

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

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

AUGUST 31, 2010

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

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FOR THE YEAR ENDED AUGUST 31, 2010**

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November 4, 2010

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, 2010 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 the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles 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, 2010 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 generally accepted accounting principles in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2010 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 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.


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 26 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

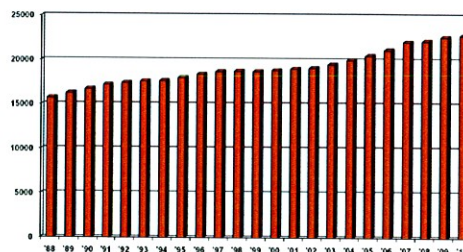
A. Schools

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 25 elementary schools (grades K-5). With the exception of two elementary schools, 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 was 9,267. The student enrollment as of September 23, 2010 was 22,755 (see, Chart 1).

CHART 1
PK-12 STUDENT ENROLLMENT
[Source: Fall Enrollment Report – Last Friday in September]



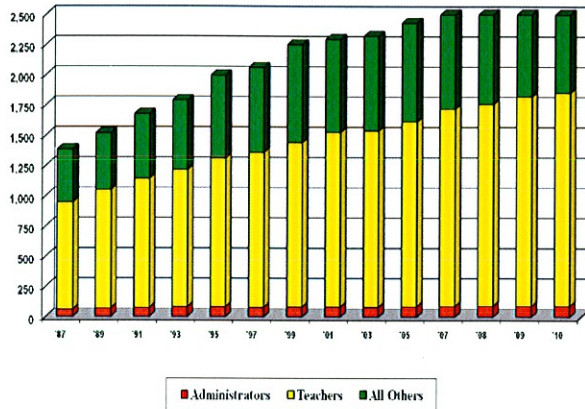
C. Personnel

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 FY10 was about 4.5%.

CHART 2
PERSONNEL

[Source: Fall (October) Personnel Report]



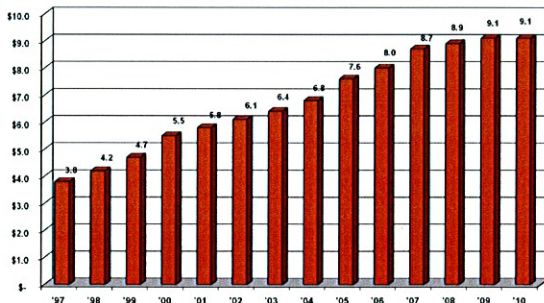
D. Valuation

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. In recent years, the highest value growth was in 2000 when the growth was 16.5%. The valuation growth, however, has begun to level out. In 2010, the growth was only 0.3%.

CHART 3
ASSESSED VALUE

[Source: August 20th County Assessor's Certifications - \$ Billions]



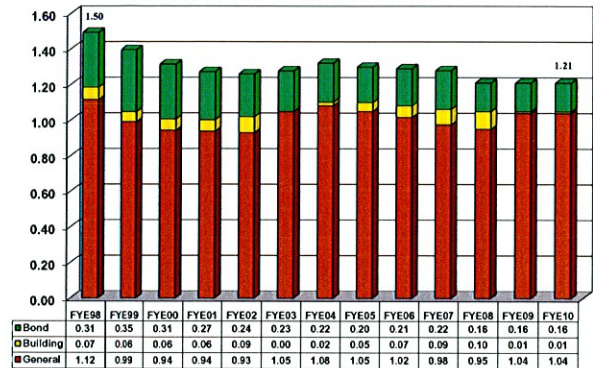
E. Tax Levy

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.

As property valuations in the District increased, the property tax levy trended downward despite the passage of an \$89 million bond issue in 1997 and a \$78 million bond issue in 2005. With the flattening of property values, the tax levy became flat as well. The levy for the past three years has remained at \$1.21 (see, Chart 4).

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.

When first introduced, the spending lid provided that district budgets could increase by a specific statutory percentage over the prior year (with some exclusions). Later, however, the legislature changed to calculations to permit an option whereby the lid was based upon "formula needs." This change gave the district significantly more spending authority. The District, however, did not increase its budgets to this higher limit.

In addition to the spending lid, the Nebraska legislature provided for a lid on the tax levies of school districts (and other political subdivisions). The statutory lid is \$1.05 per one hundred dollars of value in the District. There are some exclusions to this lid that increase the effective tax lid to about \$1.11 (including the levies for the general fund and the special building fund). The District, however, has opted to hold its tax levy (i.e., general fund plus building fund) at \$1.05.

In brief, during FYE10, the District operated under budgets and levies that were well within both the spending and levy lids.

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.

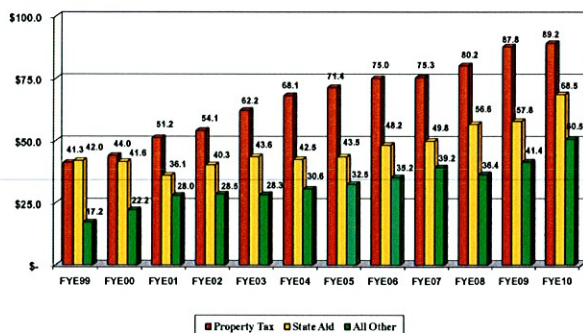
The general fund is funded by three major categories of revenue – property taxes, state aid, and other sources (i.e., grants, fines, vehicle licenses, state apportionment, etc.).

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.]

It should be noted that the District is now one of eleven schools in the Douglas and Sarpy County Learning Community. All schools in the Learning Community had a 95-cent general fund common levy that was collected uniformly throughout the two counties and distributed to the schools by way of a statutory formula. The formula was primarily driven by student enrollment. Under this new tax distribution arrangement, the District received about \$2.5 million dollars in revenue over the previous system of distribution.

CHART 5
REVENUE SOURCES

[Source: Audit Reports – \$Millions]

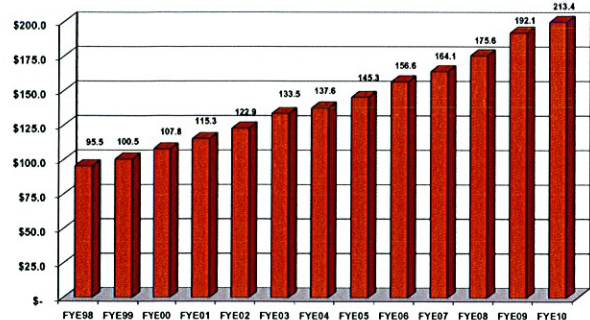


The total increase in the FYE10 budget of expenditures was about 11.3% over the preceding year (see, Chart 6). A significant part of this increase (over \$11 million) was related to federal funds received through the American Recovery and Reinvestment Act (ARRA).

Other than the ARRA funds and related expenditures, the FYE10 general fund budget was directed primarily towards the continuation of existing programs and services.

CHART 6
TOTAL EXPENDITURES

[Source: General Fund Budget – \$ Millions]



The FYE10 budget provided for a 4.5% 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 third (see, Chart 7).

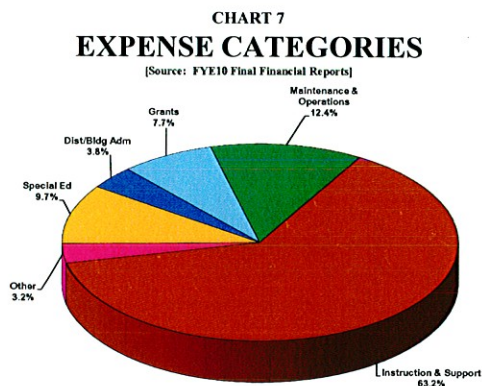
The FYE10 budget was constructed to increase the cash reserve. Due to a prior period adjustment and lower than expected spending, at the end of FYE10, the cash reserve was up \$6.6 million from the preceding year (see, Chart 8).

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

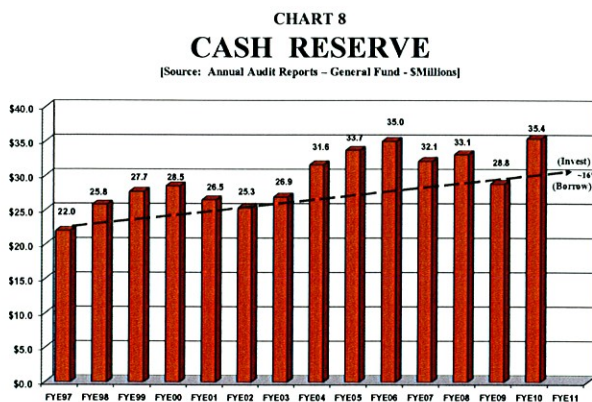
The cash reserve provides the District with monies to pay its obligations (e.g., payroll)

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., less than about 16%) the District has to temporarily borrow money to meet its cash flow obligations.



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.



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

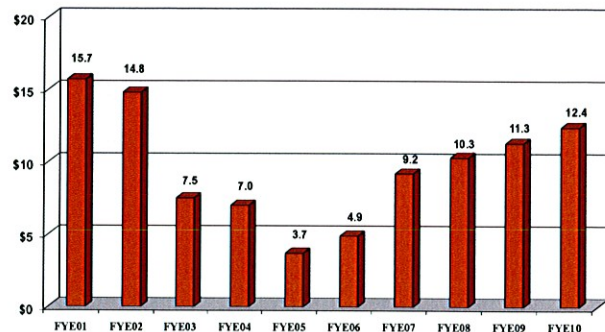
decides to acquire or improve sites and/or to erect, alter, or improve buildings.

As a member of the Learning Community, the District also had a 1-cent special building fund common levy collected in the two county area and divided among the schools based upon their student enrollments.

The proceeds from both the Learning Community common levy and the District individual levy were available for major capital replacement projects (e.g., replacing roofs, parking lots, HVAC equipment, etc.).

The special building fund also contains the proceeds from bond issuances.

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



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. All projects (except for some purchases of technology related items) related to these bond issuances have been completed.

The FYE10 ending balance in the Special Building Fund was \$22.2 million. This amount included the remaining proceeds (mainly interest on investments) from the bonds noted above.

Of this \$22.2 million ending balance, only \$12.4 million was not designated to existing obligations for capital projects, technology purchases, and existing leases (see, Chart 9).

The "existing leases" noted above included: (1) lease payments to Suburban Schools Building Corporation (SSBC) for the lease-purchase of

Reeder Elementary School, and (2) lease purchase payments related to the purchase and renovation of the Ron Witt Support Services Center. These future commitments total about \$1.7 million per year for the next six years.

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 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. Beginning in FYE09, the management of the program changed to Sodexo.

At the end of FYE10, the fund balance in the food service fund increased by \$129,844 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

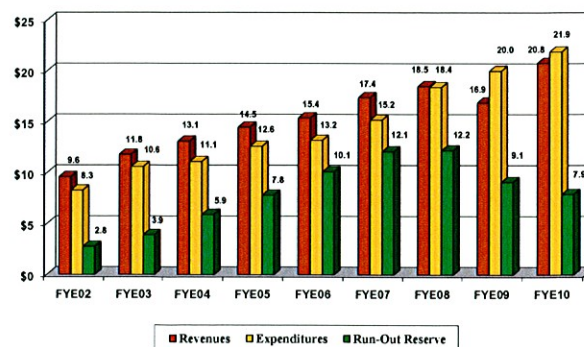
Nebraska Department of Education Rule 92 NAC 2 §003.03C provides in relevant part as follows:

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 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.

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



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 FYE10 was about 38% (see Chart 10). This was down from about 46% during FYE09.

E. Depreciation Fund

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

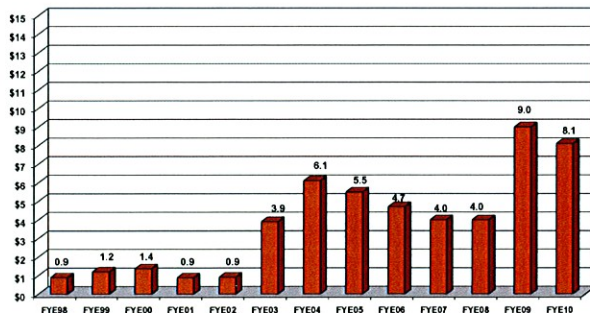
A Depreciation Fund may be established by a school district in order to facilitate the eventual purchase of a costly capital outlay by reserving such monies from the General Fund.

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 FYE10, the balance in the depreciation fund was \$8.1 million (see, Chart 11).

CHART 11
DEPRECIATION FUND BALANCE
[Source: Annual Audit Report – \$ Millions]



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 FYE10, 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.

In FYE10, \$51,480,000 in bonds were issued to refund the 2004 and 2005 series. This resulted in an estimated savings of \$2.5 million.

At the end of the fiscal year, the District had \$142.9 million in outstanding bonds carrying average interest rates from 3.254 to 4.546%. The last bonds mature in 2025.

The District maintains bond ratings of Aa2 from Moody's and AA from 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 35 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:

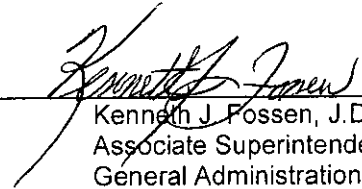
The student fee fund means a separate school district fund not funded by tax revenue, into which all money collected from students pursuant the Public Elementary and Secondary Student Fee Authorization (Section 79-1,125 to 79-2,135 R.R.S.) for participation in extracurricular activities, post-secondary 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 5th day of November, 2010.


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, 2010

ASSETS

	Governmental Activities	Component Unit
Cash	\$ 30,030,467	\$ 1,053,471
Investments	<u>58,981,942</u>	<u> </u>
TOTAL ASSETS	<u>\$ 89,012,409</u>	<u>\$ 1,053,471</u>

NET ASSETS

Restricted:		
Special building	\$ 22,233,288	
School lunch	(83,355)	
Debt service	15,424,608	\$ 1,053,590
Unrestricted:		
Board designated:		
Employee benefit	7,915,610	
Depreciation	8,135,665	
Undesignated	<u>35,386,593</u>	<u>(119)</u>
TOTAL NET ASSETS	<u>\$ 89,012,409</u>	<u>\$ 1,053,471</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, 2010

	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Assets	
	Cash	Charges for	Operating	School	Component
	Disbursements	Services	Grants and Contributions	District	Unit
Governmental activities:					
Instructional services	\$ (115,589,245)	\$ 134,930	\$ 17,390,134	\$ (98,064,181)	
Support services	(59,258,447)		1,987,325	(57,271,122)	
Food services	(10,130,626)	8,548,033	2,090,786	508,193	
Building maintenance and improvements	(41,191,227)			(41,191,227)	
Debt service and lease payments	(14,030,909)			(14,030,909)	
Other	(520,939)			(520,939)	
	<u>(240,721,393)</u>	<u>8,682,963</u>	<u>21,468,245</u>	<u>(210,570,185)</u>	
Component unit activities:					
Suburban School Buildings Corporation	<u>(1,053,850)</u>	<u>1,049,627</u>			\$ (4,223)
Net program (disbursements) receipts	<u>\$ (241,775,243)</u>	<u>\$ 9,732,590</u>	<u>\$ 21,468,245</u>	<u>(210,570,185)</u>	<u>(4,223)</u>
General receipts:					
Taxes collected				116,462,453	
County receipts				1,091,861	
State receipts				73,692,811	
Federal receipts				11,678,092	
Investment earnings				126,725	131
Other				7,668,325	
Total general receipts				<u>210,720,267</u>	<u>131</u>
Increase (decrease) in net assets				150,082	(4,092)
Net assets - beginning of year, as restated				<u>88,862,327</u>	<u>1,057,563</u>
Net assets - end of year				<u>\$ 89,012,409</u>	<u>\$ 1,053,471</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, 2010

	Special Revenue Funds					Debt Service/Bond Fund	Total Governmental Funds
	General Fund	Special Building	School Lunch	Employee Benefit	Depreciation		
RECEIPTS:							
Local receipts	\$ 101,796,719	\$ 1,569,218	\$ 664,060			\$ 14,443,004	\$ 118,475,001
County receipts	1,091,861						1,091,861
State receipts	86,443,788	20,895	46,502			205,198	86,716,383
Federal receipts	18,076,481		2,044,284				20,122,765
Sales of lunches			7,883,973				7,883,973
Interest	28,703	55,186		\$ 16,600	\$ 15,855	5,238	126,725
Non-revenue receipts	770,478	919,777	5,163	840,268			2,530,523
TOTAL RECEIPTS	208,212,030	2,565,056	10,643,982	856,868	15,855	14,653,440	236,947,231
DISBURSEMENTS:							
Instructional services	97,042,073						97,042,073
Support services	81,519,780						81,519,780
Other salaries and benefits			4,408,935				4,408,935
Supplies and materials			93,519				93,519
Purchased services		1,051,874	5,464,614	21,941,004			28,457,492
Capital outlay		3,290,434	3,062		948,531		4,242,027
Building and site acquisition and improvement		6,809,875			3,941,420		10,751,295
Lease payments	562,700	85,300					648,000
Other		14,867	160,496				175,363
Redemption of principal						7,655,000	7,655,000
Debt service interest						5,727,909	5,727,909
TOTAL DISBURSEMENTS	179,124,553	11,252,350	10,130,626	21,941,004	4,899,951	13,382,909	240,721,393
EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS	29,087,477	(8,687,294)	513,356	(21,084,136)	(4,874,096)	1,270,531	(3,774,162)
OTHER FINANCING SOURCES (USES):							
Proceeds from refunding of bonds payable		4,307,756				51,480,000	51,480,000
Proceeds from certificates of participation						(51,480,000)	4,307,756
Payment to bond refunding escrow agent							(51,480,000)
Transfers in	(23,981,816)		(383,512)	19,928,007	4,053,809		23,981,816
Transfers out	(23,981,816)		(383,512)	19,928,007	4,053,809		(24,365,328)
TOTAL OTHER FINANCING SOURCES (USES)	5,105,661	(4,379,538)	129,844	(1,156,129)	(820,287)	1,270,531	3,924,244
EXCESS (DEFICIENCY) OF RECEIPTS AND OTHER FINANCING SOURCES OVER DISBURSEMENTS AND OTHER FINANCING USES	34,193,138	(13,066,832)	643,200	(22,240,265)	(5,917,905)	2,541,062	150,082
FUND BALANCE - beginning of year, as previously reported	28,780,932	26,495,174	(204,776)	9,071,739	8,955,952	14,154,077	87,253,098
Prior Period Adjustment	1,500,000	117,852	(8,423)				1,609,229
FUND BALANCE - beginning of year, as restated	30,280,932	26,612,826	(213,199)	9,071,739	8,955,952	14,154,077	88,862,327
FUND BALANCE - end of year	\$ 35,386,593	\$ 22,233,288	\$ (83,355)	\$ 7,915,610	\$ 8,135,665	\$ 15,424,608	\$ 89,012,409
FUND BALANCE - CASH BASIS:							
Cash	\$ 30,094,621	\$ 14,250	\$ (83,355)			\$ 4,951	\$ 30,030,467
Investments	5,291,972	22,219,038		7,915,610	8,135,665	15,419,657	56,981,942
TOTAL FUND BALANCE - CASH BASIS - AUGUST 31, 2010	\$ 35,386,593	\$ 22,233,288	\$ (83,355)	\$ 7,915,610	\$ 8,135,665	\$ 15,424,608	\$ 89,012,409

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, 2010

<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	\$ 273,483	\$ 625,622	\$ 615,345	\$ 554	\$ 284,314
HIGH SCHOOLS:					
North	708,765	749,334	930,004	117,700	645,795
South	564,348	734,742	812,572	95,434	581,952
West	390,207	1,063,032	920,835	102,665	635,069
MIDDLE SCHOOLS:					
Andersen	108,374	104,163	115,425	9,110	106,222
Beadle	21,602	74,327	58,783	10,030	47,176
Central	55,478	84,513	93,079	8,727	55,639
Kiewit	269,072	104,014	82,011	10,286	301,361
North	80,847	102,433	77,283	9,355	115,352
Russell	60,603	114,825	89,650	10,076	95,854
ELEMENTARY SCHOOLS:					
Abbott	32,890	26,105	26,766	91	32,320
Ackerman	24,072	60,330	57,123	362	27,641
Aldrich	23,807	13,073	17,627	131	19,384
Black Elk	46,928	56,845	53,205	188	50,756
Bryan	10,915	15,538	18,322	187	8,318
Cather	20,094	26,503	27,777	104	18,924
Cody	10,831	16,893	17,676	113	10,161
Cottonwood	18,658	15,330	14,485	187	19,690
Disney	8,326	9,818	10,580	418	7,982
Ezra Millard	9,056	23,099	23,430	234	8,959
Harvey Oaks	8,785	11,005	11,077	102	8,815
Hitchcock	22,295	11,166	12,308	302	21,455
Holling Heights	21,751	11,352	12,428	318	20,993
Montclair	11,351	54,209	50,255	249	15,554
Morton	15,495	25,520	25,238	153	15,930
Neihardt	24,578	21,906	22,333	423	24,574
Norris	21,192	12,243	11,528	237	22,144
Reagan	48,310	50,378	25,517	189	73,360
Reeder	10,391	23,604	15,484	268	18,779
Rockwell	30,925	21,620	24,573	323	28,295
Rohwer	27,954	23,227	23,764	215	27,632
Sandoz	9,924	20,010	20,353	168	9,749
Upchurch	3,166	17,100	13,781	86	6,571
Wheeler	(423)	32,698	35,547	251	(18,619)
Willowdale	23,010	19,541	13,532	349	42,525
SUMMER SCHOOL	2,778	144			2,922
MILLARD LEARNING CENTER	3,413	5,851	6,086	3,927	7,105
MSHS BUTTON FACTORY	97		157		(60)
YOUNG ADULT PROGRAM	533	2,275	1,311		1,497
MNHS LIFE SKILLS	466				466
Total activities fund	\$ 3,024,347	\$ 4,384,388	\$ 4,387,250	\$ 383,512	\$ 3,404,997
<u>Student Fee Fund</u>					
ALL SCHOOLS	\$ 332,210	\$ 1,204,791	\$ 1,361,060	\$	\$ 175,941
NET ASSETS:					
Cash					\$ 2,399,788
Certificates of deposit					896,762
Investments					284,388
TOTAL NET ASSETS - CASH BASIS HELD IN TRUST					\$ 3,580,938

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

Organization

School District #17 – Millard Public Schools, Douglas County, Nebraska (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 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 cash, certificates of deposit, investments, fund balance, 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 generally accepted accounting principles 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.

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.

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.

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

NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Interfund transfers, the flow of assets from one fund to another where repayment is not expected, are reported as cash receipts and disbursements.

Transfers between funds during the year were as follows:

<u>Purpose</u>	<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Used for capital outlay items, repairs, and replacements	Depreciation Fund	General Fund	\$ 4,053,809
Used to pay health insurance claims	Employee Benefit	General Fund	19,928,007
Distributes vending revenue to school buildings	Activity Fund	School Lunch Fund	383,512

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.
- 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, 2010 was \$1.210000 per \$100 of assessed valuation. Included in the District's combined rate, as described above, is \$0.95 per \$100 of learning communities monies for the general fund provided based on need, and \$0.01 per \$100 of learning community monies for the special building fund provided based on enrollment.

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

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, 2010, the carrying amount of the District's deposits was \$32,430,255 and the bank balance was \$32,905,994.

	<u>Book Balance</u>	<u>Bank Balance</u>
Governmental funds	\$ 30,030,467	\$ 30,007,288
Fiduciary funds	<u>2,399,788</u>	<u>2,898,706</u>
TOTAL	<u>\$ 32,430,255</u>	<u>\$ 32,905,994</u>

In addition, the District has \$896,762 of certificates of deposit within the fiduciary funds.

Investments

Investments of \$43,846,675 consist of the Nebraska School District Liquid Asset Fund Plus and recorded at 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 \$15,419,655 consist of money market funds.

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:

- Custodial Credit Risk – for deposits and investments, custodial credit risk is the risk that in the event of the failure of a bank or other counterparty, the District will not be able to recover the value of its deposits or investments or collateral securities in the possession of a third party.
- Credit Risk – 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 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, which includes the CD's are insured through Federal Depositary Insurance Company ("FDIC") coverage or collateral held by the District's agent in the District's name. On August 31, 2010, two accounts exceeded the normal FDIC coverage and/or collateral by \$15,231,432.

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

NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED

3. DEPOSITS AND INVESTMENTS, CONTINUED

The District's investment policy does not restrict investment maturities. The District minimizes its interest rate risk by structuring its investment portfolio so that securities mature to meet the District's cash needs, which is accomplished in part by investing primarily in short-term investments or in investment vehicles that allow for monthly cash draws. This practice minimizes the District's need to sell investments on the open market.

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, 2010. 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	\$ 218,839	\$ 640,973
Debt Service Fund	90,305	956,421
Special Building Fund		83,517

5. 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.

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, 2010 were 8.28% of covered payroll. Actual employer and employee contributions made for the year ended August 31, 2010 were \$9,731,897 (8.36% of covered payroll) and \$9,635,541 (8.28% of covered payroll), respectively.

Actual employer and employee contributions made for the year ended August 31, 2009 were \$8,327,247 (7.35% of covered payroll) and \$8,244,799 (7.28% of covered payroll), respectively. 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.

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

NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED

6. COMMITMENTS AND CONTINGENCIES

The commitments of the District mainly consist of bonds payable, lease commitments and risk management.

Bonds Payable

The following is a summary of general obligation transactions of the District for the year ended August 31, 2010:

Balance, August 31, 2009, as previously reported	\$ 154,075,000
Prior period adjustment (See lease commitment section for this note and Note 8)	<u>(4,265,000)</u>
Balance, August 31, 2009, as restated	149,810,000
Additions:	
New obligations	51,480,000
Deductions:	
Payment of principal	(7,655,000)
Refunding of debt	<u>(50,725,000)</u>
Balance, August 31, 2010	<u>\$ 142,910,000</u>

The following is the bonded indebtedness of the District as of August 31, 2010:

<u>Issue Date</u>	<u>Interest Rate</u>	<u>Amount</u>	<u>Final Maturity Year</u>
April 23, 2003	4.100%	\$ 18,235,000	2019
June 15, 2006	4.546%	48,000,000	2025
April 15, 2009	3.600%	25,195,000	2017
May 1, 2010	3.254%	<u>51,480,000</u>	2025
TOTAL		<u>\$ 142,910,000</u>	

Aggregate principal and interest payments applicable to the District's bonds subsequent to August 31, 2010 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 7,410,000	\$ 6,017,008	\$ 13,427,008
2012	7,835,000	5,462,780	13,297,780
2013	8,110,000	5,115,105	13,225,105
2014	8,450,000	4,750,418	13,200,418
2015	8,805,000	4,365,068	13,170,068
2016-2020	46,210,000	16,410,262	62,620,262
2021-2025	<u>56,090,000</u>	<u>6,549,437</u>	<u>62,639,437</u>
TOTAL	<u>\$ 142,910,000</u>	<u>\$ 48,670,078</u>	<u>\$ 191,580,078</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED

6. COMMITMENTS AND CONTINGENCIES, CONTINUED

Bond Defeasance

On May 5, 2010, the School District issued \$51,480,000 in general obligation bonds with an average interest rate of approximately 3.25% to advance refund \$50,725,000. As a result of this refunding, the District decreased its total debt service payments over the next sixteen years by approximately \$2,651,027 and obtained an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately \$2,458,634.

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. This lease expired in 2010.
- Classroom space with Donovan Properties. This lease expires in 2012.
- Several copiers used throughout the District expiring on various dates through 2015.
- 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>Fiscal Year-end:</u>	<u>Amount</u>
2011	\$ 1,278,495
2012	177,439
2013	117,429
2014	52,793
2015	14,284

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

NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED

6. COMMITMENTS AND CONTINGENCIES, CONTINUED

Lease Commitment, Continued

The total paid for lease commitments for the year ended August 31, 2010 was \$1,469,539 all of which was paid out of the General Fund.

In 2008-09, Certificates of Participation ("COPS") of \$4,265,000 were issued to purchase the land and building at 13737 Industrial Road. In 2009-10, \$4,200,000 of COPS were issued to renovate the building to house the Warehouse, Distribution Center, Technology Division, and other various support departments. Future minimum lease payments related to these COPS are as follows:

<u>Fiscal Year-end:</u>	<u>Amount</u>
2011	\$ 649,000
2012	1,698,050
2013	1,700,200
2014	1,700,350
2015	1,698,450

The total paid for these COPS lease commitments for the year ended August 31, 2010 was \$648,000. Of this amount paid, \$562,700 was paid out of the General Fund and \$85,300 was paid out of the Special Building Fund.

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, 2010, the District estimates their liability under this plan at \$15,507,533 with the final obligations payable in fiscal year 2015.

Learning Community 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.

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

NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED

6. COMMITMENTS AND CONTINGENCIES, CONTINUED

Learning Community Legislation, Continued

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 was January, 2009. Under LB641 (2007), LB 988 (2008), and LB 545 (2009), the eleven school districts in the two county area began (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.

In October, 2009, some taxpayers in the Learning Community (most from Sarpy County) commenced legal proceedings to have the Learning Community common property tax levies declared unconstitutional. The litigation was dismissed in 2010 without reaching the issue of the constitutionality of the levy. Almost immediately, new litigation was filed challenging the tax. That litigation is still pending and there is no indication of when the matter will be heard by the Court.

For the Millard Public Schools, the difference between receiving property tax and state aid via the learning community statutes as opposed to the prior method is about \$2.5 million to the positive.

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. Currently, the District's management believes that there is no liability at year-end.

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.

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

NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED

6. COMMITMENTS AND CONTINGENCIES, CONTINUED

Risk Management, Continued

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. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

7. SUBSEQUENT EVENTS

School District #17 - Millard Public Schools, has evaluated subsequent events as of November 4, 2010, the date the financial statements were available to be issued.

8. PRIOR PERIOD ADJUSTMENTS

The beginning fund balances for the general fund, special building fund and lunch fund have all been restated for the following reasons.

- General Fund – During the year ended August 31, 2009, \$1,500,000 was transferred from the employee benefit fund to the general fund as a repayment of the initial funding that occurred in fiscal year 2000 when the employee benefit fund was established. The transfer out was credited incorrectly to a liability instead of a revenue account in the General Fund. Subsequent to year ended August 31, 2009, management realized that the entry was erroneously recorded.
- Special Building Fund – In fiscal year 2009, the District issued COPS for the purchases of land, building and renovations. Management originally thought that the COPS were issued through SSBC rather than the District and, therefore, did not include the activity of the COPS on the District's financial statements. The restatement in this fund is to record the remaining cash from the COPS that has not yet been spent.
- School Lunch Fund – This restatement is to properly record corrections related to the cash register drawers at the school buildings.

9. EXCESS OF DISBURSEMENTS OVER APPROPRIATIONS IN INDIVIDUAL FUNDS

During the year ended August 31, 2010, the Depreciation Fund had disbursements in excess of appropriations totaling \$372,218.

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

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

FOR THE YEAR ENDED AUGUST 31, 2010

	Original & Final Budget	Actual	Variance with Budget Favorable (Unfavorable)
Budgetary fund balance, September 1, 2009, as previously reported		\$ 28,780,932	
Prior period adjustment		<u>1,500,000</u>	
Budgetary fund balance, September 1, 2009, as restated		<u>30,280,932</u>	
Receipts:			
Local receipts:			
Local property taxes	\$ 95,805,787	89,181,770	\$ (6,624,017)
Motor vehicle taxes	9,609,606	9,556,989	(52,617)
Carline tax	9,100	28,999	19,899
Public power district sales tax	1,912,675	2,392,534	479,859
Tuition received from individuals - general education		134,930	134,930
Local fines and license fees	475,000	487,423	12,423
Gifts/donations		55	55
Community services activities		1,949	1,949
Other local receipts		<u>14,070</u>	<u>14,070</u>
	<u>107,812,168</u>	<u>101,798,719</u>	<u>(6,013,449)</u>
County receipts:			
County fines and license fees	<u>1,200,000</u>	<u>1,091,861</u>	<u>(108,139)</u>
State receipts:			
State aid	68,518,348	68,518,348	
Special education programs	10,770,000	10,948,570	178,570
Special education transportation	900,000	1,987,325	1,087,325
Pro rata motor vehicle		244,784	244,784
Homestead exemption		1,953,637	1,953,637
State apportionment	3,008,092	2,746,670	(261,422)
Textbook loan		41,175	41,175
Other state receipts	<u>4,525,000</u>	<u>3,279</u>	<u>(4,521,721)</u>
	<u>87,721,440</u>	<u>86,443,788</u>	<u>(1,277,652)</u>
Federal receipts:			
Title I	1,200,000	1,255,993	55,993
Special education - grants to states	1,345,235	1,361,729	16,494
Special education - additional funds	2,893,788	3,021,041	127,253
MEDICAID in public schools	300,000	396,018	96,018
Federal vocational and applied technology education	140,000		(140,000)
No child left behind	1,110,000	761,626	(348,374)
Other categorical	50,000		(50,000)
Other federal receipts	<u>11,435,990</u>	<u>11,282,074</u>	<u>(153,916)</u>
	<u>18,475,013</u>	<u>18,078,481</u>	<u>(396,532)</u>
Interest	<u>300,000</u>	<u>28,703</u>	<u>(271,297)</u>

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

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

FOR THE YEAR ENDED AUGUST 31, 2010

	Original & Final Budget	Actual	Variance with Budget Favorable (Unfavorable)
Receipts (continued):			
Non-revenue receipts:			
Sale of property		\$ 31,901	\$ 31,901
Other		<u>738,577</u>	<u>738,577</u>
Total receipts	<u>\$ 215,508,621</u>	<u>208,212,030</u>	<u>(7,025,294)</u>
Disbursements:			
Non-special education	96,573,298	94,885,901	1,687,397
Special education programs	21,226,293	19,746,161	1,480,132
Support services - pupils	11,876,804	9,362,590	2,514,214
Support services - staff	9,846,143	8,412,853	1,433,290
Board of education	2,048,934	1,792,284	256,650
Executive administration services	2,877,478	3,118,366	(240,888)
Office of the principal	10,930,139	10,764,673	165,466
General administration - business services	5,520,123	6,324,057	(803,934)
Vehicle acquisition and maintenance	498,200	435,507	62,693
Support services - maintenance and operation of building and site	26,171,732	24,698,719	1,473,013
Support services - regular pupil transportation	1,714,892	1,772,825	(57,933)
Support services - school age special education transportation	3,349,477	2,161,622	1,187,855
Community services	3,835	8,575	(4,740)
State categorical programs		(9,582)	9,582
Federal programs and other categorical aid	19,582,577	18,228,123	1,354,454
Summer school	1,155,686	328,631	827,055
Lease payments		562,700	(562,700)
Other		<u>512,364</u>	<u>(512,364)</u>
Total disbursements	<u>213,375,611</u>	<u>203,106,369</u>	<u>10,269,242</u>
Excess (deficiency) of receipts over disbursements	<u>\$ 2,133,010</u>	<u>5,105,661</u>	<u>\$ 3,243,948</u>
Budgetary fund balance, August 31, 2010		<u>\$ 35,386,593</u>	

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

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

FOR THE YEAR ENDED AUGUST 31, 2010

	Original & Final Budget	Actual	Variance with Budget Favorable (Unfavorable)
Budgetary fund balance, September 1, 2009, as previously reported		\$ 26,495,174	
Prior period adjustment		<u>117,652</u>	
Budgetary fund balance, September 1, 2009, as restated		<u>26,612,826</u>	
Receipts:			
Local receipts:			
Local property taxes		834,506	\$ 834,506
Carline taxes		307	307
Public Power District sales tax		24,344	24,344
Other local receipts		710,061	710,061
State reimbursement:			
Homestead exemptions		18,380	18,380
Pro rata motor vehicle		2,515	2,515
Proceeds from certificates of participation		4,307,756	4,307,756
Interest		55,166	55,166
Non-revenue receipts		<u>919,777</u>	<u>919,777</u>
Total receipts		<u>6,872,812</u>	<u>6,872,812</u>
Disbursements:			
Purchased services		1,051,874	(1,051,874)
Capital outlays		3,290,434	(3,290,434)
Building, acquisition and improvement	\$ 25,784,465	6,809,875	18,974,590
Lease payments		85,300	(85,300)
Other		<u>14,867</u>	<u>(14,867)</u>
Total disbursements	<u>25,784,465</u>	<u>11,252,350</u>	<u>14,532,115</u>
Excess (deficiency) of receipts over disbursements	<u>\$ (25,784,465)</u>	<u>(4,379,538)</u>	<u>\$ 21,404,927</u>
Budgetary fund balance, August 31, 2010		<u>\$ 22,233,288</u>	

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

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

FOR THE YEAR ENDED AUGUST 31, 2010

	Original & Final Budget	Actual	Variance with Budget Favorable (Unfavorable)
Budgetary fund balance, September 1, 2009, as previously reported		\$ (204,776)	
Prior period adjustment		(8,423)	
Budgetary fund balance, September 1, 2009, as restated		(213,199)	
Receipts:			
Sale of lunches/milk	\$ 9,995,000	7,883,973	\$ (2,111,027)
Interest	5,000	5,163	163
Local receipts	610,000	664,060	54,060
State reimbursement	130,000	46,502	(83,498)
Federal reimbursement	1,660,000	2,044,284	384,284
Total receipts	12,400,000	10,643,982	(1,756,018)
Disbursements:			
Salaries and benefits	5,550,050	4,408,935	1,141,115
Supplies and materials	800,000	93,519	706,481
Contracted services	5,049,500	5,464,614	(415,114)
Capital outlays	100,000	3,062	96,938
Other		160,496	(160,496)
Operational disbursements to the Activities fund		383,512	(383,512)
Total disbursements	11,499,550	10,514,138	985,412
Excess (deficiency) of receipts over disbursements	\$ 900,450	129,844	\$ (770,606)
Budgetary fund balance, August 31, 2010		\$ (83,355)	

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

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

FOR THE YEAR ENDED AUGUST 31, 2010

	Original & Final Budget	Actual	Variance with Budget Favorable (Unfavorable)
Budgetary fund balance, September 1, 2009		\$ 9,071,739	
Receipts:			
Interest income	\$ 200,000	16,600	\$ (183,400)
Other receipts		840,268	840,268
Operational transfers from the General fund	<u>11,906,771</u>	<u>19,928,007</u>	<u>8,021,236</u>
Total receipts	<u>12,106,771</u>	<u>20,784,875</u>	<u>8,678,104</u>
Disbursements:			
Purchased services	<u>22,000,000</u>	<u>21,941,004</u>	<u>58,996</u>
Excess (deficiency) of receipts over disbursements	<u>\$ (9,893,229)</u>	<u>(1,156,129)</u>	<u>\$ 8,737,100</u>
Budgetary fund balance, August 31, 2010		<u>\$ 7,915,610</u>	

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

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

FOR THE YEAR ENDED AUGUST 31, 2010

	<u>Original & Final Budget</u>	<u>Actual</u>	<u>Variance with Budget Favorable (Unfavorable)</u>
Budgetary fund balance, September 1, 2009		\$ 8,955,952	
Receipts:			
Interest income		15,855	\$ 15,855
Operational transfers from the General fund		<u>4,053,809</u>	<u>4,053,809</u>
Total receipts		<u>4,069,664</u>	<u>4,069,664</u>
Disbursements:			
Capital outlays:			
Furniture and equipment	\$ 4,517,733	948,531	3,569,202
Building and site acquisition and improvement		<u>3,941,420</u>	<u>(3,941,420)</u>
Total disbursements	<u>4,517,733</u>	<u>4,889,951</u>	<u>(372,218)</u>
Excess (deficiency) of receipts over disbursements	<u>\$ (4,517,733)</u>	<u>(820,287)</u>	<u>\$ 3,697,446</u>
Budgetary fund balance, August 31, 2010		<u>\$ 8,135,665</u>	

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

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

FOR THE YEAR ENDED AUGUST 31, 2010

	Original Budget	Final Budget	Actual	Variance with Budget Favorable (Unfavorable)
Budgetary fund balance, September 1, 2009			<u>\$ 14,154,077</u>	
Receipts:				
Local receipts:				
Local property taxes	\$ 14,352,158	\$ 14,352,158	14,123,226	\$ (228,932)
Carline taxes			1,694	1,694
Public power district	112,910	112,910	318,084	205,174
State reimbursement:				
Homestead exemptions			169,071	169,071
Pro rata motor vehicle			36,127	36,127
Interest			5,238	5,238
Proceeds from refunding bond		51,480,000	51,480,000	
Total receipts	<u>14,465,068</u>	<u>65,945,068</u>	<u>66,133,440</u>	<u>188,372</u>
Disbursements:				
Redemption of principal and bond refunding	7,460,000	58,940,000	59,135,000	(195,000)
Debt service interest	<u>7,024,008</u>	<u>7,024,008</u>	<u>5,727,909</u>	<u>1,296,099</u>
Total disbursements	<u>14,484,008</u>	<u>65,964,008</u>	<u>64,862,909</u>	<u>1,101,099</u>
Excess (deficiency) of receipts over disbursements	<u>\$ (18,940)</u>	<u>\$ (18,940)</u>	<u>1,270,531</u>	<u>\$ (912,727)</u>
Budgetary fund balance, August 31, 2010			<u>\$ 15,424,608</u>	

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

**NOTE TO REQUIRED SUPPLEMENTARY INFORMATION -
BUDGETARY COMPARISON SCHEDULES
FOR THE YEAR ENDED AUGUST 31, 2010**

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, 2010

<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	\$ 2,042,284
Passed through the Nebraska Department of Social Services		
Food Distribution Program	10.550	<u>723,589</u>
Total U.S. Department of Agriculture		<u>2,765,873</u>
U.S. DEPARTMENT OF EDUCATION:		
Passed through Nebraska Department of Education		
TITLE I, PART A CLUSTER		
Title I of the Elementary and Secondary Education Act	84.010	\$ 1,378,674
ARRA, Title I - Part A	84.389	<u>506,415</u>
Total Title I, Part A Cluster		<u>1,885,089</u>
SPECIAL EDUCATION CLUSTER (IDEA)		
Individuals with Disabilities Education Act	84.027	3,640,455
IDEA Part B Ages 3 - 21	84.027	36,802
ARRA IDEA 611	84.391	3,731,614
ARRA IDEA 619	84.392	<u>163,243</u>
Total Special Education Cluster (IDEA)		<u>7,572,114</u>
EARLY INTERVENTION SERVICES (IDEA) CLUSTER		
IDEA Part C Ages Birth - 3	84.181	4,992
ARRA IDEA Part C	84.393	<u>70,201</u>
Total Early Intervention Services (IDEA) Cluster		<u>75,193</u>
Title II, Part A - No Child Left Behind	84.367	392,857
NCLB - Title II, D	84.318	27,024
Title III - No Child Left Behind	84.365	94,246
Title IV - No Child Left Behind	84.168	56,451
Perkins Grant	84.048	145,218
Innovation Education Program Strategies Interagency Planning Grant	84.181	17,199
ARRA State Fiscal Stabilization Funds	84.330	<u>7,269,759</u>
Total U.S. Department of Education		<u>17,535,150</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:		
Passed through Nebraska Department of Health and Human Services System		
MEDICAID CLUSTER		
MEDICAID in Public Schools	93.778	104,763
Medicaid Administrative Claim	93.778	<u>291,255</u>
Total U.S. Department of Health and Human Services		<u>396,018</u>
TOTAL		<u>\$ 20,697,041</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, 2010**

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 \$723,589. 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 end 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.

November 4, 2010

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, 2010 which collectively comprise the District's basic financial statements and have issued our report thereon dated November 4, 2010. 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 deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to 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. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as item 2010-1 that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, the District did exceed its authorized expenditures in the Depreciation Fund.

The District's response to the findings identified in our audit are 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.

A handwritten signature in black ink that reads "Orizon CPAs LLC". The script is cursive and stylized.

ORIZON CPAs LLC

November 4, 2010

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL
EFFECT ON 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 School District #17 – Millard Public Schools, Douglas County, Nebraska (the "District") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended August 31, 2010. 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 of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133. 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 could have a direct and material effect on each of its major federal programs for the year ended August 31, 2010.

Internal Control Over Compliance

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 the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, 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
FOR THE YEAR ENDED AUGUST 31, 2010**

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 were reported.
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 that could have a direct and material effect on a major federal award program was reported.
5. The independent auditor's report on compliance with requirements that could have a direct and material effect on each major federal award program 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, 2010 are as follows:

Special Education Cluster (IDEA)

- Individuals with Disabilities Education Act: CFDA 84.027
- IDEA Part B Ages 3-21: CFDA 84.027
- ARRA IDEA 611: CFDA 84.391
- ARRA IDEA 619: CFDA 84.392

Title I, Part A Cluster

- ARRA, Title I, Part A: CFDA 84.389
- Title I of Elementary and Secondary Education Act: CFDA 84.010

ARRA State Fiscal Stabilization Funds: CFDA 84.330

8. A threshold of \$620,911 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

2010 – 1 SIGNIFICANT DEFICIENCY

During the year ended August 31, 2010, management of the District identified significant adjustments that impacted prior year's financial statements. These adjustments have therefore been presented on the current year's financial statements as prior period adjustments (see Note 8 of the Notes to the Financial Statements for an explanation of these prior period adjustments). These significant adjustments were the result of weaknesses in the design of year-end closing procedures and the District's personnel's familiarity with certain aspects of the accounting system for year-end reporting.

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2010**

B. FINANCIAL STATEMENT FINDINGS, CONTINUED

Response: The prior period adjustments were the result of events that occurred (or failed to occur) in the prior fiscal year (FYE09). More specifically, the adjustments were as follows:

1. The transfer of \$1,500,000 from the Employee Benefit Fund to the General Fund was credited to a liability account instead a revenue account.
2. The Certificates of Participations (COPS) issued in FYE09 were accounted for in the same manner as the COPS issued in FYE04. The FYE09 COPS were not issued through the Suburban Schools Building Corporation, therefore, all of the transactions should have been reflected on the district's accounting records.
3. School Lunch Fund cash (which was used to make change for students in the lunch lines) was not appropriately entered as a transfer to the buildings.

The District's management is in the process of designing appropriate year-end closing procedures and is also researching the capabilities of the accounting system.

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None