

**SCHOOL DISTRICT #17
MILLARD PUBLIC SCHOOLS
DOUGLAS COUNTY, NEBRASKA**

**ANNUAL FINANCIAL STATEMENTS AND
ACCOMPANYING INDEPENDENT AUDITOR'S REPORTS**

AUGUST 31, 2007

**SCHOOL DISTRICT #17 – MILLARD PUBLIC SCHOOLS
DOUGLAS COUNTY, NEBRASKA**

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ACCOMPANYING INDEPENDENT AUDITOR'S REPORTS
FOR THE YEAR ENDED AUGUST 31, 2007**

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DOUGLAS COUNTY, NEBRASKA**

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FOR THE YEAR ENDED AUGUST 31, 2007**

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October 29, 2007

INDEPENDENT AUDITOR'S REPORT

Board of Education
School District #17 - Millard Public Schools
Douglas County, Nebraska

We have audited the accompanying financial statements of the governmental activities, each fund and the discretely presented component unit of School District #17 – Millard Public Schools, Douglas County, Nebraska (the "District"), as of August 31, 2007 and for the year then ended, which collectively comprise the District's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the management of the District. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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.

As described in Note 1, the financial statements were prepared on a cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash and investment balances of the governmental activities, each fund and the discretely presented component unit of the District as of August 31, 2007 and the respective receipts and disbursements arising from cash transactions for the year then ended on the cash basis of accounting described in Note 1, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2007 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 should be considered in assessing the results of our audit.

The required supplementary information, as listed in the accompanying table of contents, including Management's Discussion and Analysis and the Budgetary Comparison Schedules and Note, 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 do not express an 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 accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-profit Organizations*, and is not a required part of the basic financial statements. This schedule has been subjected to the audit 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.


ORIZON CPAs LLC

MANAGEMENT'S DISCUSSION & ANALYSIS

I. USING THIS ANNUAL REPORT

This annual report is presented in a format consistent with the presentation requirements of GASB Statement No. 34 – *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

A. Report Components

This annual report consists of five parts as follows:

1. Government-Wide Financial Statements

The Statement of Net Assets–Cash Basis and the Statement of Activities–Cash Basis provide information about the activities of the District government-wide (or “as a whole”).

2. Fund Financial Statements

Fund financial statements focus on the individual parts of the District's government. Fund financial statements also report the District's operations in more detail than the government-wide statements by providing information about the District's most significant (“major”) funds. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending.

3. Notes to the Financial Statements

The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

4. Required Supplementary Information

This Management Discussion and Analysis (MD&A) and the Fund Budgetary Comparison Schedules represent financial information required to be presented by the GASB. Such information provides users of this report with additional data that supplements the government-wide statements, fund financial statements, and notes to the financial statements (referred to as “the basic financial statements”).

5. Supplementary Information

This part of the annual report includes the schedule of federal expenditures. This supplemental financial information is provided to

address certain specific needs of various users of the District's annual report.

B. Basis of Accounting

The District has elected to present the government-wide and the fund financial statements using the cash basis of accounting. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues and expenses. Under the District's cash basis of accounting, revenues are recognized when cash is received by the District and expenditures are recognized when cash is disbursed by the District. Only cash and investment balances are reported as assets; liabilities are not recorded. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

C. Reporting the District as a Whole

1. The District's Reporting Entity Presentation

The District's financial statements are presented as the primary government and include all significant schools, departments, activities and organizations for which the District is financially accountable. The District has determined there is only one component unit that meets the criteria as set forth by GASB for inclusion in the financial statements.

2. The Government-Wide Statements

The government-wide financial statements are presented on pages 11 and 12. One of the most important questions asked about the District's finances is, “Is the District as a whole better off or worse off as a result of the year's activities?” The Statement of Net Assets – Cash Basis and the Statement of Activities – Cash Basis report information about the District as a whole and about its activities in a way that helps answer this question. These statements include all of the District's activities resulting from the use of the cash basis of accounting; except for activities related to the Activities Fund and Student Fee Fund which are reported in separate statements on page 14.

These two government-wide statements report the District's net assets and changes in them. Over time, increases or decreases in the District's cash and investments are one indicator of whether its financial health is improving or deteriorating. The reader also needs to consider the other assets and liabilities which are not presented in these financial statements and other non-financial factors, such as changes in the District's property tax base and the condition of the District's capital assets (mainly buildings) to assess the overall health of the District.

3. The Fund Financial Statement

The analysis of the District's major funds begins on page 13. The fund financial statements begin on page 25 and provide detailed information about the District's funds – not the District as a whole.

Some funds are required to be established by State law, however the District is allowed to establish certain other funds to help it control and manage money for particular purposes.

The District's two kinds of funds (i.e., governmental funds and fiduciary funds) use different accounting approaches.

a. Governmental Funds – Most of the District's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the cash and investment balances left at year-end that are available for spending. Governmental fund information helps you determine (through a review of changes to fund balances) whether there is more or less available cash and investments that can be spent to finance the District's programs. The District considers all of its funds to be significant or major governmental funds.

b. Fiduciary Funds – These funds are used to account for assets that are held in a trustee or fiduciary capacity such as the school's activities and student fee funds.

The District currently has no proprietary funds. Proprietary funds are used to account for funds in which the District would charge a fee to customers to help it cover all or most of the cost of certain services it provides.

I. OVERVIEW OF DISTRICT

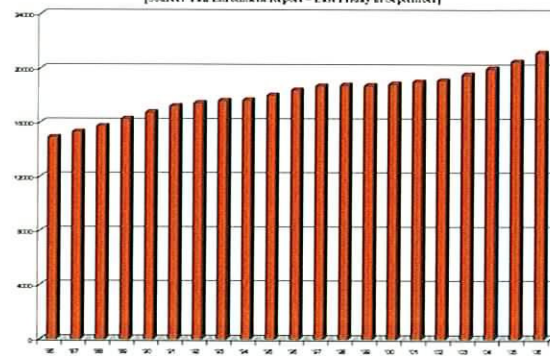
A. Schools

The Millard Public Schools is a K-12 school system located in the southwestern part of the Omaha, Nebraska metropolitan area. The District is composed of 3 high schools (grades 9-12), 6 middle schools (grades 6-8), and 24 elementary schools (grades K-5). With the exception of one Elementary School, all buildings are located in Douglas County. Approximately 90% of the taxable property value of the District is located in Douglas County. The other 10% is in Sarpy County.

B. Students

Over the past few decades, there has been substantial growth in student enrollment in the District. In the fall of 1977, student enrollment K-12 was 9,267. The official student enrollment as of the last Friday in September 2006 was 21,120 (see, Chart 1).

CHART 1
STUDENT ENROLLMENT
[Source: Fall Enrollment Report – Last Friday in September]



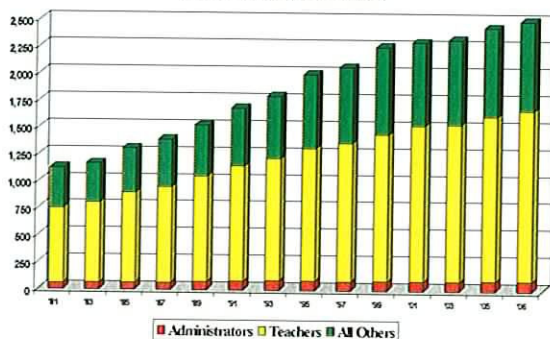
C. Personnel

The growth in student enrollment has been accompanied by a similar growth in the number of employees working for the District (see, Chart 2).

The growth in the number of employees, of course, has impacted the budget for personnel costs. In addition to the growth in the number of employees, the personnel budget has been impacted by the District's increases in salary and benefits for all employees (in order to remain competitive with other employers). The increase in salary and benefits for employees in FYE07 was about 5.6%.

CHART 2
PERSONNEL

[Source: Fall (October) Personnel Report]



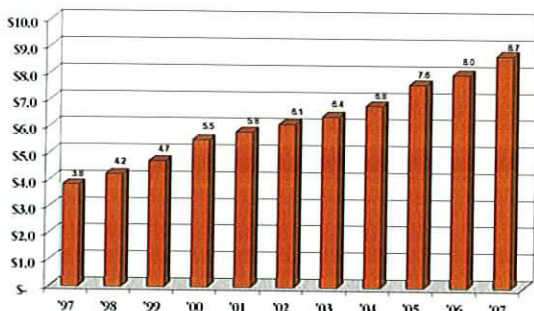
D. Valuation

The assessed value of property within the District has been increasing due to the revaluing of property and the growth in both new residential and new commercial developments in the area (see, Chart 3).

The rate of growth in property values in the District has fluctuated from year to year, but it has always increased. In 2000, the valuation increase was 16.5%. In 2002, the increase was only 3.8%. The increase in 2007 was 8.5%.

CHART 3
ASSESSED VALUE

[Source: August 29th County Assessor's Certifications - \$ Billions]



E. Tax Levy

Three of the District's funds receive monies through the property tax levy. These three are the general fund, the special building fund, and the bond fund. These funds are discussed in more detail herein below.

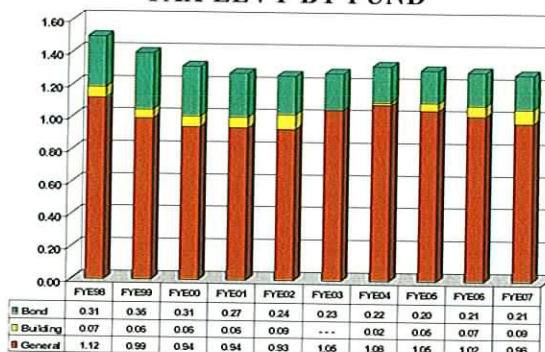
Despite the fact that the District passed an \$89 million bond issue in 1997 and another \$78 million in 2005, the total property tax levy in the District has trended downward (see, Chart 4).

In FYE98 the total levy was \$1.50. In FYE07 it was \$1.28.

This decline in the tax levy can be attributed in large part to the significant increase in taxable value in the District combined with the refunding of outstanding bonds (to take advantage of lower interest rates).

Since the District has been budgeting at or near the maximum levy permitted by the levy lid (see, "Statutory Lids" herein below), it is likely that the total levy will remain at about the same level in future years.

CHART 4
TAX LEVY BY FUND



F. Statutory Lids

The Nebraska legislature has enacted statutes which provide two "lids" on the school district's budgets. One is a spending lid. The other is a tax levy lid.

The spending lid provides for a basic limit of 2.5% on the growth of the District's expenditures from one year to the next.

The spending lid law, however, has special provisions for "low spending" districts and districts experiencing student enrollment growth.

The spending lid also provides an optional 1% spending increase that may be adopted by the local board of education. In FYE07 (and previous years), the board took advantage of this option.

Finally, the spending lid provides for exclusions for certain categories of expenses in the budget. The exclusion categories that impacted MPS in FYE07 were: (1) special education, (2) grants, (3) early retirement, and (4) interlocal agreements.

In addition to the spending lid, the Nebraska legislature provided for a lid on the tax levies of school districts (and other political subdivisions). In FYE01, the tax levy lid was \$1.10 on the combined levy for the general fund and the

building fund. In FYE02, the lid was reduced to \$1.00 (plus the costs associated with the District's early retirement program and the lost state aid resulting from LB898 (2002) – a total of about \$0.05 additional levy authority).

In FYE03, due to limited resources at the state level, state aid was reduced. However, at the same time, the property tax lid was increased to \$1.05 to offset the loss in state aid. The previous exemptions (i.e., equal to about \$0.05) from the levy lid were continued, so the effective property tax lid for the District in FYE03 was a little over \$1.10 for the general fund and building fund combined. With the growth of the cost of the exclusions, the effective lid for FYE07 was about \$1.11.

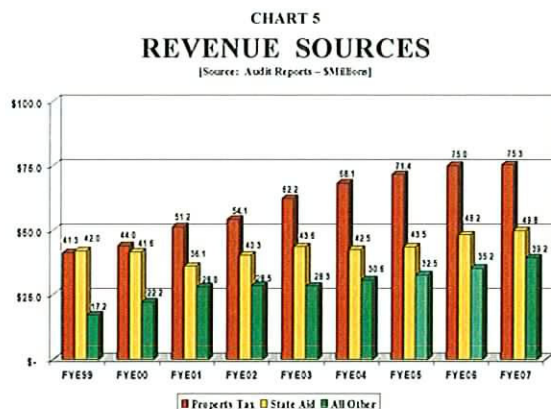
In FYE07, the District's budget was below the maximum permitted under the tax levy lid. The District's budget of expenditures was also below the spending lid. As a result, it had "unused budget authority" of \$14.4 million as of February, 2007. This amount may be budgeted in future years if the property values in the District permit a levy sufficient to fund this unused authority.

IV. FUNDS

A. General Fund

Nebraska Department of Education Rule 92 NAC 2 §003.03A provides in relevant part as follows:

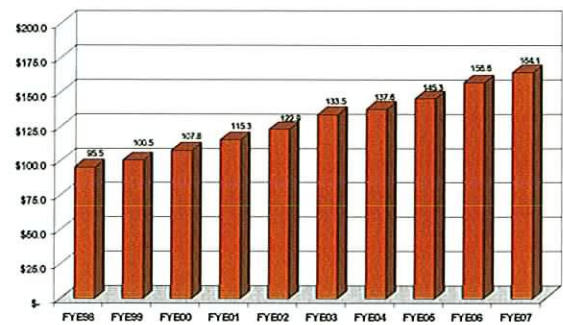
The General Fund may finance all facets of services rendered by the school district, inclusive of operation and maintenance.



The general fund is funded by three major categories of revenue – property taxes, state aid, and other sources (i.e., grants, fines, vehicle licenses, state apportionment, etc.).

During the past few years, the proportion of the funding from each of these sources has shifted somewhat and the District has become more reliant upon property taxes than any other source (see, Chart 5). [Note: "All Other" includes changes, if any, in cash reserve.]

CHART 6
TOTAL EXPENDITURES
[Source: General Fund Budget – \$ Million]



The total increase in the FYE07 budget of expenditures was about 4.8% over the preceding year (see, Chart 6).

In FYE07, the budget was directed primarily towards the continuation of existing programs and services. There were, however, funds budgeted for the opening of Reagan Elementary School (i.e., Elementary #24).

The FYE07 budget provided for a 5.6% increase in salaries and benefits for teachers (i.e., the largest group of employees). The salary and benefits packages for other employees were similar to that granted to the teachers.

Since education is a service industry, a majority of its costs are tied up in employee costs. Approximately 80% of the District's general fund expenditures are related to employee salaries and benefits.

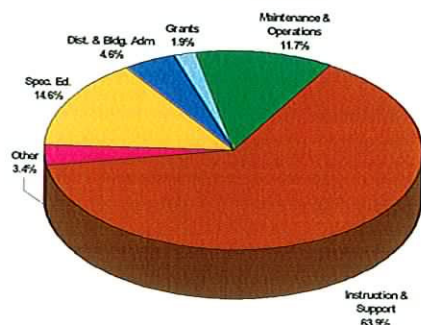
Of the services provided by the District, the largest portion of the budget was related to classroom instruction and support. Special Education (including transportation for special education students) was second (see, Chart 7).

Since the District's cash reserve was somewhat higher than needed, the FYE07 budget was constructed to reduce it. At the end of FYE07, the cash reserve was down \$3.1 million from the preceding year (see, Chart 8).

The District plans to budget for a cash reserve equal to 15%-20% of its budget of expenditures for the fiscal year. The cash reserve available at

the end of FYE07 represented about 21% of the budget of expenditures.

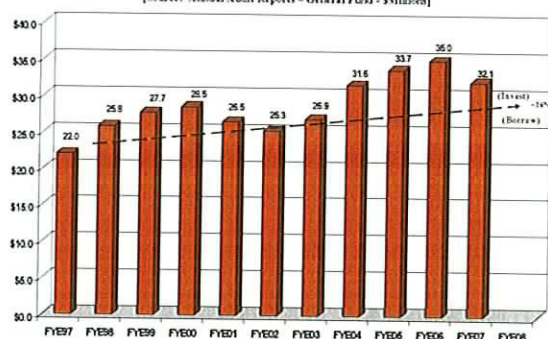
CHART 7
EXPENSE CATEGORIES
[Source: FYE07 Final Financial Report]



The cash reserve provides the District with monies to pay its obligations (e.g., payroll) during the year when it has not yet received sufficient property taxes or state aid to cover those obligations.

With a sufficient cash reserve, the District has funds to invest when they are not needed to meet obligations. If the reserve is not sufficient (i.e., about 16%) the District has to temporarily borrow money to meet its obligations.

CHART 8
CASH RESERVE
[Source: Annual Audit Reports - General Fund - \$Million]



When borrowing is required, the District borrows first from its other funds, namely the special building fund. The second line of funding is from commercial banks.

In April of 2003, the District had to temporarily borrow about \$2 million from the special building fund due to the delayed payments made by the state. In subsequent years, the state aid payments were received on schedule and no borrowing was required.

B. Special Building Fund

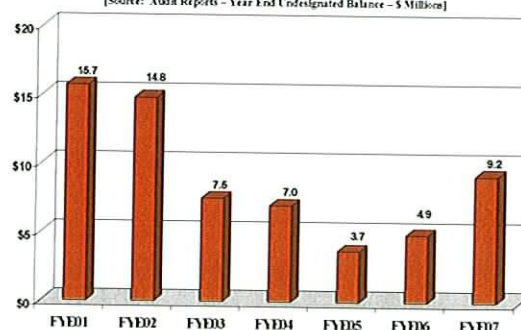
Nebraska Department of Education Rule 92 NAC 2 §003.03H provides in relevant part as follows:

A Special Building Fund shall be established when a school district decides to acquire or improve sites and/or to erect, alter, or improve buildings.

In FYE07, the District designated 8.7¢ of its property tax levy for the special building fund. This fund is used to address major capital issues (e.g., replacing roofs, parking lots, HVAC equipment, etc.).

The special building fund is also the repository for the proceeds from bond issuances. The proceeds are designated for the projects for which the bonds were issued.

CHART 9
SPECIAL BUILDING FUND
[Source: Audit Reports - Year End Undesignated Balance - \$Million]



During FYE05, the District's residents voted in favor of a \$78 million dollar bond issue to construct new buildings and to renovate existing ones. The first \$30 million of approved bonds were issued during FYE05. The remaining \$48 million of bonds were issued in FYE06.

The FYE07 ending balance in the Special Building Fund was \$43.0 million. This amount included the proceeds from the recently issued bonds.

Of this \$43.0 million ending balance, only \$9.2 million was not designated to existing obligations for capital projects, bond issue projects, and existing leases (see, Chart 9).

The "existing leases" noted above included: (1) lease payments to Connectivity Solutions Manufacturing, Inc. for office and warehouse space and (2) lease payments to Suburban Schools Building Corporation (SSBC) for the

lease-purchase of Reeder Elementary School. These future commitments total about \$1.2 million per year.

Final payment on the Reeder Elementary School lease-purchase is scheduled for FYE11. However, there was a required reserve fund of about \$1.0 million established pursuant to the lease-purchase agreement. The reserve fund will cover most, if not all, of the FYE11 payment. When the final lease-purchase payment is made, title to the building will be transferred from SSBC to the District.

C. School Lunch Fund

Nebraska Department of Education Rule 92 NAC 2 §003.03F provides in relevant part as follows:

The School Lunch Fund is required to accommodate the financial activities of all Child Nutrition Programs. These include the School Lunch, School Breakfast, Special Milk, Child and Adult Care Food, and the Summer Food Service Programs.

The District maintains a food service program in each of its schools. In the past, the District's food service program has been self-supporting (i.e., the revenue has been sufficient to cover all direct expenses but not indirect expenses). Although the food service programs in some of the smaller elementary schools operate at a deficit, this deficit has generally been offset by the additional revenues generated at the larger and more efficient secondary schools.

In FYE04, the District elected to outsource the management of its food service program with Aramark (which continued to manage the program in FYE07).

At the end of FYE07, the fund balance in the food service fund was up \$158,011 over the previous year.

As noted above, expenses (i.e., indirect costs) associate with insurance, payroll services, utilities, use of facilities, etc. are not included in the food service fund accounting. These indirect costs are paid through the general fund.

D. Employee Benefit Fund

Nebraska Department of Education Rule 92 NAC 2 §003.03C provides in relevant part as follows:

An Employee Benefit Fund may be established in order to specifically reserve General Fund money for the benefit of school district employees (unemployment compensation, early retirement, health insurance deductibles, etc.).

The District uses the employee benefit fund for expenses related to its dental insurance and its self-funded health insurance program (which is administered by a third party administrator).

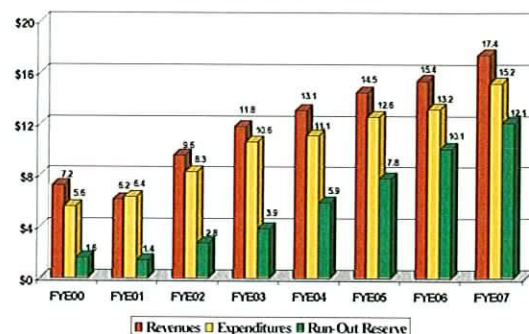
In order to fund its health insurance plan for employees, the District budgets for health insurance premium payments in its general fund. These "payments" for health insurance premiums are transferred monthly into the Employee Benefit Fund. As medical claims are filed, the third party administrator processes the claims and sends statements to the District. The District then pays the claims from the Employee Benefit Fund.

The District retains a "run-out reserve" in the Employee Benefit Fund to provide funds to pay claims that have been incurred during the year but have not yet been submitted for payment.

The goal is to have a reserve of at least 25%-30% of premiums in Employee Benefit Fund at the end of the fiscal year. The actual amount at the end of FYE07 was 70% (see Chart 10).

Due to the large reserve, the District "froze" its "premium rate" being paid to the Employee Benefit Fund in FYE07 and will do the same in FYE08.

CHART 10
EMPLOYEE BENEFIT FUND
[Source: Annual Audit Report - \$ Millions]



E. Depreciation Fund

Nebraska Department of Education Rule 92 NAC 2 §003.03B provides in relevant part as follows:

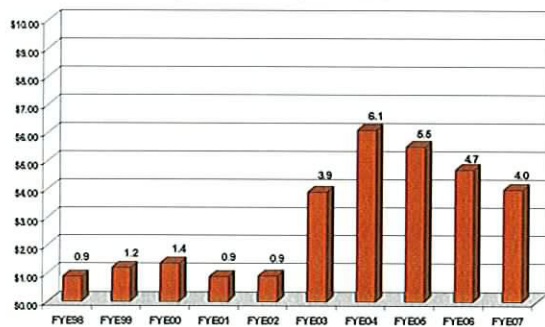
A Depreciation Fund may be established by a school district in order to facilitate the eventual purchase of a costly capital outlay by reserving such monies from the General Fund.

The monies in the depreciation fund are used to replace depreciable items. These items include copy machines, pianos, computers, printers, security cameras, band uniforms, etc. If sufficient funds are available, the monies may also be used for such things as the replacement of roofs, resurfacing of parking lots, replacing HVAC units, etc.

There are separate sub-accounts in the depreciation fund for each building in the District. There is also a district-wide account.

At the end of FYE07, the balance in the depreciation fund was \$4.0 million (see, Chart 11).

**CHART 11
DEPRECIATION FUND BALANCE**
[Source: Annual Audit Report – 5 MEBOs]



F. Cooperative Fund

Nebraska Department of Education Rule 92 NAC 2 §003.03J provides in relevant part as follows:

The Cooperative Fund may be used by the school district acting as the fiscal agent for any cooperative activity between such district and one or more public agencies as defined in Section 13-803(2) R.R.S.

During FYE07, the District had no funds that needed to be accounted for in the Cooperative Fund.

G. Bond Fund

Nebraska Department of Education Rule 92 NAC 2 §003.03G provides in relevant part as follows:

The Bond Fund shall be used to record tax receipts and the payment of bond principal and interest.

During FYE05, the District issued the first \$30 million of bonds (pursuant to the passage of the \$78 million bond issue referendum in 2005).

Due to a favorable interest rate environment, the District decided to issue the remaining \$48 million of bonds during FYE06.

At the end of the fiscal year, the District had \$164.6 million in outstanding bonds carrying interest rates from 2.00 to 4.75%. The last bonds mature in 2025.

The District maintains bond ratings of AA2 (Moody's) and AA- (Standard & Poor's).

H. Activities Fund

Nebraska Department of Education Rule 92 NAC 2 §003.03E provides in relevant part as follows:

The Activities Fund is required to account for the financial operations of quasi-independent student organizations, interschool athletics, and other self-supporting or partially self-supporting school activities, not part of another fund.

The central office and each of the 34 schools in the District maintains its own activities fund. These funds include such things as monies received from sporting events, funds raised by student organizations, receipts from vending machines, etc. The activities funds do not receive any revenue from the general fund or any other tax-supported funds.

I. Student Fees Fund

Nebraska Department of Education Rule 92 NAC 2 §003.03K provides in relevant part as follows:

The student fee fund means a separate school district fund not funded by tax revenue, into which all money collected from students pursuant to the Public Elementary and Secondary Student Fee Authorization (Section 79-1,125 to 79-2,135 R.R.S.) for participation in extracurricular activities, post-secondary education and summer and night school is deposited. Expenditures from this fund must be for the purposes for which it was collected.

Monies that are collected in student fees are deposited into the Student Fees Fund. The expenditures associated with the student programs (for which the fees were collected) are generally reflected in the Activities Fund.

Periodically throughout the fiscal year, monies from the Student Fees Fund are transferred to the Activities Fund to offset the appropriate expenditures.

* * * * *

This Management's Discussion and Analysis (MD&A) is respectfully submitted this 31st day of October, 2007.

A handwritten signature in blue ink, reading "Kenneth J. Fossen", is written over a horizontal line.

Kenneth J. Fossen, J.D.
Associate Superintendent
General Administration

**SCHOOL DISTRICT #17, MILLARD PUBLIC SCHOOLS
DOUGLAS COUNTY, NEBRASKA**

STATEMENT OF NET ASSETS - CASH BASIS

AUGUST 31, 2007

ASSETS		
	<u>Governmental Activities</u>	<u>Component Unit</u>
Cash and cash equivalents	\$ 14,417,892	\$ 1,090,262
Investments	<u>89,595,593</u>	<u> </u>
 TOTAL ASSETS	 <u>\$ 104,013,485</u>	 <u>\$ 1,090,262</u>
 NET ASSETS		
Restricted:		
Special building	\$ 42,961,666	
School lunch	888,395	
Debt service	11,857,530	\$ 1,065,383
Unrestricted:		
Board designated:		
Employee benefit	12,108,728	
Depreciation	4,025,115	
Undesignated	<u>32,172,051</u>	<u>24,879</u>
 TOTAL NET ASSETS	 <u>\$ 104,013,485</u>	 <u>\$ 1,090,262</u>

See Notes to the Basic Financial Statements.

**SCHOOL DISTRICT #17, MILLARD PUBLIC SCHOOLS
DOUGLAS COUNTY, NEBRASKA**

STATEMENT OF ACTIVITIES - CASH BASIS

FOR THE YEAR ENDED AUGUST 31, 2007

	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Assets	
	Cash Disbursements	Charges for Services	Operating Grants and Contributions	School District	Component Unit
Governmental activities:					
Instructional services	\$ (94,495,100)	\$ 190,218	\$ 15,069,373	\$ (79,235,509)	
Support services	(48,025,454)		1,323,508	(46,701,946)	
Food services	(7,939,843)	7,091,270	1,418,446	569,873	
Building maintenance and improvements	(49,930,753)			(49,930,753)	
Principal and interest on indebtedness	(18,123,588)			(18,123,588)	
Other	(461,013)			(461,013)	
	<u>(218,975,751)</u>	<u>7,281,488</u>	<u>17,811,327</u>	<u>(193,882,936)</u>	
Component unit activities:					
Suburban School Buildings Corporation	<u>(1,051,378)</u>	<u>883,175</u>			\$ (168,203)
Net program (disbursements) receipts	<u>\$ (220,027,129)</u>	<u>\$ 8,164,663</u>	<u>\$ 17,811,327</u>	<u>(193,882,936)</u>	<u>(168,203)</u>
General receipts:					
Taxes collected				109,858,314	
County receipts				1,023,491	
State receipts				54,124,233	
Federal receipts				1,948,875	
Investment earnings				4,453,084	53,289
Other				511,557	
Total general receipts				<u>171,919,554</u>	<u>53,289</u>
Increase (decrease) in net assets				(21,963,382)	(114,914)
Net assets - beginning of year				<u>125,976,867</u>	<u>1,205,176</u>
Net assets - end of year				<u>\$ 104,013,485</u>	<u>\$ 1,090,262</u>

See Notes to the Basic Financial Statements.

SCHOOL DISTRICT #17, MILLARD PUBLIC SCHOOLS
DOUGLAS COUNTY, NEBRASKA

STATEMENT OF FUND BALANCES AND CHANGES IN FUND BALANCES - CASH BASIS - GOVERNMENTAL FUNDS

AS OF AND FOR THE YEAR ENDED AUGUST 31, 2007

	Special Revenue Funds					Debt Service Fund	Total Governmental Funds
	General Fund	Special Building	School Lunch	Employee Benefit	Depreciation	Bond	
RECEIPTS							
Local receipts	\$ 87,072,845	\$ 6,990,274	\$ 711			\$ 16,846,286	\$ 110,910,116
County receipts	1,023,491						1,023,491
State receipts	64,973,792	86,255	37,025			218,076	65,315,148
Federal receipts	7,187,866		1,381,421				8,569,287
Sales of lunches	848,968	2,905,830	7,090,559				7,090,559
Interest	65,179	1,186	24,731	\$ 260,170	\$ 108,676	304,709	4,453,084
Non-revenue receipts							66,365
TOTAL RECEIPTS	161,172,141	9,983,545	8,534,447	260,170	108,676	17,369,071	197,428,050
DISBURSEMENTS							
Instructional services	89,750,925						89,750,925
Support services	57,241,417						57,241,417
Other salaries and benefits			3,395,063				3,395,063
Supplies and materials			68,692				68,692
Purchased services		2,995,647	4,387,074	15,419,052			22,801,773
Food			(11,118)				(11,118)
Capital outlay		3,436,700	2,885		838,987		4,278,572
Lease payments		883,175					883,175
Building and site acquisition and improvement		22,563,141			35,084		22,598,225
Other		631,367	97,247				728,614
Redemption of principal							10,830,000
Debt service interest							6,410,413
TOTAL DISBURSEMENTS	146,992,342	30,510,030	7,939,843	15,419,052	874,071	17,240,413	218,975,751
EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS							
OTHER FINANCING SOURCES (USES)		(20,526,485)	594,604	(15,158,882)	(765,395)		(21,547,701)
Transfers in	20,912			17,175,123			17,326,136
Transfers out	(17,305,224)		(436,593)				(17,741,817)
TOTAL OTHER FINANCING SOURCES (USES)	(17,284,312)		(436,593)	17,175,123			(415,681)
EXCESS (DEFICIENCY) OF RECEIPTS AND OTHER FINANCING SOURCES OVER DISBURSEMENTS AND OTHER FINANCING USES							
FUND BALANCE - beginning of year	(3,104,513)	(20,526,485)	158,011	2,016,241	(635,294)	128,658	(21,963,382)
FUND BALANCE - end of year	35,276,564	63,488,151	730,384	10,092,487	4,660,409	11,728,872	125,976,867
FUND BALANCE - CASH BASIS:	\$ 32,172,051	\$ 42,961,666	\$ 888,395	\$ 12,108,728	\$ 4,025,115	\$ 11,857,530	\$ 104,013,485
Cash and cash equivalents	\$ 12,148,819	\$ 42,961,666	\$ 888,395	\$ 1,268,657	\$ 4,025,115	\$ 112,021	\$ 14,417,862
Investments	20,023,232			10,840,071		11,745,509	89,595,593
TOTAL FUND BALANCE - CASH BASIS - AUGUST 31, 2007	\$ 32,172,051	\$ 42,961,666	\$ 888,395	\$ 12,108,728	\$ 4,025,115	\$ 11,857,530	\$ 104,013,485

See Notes to the Basic Financial Statements.

SCHOOL DISTRICT #17, MILLARD PUBLIC SCHOOLS
DOUGLAS COUNTY, NEBRASKA

STATEMENT OF NET ASSETS AND CHANGES IN NET ASSETS - CASH BASIS - FIDUCIARY FUNDS

AS OF AND FOR THE YEAR ENDED AUGUST 31, 2007

<u>Activities Fund</u>	<u>Beginning Net Assets</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Transfers</u>	<u>Ending Net Assets</u>
ADMINISTRATIVE OFFICE	\$ 624,990	\$ 421,998	\$ 678,746	\$ 2,209	\$ 370,451
HIGH SCHOOLS:					
North	784,512	702,621	813,552	129,272	802,853
South	409,304	817,552	755,884	109,408	580,380
West	381,204	958,180	886,681	107,848	560,551
MIDDLE SCHOOLS:					
Central	51,733	102,548	121,182	14,139	47,238
North	51,953	60,429	76,091	8,577	44,868
Beadle	29,370	56,736	70,447	6,525	22,184
Andersen	85,026	110,726	123,686	13,107	85,173
Kiewit	187,357	180,577	124,319	9,583	253,198
Russell	48,230	140,933	139,726	8,113	57,550
ELEMENTARY SCHOOLS:					
Abbott	32,314	20,914	18,241	(149)	34,838
Ackerman	12,795	35,364	31,208	1,296	18,247
Aldrich	8,807	31,010	24,482	766	16,101
Black Elk	18,359	47,620	46,037	979	20,921
Bryan	10,380	16,002	19,861	1,035	7,556
Cather	23,765	36,309	35,171	(5,005)	19,898
Cody	14,032	22,189	18,906	(490)	16,825
Cottonwood	11,932	17,895	13,861	839	16,805
Disney	11,750	14,974	15,083	989	12,630
Ezra Millard	19,755	9,478	14,755	(8,470)	6,008
Harvey Oaks	12,971	13,548	10,442	964	17,041
Hitchcock	14,224	14,981	13,078	618	16,745
Holling Heights	13,417	26,068	22,617	1,414	18,282
Montclair	8,165	35,603	34,268	1,592	11,092
Morton	10,013	24,512	21,130	1,001	14,396
Neihardt	12,944	22,640	18,540	1,384	18,428
Norris	18,266	22,338	20,156	876	21,324
Reeder	3,832	15,504	11,106	1,175	9,405
Rockwell	32,176	27,205	28,360	208	31,229
Rohwer	13,148	37,068	32,428	616	18,404
Sandoz	8,032	21,805	21,121	799	9,515
Willowdale	10,714	14,955	12,034	846	14,481
Wheeler	28,367	35,020	34,450	(714)	28,223
SUMMER SCHOOL	1,105	915			2,020
MILLARD LEARNING CENTER	3,588	4,527	10,075	4,331	2,371
MSHS BUTTON FACTORY	381	261	375		267
ECHO HILLS SALES	1,660	819	1,182		1,297
MNHS LIFE SKILLS	258	45	35		268
Total Activities Fund	\$ 3,010,829	\$ 4,121,869	\$ 4,319,316	\$ 415,681	\$ 3,229,063
<u>Student Fee Fund</u>					
ALL SCHOOLS	\$ 52,423	\$ 1,118,483	\$ 1,093,705		\$ 77,200
NET ASSETS					
Cash and cash equivalents					\$ 2,563,660
Investments					742,603
TOTAL NET ASSETS - CASH BASIS HELD IN TRUST					\$ 3,306,263

See Notes to the Basic Financial Statements.

**SCHOOL DISTRICT #17 – MILLARD PUBLIC SCHOOLS
DOUGLAS COUNTY, NEBRASKA**

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of School District #17 – Millard Public Schools, Douglas County, Nebraska's (the "District") significant accounting policies follows:

Except for the use of the cash basis of accounting as discussed below, the District complies with accounting principles generally accepted in the United States of America (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

Reporting Entity

The District's financial statements are presented as the primary government and include all significant schools, departments, activities and organizations for which the District is financially accountable.

The District has one component unit that has been presented discretely on the financial statements, the Suburban Schools Building Corporation ("SSBC"). SSBC is an entity originally established to construct Elementary School #23 (now known as Reeder Elementary School). Subsequent to the establishment of the SSBC, the District entered into a 7-year lease-purchase agreement with SSBC to lease Elementary School #23.

The SSBC issued bonds to fund the construction project. The lease payments made by the District to the SSBC were established in an amount sufficient to pay the principal and interest on the bonds when they came due. First National Bank of Omaha serves as the fiscal agent for the receipt of the lease payments and for the payment of principal and interest on the bonds when they come due. It also serves as the escrow agent for the documents related to the agreement between SSBC and the District. Pursuant to the lease-purchase agreement between the SSBC and the District, title to Reeder Elementary Schools will be transferred to the District when all of the principal and interest on the bonds have been paid.

Basis of Presentation

Government-Wide Financial Statements – The Statement of Net Assets – Cash Basis and Statement of Activities – Cash Basis display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements present the District's financial statements as governmental activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other non-exchange revenues. Alternatively, business-type activities are financed in whole or in part by fees charged to external parties for goods or services. The District does not operate any significant business-type activities.

Fund Financial Statements – Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, receipts and disbursements. Funds are organized into two major categories: governmental and fiduciary. The District currently has no proprietary funds. An emphasis is placed on major funds within the governmental and fiduciary categories. A fund is considered major if it is the primary operating fund of the District, meets specific mathematical criteria set forth by GASB or is identified as a major fund by the District's management. In addition to the District's funds meeting the required criteria, the District's management has designated all remaining funds to be presented as major funds for financial reporting purposes.

**SCHOOL DISTRICT #17 – MILLARD PUBLIC SCHOOLS
DOUGLAS COUNTY, NEBRASKA**

NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

The funds of the financial reporting entity are described below:

GOVERNMENTAL FUND ACTIVITIES

General Fund – This fund is the primary operating fund of the District and is always classified as a major fund. It is used to account for all financing resources except those required to be accounted for in other funds.

Special Revenue Fund – These funds are used to account for the proceeds of the specific revenue sources that are either legally restricted to expenditures for specified purposes or designated to finance particular functions or activities of the District. The reporting entity includes the following special revenue funds:

Special Building Fund – This fund accounts for taxes levied and other revenues specifically maintained to acquire or improve sites and/or to erect, alter or improve buildings.

School Lunch Fund – This fund accounts for the operations of the District's child nutrition programs.

Employee Benefit Fund – This fund accounts for the reserve of money for the benefit of School District employees for fringe benefits through the transfer of monies from other funds.

Depreciation Fund – This fund accounts for resources designated and maintained for the eventual purchase of capital assets through transfer of monies from the General Fund.

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

Bond Fund – This fund accounts for taxes levied and other revenues specifically earmarked for the retirement of bonded indebtedness.

FIDUCIARY FUND ACTIVITIES

Activities Fund – This fund is used to account for assets held by the District in a trustee capacity for various school organizations and activities.

Student Fees Fund – This fund is used to account for money collected from students that shall be expended for the purpose for which it was collected from the students.

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded, regardless of the measurement focus applied.

**SCHOOL DISTRICT #17 – MILLARD PUBLIC SCHOOLS
DOUGLAS COUNTY, NEBRASKA**

NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Measurement Focus

In both the government-wide financial statements and the fund financial statements, the governmental activities are presented using a cash basis measurement focus. Their reported net assets/fund balance is considered a measure of "available cash and investments." The operating statements focus on cash received and cash disbursed.

Basis of Accounting

In the government-wide and the fund financial statements, the District prepares its financial statements using the cash basis of accounting. Accordingly, revenues are recognized when cash is received by the District and expenditures are recognized when cash is disbursed. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

This basis of accounting is applied to all transactions, including the disbursements for capital assets, receipt of proceeds from issuance of debt and the retirement of debt.

Cash and Cash Equivalents

For the purpose of financial reporting, "cash and cash equivalents" includes all cash on hand, demand and savings accounts and certificate of deposit or short-term investments with an original maturity of three months or less from the date of acquisition.

Investments

Investments are carried at cost, which approximates fair value. Additional cash and investment disclosures are presented in Note 3.

Long-term Debt

Long-term debt arising from cash transactions for governmental funds is not reported as a liability in the government-wide or fund financial statements. The debt proceeds are, instead, reported as other financing receipts and payment of principal and interest reported as cash disbursements.

Equity Classification

Government-Wide Statements:

Equity is classified as net assets and displayed in two components:

- a. Restricted net assets – Consists of net assets with constraints placed on the use either by 1) external groups, such as creditors, grantors, contributors or laws and regulations of other governments; or 2) law through constitutional provisions or enabling legislation.
- b. Unrestricted net assets – All other net assets that do not meet the definition of "restricted." However, if the funds have been designated by the Board of Education, these funds have been shown separately to distinguish their designation.

It is the District's policy to use restricted net assets, first, prior to the use of unrestricted net assets, when a disbursement is made for purposes in which both restricted and unrestricted net assets are available.

**SCHOOL DISTRICT #17 – MILLARD PUBLIC SCHOOLS
DOUGLAS COUNTY, NEBRASKA**

NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Fund Financial Statements:

Governmental fund equity is reported as fund balance within each respective fund.

Internal and Interfund Balances and Activities

In the process of aggregating the financial information for the government-wide financial statements, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

Government-Wide Financial Statements:

Amounts reported in the fund financial statements as interfund receivables and payables, if any, would be eliminated in the governmental activities column of the Statement of Net Assets.

Fund Financial Statements:

Interfund activity, if any, within and among the governmental fund category is reported as follows in the fund financial statements:

- a. Interfund loans – amounts provided with a requirement for repayment are reported as interfund receivables and payables.
- b. Interfund reimbursements – repayments from funds responsible for certain disbursements to the funds that initially paid for them are not reported as reimbursements but as adjustments to disbursements in the respective funds.
- c. Interfund transfers – flow of assets from one fund to another where repayment is not expected are reported as cash receipts and disbursements.

2. BUDGET PROCESS AND PROPERTY TAXES

The District is required by state law to adopt annual budgets for the General Fund, Special Building Fund, School Lunch Fund, Employee Benefit Fund, Depreciation Fund and Bond Fund. Each budget is presented on the cash basis of accounting, which is consistent with the requirements of the state budget act.

State Statutes of the Nebraska Budget Act provide the prescribed budget practices and procedures that governing bodies are required to follow. The amounts that may be budgeted for certain specific funds are subject to various expenditures and/or tax levy limitations.

The District follows these procedures in establishing the budgetary data reflected in the accompanying financial statements:

- The Superintendent submits to the Board of Education a proposed operating budget for the fiscal year commencing September 1. The operating budget includes proposed expenditures and the means of financing them.

**SCHOOL DISTRICT #17 – MILLARD PUBLIC SCHOOLS
DOUGLAS COUNTY, NEBRASKA**

NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED

2. BUDGET PROCESS AND PROPERTY TAXES, CONTINUED

- Public hearings are conducted at a public meeting to obtain taxpayer comments.
- On or before September 20, the budget is legally adopted by the Board of Education through passage of a resolution and is filed with the appropriate agencies on or before September 20.
- Total fund expenditures may not legally exceed total appropriations at the fund level or for "regular education" in the general fund without holding a public budget hearing and obtaining approval from the Board of Education. Appropriations lapse at fiscal year end and any revisions require Board approval.

The property tax requirement resulting from the budget process is utilized to establish the tax levy in accordance with State statutes, which tax levy attaches as an enforceable lien on property within the District as of December 31. Taxes are due as of that date. One-half of the real estate taxes become delinquent after the following April 1, with the second one-half becoming delinquent after August 1. The combined tax rate of the District for the year ended August 31, 2007 was \$1.27957 per \$100 of assessed valuation.

3. DEPOSITS AND INVESTMENTS

Nebraska Statute Section 79-1043 provides that the District may, by and with the consent of the Board of Education of the District, invest the funds of the District in securities, including repurchase agreements, the nature of which individuals of prudence, discretion and intelligence acquire or retain in dealing with the property of another.

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. At August 31, 2007, the carrying amount of the District's deposits was \$17,298,163 and the bank balance was \$18,465,013. These deposits are insured through FDIC coverage or collateral held by the District's agent in the District's name. However, three accounts exceeded the normal FDIC coverage and/or collateral. The accounts at First National Bank exceeded their coverage by \$7,514,332. The accounts at Omaha State Bank exceeded their coverage by \$154,180. The accounts at Bank of America exceeded their coverage by \$194,690.

Investments of \$78,168,979 consist of the Nebraska School District Liquid Asset Fund Plus and are carried at cost, which approximates fair value. The Nebraska School District Liquid Asset Fund Plus is similar in nature to an open-end mutual fund designed specifically for Nebraska school entities, investing only in those securities allowable for such entities under Nebraska Law.

Investments of \$11,852,606 consist principally of money market funds and debt securities of U.S. Government Agencies. Included in this investment amount are cash equivalents totaling \$112,021.

At August 31, 2007, the District's activities fund also had \$428,632 of certificates of deposit, which have been included with bank deposits above.

As of August 31, 2007, the School District's investments were either insured or collateralized by securities held by financial institutions but not in the School District's name.

**SCHOOL DISTRICT #17 – MILLARD PUBLIC SCHOOLS
DOUGLAS COUNTY, NEBRASKA**

NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED

4. FUNDS HELD BY COUNTY TREASURER

The following balances were held by the Sarpy and Douglas County Treasurers for the District as of August 31, 2007. The monies were transferred to the District subsequent to August 31 and are not included as receipts or cash balances in the financial statements:

	<u>Sarpy County</u>	<u>Douglas County</u>
General Fund	\$1,635,167	\$2,380,825
Debt Service Fund	\$ 328,515	\$1,192,430
Special Building Fund	\$ 132,165	\$ 479,659

5. LONG-TERM DEBT

The following is a summary of general long-term debt transactions of the District for the year ended August 31, 2007:

	<u>General Obligation Bonds</u>
Balance, August 31, 2006	\$ 175,475,000
Deductions:	
Payment of principal	<u>10,830,000</u>
Balance, August 31, 2007	<u>\$ 164,645,000</u>

Bonds Payable - The following individual general obligation bond issues are outstanding at August 31, 2007:

<u>Issue Date</u>	<u>Interest Rate</u>	<u>Balance</u>	<u>Final Maturity Date</u>
July 1, 1999	4.70% to 4.75%	\$ 3,975,000	2017
October 15, 2001	3.00% to 3.20%	1,785,000	2008
November 14, 2002	3.63% to 4.50%	26,995,000	2017
April 23, 2003	2.00% to 4.25%	26,155,000	2019
March 1, 2004	2.00% to 3.50%	27,735,000	2016
May 15, 2005	4.00% to 4.50%	30,000,000	2025
June 15, 2006	4.50% to 4.63%	<u>48,000,000</u>	2025
TOTAL		<u>\$164,645,000</u>	

**SCHOOL DISTRICT #17 – MILLARD PUBLIC SCHOOLS
DOUGLAS COUNTY, NEBRASKA**

NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED

5. LONG-TERM DEBT, CONTINUED

Aggregate principal and interest payments applicable to the District's bonds subsequent to August 31, 2007 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 6,860,000	\$ 6,523,390	\$ 13,383,390
2009	7,665,000	6,330,018	13,995,018
2010	7,460,000	6,108,671	13,568,671
2011	7,690,000	5,864,199	13,554,199
2012	7,955,000	5,594,055	13,549,055
2013-2017	43,510,000	23,396,277	66,906,277
2018-2022	48,680,000	14,455,315	63,135,315
2022-2025	<u>34,825,000</u>	<u>3,228,562</u>	<u>38,053,562</u>
TOTAL	<u>\$164,645,000</u>	<u>\$71,500,487</u>	<u>\$236,145,487</u>

6. SPECIAL BUILDING FUND COMMITMENTS

The District has approximately \$7,213,248 of commitments for the construction of new buildings, building additions, improvements and related building and site costs as of August 31, 2007 that will be paid from the proceeds of the June 15, 2006 bond issue.

7. LEASE COMMITMENTS

The District has non-cancelable operating lease agreements for 30 vans used for transportation of students in special education programs during the year ended August 31, 2007. These leases expire on various dates through July 2012. The District also has non-cancelable lease agreements for vehicles used by the administration and maintenance. These leases expire on various dates through September 2008.

In addition, the District has a lease agreement with Connectivity Solutions Manufacturing for office and warehouse space to be utilized by the District's Technology Department. This lease expires in 2009.

Finally, the District has a lease agreement with Suburban Schools Building Corporation ("SSBC") for an elementary school; see also Note 1. SSBC acquired the land and then issued certificates of participation to fund the construction of the elementary school. Lease payments related to this agreement began November 2004, and the lease expires May, 2011. The District has the option to purchase the building at the end of the lease.

Future minimum lease payments for all leases are approximately as follows:

	<u>Amount</u>
Fiscal Year End:	
2008	\$1,375,959
2009	1,298,957
2010	1,148,724
2011	1,122,496
2012	<u>35,915</u>
TOTAL	<u>\$4,982,051</u>

**SCHOOL DISTRICT #17 – MILLARD PUBLIC SCHOOLS
DOUGLAS COUNTY, NEBRASKA**

NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED

7. LEASE COMMITMENTS, CONTINUED

The total paid for lease commitments for the year ended August 31, 2007 was \$1,355,725, of which \$883,175 of the total lease commitments was paid out of the Special Building Fund and the remainder of the lease commitments was paid out of the General Fund.

8. NEBRASKA SCHOOL EMPLOYEES RETIREMENT SYSTEM

Plan Description – The District contributes to the Nebraska School Employees Retirement System (NSERS), a cost-sharing multiple-employer defined benefit pension plan administered by the Nebraska Public Employees Retirement System (NPERS). NPERS provides retirement and disability benefits to plan members and beneficiaries. The School Employees Retirement Act establishes benefit provisions. NPERS issues a publicly available financial report that includes financial statements and required supplementary information for NPERS. That report may be obtained by writing the NPERS, 1221 N Street, Suite 325, P.O. Box 94816, Lincoln, Nebraska 68509-4816 or by calling 1-800-245-5712.

The total payroll for the School District employees covered by NSERS for the year ended August 31, 2007 was \$100,035,236. The total payroll for all School District employees for the year ended August 31, 2007 was \$107,247,847.

All School District employees who work 15 hours or more per week by August 15 preceding the school year participate in NSERS. Normal retirement is after completion of five years of service and age 65 or under the rule of 85 (when age plus years of service equals 85 and age must be at least 60). A monthly benefit is provided through either a savings and service annuity or a formula benefit annuity, whichever is greater. Early retirement is available on a reduced benefits basis. There are also vesting provisions for termination prior to retirement, as well as death and disability benefits established by Nebraska Statutes.

Funding Policy - In accordance with Nebraska Statutes §79-1531 and §79-1540, employee contributions are made in accordance with statute and the recommendation of an actuary (study as of June 30, 1996) and employer contributions are based upon 101% of employee contributions. Employee contribution requirements for the year ended August 31, 2007 were 7.83% of covered payroll. Actual employer and employee contributions made for the year ended August 31, 2007 were \$7,911,087 (7.91% of covered payroll) and \$7,832,759 (7.83% of covered payroll), respectively.

Actual employer and employee contributions made for the year ended August 31, 2006 were \$7,513,235 (8.06% of covered payroll) and \$7,438,846 (7.98% of covered payroll), respectively. Actual employer and employee contributions made for the year ended August 31, 2005 were \$6,425,950 (7.32% of covered payroll) and \$6,362,327 (7.25% of covered payroll), respectively.

9. COMMITMENTS AND CONTINGENCIES

Grant Program Involvement

The District participates in a number of state and federally assisted programs. These programs are subject to financial and compliance audits of various agencies and departments, many of which have not yet been performed. The District's management believes that the amount of expenditures, if any, which may be disallowed by the granting agencies would not be significant.

**SCHOOL DISTRICT #17 – MILLARD PUBLIC SCHOOLS
DOUGLAS COUNTY, NEBRASKA**

NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED

9. COMMITMENTS AND CONTINGENCIES, CONTINUED

Compensated Absences

As a result of the District's use of the cash basis of accounting, accrued liabilities related to compensated absences (sick leave only; vacation does not vest) and any employer-related costs earned and unpaid, are not reflected in the government-wide or fund financial statements. Under the District plan, faculty, administrators and some support staff are paid \$50 to \$100 per day for any sick leave accumulated over 80 days. Employees receive 12 days of sick leave per year and cannot accumulate over 80 days. Faculty and administrators' accumulated sick leave over 80 days is paid at the end of the fiscal year.

Voluntary Early Separation Plan

The District has established a Voluntary Early Separation Plan that allows certain employees to receive benefits from the District during the period beginning when they take early retirement until their benefits from the NPERS system begin. As of August 31, 2007, the District estimates their liability under this plan at \$12,609,264, with the final obligations payable in fiscal year 2016.

Legislation & Litigation

In June, 2005, the Board of Education of the Omaha Public Schools ("OPS") adopted a resolution commonly referred to as "One City, One School District." The purpose of the resolution was to seek a "takeover" of the suburban school district surrounding OPS.

In response to the "One City, One School District Resolution," the Nebraska Legislature enacted (and the Governor signed into law) LB1024 (2006) which protected the boundaries of all of the suburban school districts, but brought all of the eleven schools in the two county area around Omaha into an "umbrella" organization referred to as a "learning community." The legislation also provided for a division of OPS into 3 separate school districts.

Subsequent to the enactment of LB1024 (2006), litigation was commenced challenging its constitutionality. The litigation, however, was rendered moot after the legislature enacted LB 641 (2007). Under this new law, OPS will not be divided. The learning community concept, however, remained in place. The effective date for the creation of the new learning community will be January, 2009. Under LB641 (2007), the eleven school districts in the two county area will begin (in FY 2010) to operate under a common property tax levy for their general funds (not to exceed 95 cents per hundred dollars of valuation) and their building fund (2 cents). Each of the eleven districts may elect to levy an additional amount (not exceeding the statutory limit) for funding either its general fund or its building fund or both.

In addition, the District is involved in various legal actions whereby certain parties are making claims for damages. Management believes the outcome of these proceedings will not have any material financial impact on the District.

Arbitrage

Investment earnings from bond proceeds during the current fiscal year could be subject to arbitrage rebate and other tax matters. The District's management has estimated that their liability at year-end is approximately \$270,000.

**SCHOOL DISTRICT #17 – MILLARD PUBLIC SCHOOLS
DOUGLAS COUNTY, NEBRASKA**

NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED

10. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employees' health and life; and natural disasters.

The District manages these various risks of loss as follows:

<u>Type of Loss</u>	<u>Method Managed</u>	<u>Risk of Loss Retained</u>
a. Torts, errors and omissions	Purchased commercial insurance	Deductible
b. Health	Self-funded and purchased insurance	Stop-loss
c. Workers Compensation - employee injuries	Purchased commercial insurance	None
d. Physical property loss and natural disasters	Purchased commercial insurance	Deductible

Management believes such coverage is sufficient to preclude any significant uninsured losses to the District.

11. EXCESS OF DISBURSEMENTS OVER APPROPRIATIONS IN INDIVIDUAL FUNDS

During the year ended August 31, 2007, the General Fund had disbursements in excess of appropriations totaling \$203,111.

**SCHOOL DISTRICT #17, MILLARD PUBLIC SCHOOLS
DOUGLAS COUNTY, NEBRASKA**

**BUDGETARY COMPARISON SCHEDULE - CASH BASIS -
GENERAL FUND**

FOR THE YEAR ENDED AUGUST 31, 2007

	Original & Final Budget	Actual	Variance with Budget Favorable (Unfavorable)
Budgetary fund balance, September 1, 2006		\$ 35,276,564	
Receipts:			
Local receipts:			
Local property taxes	\$ 78,213,722	75,269,539	\$ (2,944,183)
Motor vehicle taxes	10,000,000	9,684,452	(315,548)
Carline tax	7,000	6,319	(681)
Public power district sales tax	1,500,000	1,400,551	(99,449)
Tuition received from individuals - general education		190,218	190,218
Interest	200,000	848,968	648,968
Local fines and license fees	700,000	453,064	(246,936)
Gifts/donations		56,671	56,671
Community services activities		1,811	1,811
Other local receipts		10,220	10,220
	<u>90,620,722</u>	<u>87,921,813</u>	<u>(2,698,909)</u>
County receipts:			
County fines and license fees	<u>1,200,000</u>	<u>1,023,491</u>	<u>(176,509)</u>
State receipts:			
State aid	49,767,642	49,767,642	
Special education programs	8,500,000	9,810,432	1,310,432
Special education transportation	1,300,000	1,323,508	23,508
Pro rata motor vehicle		235,451	235,451
Homestead exemption		756,463	756,463
High ability leaders		154,889	154,889
State apportionment	1,800,000	2,893,707	1,093,707
Textbook loan		19,950	19,950
Other state receipts	<u>800,000</u>	<u>11,750</u>	<u>(788,250)</u>
	<u>62,167,642</u>	<u>64,973,792</u>	<u>2,806,150</u>
Federal receipts:			
Title I	800,000	613,165	(186,835)
Special education - grants to states	2,675,000	1,336,808	(1,338,192)
Special education - additional funds	2,500,000	2,574,875	74,875
MEDICAID in public schools	175,000	268,291	93,291
Goals 2002		100,000	100,000
Federal vocational and applied technology education	175,000	124,955	(50,045)
No child left behind	700,000	489,188	(210,812)
Innovation education program strategies			
Other categorical		413,315	413,315
Other federal receipts		1,267,269	1,267,269
	<u>7,025,000</u>	<u>7,187,866</u>	<u>162,866</u>

**SCHOOL DISTRICT #17, MILLARD PUBLIC SCHOOLS
DOUGLAS COUNTY, NEBRASKA**

**BUDGETARY COMPARISON SCHEDULE - CASH BASIS -
GENERAL FUND, CONTINUED**

FOR THE YEAR ENDED AUGUST 31, 2007

	Original & Final Budget	Actual	Variance with Budget Favorable (Unfavorable)
Receipts (continued):			
Non-revenue receipts:			
Sale of property		\$ 48,859	\$ 48,859
Other		<u>37,232</u>	<u>37,232</u>
Total receipts	<u>\$ 161,013,364</u>	<u>161,193,053</u>	<u>179,689</u>
Disbursements:			
Non-special education	83,528,812	83,315,301	213,511
Special education programs	17,301,572	18,092,141	(790,569)
Support services - pupils	10,255,597	10,195,527	60,070
Support services - staff	5,999,241	5,578,482	420,760
Board of education	2,080,299	2,019,727	60,572
Executive administration services	2,670,728	2,776,592	(105,864)
Office of the principal	9,503,268	9,424,340	78,928
General administration - business services	3,730,266	4,296,061	(565,795)
Vehicle acquisition and maintenance	182,000	218,163	(36,163)
Support services - maintenance and operation of building and site	19,659,833	19,211,664	448,169
Support services - regular pupil transportation	1,208,114	1,232,354	(24,240)
Support services - school age special education transportation	2,729,141	2,732,027	(2,886)
Community services	9,300	11,849	(2,549)
State categorical programs	90,000	106,263	(16,263)
Federal programs and other categorical aid	4,577,048	4,529,475	47,573
Summer school	12,594	108,437	(95,843)
Other	<u>556,642</u>	<u>449,164</u>	<u>107,478</u>
Total disbursements	<u>164,094,455</u>	<u>164,297,566</u>	<u>(203,111)</u>
Excess (deficiency) of receipts over disbursements	<u>\$ (3,081,091)</u>	<u>(3,104,513)</u>	<u>\$ (23,422)</u>
Budgetary fund balance, August 31, 2007		<u>\$ 32,172,051</u>	

**SCHOOL DISTRICT #17, MILLARD PUBLIC SCHOOLS
DOUGLAS COUNTY, NEBRASKA**

**BUDGETARY COMPARISON SCHEDULE - CASH BASIS -
SPECIAL BUILDING FUND**

FOR THE YEAR ENDED AUGUST 31, 2007

	Original Budget	Actual	Variance with Budget Favorable (Unfavorable)
Budgetary fund balance, September 1, 2006		\$ 63,488,151	
Receipts:			
Local receipts:			
Local property taxes	\$ 6,930,693	6,525,374	\$ (405,319)
Carline taxes		136	136
Public Power District sales tax		125,657	125,657
Interest		2,905,830	2,905,830
Other local receipts		339,107	339,107
State reimbursement:			
Homestead exemptions		67,286	67,286
		18,969	18,969
Non-revenue receipts		1,186	1,186
Total receipts	6,930,693	9,983,545	3,052,852
Disbursements:			
Purchased services		2,995,647	(2,995,647)
Capital outlays		3,436,700	(3,436,700)
Lease payments		883,175	(883,175)
Building, acquisition and improvement	64,845,455	22,563,141	42,282,314
Other		631,367	(631,367)
Total disbursements	64,845,455	30,510,030	34,335,425
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	\$ (57,914,762)	(20,526,485)	\$ 37,388,277
Budgetary fund balance, August 31, 2007		\$ 42,961,666	

**SCHOOL DISTRICT #17, MILLARD PUBLIC SCHOOLS
DOUGLAS COUNTY, NEBRASKA**

**BUDGETARY COMPARISON SCHEDULE - CASH BASIS -
SCHOOL LUNCH FUND**

FOR THE YEAR ENDED AUGUST 31, 2007

	Original & Final Budget	Actual	Variance with Budget Favorable (Unfavorable)
Budgetary fund balance, September 1, 2006		\$ 730,384	
Receipts:			
Local receipts:			
Sale of lunches/milk	\$ 8,500,000	7,090,559	\$ (1,409,441)
Interest	15,000	24,731	9,731
Other	201,290	711	(200,579)
State reimbursement	80,000	37,025	(42,975)
Federal reimbursement	<u>1,150,000</u>	<u>1,381,421</u>	<u>231,421</u>
Total receipts	<u>9,946,290</u>	<u>8,534,447</u>	<u>(1,411,843)</u>
Disbursements:			
Food		(11,118)	11,118
Salaries and benefits	4,300,000	3,395,063	904,937
Supplies and materials	800,000	68,692	731,308
Other		97,247	(97,247)
Contracted services	4,800,000	4,387,074	412,926
Capital outlays	100,000	2,885	97,115
Operational disbursements to the Activities fund	<u> </u>	<u>436,593</u>	<u>(436,593)</u>
Total disbursements	<u>10,000,000</u>	<u>8,376,436</u>	<u>1,623,564</u>
Excess (deficiency) of receipts over disbursements	<u>\$ (53,710)</u>	<u>158,011</u>	<u>\$ 211,721</u>
Budgetary fund balance, August 31, 2007		<u>\$ 888,395</u>	

**SCHOOL DISTRICT #17, MILLARD PUBLIC SCHOOLS
DOUGLAS COUNTY, NEBRASKA**

**BUDGETARY COMPARISON SCHEDULE - CASH BASIS -
EMPLOYEE BENEFIT FUND**

FOR THE YEAR ENDED AUGUST 31, 2007

	Original & Final Budget	Actual	Variance with Budget Favorable (Unfavorable)
Budgetary fund balance, September 1, 2006		\$ 10,092,487	
Receipts:			
Local receipts:			
Interest income	\$ 200,000	260,170	\$ 60,170
Operational transfers from the General fund	<u>15,300,000</u>	<u>17,175,123</u>	<u>1,875,123</u>
Total receipts	<u>15,500,000</u>	<u>17,435,293</u>	<u>1,935,293</u>
Disbursements:			
Purchased services	<u>25,594,574</u>	<u>15,419,052</u>	<u>10,175,522</u>
Total disbursements	<u>25,594,574</u>	<u>15,419,052</u>	<u>10,175,522</u>
Excess (deficiency) of receipts over disbursements	<u>\$ (10,094,574)</u>	<u>2,016,241</u>	<u>\$ 12,110,815</u>
Budgetary fund balance, August 31, 2007		<u>\$ 12,108,728</u>	

**SCHOOL DISTRICT #17, MILLARD PUBLIC SCHOOLS
DOUGLAS COUNTY, NEBRASKA**

**BUDGETARY COMPARISON SCHEDULE - CASH BASIS -
DEPRECIATION FUND**

FOR THE YEAR ENDED AUGUST 31, 2007

	Original & Final Budget	Actual	Variance with Budget Favorable (Unfavorable)
Budgetary fund balance, September 1, 2006		\$ 4,660,409	
Receipts:			
Local receipts:			
Interest income		108,676	108,676
Receipts:			
Operational transfers from the General fund		<u>130,101</u>	<u>130,101</u>
Total receipts		<u>238,777</u>	<u>238,777</u>
Disbursements:			
Capital outlays:			
Furniture and equipment	\$ 2,610,308	838,987	1,771,321
Site acquisition and improvement		<u>35,084</u>	<u>(35,084)</u>
Total disbursements	<u>2,610,308</u>	<u>874,071</u>	<u>1,736,237</u>
Excess (deficiency) of receipts over disbursements	<u>\$ (2,610,308)</u>	<u>(635,294)</u>	<u>\$ 1,975,014</u>
Budgetary fund balance, August 31, 2007		<u>\$ 4,025,115</u>	

**SCHOOL DISTRICT #77, MILLARD PUBLIC SCHOOLS
DOUGLAS COUNTY, NEBRASKA**

**BUDGETARY COMPARISON SCHEDULE - CASH BASIS -
BOND FUND**

FOR THE YEAR ENDED AUGUST 31, 2007

	Original & Final Budget	Actual	Variance with Budget Favorable (Unfavorable)
Budgetary fund balance, September 1, 2006		\$ 11,728,872	
Receipts:			
Local receipts:			
Local property taxes	\$ 17,227,723	16,533,530	\$ (694,193)
Carline taxes		1,381	1,381
Public Power District	350,000	311,375	(38,625)
Interest	250,000	304,709	54,709
Other	513,909		(513,909)
State reimbursement:			
Homestead exemptions		167,302	167,302
Pro rata motor vehicle		50,774	50,774
Total receipts	<u>18,341,632</u>	<u>17,369,071</u>	<u>(972,561)</u>
Disbursements:			
Redemption of principal	10,830,000	10,830,000	
Debt service interest	<u>6,410,413</u>	<u>6,410,413</u>	
Total disbursements	<u>17,240,413</u>	<u>17,240,413</u>	
Excess (deficiency) of receipts over disbursements	<u>\$ 1,101,219</u>	<u>128,658</u>	<u>\$ (972,561)</u>
Budgetary fund balance, August 31, 2007		<u>\$ 11,857,530</u>	

**SCHOOL DISTRICT #17 – MILLARD PUBLIC SCHOOLS
DOUGLAS COUNTY, NEBRASKA**

**NOTE TO REQUIRED SUPPLEMENTARY INFORMATION -
BUDGETARY COMPARISON SCHEDULES
FOR THE YEAR ENDED AUGUST 31, 2007**

1. BUDGETARY ACCOUNTING

The District prepares its budget for the Governmental Funds on the cash basis of accounting. This basis is consistent with the basis of accounting used in presenting the basic financial statements. Under this method of accounting, all unexpended appropriations lapse at the end of the budget year.

The term "Budgetary Fund Balance" used in these supplementary schedules is synonymous with the terms "Fund Balance – Cash Basis" used in the basic financial statements.

**SCHOOL DISTRICT #17, MILLARD PUBLIC SCHOOLS
DOUGLAS COUNTY, NEBRASKA**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED AUGUST 31, 2007

<u>Federal Grantor/Pass Through Entity/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF AGRICULTURE:		
Passed through Nebraska Department of Education		
National School Lunch Program	10.555	\$ 1,381,421
Passed through the Nebraska Department of Social Services		
Food Distribution Program	10.550	<u>586,148</u>
Total U.S. Department of Agriculture		<u>1,967,569</u>
U.S. DEPARTMENT OF EDUCATION:		
Teaching American History	84.215X	359,443
Passed through Nebraska Department of Education		
Title I of the Elementary and Secondary Education Act	84.010	751,582
Title II, Part A - No Child Left Behind	84.367	398,372
Title III - No Child Left Behind	84.365	41,002
Title IV - No Child Left Behind	84.168	38,276
Title V - No Child Left Behind	84.298	39,176
Individuals with Disabilities Education Act	84.027	5,688,137
Vocational Education - Basis Grant	84.048	121,804
Innovation Education Program Strategies Interagency Planning Grant	84.181	5,446
Tech Literacy	84.318	12,413
Goals 2000 - State and Local Education Systemic Improvement Grants	84.369	85,148
ARMS		116,348
NELL		9,687
Side by Side Stories		<u>3,062</u>
Total U.S. Department of Education		<u>7,669,895</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:		
Passed through Nebraska Department of Health and Human Services System		
MEDICAID in Public Schools	93.778	<u>268,291</u>
TOTAL		<u>\$ 9,905,755</u>

See Note to the Schedule of Expenditures of Federal Awards.

**SCHOOL DISTRICT #17 – MILLARD PUBLIC SCHOOLS
DOUGLAS COUNTY, NEBRASKA**

**NOTE TO SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2007**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation – The accompanying Supplementary Schedule of Expenditures of Federal Awards has been prepared on a cash basis of accounting with the exception of commodities received under the food distribution of \$586,148. Under this method, expenditures are recognized when disbursements are made. Some programs are funded jointly by District appropriations and Federal funds.

Expenditure Presentation – Expenditures of Federal funds for the National School Lunch Program, Medicaid in Public Schools and Food Distribution are not separately identifiable in the accounting records of the District. These programs are jointly funded with District monies and expenditures and are not required to be accumulated in the accounting records by funding source. For report purposes, the amount of Federal expenditures is shown equal to the amount of Federal funds received.

Program Activity – Various reimbursement procedures are used for Federal awards received by the District. Additionally, most Federal grant periods ended June 30, while the District's year-end is August 31. Consequently, timing differences between expenditures and program reimbursement can exist at the beginning and end of the year. These timing differences will be resolved over the term of the grants.

October 29, 2007

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

Board of Education
School District #17 - Millard Public Schools
Douglas County, Nebraska

We have audited the financial statements of the governmental activities, each fund and the discretely presented component unit of School District #17, Millard Public Schools, Douglas County, Nebraska (the "District") as of and for the year ended August 31, 2007 which collectively comprise the District's basic financial statements and have issued our report thereon dated October 29, 2007. Our report disclosed that, as described in Note 1 to the financial statements, the District prepares its financial statements on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. A significant deficiency is described in the accompanying schedule of findings and questioned costs as item 2007-1.

A material weakness is a significant deficiency or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above are a material weakness.

Compliance and Other Matters

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

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Education, management, officials of the Nebraska Department of Education, the Nebraska Auditor of Public Accounts, federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.



ORIZON CPAs LLC

October 29, 2007

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

Board of Education
School District #17 - Millard Public Schools
Douglas County, Nebraska

Compliance

We have audited the compliance of School District #17 – Millard Public Schools, Douglas County, Nebraska (the "District") with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended August 31, 2007. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended August 31, 2007.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly we do not express an opinion on the effectiveness of the District's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

Orizon CPAs LLC
ORIZON CPAs LLC

**SCHOOL DISTRICT #17 – MILLARD PUBLIC SCHOOLS
DOUGLAS COUNTY, NEBRASKA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED AUGUST 31, 2007**

A. SUMMARY OF AUDITOR'S RESULTS

1. The independent auditor's report on the basic financial statements expressed an unqualified opinion.
2. One significant deficiency was found in internal control over financial reporting.
3. No instance of noncompliance considered material to the financial statements was disclosed by the audit.
4. No material weaknesses in internal control over compliance with requirements applicable to major federal award programs were reported.
5. The independent auditor's report on compliance with requirements applicable to major federal award programs expressed an unqualified opinion.
6. The audit disclosed no findings required to be reported by OMB Circular A-133.
7. The major programs for the District for the year ended August 31, 2007 are as follows:
 - Title I – CFDA # 84.010
 - IDEA Program – CFDA # 84.027
8. A threshold of \$300,000 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.
9. The District did qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

B. FINANCIAL STATEMENT FINDINGS

2007-1 SIGNIFICANT DEFICIENCY

We identified misstatements in the financial statements during the audit that were not initially identified by the District's internal control. These misstatements were primarily related to untimely reconciliations of certain account balances. Management subsequently corrected the misstatements.

Response: The District's management has made a change in personnel and shifted job responsibilities to address the significant deficiency noted above.

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None