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# ANNUAL FINANCIAL STATEMENTS AND ACCOMPANYING INDEPENDENT AUDITOR'S REPORTS

**AUGUST 31, 2008** 

# ANNUAL FINANCIAL STATEMENTS AND ACCOMPANYING INDEPENDENT AUDITOR'S REPORTS FOR THE YEAR ENDED AUGUST 31, 2008

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# ANNUAL FINANCIAL STATEMENTS AND ACCOMPANYING INDEPENDENT AUDITOR'S REPORTS FOR THE YEAR ENDED AUGUST 31, 2008

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November 3, 2008

#### 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, 2008 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, 2008 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 November 3, 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 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 States, 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.

Origon CPAs LLC **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

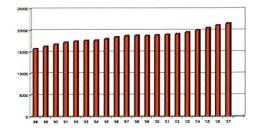
#### A. Schools

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 2007 was 21,498 (see, Chart 1).

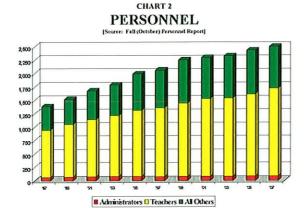
## CHART 1 STUDENT ENROLLMENT [Source: Fall Freediment Report - Last Friday in September]



#### 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 FY08 was about 4.1%.

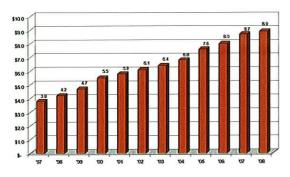


#### D. Valuation

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%. However, the growth slowed in 2008 to only 2.7%.





#### 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 FYE08 it was \$1.21.

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.

#### 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.

In FYE08 the spending lid provided 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 FYE08 (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 FYE08 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 FYE08 was about \$1.11.

In FYE08, 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 \$14.8 million as of April, 2008. This amount may be budgeted in future years if the property values in the District permit a levy sufficient to fund this unused authority.

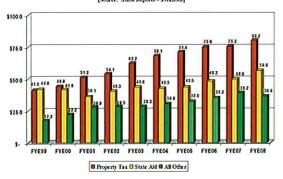
#### IV. FUNDS

#### 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.

# CHART 5 REVENUE SOURCES [Source: Audit Reports - SMEllion]

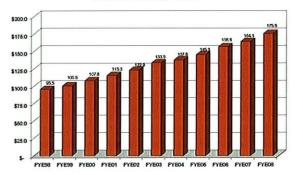


The general fund is funded by three major categories of revenue – property taxes, state

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 Bodget - SMEllices]



The total increase in the FYE08 budget of expenditures was about 7.0% over the preceding year (see, Chart 6).

In FYE08, the budget was directed primarily towards the continuation of existing programs and services.

The FYE08 budget provided for a 4.1% 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.

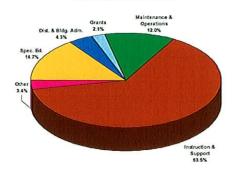
Of the services provided by the District, the largest portion of the budget was related to classroom instruction and support. Special Education (including transportation for special education students) was second (see, Chart 7).

Since the District's cash reserve was somewhat higher than needed, the FYE08 budget was constructed to reduce it. At the end of FYE08, the cash reserve was down \$0.7 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 FYE08 represented about 18% of the budget of expenditures.

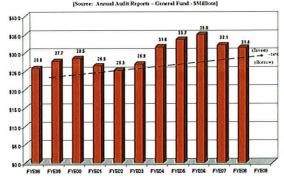
### EXPENSE CATEGORIES



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.

#### CASH RESERVE



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

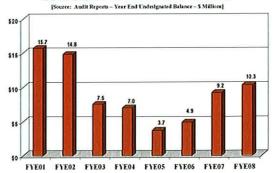
Nebraska Department of Education Rule 92 NAC 2 §003.03H provides in relevant part as follows:

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 FYE08, the District designated 10.0¢ 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.

CHART9
SPECIAL BUILDING FUND



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 FYE08 ending balance in the Special Building Fund was \$35.4 million. This amount included the proceeds from the recently issued bonds.

Of this \$35.4 million ending balance, only \$10.3 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.

Chart 9 does NOT reflect the 7-year lease purchase of the Excel building. This lease purchase will require \$5.2 million principal and interest payments in the future.

#### 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 FYE08).

At the end of FYE08, the fund balance in the food service fund was down \$666,531 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).

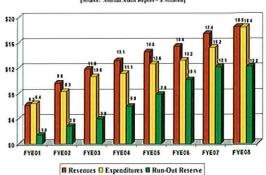
In order to fund its health insurance plan for employees, the District budgets for health insurance premium payments in its general fund. These "payments" for health insurance premiums are transferred monthly into the Employee Benefit Fund. As medical claims are filed, the third party administrator processes 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 FYE08 was 67% (see Chart 10).

Due to the large reserve, the District "froze" its "premium rate" being paid to the Employee Benefit Fund in FYE08 and will do the same in FYE09.

CHART 10
EMPLOYEE BENEFIT FUND
[Source: Annual Audit Report - 5 Millions]



#### E. Depreciation Fund

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

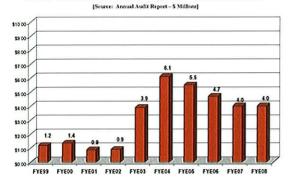
A Depreciation Fund may be established by a school district in order to facilitate the eventual purchase of a costly capital outlay by reserving such monies from the General Fund.

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 FYE08, the balance in the depreciation fund was \$4.0 million (see, Chart 11).

#### DEPRECIATION FUND BALANCE



#### 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 FYE08, 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 \$162.1 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 for Moody's and improved to AA for Standard & Poor's (previous rating was AA-).

#### 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 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 3<sup>rd</sup> day of November, 2008.

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

-10-

#### STATEMENT OF NET ASSETS - CASH BASIS

#### **AUGUST 31, 2008**

#### **ASSETS**

	Governmental Activities	Component Unit
Cash and cash equivalents Investments	\$ 8,748,512 89,941,918	\$ 1,078,885
TOTAL ASSETS	\$ 98,690,430	\$ 1,078,885
NET ASSETS		
Restricted: Special building School lunch Debt service Unrestricted:	\$ 35,517,986 221,864 13,594,822	\$ 1,065,383
Board designated: Employee benefit Depreciation Undesignated	12,193,230 4,017,733 33,144,795	13,502
TOTAL NET ASSETS	\$ 98,690,430	\$ 1,078,885

#### STATEMENT OF ACTIVITIES - CASH BASIS

		Program Ca	sh Receipts Operating	Net (Disbursemer Changes in	nts) Receipts and Net Assets
	Cash Disbursements	Charges for Services	Grants and Contributions	School District	Component Unit
Governmental activities: Instructional services Support services Food services Building maintenance and improvements Debt service and lease payments Other	\$ (98,480,212) (53,497,979) (8,907,430) (45,355,812) (14,436,498) (573,272) (221,251,203)	\$ 12,153 7,046,986 7,059,139	\$ 15,711,886 1,360,284 1,605,367	\$ (82,756,173) (52,137,695) (255,077) (45,355,812) (14,436,498) (573,272) (195,514,527)	
Component unit activities: Suburban School Buildings Corporation	(1,053,108)	1,002,346			<u>\$ (50,762)</u>
Net program (disbursements) receipts	<u>\$ (222,304,311</u> )	\$ 8,061,485	<u>\$ 18,677,537</u>	(195,514,527)	(50,762)
General receipts: Taxes collected County receipts State receipts				117,736,963 1,184,123 60,726,057 1,785,884	
Federal receipts Investment earnings Other Total general receipts				2,822,074 5,936,371 190,191,472	39,385
Increase (decrease) in net assets				(5,323,055)	(11,377)
Net assets - beginning of year				104,013,485	1,090,262
Net assets - end of year				\$ 98,690,430	\$ 1,078,885

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

# AS OF AND FOR THE YEAR ENDED AUGUST 31, 2008

			Special Revenue Funds	enue Funds		Service	Total
	General Fund	Special Building	School	Employee Benefit	Depreciation	Fund Bond	Governmental Funds
	\$ 95,146,677	\$ 8,793,121	\$ 607			\$ 14,639,866	\$ 118,580,271
	1,184,123 72,114,550 7,170,614	111,881	40,666			187,066	72,454,163 8,735,315
	527,816 44,43 <u>6</u>	1,519,978	7,046,379	\$ 347,095	\$ 117,628	293,750	2,822,074
	176,188,216	11,578,040	8,668,160	347,095	117,628	15,120,682	212,019,821
	93,230,754						93,230,754 62,164,143
			3,664,711				3,664,711
			48,841	3			48,841
		2,682,518	5,063,334	18,444,495			25,190,347
		3 438 321	(6,203)		1,577,201		5,017,095
		1,053,108					1,053,108
Building and site acquisition and improvement		15,551,930			266,570		15,818,500
		551,343	135,174				686,517
						6,860,000	6,860,000
	155,394,897	23,277,220	8,907,430	18,444,495	1,843,771	13,383,390	221,251,203
	20,793,319	(11,699,180)	(239,270)	(18.097.400)	(1.726,143)	1,737,292	(9,231,382)
OTHER FINANCING SOURCES (USES) Proceeds from issuing certificates of participation		4,255,500		000	127 817 1		4,255,500
ters in fers out TOTAL OTHER FINANCING SOURCES (USES)	80,088 (19,900,663) (19,820,575)	4,255,500	(427.261)	18,181,902	1,718,761		(20,327,924)
EXCESS (DEFICIENCY) OF RECEIPTS AND OTHER FINANCING SOURCES OVER DISBURSEMENTS AND OTHER FINANCING	27.2 7.24	77 443 6801	(1666 531)	84.502	(7.382)	1,737,292	(5,323,055)
	32,172,051	42,961,666	888,395	12,108,728	4,025,115	11,857,530	104,013,485
	\$ 33,144,795	\$ 35,517,986	\$ 221,864	\$ 12,193,230	\$ 4,017,733	\$ 13,594,822	\$ 98,690,430
	\$ 6,782,182 26,362,613	\$ 35,517,986	\$ 221,864	\$ 1,338,741 10,854,489	\$ 4,017.733	\$ 405,725	\$ 8,748,512 89,941,918
TOTAL FUND BALANCE - CASH BASIS - AUGUST 31, 2008	\$ 33,144,795	\$ 35,517,986	\$ 221,864	\$ 12,193,230	\$ 4.017,733	\$ 13,594,822	\$ 98,690,430

See Notes to the Basic Financial Statements.

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

#### AS OF AND FOR THE YEAR ENDED AUGUST 31, 2008

Activities Fund		eginning et Assets	B	teceipts	Dist	oursements	I	ransfers_	Ending et Assets
ADMINISTRATIVE OFFICE	\$	370,451	\$	393,718	\$	220,142	\$	1,630	\$ 545,657
HIGH SCHOOLS: North South West		802,853 580,380 560,551		837,262 700,037 903,606		918,244 912,464 992,615		74,828 111,671 112,201	796,699 479,624 583,743
MIDDLE SCHOOLS: Andersen Beadle Central Kiewit North Russell		85,173 22,184 47,238 253,198 44,868 57,550		92,291 46,877 94,188 113,481 71,299 114,081		95,531 56,005 99,041 88,214 58,340 122,869		13,226 7,240 12,750 10,021 9,321 9,372	95,159 20,296 55,135 288,486 67,148 58,134
ELEMENTARY SCHOOLS: Abbott Ackerman Aldrich Black Elk Bryan Cather Cody Cottonwood Disney Ezra Millard Harvey Oaks Hitchcock Holling Heights Montclair Morton Neihardt Norris		34,838 18,247 16,101 20,921 7,556 19,898 16,825 16,805 12,630 6,008 17,041 16,745 18,282 11,092 14,396 18,428 21,324		22,496 47,356 18,404 58,466 19,345 30,561 18,357 17,538 13,198 17,590 14,139 11,894 11,664 40,829 26,399 22,365 13,979 41,668		22,988 48,062 7,562 29,170 21,266 30,925 19,385 18,488 17,832 16,070 11,183 8,406 10,960 36,506 24,302 19,432 15,672 23,830		47 474 (1,610) (1,921) 237 117 (4,892) 136 484 (678) (3,126) 248 427 (1,461) 231 131 222	34,393 18,015 25,333 48,296 5,872 19,651 10,905 15,991 8,480 6,850 16,871 20,481 19,413 13,954 16,724 21,492 19,853 17,838
Reagan Reeder Rockwell Rohwer Sandoz Wheeler Willowdale		9,405 31,229 18,404 9,515 14,481 28,223		12,814 24,522 35,947 14,833 24,655 9,868		13,008 24,598 27,579 15,662 35,668 11,318		289 60 (4,708) 132 (1,082) 458	9,500 31,213 22,064 8,818 2,386 27,231
MILLARD LEARNING CENTER MSHS BUTTON FACTORY ECHO HILLS SALES MNHS LIFE SKILLS  Total Activities Fund	_ s	2,371 267 1,297 268 3,229,063	_ \$	2,047 25 947 3,939,254	s	4,992 193 1,152 35 4,079,709	s	347,173	\$ 124 99 1,092 233 3,435,781
Student Fee Fund									
ALL SCHOOLS	\$	77,200	\$	1,210,873	<u>\$</u>	1,138,375			\$ 149,698
NET ASSETS Cash and cash equivalents Investments TOTAL NET ASSETS - CASH BASIS HELD IN TRUST									\$ 2,725,112 860,367 3,585,479
TOTAL MET ASSETS - CASH BASIS HELD IN TROST									

#### NOTES TO BASIC FINANCIAL STATEMENTS

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Organization

School District #17 – Millard Public Schools, Douglas County, Nebraska's (the "District") is a tax-exempt political subdivision and a Class 3 school district of the State of Nebraska.

#### 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.

#### 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

<u>General Fund</u> – 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.

<u>Special Revenue Fund</u> – 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.

<u>Debt Service Fund</u> – 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

<u>Activities Fund</u> – 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.

#### 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.

#### **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.

#### 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.

Interfund transfers, the 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.
- 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, 2008 was \$1.209990 per \$100 of assessed valuation.

#### NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED

#### 3. DEPOSITS AND INVESTMENTS

Nebraska Statutes §79-408, §79-1042 and §79-1043 provide 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.

#### Deposits

At August 31, 2008, the carrying amount of the District's deposits was \$11,600,493 and the bank balance was \$13,209,603.

#### **Investments**

Investments of \$77,015,268 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 \$12,827,434 consist principally of money market funds and debt securities of U.S. Government Agencies. Included in this investment amount are cash equivalents totaling \$405,725.

At August 31, 2008, the District's activities fund also had \$546,739 of certificates of deposit, which have been included with bank deposits above.

#### Risks

The District attempts to mitigate the following types of deposit and investment risks through compliance with the State Statutes referred to above. The three types of deposit and investment risks are the following:

- <u>Custodial Credit Risk</u> for deposits and investments, custodial credit risk is the risk that
  in the event of the failure of a bank or other counterparty, the School District will not be
  able to recover the value of its deposits or investments or collateral securities in the
  possession of a third party.
- <u>Credit Risk</u> for deposits and investments, credit risk is the risk that a bank or other counterparty defaults on its principal and/or interest payments owed to the School District.
- Interest Rate Risk for deposits and investments, interest rate risk is the risk that the
  value of deposits and investments will decrease as a result of a rise in interest rates.

The bank balances of the District's deposits are insured through FDIC coverage or collateral held by the District's agent in the District's name. However, two accounts exceeded the normal FDIC coverage and/or collateral. The accounts at First National Bank exceeded their coverage by \$2,587,797. The accounts at Omaha State Bank exceeded their coverage by \$208,187.

#### 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, 2008. The monies were transferred to the District subsequent to August 31 and are not included as receipts or cash balances in the financial statements:

	Sarpy County	Douglas County
General Fund	\$781,949	\$974,785
Debt Service Fund	\$105,137	\$835,645
Special Building Fund	\$ 65,657	\$521,459

#### 5. NEBRASKA SCHOOL EMPLOYEES RETIREMENT SYSTEM

<u>Plan Description</u> – 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, 2008 was \$107,855,353. The total payroll for all School District employees for the year ended August 31, 2008 was \$113,803,780.

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.

<u>Funding Policy</u> - 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, 2008 were 7.28% of covered payroll. Actual employer and employee contributions made for the year ended August 31, 2008 were \$7,930,388 (7.35% of covered payroll) and \$7,851,870 (7.28% of covered payroll), respectively.

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.

#### NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED

#### 6. COMMITMENTS AND CONTINGENCIES

The commitments of the District mainly consist of bonds payable, lease commitments, construction contracts, and self-insurance.

#### Bonds Payable

The following is a summary of general obligation transactions of the District for the year ended August 31, 2008:

Balance, August 31, 2007	\$ 164,645,000
Additions: New obligations	4,265,000
Deductions: Payment of principal	(6,860,000)
Balance, August 31, 2008	<u>\$ 162,050,000</u>

The following is the bonded indebtedness of the District as of August 31, 2008:

Issue Date	Interest Rate	<u>Amount</u>	Final Maturity Year
July 1, 1999 November 14, 2002 April 23, 2003 March 1, 2004 May 15, 2005 June 15, 2006 July 2, 2008	4.70% to 4.75% 3.63% to 4.50% 2.00% to 4.25% 2.00% to 3.50% 4.00% to 4.50% 4.50% to 4.63% 4.00%	\$ 3,960,000 26,995,000 22,755,000 26,075,000 30,000,000 48,000,000 4,265,000	2017 2017 2019 2016 2025 2025 2015
TOTAL		<u>\$162,050,000</u>	

Aggregate principal and interest payments applicable to the District's bonds subsequent to August 31, 2008 are as follows:

t 31, 2008 are as follows:	<u>Principal</u>	Interest	<u>Total</u>
2009	\$ 7,665,000	\$ 6,478,345	\$ 14,143,345
2010	7,460,000	6,279,271	13,739,271
2011	7,690,000	6,034,799	13,724,799
2012	8,965,000	5,764,655	14,729,655
2013	9,260,000	5,444,880	14,704,880
2014-2018	46,410,000	21,915,225	68,325,225
2019-2023	50,860,000	12,340,862	63,200,862
2024-2025	23,740,000	1,642,787	<u>25,382,787</u>
TOTAL	\$162,050,000	\$65,900,824	\$227,950,824
TOTAL	<u> </u>	<del>φου,υσο,υΣ 1</del>	<u> </u>

#### NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED

#### 6. COMMITMENTS AND CONTINGENCIES, CONTINUED

#### Special Building Fund Commitments

The District has approximately \$8,563,962 of commitments for the construction of new buildings, building additions, improvements and related building and site costs as of August 31, 2008 that will be paid from the proceeds of the June 15, 2006 bond issue.

#### Lease Commitment

The District has non-cancelable operating lease agreements for the following:

- Thirty vans used for transportation of students in special education programs expiring on various dates through July 2012.
- Vehicles used by the administration and maintenance. These leases expire on various dates through June 2011.
- Office and warehouse space to be utilized by the District's Technology Department with Connectivity Solutions Manufacturing expiring in 2009.
- Classroom space with Donovan Properties for classroom space. This lease expires in 2012.
- Several copiers used throughout the District expiring on various dates through September 2011.
- Elementary school with Suburban Schools Building Corporation ("SSBC"); 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 as follows:

	<u>Amount</u>
Fiscal Year End:	
2009	\$1,468,693
2010	1,417,827
2011	1,146,523
2012	50,799

The total paid for lease commitments for the year ended August 31, 2008 was \$1,489,664 of which \$1,053,108 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.

#### NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED

#### 6. COMMITMENTS AND CONTINGENCIES, CONTINUED

#### **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.

#### 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, 2008, the District estimates their liability under this plan at \$14,344,197 with the final obligations payable in fiscal year 2016.

#### Legislation

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) and LB 988 (2008), 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 (not to exceed 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.

#### NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED

#### 6. COMMITMENTS AND CONTINGENCIES, CONTINUED

#### Litigation

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 \$103,000.

#### 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:

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

Management believes such coverage is sufficient to preclude any significant uninsured losses to the District. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

#### 7. EXCESS OF DISBURSEMENTS OVER APPROPRIATIONS IN INDIVIDUAL FUNDS

During the year ended August 31, 2008, the Employee Benefit Fund had disbursements in excess of appropriations totaling \$444,495.

# BUDGETARY COMPARISON SCHEDULE - CASH BASIS - GENERAL FUND

Contember 1, 2007	Original & Final Budget	Actual \$ 32,172,051	Variance with Budget Favorable (Unfavorable)
Budgetary fund balance, September 1, 2007			
Receipts:			
Local receipts:	\$ 82,700,000	83,227,274	\$ 527,274
Local property taxes	9,500,000	9,637,767	137,767
Motor vehicle taxes	7,000	8,761	1,761
Carline tax	1,400,000	1,840,902	440,902
Public power district sales tax	1,100,000	12,153	12,153
Tuition received from individuals - general education	60,000	527,816	467,816
Interest Local fines and license fees	495,000	427,883	(67,117)
Gifts/donations		(10,056)	(10,056)
Community services activities		1,993	1,993
Other local receipts	345,000		(345,000)
Office local receipts	94,507,000	95,674,493	1,167,493
County receipts:	1,003,681	1,184,123	180,442
County fines and license fees	1,003,081	1,104,120	
State receipts:			
State aid	56,649,727	56,649,727	(406 204)
Special education programs	10,500,000	10,313,609	(186,391)
Special education transportation	1,400,000	1,360,284	(39,716) 179,887
Pro rata motor vehicle		179,887	899,583
Homestead exemption		899,583	153,607
High ability leaders	4 000 000	153,607 2,453,487	853,487
State apportionment	1,600,000	13,547	13,547
Textbook loan	920,000	90,819	(729,181)
Other state receipts	820,000		1,144,823
	70,969,727	72,114,550	1,144,023
Federal receipts:			(57.074)
Title I	500,000	442,629	(57,371)
Special education - grants to states	1,375,000	1,350,551	(24,449)
Special education - additional funds	2,500,000	2,762,070	262,070
MEDICAID in public schools	300,000	226,782	(73,218)
Goals 2002		99,935	99,935
Federal vocational and applied technology education	150,000	121,802	(28,198)
No child left behind	600,000	607,743	7,743
Other categorical	300,000	316,374	16,374
Other federal receipts	1,850,000	1,242,728	(607,272)
	7,575,000	7,170,614	(404,386)

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

	Original & Final Budget	Actual	Variance with Budget Favorable (Unfavorable)
Receipts (continued):			
Non-revenue receipts:		\$ 25,988	\$ 25,988
Sale of property		98,536	98,536
Other			-
Total receipts	\$ 174,055,408	176,268,304	2,212,896
Disbursements:		500 000	4 007 262
Non-special education	90,530,689	88,533,326	1,997,363 478,534
Special education programs	19,116,452	18,637,918	179,326
Support services - pupils	10,992,581	10,813,255	720,550
Support services - staff	7,232,103	6,511,554	223,957
Board of education	2,069,250	1,845,293 2,887,257	(218,736)
Executive administration services	2,668,521	10,016,713	97,653
Office of the principal	10,114,366	4,633,650	56,509
General administration - business services	4,690,158	288,761	180,613
Vehicle acquisition and maintenance	469,374	200,701	100,010
Support services - maintenance and operation of	17,112,580	20,999,168	(3,886,588)
building and site	1744 174	1,357,800	54,759
Support services - regular pupil transportation	1,412,559	1,337,000	01,100
Support services - school age special education	2,985,002	2,948,136	36,866
transportation	10,722	11,883	(1,161)
Community services	10,722	21,143	(21,143)
State categorical programs	5,317,314	4,971,874	345,440
Federal programs and other categorical aid	52,844	256,441	(203,597)
Summer school	780,894	561,389	219,505
Other			
Total disbursements	175,555,409	175,295,560	259,849
Excess (deficiency) of receipts over disbursements	<u>\$ (1,500,001)</u>	972,744	\$ 2,472,745
Budgetary fund balance, August 31, 2008		\$ 33,144,795	

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

		Original Budget	Actual	Variance with Budget Favorable (Unfavorable)
Budgetary fund balance, September 1, 2007			\$ 42,961,666	
Receipts: Local receipts: Local property taxes Carline taxes Public Power District sales tax Interest Other local receipts	\$	10,450,000	8,187,906 771 193,716 1,519,978 410,728	\$ (2,262,094) 771 193,716 1,519,978 410,728
State reimbursement: Homestead exemptions			94,155 17,726	94,155 17,726
Non-revenue receipts	_		5,408,560	5,408,560
Total receipts	_	10,450,000	15,833,540	5,383,540
Disbursements: Purchased services Capital outlays Lease payments Building, acquisition and improvement Other		40,090,122	2,682,518 3,438,321 1,053,108 15,551,930 551,343	(2,682,518) (3,438,321) (1,053,108) 24,538,192 (551,343)
Total disbursements	_	40,090,122	23,277,220	16,812,902
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	<u>\$</u>	(29,640,122)	(7,443,680)	\$ 22,196,442
Budgetary fund balance, August 31, 2008			\$ 35,517,986	

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

Budgetary fund balance, September 1, 2007	Original & Final Budget	Actual \$ 888,395	Variance with Budget Favorable (Unfavorable)
Receipts: Local receipts: Sale of lunches/milk Interest Other	\$ 9,500,000 20,000 654,512	7,046,379 15,807 607	\$ (2,453,621) (4,193) (653,905) (59,334)
State reimbursement Federal reimbursement	100,000 1,500,000	40,666 1,564,701	64,701
Total receipts	11,774,512	8,668,160	(3,106,352)
Disbursements: Food Salaries and benefits Supplies and materials Other Contracted services Capital outlays	5,300,000 1,000,000 5,500,000 200,000	(6,203) 3,664,711 48,841 135,174 5,063,334 1,573	6,203 1,635,289 951,159 (135,174) 436,666 198,427
Operational disbursements to the Activities fund		427,261	(427,261)
Total disbursements	12,000,000	9,334,691	2,665,309
Excess (deficiency) of receipts over disbursements	\$ (225,488)	(666,531)	\$ (441,043)
Budgetary fund balance, August 31, 2008		\$ 221,864	

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

	Original & Final Budget	Actual	Variance with Budget Favorable (Unfavorable)
Budgetary fund balance, September 1, 2007		\$ 12,108,728	
Receipts: Local receipts: Interest income	\$ 200,000	347,095	\$ 147,095
Operational transfers from the General fund	5,682,348	18,181,902	12,499,554
Total receipts	5,882,348	18,528,997	12,646,649
Disbursements: Purchased services	18,000,000	18,444,495	(444,495)
Total disbursements	18,000,000	18,444,495	(444,495)
Excess (deficiency) of receipts over disbursements	\$ (12,117,652)	84,502	\$ 12,202,154
Budgetary fund balance, August 31, 2008		\$ 12,193,230	

# BUDGETARY COMPARISON SCHEDULE - CASH BASIS - DEPRECIATION FUND

	Original & Final Budget	Actual	Variance with Budget Favorable (Unfavorable)
Budgetary fund balance, September 1, 2007		\$ 4,025,115	
Receipts: Local receipts: Interest income		117,628	117,628
Receipts: Operational transfers from the General fund		1,718,761 1,836,389	<u>1,718,761</u> 1,836,389
Total receipts  Disbursements: Capital outlays: Furniture and equipment Site acquisition and improvement	\$ 3,410,410	1,577,201 266,570	1,833,209 (266,570)
Total disbursements	3,410,410	1,843,771	1,566,639
Excess (deficiency) of receipts over disbursements	\$ (3,410,410)	(7,382)	\$ 3,403,028
Budgetary fund balance, August 31, 2008		\$ 4,017,733	

# BUDGETARY COMPARISON SCHEDULE - CASH BASIS - BOND FUND

	Original & Final Budget	Actual	Variance with Budget Favorable (Unfavorable)
Budgetary fund balance, September 1, 2007		\$ 11,857,530	
Receipts: Local receipts: Local property taxes Carline taxes Public Power District Interest	\$ 13,930,000 450,000 350,000	14,328,226 1,549 310,091 293,750	\$ 398,226 1,549 (139,909) (56,250)
State reimbursement: Homestead exemptions Pro rata motor vehicle		151,978 35,088	151,978 35,088
Total receipts	14,730,000	15,120,682	390,682
Disbursements: Redemption of principal Debt service interest	6,860,000 6,523,390	6,860,000 6,523,390	
Total disbursements	13,383,390	13,383,390	
Excess (deficiency) of receipts over disbursements	\$ 1,346,610	1,737,292	\$ 390,682
Budgetary fund balance, August 31, 2008		\$ 13,594,822	

#### NOTE TO REQUIRED SUPPLEMENTARY INFORMATION -BUDGETARY COMPARISON SCHEDULES FOR THE YEAR ENDED AUGUST 31, 2008

#### 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.

#### SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

	Federal CFDA Number	Expenditures
Federal Grantor/Pass Through Entity/ Program Title		
U.S. DEPARTMENT OF AGRICULTURE:  Passed through Nebraska Department of Education  National School Lunch Program	10.555	\$ 1,564,701
Passed through the Nebraska Department of Social Services Food Distribution Program	10.550	374,516
Total U.S. Department of Agriculture		1,939,217
U.S. DEPARTMENT OF EDUCATION: Teaching American History	84.215X	86,531
Passed through Nebraska Department of Education	84.010	909,504
Title I of the Elementary and Secondary Education Act	84.367	412,801
Title II, Part A - No Child Left Behind	84.318	12,172
NCLB - Title II, D	84.365	80,773
Title III - No Child Left Behind	84.168	125,843
Title IV - No Child Left Behind	84.298	47,695
Title V - No Child Left Behind	84.027	3,315,895
Individuals with Disabilities Education Act Innovation Education Program Strategies Interagency Planning Grant	84.181	18,655
Goals 2000 - State and Local Education Systemic Improvement Grants	84.369	108,649
	84.XXX	33,941
ARMS	84.XXX	7,294
NELL	84.XXX	3,064
Side by Side Stories Individuals with Disabilities Education Act Special Project	84.027	42,106
		5,204,924
Total U.S. Department of Education		
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES: Passed through Nebraska Department of Health and Human Services System		
MEDICAID in Public Schools	93.778	90,767
Medicaid Administrative Claim	93.778	136,015
TOTAL		\$ 7,370,923

#### NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED AUGUST 31, 2008

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

<u>Basis of Presentation</u> – 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 \$374,516. 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.

<u>Program Activity</u> – 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.



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November 3, 2008

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, 2008 which collectively comprise the District's basic financial statements and have issued our report thereon dated November 3, 2008. 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 in order to determine 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 internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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, record, process, or report financial data reliably in accordance with the cash basis of accounting 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 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 that is more than inconsequential 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 or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### 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 Employee Benefit Fund.

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** 

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November 3, 2008

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, 2008. 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, 2008.

#### 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.

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#### SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED AUGUST 31, 2008

#### A. SUMMARY OF AUDITOR'S RESULTS

- The independent auditor's report on the basic financial statements expressed an unqualified opinion.
- 2. No material weaknesses in internal control over financial reporting were reported.
- No instance of noncompliance considered material to the financial statements was disclosed by the audit.
- No material weaknesses in internal control over compliance with requirements applicable to major federal award programs were reported.
- 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, 2008 are as follows:
  - School Lunch CFDA # 10.555
  - Food Distribution CFDA # 10.550
- 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

None

#### C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None