$ 221,412,950 | \$ 243,136,697 |
| Total net debt applicable to the limit as a % of debt limit | 25.41% | 24.12% | 34.02% | 18.17% | 19.14% | 13.79% | 10.04% | 7.84% | 6.58% | 5.36% |

Note: Under state finance law, the District's outstanding general obligation debt should not exceed 15 percent of total market value.

Source: Kandiyohi County Auditor

**Willmar Public Schools
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years**

| Fiscal Year | General Bonded Debt Outstanding | | | Total | Percentage of Actual Value of Taxable Property | % of Personal Income | Per Capita |
|-------------|---------------------------------|------------------------------------------------|---------------|-------|------------------------------------------------|----------------------|------------|
| | General Obligation Bonds | Less: Amounts Restricted to Repaying Principal | | | | | |
| 1999 | \$ 28,415,000 | \$ 341,047 | \$ 28,073,953 | 3.15% | 2.65% | \$ 680 | |
| 2000 | 26,820,000 | 562,348 | 26,257,652 | 2.81% | 2.38% | 635 | |
| 2001 | 45,502,927 | 21,145,279 | 24,357,648 | 2.52% | 2.15% | 592 | |
| 2002 | 23,395,000 | 993,012 | 22,401,988 | 2.23% | 1.93% | 544 | |
| 2003 | 21,855,000 | 907,371 | 20,947,629 | 1.98% | 1.76% | 512 | |
| 2004 | 20,752,395 | 840,804 | 19,911,591 | 1.77% | 1.59% | 485 | |
| 2005 | 19,010,000 | 760,111 | 18,249,889 | 1.45% | 1.42% | 444 | |
| 2006 | 16,595,000 | 835,384 | 15,759,616 | 1.12% | 1.17% | 385 | |
| 2007 | 15,585,000 | 902,774 | 14,682,226 | 0.93% | N/A | 359 | |
| 2008 | 13,765,000 | 965,982 | 12,799,018 | 0.75% | N/A | 306 | |

N/A = not available

Note: Details regarding the District's outstanding debt can be found in the notes to basic financial statements.

¹ See Schedule of Demographic and Economic Statistics for personal income and population data. These ratios were calculated using personal income and population for the prior calendar year.

Source: The District's annual Independent Auditor Reports, District records, Bureau of Economic Analysis - U.S. Dept. of Commerce.

**Willmar Public Schools
Demographic and Economic Statistics
Last Ten Fiscal Years**

| Fiscal Year | Kandiyohi County | | | |
|----------------|------------------|--------------------|-------------------------------|----------------------|
| | Population | Personal Income | Per Capita Personal Income | Unemployment Rate |
| 1999 | 41,329 | \$ 1,061,354,000 | \$ 25,681 | 3.50% |
| 2000 | 41,163 | 1,102,189,000 | 26,776 | 3.20% |
| 2001 | 41,194 | 1,132,403,000 | 27,490 | 3.60% |
| 2002 | 40,915 | 1,162,600,000 | 28,415 | 4.10% |
| 2003 | 41,090 | 1,188,070,000 | 28,914 | 4.40% |
| 2004 | 41,070 | 1,251,755,000 | 30,479 | 4.40% |
| 2005 | 40,951 | 1,286,326,000 | 31,411 | 4.20% |
| 2006 | 40,843 | 1,341,937,000 | 32,856 | 3.90% |
| 2007 | 41,763 | N/A | N/A | 4.80% |
| 2008 | 41,763 | N/A | N/A | 4.30% |

N/A = not available

Source: Bureau of Economic Analysis - U.S. Department of Commerce,
Bureau of Labor Statistics, U.S. Census Bureau, and
Minnesota Department of Employment and Economic Development

**Willmar Public Schools
Principal Employers
Current Year and Nine Years Ago**

| TAXPAYER | 2008 | | | 1999 | | |
|--------------------------------------|--------------|------|---------------------------------------|-----------|------|---------------------------------------|
| | EMPLOYEES | RANK | % OF TOTAL EMPLOYMENT 21,789 | EMPLOYEES | RANK | % OF TOTAL EMPLOYMENT 21,234 |
| Jennie-O Turkey Store, Inc. | 1,800 | 1 | 8.26% | N/A | N/A | N/A |
| Rice Memorial Hospital | 1,150 | 2 | 5.28% | N/A | N/A | N/A |
| Willmar Public Schools | 680 | 3 | 3.12% | N/A | N/A | N/A |
| Affiliated Community Medical Centers | 607 | 4 | 2.79% | N/A | N/A | N/A |
| Bethesda Homes | 435 | 5 | 2.00% | N/A | N/A | N/A |
| Willmar Poultry Co. | 429 | 6 | 1.97% | N/A | N/A | N/A |
| Kandiyohi County | 425 | 7 | 1.95% | N/A | N/A | N/A |
| Walmart | 325 | 8 | 1.49% | N/A | N/A | N/A |
| Ridgewater College | 300 | 9 | 1.38% | N/A | N/A | N/A |
| Cashwise | 276 | 10 | 1.27% | N/A | N/A | N/A |
| TOTAL | 6,427 | | 29.50% | 0 | | 0.00% |

N/A = not available

Source: Minnesota Department of Employment and Economic Development and Springsted, Inc.

Willmar Public Schools
Full-time-Equivalent District Employees by Type
Last Five Fiscal Years

| | Fiscal Year | | | | |
|----------------------------------------|-------------|-------|-------|------|------|
| | 2004 | 2005 | 2006 | 2007 | 2008 |
| Instruction | | | | | |
| Teachers | 335 | 333.5 | 331 | 338 | 324 |
| Title Teachers | 17 | 15.5 | 17.5 | 17 | 19 |
| Deans of Students | 4 | 4 | 4 | 5 | 5 |
| Total Instruction | 356 | 353 | 352.5 | 360 | 348 |
| Support | | | | | |
| Principals and District Administration | 10 | 10 | 10 | 8 | 7 |
| Directors & Community Education | 8 | 8 | 8 | 8 | 8 |
| Secretaries | 16.5 | 16.5 | 16.5 | 19 | 20 |
| Custodians | 27 | 26 | 25.5 | 27 | 27 |
| Food Service | 28 | 28 | 30 | 52 | 30 |
| Clerical/Non-affiliated | 45 | 44.5 | 44.5 | 42 | 40 |
| Paraprofessionals | 119 | 118.5 | 110 | 99 | 121 |
| Total Support | 253.5 | 251.5 | 244.5 | 255 | 253 |
| Total | 609.5 | 604.5 | 597 | 615 | 601 |

Note: Information prior to 2004 is not readily available.

Source: District Records

**Willmar Public Schools
Operating Statistics
Last Ten Fiscal Years**

| Fiscal Year | Enrollment (1) | Operating Expenditures (2) | Cost Per Pupil | % Change | Teaching Staff FTE's | Pupil-Teacher Ratio (3) | % of Students Receiving Free or Reduced- Price Meals |
|--------------------|-----------------------|-----------------------------------|-----------------------|-----------------|-----------------------------|--------------------------------|-------------------------------------------------------------|
| 1999 | 4,567 | 34,611,326 | 7,579 | 3.10% | N/A | N/A | 36.5% |
| 2000 | 4,465 | 35,049,975 | 7,850 | 3.58% | N/A | N/A | 32.6% |
| 2001 | 4,449 | 37,052,766 | 8,328 | 6.09% | N/A | N/A | 37.5% |
| 2002 | 4,335 | 34,232,553 | 7,897 | -5.18% | N/A | N/A | 38.2% |
| 2003 | 4,259 | 36,051,061 | 8,465 | 7.19% | N/A | N/A | 40.9% |
| 2004 | 4,195 | 38,834,939 | 9,257 | 9.37% | 356 | 11.8 | 41.2% |
| 2005 | 4,093 | 42,452,947 | 10,372 | 12.04% | 353 | 11.6 | 43.0% |
| 2006 | 4,103 | 42,312,009 | 10,312 | -0.57% | 352.5 | 11.6 | 44.5% |
| 2007 | 4,077 | 43,352,344 | 10,633 | 3.11% | 360 | 11.3 | 46.4% |
| 2008 | 4,038 | 46,629,456 | 11,548 | 8.60% | 348 | 11.6 | 46.9% |

N/A = not available.

Note 1: Enrollment is measured by Average Daily Membership per the Minnesota Department of Education.

Note 2: Operating Expenditures are total districtwide expenditures less debt service and operating capital.

Note 3: This data is computed by dividing total Enrollment by total Teaching Staff FTE's.

Source: District Records and Minnesota Department of Education

**Willmar Public Schools
Teacher Base Salaries
Last Ten Fiscal Years**

| Fiscal Year | Minimum Salary | Maximum Salary |
|------------------------|---------------------------|---------------------------|
| 1999 | 25,440 | 52,143 |
| 2000 | 25,655 | 53,504 |
| 2001 | 28,309 | 54,799 |
| 2002 | 28,309 | 54,799 |
| 2003 | 29,500 | 56,178 |
| 2004 | 29,800 | 56,658 |
| 2005 | 30,100 | 57,138 |
| 2006 | 30,550 | 58,735 |
| 2007 | 32,435 | 59,585 |
| 2008 | 33,132 | 60,931 |

Note: Amounts do not include fringe benefits such as pension, health insurance, disability, etc.

Source: District Records

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**Willmar Public Schools
School Building Information - Owned Buildings
Last Ten Fiscal Years**

| <u>School</u> | Fiscal Year | | | | | | | | | |
|---------------------------------------|-------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
| PreK - Elementary | | | | | | | | | | |
| Jefferson (1953) | | | | | | | | | | |
| Square Feet | 46,833 | 46,833 | 46,833 | 46,833 | 46,833 | 46,833 | 46,833 | 46,833 | 46,833 | 46,833 |
| Enrollment | 288 | 292 | 264 | 225 | 200 | 245 | 247 | 252 | 258 | 253 |
| Acres | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 |
| Kennedy (1958) | | | | | | | | | | |
| Square Feet | 150,665 | 150,665 | 150,665 | 150,665 | 150,665 | 150,665 | 150,665 | 150,665 | 150,665 | 150,665 |
| Enrollment | 982 | 948 | 875 | 948 | 921 | 758 | 752 | 755 | 796 | 802 |
| Acres | 23.7 | 23.7 | 23.7 | 23.7 | 23.7 | 23.7 | 23.7 | 23.7 | 23.7 | 23.7 |
| Lafayette (1939) (sold June 15, 2007) | | | | | | | | | | |
| Square Feet | 22,953 | 22,953 | 22,953 | 22,953 | 22,953 | 22,953 | 22,953 | 22,953 | 0 | 0 |
| Enrollment | 130 | 133 | 98 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Acres | 2.3 | 2.3 | 2.3 | 2.3 | 2.3 | 2.3 | 2.3 | 2.3 | 0 | 0 |
| Lincoln (1924) | | | | | | | | | | |
| Square Feet | 46,004 | 46,004 | 46,004 | 46,004 | 46,004 | 46,004 | 46,004 | 46,004 | 46,004 | 46,004 |
| Enrollment | 250 | 237 | 323 | 329 | 321 | 319 | 326 | 326 | 325 | 313 |
| Acres | 2.4 | 2.4 | 2.4 | 2.4 | 2.4 | 2.4 | 2.4 | 2.4 | 2.4 | 2.4 |
| Roosevelt (1987) | | | | | | | | | | |
| Square Feet | 95,000 | 95,000 | 95,000 | 95,000 | 95,000 | 95,000 | 95,000 | 95,000 | 95,000 | 95,000 |
| Enrollment | 667 | 684 | 678 | 642 | 635 | 740 | 709 | 683 | 698 | 720 |
| Acres | 24.0 | 24.0 | 24.0 | 24.0 | 24.0 | 24.0 | 24.0 | 24.0 | 24.0 | 24.0 |
| Washington (1951) | | | | | | | | | | |
| Square Feet | 30,916 | 30,916 | 30,916 | 30,916 | 30,916 | 30,916 | 30,916 | 30,916 | 30,916 | 30,916 |
| Enrollment | 21 | 23 | 24 | 23 | 24 | 22 | 22 | 23 | 25 | 25 |
| Acres | 4.7 | 4.7 | 4.7 | 4.7 | 4.7 | 4.7 | 4.7 | 4.7 | 4.7 | 4.7 |

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Willmar Public Schools
School Building Information - Owned Buildings (continued)
Last Ten Fiscal Years

| | Fiscal Year | | | | | | | | | |
|--------------------|-------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
| Secondary | | | | | | | | | | |
| Junior High (1967) | | | | | | | | | | |
| Square Feet | 154,380 | 154,380 | 157,380 | 154,380 | 154,380 | 154,380 | 154,380 | 154,380 | 154,380 | 154,380 |
| Enrollment | 710 | 665 | 681 | 675 | 644 | 637 | 623 | 648 | 609 | 539 |
| Acres | 28.7 | 28.7 | 28.7 | 28.7 | 28.7 | 28.7 | 28.7 | 28.7 | 28.7 | 28.7 |
| Senior High (1997) | | | | | | | | | | |
| Square Feet | 267,000 | 267,000 | 267,000 | 267,000 | 267,000 | 267,000 | 267,000 | 267,000 | 267,000 | 267,000 |
| Enrollment | 1,218 | 1,291 | 1,318 | 1,250 | 1,278 | 1,267 | 1,254 | 1,261 | 1,195 | 1,226 |
| Acres | 193.0 | 193.0 | 193.0 | 193.0 | 193.0 | 193.0 | 193.0 | 193.0 | 193.0 | 193.0 |
| Garfield (1930) | | | | | | | | | | |
| Square Feet | 25,536 | 25,536 | 25,536 | 25,536 | 25,536 | 25,536 | 25,536 | 25,536 | 25,536 | 25,536 |
| Enrollment | 104 | 98 | 115 | 140 | 112 | 101 | 84 | 67 | 89 | 72 |
| Acres | 2.6 | 2.6 | 2.6 | 2.6 | 2.6 | 2.6 | 2.6 | 2.6 | 2.6 | 2.6 |
| WEAC (1939) | | | | | | | | | | |
| Square Feet | 49,470 | 49,470 | 49,470 | 49,470 | 49,470 | 49,470 | 49,470 | 49,470 | 49,470 | 49,470 |
| Enrollment | 18 | 18 | 17 | 17 | 18 | 18 | 16 | 15 | 7 | 0 |
| Acres | 2.4 | 2.4 | 2.4 | 2.4 | 2.4 | 2.4 | 2.4 | 2.4 | 2.4 | 2.4 |

N/A = not available

Source: District Records and Minnesota Department of Education

**Willmar Public Schools
Schedule of Insurance Coverage
For the Year Ended June 30, 2008**

| Insurable Risk | Insured through Agent & Ins. Co. or Risk Pool | Policy Period | Coverage Limits | Deductible |
|----------------------------------|----------------------------------------------------------|----------------------|------------------------------------------------------------------------|-------------------|
| General Liability | Minnesota School Boards Association Insurance Trust | 7/1/08 - 7/1/09 | Gen. Agg. \$2,000,000 Each Occ. \$1,200,000 | \$1,000/ee |
| Automotive Liability | Minnesota School Boards Association Insurance Trust | 7/1/08 - 7/1/09 | Liability \$1,200,000 Uninsured \$1,000,000 Under... \$1,000,000 | \$250 to \$500 |
| Commercial Excess | Minnesota School Boards Association Insurance Trust | 7/1/08 - 7/1/09 | Occurance \$2,000,000 Aggregate \$2,000,000 | na |
| School Leaders E & O | Minnesota School Boards Association Insurance Trust | 7/1/08 - 7/1/09 | Claim \$1,200,000 Aggregate \$1,200,000 | \$2,500 |
| Basic Property (all risk) | Minnesota School Boards Association Insurance Trust | 7/1/08 - 7/1/09 | Varies by type of property | \$2,500 |
| Boiler and Machinery | Minnesota School Boards Association Insurance Trust | 7/1/08 - 7/1/09 | \$75,000,000 | \$2,500 |
| Inland Marine | Minnesota School Boards Association Insurance Trust | 7/1/08 - 7/1/09 | Various types of property | na |
| Workers' Compensation | Berkley Risk Administrators Company, LLC | 7/1/08 - 7/1/09 | Accident \$500,000 Disease \$500,000 Disease \$500,000 ee | na |
| Crime | Minnesota School Boards Association Insurance Trust | 7/1/08 - 7/1/09 | Theft, etc. \$250,000 | \$500 |

Source: District records