

**FINANCIAL STATEMENTS
JUNE 30, 2010**



JOINT SCHOOL DISTRICT NO. 2

JOINT SCHOOL DISTRICT NO. 2
District Officials

July 1, 2009 - June 30, 2010

SUPERINTENDENT

Dr. Linda Clark

BOARD OF TRUSTEES:

| | |
|--------------------------|-------------------------------|
| Reid Olsen | Zone 1 |
| Mike Vuittonet, Chairman | Zone 2 |
| Lorraine Hand | Zone 3 |
| Ann Ritter | Zone 4 |
| Janet Calinsky | Zone 5 |
| Dr. Bruce Gestrin | Assistant Superintendent |
| Barbara Leeds | Director of Human Resources |
| Don Nesbitt | Regional Director |
| Joe Yochum | Regional Director |
| Dr. Mandy Saras | Regional Director |
| Cathy Thornton | Director of Special Education |
| Cindy Sisson | Director of Curriculum |
| Alex Simpson | Director of Finance |
| Mike Carrithers | Chief Accountant |
| Trish Duncan | Clerk of the Board |

JOINT SCHOOL DISTRICT NO. 2

Table of Contents

| | <u>Page</u> |
|--|-------------|
| FINANCIAL SECTION | |
| INDEPENDENT AUDITORS' REPORT | 1 |
| MANAGEMENT'S DISCUSSION AND ANALYSIS | 3 |
| Basic Financial Statements | |
| Government-wide Financial Statements | |
| Statement of Net Assets | 9 |
| Statement of Activities | 10 |
| Fund Financial Statements | |
| Balance Sheet – Governmental Funds | 11 |
| Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets | 13 |
| Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds | 14 |
| Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities | 18 |
| Statement of Fiduciary Net Assets | 19 |
| Notes to Financial Statements | 20 |
| REQUIRED SUPPLEMENTARY INFORMATION | |
| Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund | 40 |
| Notes to Required Supplementary Information | 42 |
| OTHER FINANCIAL INFORMATION | |
| Combining Schedule of Changes in Assets and Liabilities – All Fiduciary Funds | 43 |
| SINGLE AUDIT AND GOVERNMENT AUDITING STANDARDS INFORMATION | |
| Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 45 |
| Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 | 47 |
| Schedule of Expenditures of Federal Awards | 49 |
| Notes to Schedule of Expenditures of Federal Awards | 51 |
| Schedule of Findings and Questioned Costs | 52 |



INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Joint School District No. 2
Meridian, Idaho

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Joint School District No. 2, (the District) as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2010, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining schedule of changes in assets and liabilities – all fiduciary funds is presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards 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 also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Erik Bailly LLP". The signature is written in a cursive, flowing style.

Boise, Idaho
October 25, 2010

JOINT SCHOOL DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010

The discussion and analysis of the Joint School District No. 2's financial performance provides an overall review of financial activities for the fiscal year.

FINANCIAL HIGHLIGHTS

- The District refinanced \$25,880,000 of the Series 2002 general obligation bonds to take advantage of favorable interest rates.
- The District's Net Assets increased \$4,630,862 due to current year operations.
- The District purchased 15 new school buses, bringing the active fleet to 293, after retirements. These buses serve over 12,000 students daily, traveling over 3 million miles annually.

OVERVIEW OF THE FINANCIAL STATEMENTS

This section of the annual financial report consists of three parts: management's discussion and analysis, basic financial statements, and other required supplementary information.

The basic financial statements consist of two kinds of statements that present different views of the District's financial activities.

Government-Wide Financial Statements (GWFS)

The GWFS (i.e., Statement of Net Assets and Statement of Activities) provide readers with a broad overview of the District's finances. The Statement of Net Assets and the Statement of Activities display information about the reporting government as a whole. The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies.

The *Statement of Net Assets* provides information on all of the assets and liabilities of the District, with the difference between the two providing the *net assets*. Increases or decreases in the net assets may indicate whether the financial position of the District is improving or deteriorating, respectively.

The *Statement of Activities* shows how the net assets of the District have changed throughout the fiscal year. Changes in the net assets occur as soon as the underlying event gives rise.

The statements present an aggregate view of the District's finances. Government-wide statements contain useful long-term information as well as information for the just-completed fiscal year.

- To assess the overall financial condition of the District, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, should be considered.

In the government-wide financial statements, the District's activities are all classified as governmental activities. Governmental activities include all regular and special education, all educational support activities, administration, custodial, maintenance, transportation, and food services. Most of these activities are supported by property taxes and formula aid from the state of Idaho.

The government-wide financial statements can be found on pages 9-10 of this report.

JOINT SCHOOL DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010

Fund Based Financial Statements

Funds are accounting devices the District uses to keep track of sources of funding and spending on particular programs and to demonstrate compliance with various regulatory requirements. Fund based financial statements focus on individual parts of the District. Fund based statements generally report operation in more detail than the government-wide statements. This statement focuses on its most significant or "major" funds and not on the District as a whole.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes (i.e., repaying its long-term debt) or to show that it is properly using certain revenues (i.e., capital project funds). The District has two types of funds: Governmental and Fiduciary.

Governmental funds – Governmental funds account for nearly the same functions as the governmental activities. However, unlike the GWFS, Governmental Funds focus on *near-term inflows and outflows* as well as the *balances left at year-end* that are available for funding future basic services.

It is useful to compare information found in the *governmental funds* with that of the *governmental activities*. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions.

The basic governmental fund financial statements can be found on pages 11-18 of this report.

Fiduciary funds – The District serves as a trustee, or fiduciary, for student organizations. The assets of these organizations belong to the organization, and not the District. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and only by those to whom the assets belong. These activities are excluded from the District-wide financial statements because the District cannot use these assets to finance its operations.

The basic fiduciary fund financial statement can be found on page 19 of this report.

Notes – The notes to the financial statements provide further explanation of some of the information in the statements and provide additional disclosures so statement users have a complete picture of the District's financial activities and position.

Required supplementary information further explains and supports the financial statements by including a comparison of the District's budget data for the year.

JOINT SCHOOL DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve as a useful indicator of a district's financial position. In the case of the District, assets exceeded liabilities by \$204,085,653 at the close of the most recent fiscal year.

| | <u>June 30, 2010</u> | <u>June 30, 2009</u> |
|---|------------------------------|------------------------------|
| ASSETS | | |
| Current assets | \$ 58,449,015 | \$ 69,022,002 |
| Non-current assets | 4,674,418 | 2,476,878 |
| Capital assets (net of depreciation) | <u>384,080,813</u> | <u>384,962,981</u> |
| Total assets | 447,204,246 | 456,461,861 |
| LIABILITIES | | |
| Current liabilities | 32,080,032 | 34,730,197 |
| Long-term liabilities | <u>211,038,561</u> | <u>222,276,873</u> |
| Total liabilities | 243,118,593 | 257,007,070 |
| NET ASSETS | | |
| Invested in capital assets, net of related debt | 184,113,383 | 173,011,301 |
| Restricted | 16,760,215 | 16,347,989 |
| Unrestricted | <u>3,212,055</u> | <u>10,095,501</u> |
| Total net assets | <u><u>\$ 204,085,653</u></u> | <u><u>\$ 199,454,791</u></u> |

The largest portion of the District's net assets (90.2%) reflect investments in capital assets (i.e., land, buildings and improvements, furniture, and equipment) net of related debt (general obligation bonds) used to acquire those assets still outstanding. These capital assets provide services to students; consequently, these assets are not available for future spending.

Restricted net assets represent 8.2% of the District's net assets. These resources are subject to external restrictions on how they may be used. The remaining 1.6% represents unrestricted net assets.

At the end of the current fiscal year, the District's total net assets increased by 2.3% to \$204,085,653. This represents an overall increase of \$4,630,862 which is the result of current year operations.

JOINT SCHOOL DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010

Changes in Net Assets – The table below shows the changes in net assets for the fiscal years ended June 30, 2010 and 2009. The District relies on state support for 59.6% of its governmental activities. The District had total revenues of \$240,305,658 and total expenses of \$235,674,796 generating an increase in net assets of \$4,630,862.

| REVENUES | <u>June 30, 2010</u> | <u>June 30, 2009</u> |
|--|-------------------------|--------------------------|
| Program revenues | | |
| Charges for services | \$ 5,858,078 | \$ 5,810,148 |
| Operating grants and contributions | 42,600,672 | 15,474,998 |
| Capital grants and contributions | 16,243 | 2,527,639 |
| General revenues | | |
| Property taxes | 47,074,185 | 55,656,214 |
| State support | 143,210,473 | 162,991,817 |
| Grant and contributions not restricted | 968,180 | 1,695,508 |
| Other | 577,827 | 1,289,269 |
| Total revenues | <u>240,305,658</u> | <u>245,445,593</u> |
| EXPENSES | | |
| Instruction | 138,118,947 | 136,089,047 |
| Support services | 77,705,155 | 75,436,691 |
| Non-instructional services | 10,000,435 | 9,770,018 |
| Community support | 154,584 | 108,625 |
| Interest and fees on long-term debt | 9,695,675 | 9,026,380 |
| Total expenses | <u>235,674,796</u> | <u>230,430,761</u> |
| CHANGE IN NET ASSETS | <u>\$ 4,630,862</u> | <u>\$ 15,014,832</u> |

DISTRICT'S FUNDS FINANCIAL ANALYSIS

As noted earlier, the District uses funds to demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the District's governmental funds is to provide balances of spendable resources and to provide data on near-term inflows and outflows.

General Fund – The general fund is the general operating fund for the District. At the end of the current fiscal year, the general fund balance is \$12,021,926, which is down 28.3% from the ending balance in fiscal year 2009 of \$16,767,436.

Expenditures for general District purposes totaled \$184,734,532, an increase of 1.2% during the current fiscal year; this decrease can be attributed to a reduction in debt service paid out of the General Fund.

General fund salaries totaled \$123,066,706 while the associated fringe benefits of retirement, social security, unemployment, workers compensation, health, dental, vision and life added \$41,667,622 to arrive at 89.2% of the District's general fund expenditures.

JOINT SCHOOL DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010

Capital Projects Fund – The capital projects fund is the fund used to pay for capital construction, building repair and remodeling throughout the District. At the end of the current fiscal year, the capital projects fund balance was \$2,646,252 up \$1,735,146 from the ending balance in fiscal year 2009 of \$911,106. This increase in the fund balance can be attributed to a slowing of construction as Renaissance High School nears completion.

General Fund Budgetary Highlights

The District adopts an original budget in June for the subsequent year. The District's fund balance was \$790,054 greater than the beginning balance budgeted in 2009-2010. The difference between the original revenue budget and the final amended revenue budget was a decrease of \$522,644, driven by a slightly smaller enrollment growth than anticipated. The difference between the original expense budget and the final amended budget was an increase of \$1,641,388. The increase can be attributed to a slight increase in the amount of instructional expenditures incurred due to increased student numbers.

Capital Assets

The capital projects fund is used to account for the costs incurred while acquiring and improving sites, constructing and remodeling facilities, and purchasing equipment necessary for providing educational programs for all students within the District. The District has invested approximately \$483,145,433 in a wide range of capital assets. The total accumulated depreciation on these assets amounts to \$99,655,833.

- Capital asset acquisitions for governmental activities totaled \$10,881,877 for the fiscal year.
- The District has \$23,146,928 in construction in progress. This includes one high school nearing completion and sites for future construction.

Long-Term Debt

At year end the District had \$200,250,628 in general obligation bonds and other long-term debt outstanding. The general obligation bonds of the District are secured by an annual tax levy. The bonds were authorized by the patrons of the District by a two-thirds majority vote. The certificates of participation are paid through guaranteed utility savings. The amounts outstanding on the remaining bonds and certificates are:

| | |
|-------------------------------|----------------|
| Series 1998 – Refunding | \$ 20,720,000 |
| Series 2002 | \$ 6,260,000 |
| Series 2004 – Refunding | \$ 7,835,000 |
| Series 2005 – Refunding | \$ 29,110,000 |
| Series 2005 | \$ 106,610,000 |
| Series 2010 – Refunding | \$ 25,880,000 |
| Series 2010 – Supplemental | \$ 395,628 |
| Certificates of Participation | \$ 3,440,000 |

Additional information regarding the District's long-term debt can be found in Notes 8 and 9 to the basic financial statements.

**JOINT SCHOOL DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010**

ECONOMIC FACTORS AND NEXT YEARS BUDGET

For the first time in history the Idaho Legislature reduced education funding. The beginning teacher salary was reduced from \$30,915 to \$29,655. The base salaries for certified and classified employees were reduced by 4%. The administrative base salary was reduced by 6.5%. The state did not fund salary increases for additional experience or education earned in 2009-2010. Discretionary money was decreased by 14.1%. Overall, the public school education budget was reduced by 8.9%. The amount of state funding that was reduced to the district resulted in a decrease of approximately nine million dollars in revenue despite an increase of 700 students. The Treasure Valley has been hit hard in the current economic recession, so the District will continue to see lower student growth than average over the last 10 years.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Mike Carrithers at the Meridian School District Services Center, 1303 E Central Drive, Meridian, ID 83642, by phone at (208) 350-5003, or by e-mail at carrithers.michael@meridianschools.org.

JOINT SCHOOL DISTRICT NO. 2
STATEMENT OF NET ASSETS
JUNE 30, 2010

| | <u>Governmental Activities</u> |
|--|------------------------------------|
| ASSETS | |
| Cash and investments | \$ 20,749,009 |
| Restricted cash and investments | 5,403,653 |
| Property taxes receivable | 22,421,395 |
| State and federal receivables | 8,889,897 |
| Interest receivable | 1,354 |
| Receivables | 983,707 |
| Debt issuance costs (net of amortization) | 995,761 |
| Prepaid interest on refunded bonds (net of amortization) | 3,678,657 |
| Land and construction in progress | 51,066,819 |
| Depreciable capital assets (net of depreciation) | <u>333,013,994</u> |
| Total assets | 447,204,246 |
| LIABILITIES | |
| Accounts, salaries, and other payables | 27,752,400 |
| Deferred revenue | 2,162 |
| Accrued interest payable bonds | 4,325,470 |
| Long-term liabilities | |
| Bond premium (net of amortization) | 7,245,932 |
| Due within one year - bonds | 11,585,000 |
| Due in more than one year - bonds | 188,665,628 |
| Due in more than one year - other liabilities | <u>3,542,001</u> |
| Total liabilities | 243,118,593 |
| NET ASSETS | |
| Invested in capital assets, net of related debt | 184,113,383 |
| Restricted for | |
| Capital improvements | 1,962,288 |
| Debt service | 14,797,927 |
| Unrestricted | <u>3,212,055</u> |
| Total net assets | <u><u>\$ 204,085,653</u></u> |

JOINT SCHOOL DISTRICT NO. 2
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2010

| | Program Revenues | | | | Net (Expense) Revenue and Changes in Net Assets |
|--|-----------------------|-------------------------|--|--|--|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | |
| FUNCTIONS/PROGRAMS | | | | | |
| <i>Governmental activities</i> | | | | | |
| Instruction | | | | | |
| Elementary programs | \$ 57,522,287 | \$ 1,073,563 | \$ 25,688,243 | \$ - | \$ (30,760,481) |
| Secondary/alternative programs | 54,625,501 | 24,371 | 1,436,790 | - | (53,164,340) |
| Exceptional/preschool program | 22,570,540 | - | 9,348,433 | - | (13,222,107) |
| Other instructional programs | 3,400,619 | 101,759 | 821,375 | - | (2,477,485) |
| Support services | | | | | |
| Attendance, guidance, health | 8,988,332 | - | 701,030 | - | (8,287,302) |
| Ancillary | 5,869,761 | - | - | - | (5,869,761) |
| Instructional improvement | 6,957,083 | - | - | - | (6,957,083) |
| Educational media | 2,270,371 | - | - | - | (2,270,371) |
| School administration | 15,393,160 | - | - | - | (15,393,160) |
| Administration | 6,808,105 | - | - | - | (6,808,105) |
| Maintenance and custodial | 17,422,314 | 261,903 | - | - | (17,160,411) |
| Grounds | 492,527 | - | - | - | (492,527) |
| Security | 804,032 | - | - | - | (804,032) |
| Pupil transportation services | 12,699,470 | 194,745 | - | - | (12,504,725) |
| Non-instructional | 10,000,435 | 4,201,737 | 4,604,801 | - | (1,193,897) |
| Community service programs | 154,584 | - | - | - | (154,584) |
| Capital improvements | - | - | - | 16,243 | 16,243 |
| Interest on long-term debt | 9,695,675 | - | - | - | (9,695,675) |
| Total Governmental Activities | \$ 235,674,796 | \$ 5,858,078 | \$ 42,600,672 | \$ 16,243 | (187,199,803) |
| General revenues | | | | | |
| Taxes | | | | | |
| Property taxes, levied for general purposes | | | | | 13,851,212 |
| Property taxes, levied for debt services | | | | | 19,010,775 |
| Property taxes, levied for plant facility | | | | | 14,212,198 |
| State revenue in lieu of taxes | | | | | 27,935 |
| Grants and contributions not restricted to specific programs | | | | | |
| State foundation program | | | | | 143,182,538 |
| Federal forest lands | | | | | 558 |
| Other | | | | | 967,622 |
| Interest and investment earnings | | | | | |
| General fund | | | | | 130,765 |
| Other funds | | | | | 95,248 |
| Unrealized loss on investments | | | | | (17,380) |
| Bond defeasement | | | | | |
| Gain on bond defeasement | | | | | 369,194 |
| Total general revenues | | | | | 191,830,665 |
| Change in net assets | | | | | 4,630,862 |
| Net assets, beginning of year | | | | | 199,454,791 |
| Net assets, end of year | | | | | \$ 204,085,653 |

JOINT SCHOOL DISTRICT NO. 2
BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2010

| | General | Debt Service | Capital Projects |
|--------------------------------------|----------------------|----------------------|---------------------|
| ASSETS | | | |
| Cash and investments | \$ 20,749,009 | \$ - | \$ - |
| Restricted cash and investments | - | 5,403,653 | - |
| Receivables | | | |
| Current property taxes receivable | 5,530,444 | 7,587,580 | 5,685,207 |
| Delinquent property taxes receivable | 1,047,873 | 1,457,746 | 1,112,545 |
| State receivable | 3,451,170 | - | - |
| Federal receivable | - | - | - |
| Interfund receivable | 5,600,800 | - | - |
| Other receivables | 901,063 | - | - |
| | <u>\$ 37,280,359</u> | <u>\$ 14,448,979</u> | <u>\$ 6,797,752</u> |
| LIABILITIES AND FUND BALANCE | | | |
| LIABILITIES | | | |
| Accounts payable | \$ 402,288 | \$ - | \$ 605,313 |
| Salaries and benefits payable | 23,808,272 | - | - |
| Interfund payable | - | - | 2,433,642 |
| Deferred revenue | 1,047,873 | 1,457,746 | 1,112,545 |
| Total liabilities | <u>25,258,433</u> | <u>1,457,746</u> | <u>4,151,500</u> |
| FUND BALANCE | | | |
| Reserved for | | | |
| Debt service | - | 12,991,233 | - |
| Reserved for special projects | 1,115,358 | - | - |
| Unreserved | | | |
| Designated for special projects | 270,594 | - | - |
| Designated for subsequent year | 9,393,915 | - | 2,646,252 |
| Designated for special revenue funds | - | - | - |
| Undesignated | 1,242,059 | - | - |
| Total fund balance | <u>12,021,926</u> | <u>12,991,233</u> | <u>2,646,252</u> |
| | <u>\$ 37,280,359</u> | <u>\$ 14,448,979</u> | <u>\$ 6,797,752</u> |
| Total liabilities and fund balance | <u>\$ 37,280,359</u> | <u>\$ 14,448,979</u> | <u>\$ 6,797,752</u> |

| Other Governmental Funds | Total Governmental Funds |
|--------------------------------|--------------------------------|
| \$ - | \$ 20,749,009 |
| - | 5,403,653 |
| - | 18,803,231 |
| - | 3,618,164 |
| 267,843 | 3,719,013 |
| 5,170,884 | 5,170,884 |
| - | 5,600,800 |
| 83,998 | 985,061 |
| \$ 5,522,725 | \$ 64,049,815 |

| | |
|------------|--------------|
| \$ 240,032 | \$ 1,247,633 |
| 2,508,535 | 26,316,807 |
| 3,167,158 | 5,600,800 |
| 2,162 | 3,620,326 |
| 5,917,887 | 36,785,566 |

| | |
|--------------|---------------|
| - | 12,991,233 |
| - | 1,115,358 |
| - | 270,594 |
| - | 12,040,167 |
| 511,596 | 511,596 |
| (906,758) | 335,301 |
| (395,162) | 27,264,249 |
| \$ 5,522,725 | \$ 64,049,815 |

JOINT SCHOOL DISTRICT NO. 2
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
YEAR ENDED JUNE 30, 2010

Total fund balances - governmental funds \$ 27,264,249

The cost of capital assets (land, buildings, furniture, equipment and construction in process) purchased or constructed is reported as an expenditure in governmental funds. The Statement of Net Assets includes those capital assets among the assets of the District as a whole. The cost of those capital assets is allocated over their estimated useful lives (as depreciation expense) to the various programs reported as governmental activities in the Statement of Activities. Because depreciation expense does not affect financial resources, it is not reported in government funds. 384,080,813

Property taxes and interest receivable, as recorded in the Statement of Net Assets, will be collected in the next fiscal year, but are not available soon enough to pay current year expenditures and therefore are deferred in the Governmental Fund Statements. 3,618,164

Governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in treatment of long-term debt and related items. (28,847,142)

Long-term liabilities applicable to the District's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the Statement of Net Assets. (182,030,431)

Net assets \$ 204,085,653

JOINT SCHOOL DISTRICT NO. 2
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2010

| | General | Debt Service | Capital Projects |
|--------------------------------------|--------------------|-------------------|---------------------|
| REVENUE | | | |
| Local revenues | | | |
| Property taxes | \$ 13,881,284 | \$ 19,063,453 | \$ 14,311,119 |
| Earnings on investments | 130,765 | 3,409 | 91,742 |
| State revenue | 142,741,367 | 469,106 | - |
| Federal revenue | 21,199,549 | - | - |
| Other revenue | 2,477,163 | - | 17,740 |
| Total revenue | <u>180,430,128</u> | <u>19,535,968</u> | <u>14,420,601</u> |
| EXPENDITURES | | | |
| Instructional | | | |
| Elementary school programs | 54,871,295 | - | 240,445 |
| Secondary school programs | 38,095,776 | - | 168,347 |
| Alternative school programs | 5,862,668 | - | 47,105 |
| Exceptional school programs | 13,000,671 | - | 1,853 |
| Preschool school programs | 954,167 | - | - |
| Gifted and talented school programs | 1,368,098 | - | - |
| Interscholastic school programs | 2,362,610 | - | - |
| School activity programs | 697,493 | - | - |
| Summer school programs | 325,140 | - | - |
| Driver education program | - | - | - |
| Total instructional | <u>117,537,918</u> | <u>-</u> | <u>457,750</u> |
| Support Services | | | |
| Attendance, guidance, health program | 5,779,326 | - | - |
| Ancillary program | 6,758,846 | - | - |
| Instructional improvement program | 3,239,480 | - | 31,768 |
| Instructional technology program | 1,356,949 | - | - |
| Media program | 2,253,775 | - | - |
| School administration program | 12,278,199 | - | 185,657 |
| Administration program | 4,825,011 | - | - |
| Administration technology program | 2,152,593 | - | - |
| Custodial program | 9,204,335 | - | - |
| Maintenance and warehouse programs | 5,615,568 | - | 2,580,567 |
| Grounds program | 416,926 | - | - |
| Security program | 801,925 | - | - |
| Transportation program | 11,538,281 | - | 11,436 |
| Total support services | <u>66,221,214</u> | <u>-</u> | <u>2,809,428</u> |

| Other Governmental Funds | Total Governmental Funds |
|--------------------------------|--------------------------------|
| \$ - | \$ 47,255,856 |
| 97 | 226,013 |
| 2,195,974 | 145,406,447 |
| 18,849,390 | 40,048,939 |
| 4,704,854 | 7,199,757 |
| <u>25,750,315</u> | <u>240,137,012</u> |
| | |
| 2,158,923 | 57,270,663 |
| 1,525,041 | 39,789,164 |
| 106,983 | 6,016,756 |
| 6,540,113 | 19,542,637 |
| 546,664 | 1,500,831 |
| - | 1,368,098 |
| - | 2,362,610 |
| - | 697,493 |
| 2,509 | 327,649 |
| 317,649 | 317,649 |
| <u>11,197,882</u> | <u>129,193,550</u> |
| | |
| 806,763 | 6,586,089 |
| 1,299,947 | 8,058,793 |
| 2,158,021 | 5,429,269 |
| 165,898 | 1,522,847 |
| - | 2,253,775 |
| 44,251 | 12,508,107 |
| 71,496 | 4,896,507 |
| - | 2,152,593 |
| - | 9,204,335 |
| - | 8,196,135 |
| - | 416,926 |
| - | 801,925 |
| - | 11,549,717 |
| <u>4,546,376</u> | <u>73,577,018</u> |

JOINT SCHOOL DISTRICT NO. 2
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2010

| | General | Debt Service | Capital Projects |
|---|----------------------|----------------------|---------------------|
| EXPENDITURES (continued) | | | |
| Non-instructional | 214,974 | - | 153,157 |
| Community program | 152,230 | - | - |
| Capital outlay program | - | - | 10,255,317 |
| Debt service | | | |
| Principal | 450,000 | 13,394,999 | - |
| Interest and agent fees | 158,196 | 9,720,836 | - |
| Total debt service | <u>608,196</u> | <u>23,115,835</u> | <u>-</u> |
| TOTAL EXPENDITURES | <u>184,734,532</u> | <u>23,115,835</u> | <u>13,675,652</u> |
| Excess (deficiency) of revenue under expenditures | (4,304,404) | (3,579,867) | 744,949 |
| Other financing sources (uses) | | | |
| Net interfund transfers | (428,480) | - | 985,130 |
| Bond issuance | - | 26,275,628 | - |
| Proceeds from sale of fixed assets | - | - | 5,067 |
| Bond issue costs | - | (236,738) | - |
| Premium on bonds issued | - | 2,434,702 | - |
| Payment to refunded bond escrow agent | - | (28,471,348) | - |
| Loss on investments | (12,626) | (4,754) | - |
| | <u>(441,106)</u> | <u>(2,510)</u> | <u>990,197</u> |
| Excess (deficiency) of revenues and other financing sources (uses) over expenditures and other financing sources (uses) | (4,745,510) | (3,582,377) | 1,735,146 |
| FUND BALANCE, BEGINNING OF YEAR | <u>16,767,436</u> | <u>16,573,610</u> | <u>911,106</u> |
| FUND BALANCE, END OF YEAR | <u>\$ 12,021,926</u> | <u>\$ 12,991,233</u> | <u>\$ 2,646,252</u> |

| Other Governmental Funds | Total Governmental Funds |
|--------------------------------|--------------------------------|
| 9,670,369 | 10,038,500 |
| 381 | 152,611 |
| 626,560 | 10,881,877 |
| - | 13,844,999 |
| - | 9,879,032 |
| - | 23,724,031 |
| <u>26,041,568</u> | <u>247,567,587</u> |
| (291,253) | (7,430,575) |
| (556,650) | - |
| - | 26,275,628 |
| - | 5,067 |
| - | (236,738) |
| - | 2,434,702 |
| - | (28,471,348) |
| - | (17,380) |
| <u>(556,650)</u> | <u>(10,069)</u> |
| (847,903) | (7,440,644) |
| <u>452,741</u> | <u>34,704,893</u> |
| <u>\$ (395,162)</u> | <u>\$ 27,264,249</u> |

JOINT SCHOOL DISTRICT NO. 2
RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2010

Total net change in fund balances - governmental funds \$ (7,440,644)

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

Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays during the fiscal year. (882,168)

Retirement of bonds in the current year. 39,725,000

Because some property taxes and interest earnings will not be collected for several months after the District's fiscal year end they are not considered available revenues in the governmental funds, but are instead counted as deferred revenues. They are, however, recorded as revenues in the Statement of Activities. (181,671)

Proceeds from bond issue is a revenue in the governmental funds, but the proceeds increase long-term liabilities in the Statement of Net Assets. Governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in treatment of long-term debt and related items. (25,217,147)

Change in OPEB Liability. (1,072,001)

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, thus requiring the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. (300,507)

CHANGE IN NET ASSETS \$ 4,630,862

JOINT SCHOOL DISTRICT NO. 2
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2010

| | <u>Agency Funds</u> |
|------------------------|-------------------------|
| ASSETS | |
| Cash | \$ 964,496 |
| Investments | <u>1,564,383</u> |
| Total assets | <u>\$ 2,528,879</u> |
| LIABILITIES | |
| Accounts payable | \$ 138,580 |
| Due to student groups | <u>2,390,299</u> |
| Total liabilities | <u>\$ 2,528,879</u> |

JOINT SCHOOL DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Joint School District No. 2 of Meridian, Idaho (the District) is governed by an elected five-member Board of Trustees. The District is the primary government exercising financial accountability for public education within its boundaries.

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local government units and to state laws applicable to school districts. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the District are described below:

Financial Reporting Entity

The District follows GASB Statement Nos. 14 and 39 in determining the reporting entity. The financial reporting entity consists solely of the primary government. Accordingly, the financial statements include all funds, and agencies of the primary government whose budgets are controlled or whose boards are appointed by the District's Board of Trustees. Control or dependence on the District was determined on the basis of appointment authority, budget adoption, taxing authority, outstanding debt secured by revenues or general obligations of the District and legal standing.

The District contributes to the multi-employer Public Employee Retirement System of Idaho (PERSI). PERSI is administered by the State of Idaho. A ten-year history is provided in PERSI's annual report.

The accounts of the District are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

The funds of the District are classified into two categories: governmental and fiduciary. In turn, each category is divided into separate fund types. The fund classifications and a description of each existing fund type follow:

Governmental Funds

Governmental funds are used to account for the District's general government activities, including the collection and disbursement of specific or legally restricted monies, the acquisition or construction of general fixed assets, and the servicing of general long-term debt. The general fund, debt service fund, and the capital projects fund are considered major funds while the remaining governmental funds are considered non-major. Governmental funds include:

General fund – the primary operating fund of the District accounts for all financial resources, except those required to be accounted for in other funds.

NOTES TO FINANCIAL STATEMENTS

Special revenue funds – account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Debt service funds – account for the servicing of general long-term debt not being financed by proprietary or nonexpendable trust funds.

Capital project fund – accounts for the acquisition of fixed assets or construction of major capital projects not being financed by proprietary or nonexpendable trust funds.

Fiduciary Funds

Fiduciary funds account for assets held by the government in a trustee capacity or as an agent on behalf of outside parties, including other governments, or on behalf of other funds within the District.

Agency funds are used to account for assets that the government holds for others in an agency capacity. These agency funds are as follows:

School activity fund – accounts for assets held by the District as an agent for the individual schools and school organizations.

Measurement Focus and Basis of Accounting

Government-Wide Financial Statements (GWFS)

The Statement of Net Assets and the Statement of Activities displays information about the reporting government as a whole. Fiduciary funds are not included in the GWFS. Fiduciary funds are reported only in the Statement of Fiduciary Net Assets at the fund financial statement level.

The Statement of Net Assets and the Statement of Activities were prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of GASB Statement No. 33 “Accounting and Financial Reporting for Nonexchange Transactions.”

Program revenues

Program revenues included in the Statement of Activities derive directly from the program itself or from parties outside the District’s taxpayers or citizenry, as a whole; program revenues reduce the cost of the function to be financed from the District’s general revenues. Program revenues include charges to students or applicants who purchase, use or directly benefit from the goods or services provided by the given function.

NOTES TO FINANCIAL STATEMENTS

Allocation of indirect expenses

The District reports all direct expenses by function in the Statement of Activities. Direct expenses are those that are clearly identifiable with a function. Indirect expenses of other functions are not allocated to those functions but are reported separately in the Statement of Activities. Interest on general long-term debt is considered an indirect expense and is reported separately on the Statement of Activities.

Fund Financial Statements (FFS)

Governmental Funds

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting revenues are recognized when susceptible to accrual, defined as measurable and available. Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The government considers all revenues available if they are collected within 30 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for unmatured principal and interest on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets. The governmental funds use the following practices in recording revenues and expenditures:

Revenues

Ad valorem taxes are susceptible to accrual.

Entitlements and shared revenues (which include state equalization and state revenue sharing) are recorded as unrestricted grants-in-aid at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met and the susceptible to accrual criteria have been met.

Other receipts become measurable and available when cash is received by the District and are recognized as revenue at that time.

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

Expenditures

Salaries are recorded as paid. Salaries for nine-month employees are accrued at June 30.

NOTES TO FINANCIAL STATEMENTS

Other Financing Sources (Uses)

Transfers between funds that are not expected to be repaid (or any other types, such as capital lease transactions, sale of fixed assets, debt extinguishments, long-term debt proceeds, etcetera) are accounted for as other financing sources (uses). These other financing sources (uses) are recognized at the time the underlying events occur.

Cash and Cash Equivalents

The District pools cash of all funds into common bank accounts. The accounting records of each fund reflect its interest in the pooled cash. Any deficiencies in cash of individual funds represent liabilities to other funds for cash borrowed. Cash includes amounts in demand deposits and interest-bearing demand deposits, and time deposit accounts. Cash equivalents include amounts in time deposits and those investments with original maturities of 90 days or less. Under state law, the District may deposit funds in demand deposits, interest-bearing demand deposits or time deposits with state banks organized under Idaho law and national banks having their principal offices in Idaho.

Restricted Cash and Investments

Restricted cash and investments consist of funds in the debt service account restricted for bond payments and proceeds.

Investments

Investments are stated at fair value, as determined by quoted market prices, except for any certificates of deposit, which are non-participating contracts, and are therefore carried at amortized cost. Interest earned is allocated on a basis of average investment balance. Idaho Code provides authorization for the investment of funds as well as to what constitutes an allowable investment. The District policy allows for investment of idle funds consistent with the Idaho State Code 67-1210 and 67-1210A.

Idaho Code limits investments to the following general types:

Certain revenue bonds, general obligation bonds, local improvement district bonds and registered warrants of state and local governmental entities.

Time deposit accounts, tax anticipation and interest-bearing notes.

Bonds, treasury bills, debentures, or other similar obligations of the United States Government and United States Government Agencies.

Repurchase agreements secured by the above.

The Joint Powers Investment Pool was established as a cooperative endeavor to enable public entities of the State of Idaho to aggregate funds for investment. This pooling is intended to improve administrative efficiency and increase investment yield. The Local Government Investment Pool is managed by the State of Idaho Treasurer's office. The funds of the pool are invested in certificates of deposit, repurchase agreements, and U.S. government securities. The certificates of deposit are federally insured. The U.S. government securities and the collateral for the repurchase agreements are held in trust by a safekeeping bank.

NOTES TO FINANCIAL STATEMENTS

An annual audit of Joint Powers Investment Pool is conducted by the State Legislative Auditors Office. The Legislative Auditor of the State of Idaho has full access to the records of the Pool.

Custodial Credit Risk

For deposits and investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its deposits, investments or collateral securities that are in the possession of an outside party. The District does not have a policy for custodial credit risk outside of the deposit and investment agreements.

The District is authorized to invest in the State of Idaho Local Government Investment Pool (LGIP). The LGIP is a part of Joint Powers Investment Pool managed by the State of Idaho Treasurer's Office and was established as a cooperative endeavor to enable public entities of the State of Idaho to aggregate funds for investment. This pooling is intended to improve administrative efficiency and increase investment yield.

Credit Risk

Credit risk is the risk that an issuer of debt securities or another counterparty to an investment will not fulfill its obligation and is commonly expressed in terms of the credit quality rating issued by a nationally recognized statistical rating organization such as Moody's, Standard & Poor's and Fitch's. The District does not have a restrictive policy regarding rated investments.

Interest Rate Risk

Investments that are fixed for longer periods are likely to experience greater variability in their fair values due to future changes in interest rates. The District does not have a policy concerning maturities of investments.

Concentration of Credit Risk

When investments are concentrated in one issuer, this concentration represents heightened risk of potential loss. No specific percentage identifies when concentration risk is present. The GASB has adopted a principal that governments should provide note disclosure when five percent of the total entity's investments are concentrated in any one issuer. Investments in obligations specifically guaranteed by the U.S. government, mutual funds, and other pooled investments are exempt from disclosure. The District has no policy limiting on the amount it may invest in any one issuer.

Short-term Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds for services rendered. These receivables and payables are classified as due from other funds or due to other funds on the fund financial statements balance sheet. Short-term interfund loans are classified as interfund receivables/payables.

NOTES TO FINANCIAL STATEMENTS

Elimination and Reclassifications

In the process of aggregating data for the Statement of Net Assets and the Statement of Activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the “grossing up” effect on assets and liabilities within the governmental activities column.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Significant estimates used in preparing these financial statements include those assumed in determining the actuarial assumptions made in the other post employment liability. Accordingly, actual results could differ from those estimates.

Property Taxes

Property tax revenues are recognized when received or, if received within the one-month period subsequent to year-end, they are accrued on the government fund financial statements. The District’s property taxes, levied on the Thursday prior to the second Monday in September on a market value basis, are billed to the taxpayers in November. Half of the real, personal, and mobile home property taxes are due on December 20 and the remainder is due the following June 20. Other property taxes are due December 20. Real property taxes not paid constitute a lien on the property when entered on the real property assessment roll as delinquent on the first day of January of the succeeding year.

Delinquent property tax receivable is recognized as revenue in the government-wide financial statements. Only the portion that meets the revenue recognition criteria is recognized as revenue on the fund financial statements.

Under state law, county governments are responsible for extending authorized property tax levies, computing tax rates, billing and collecting all property taxes, and making periodic distributions of collections to entities levying taxes. Ada and Canyon Counties bill and collect property taxes for the District.

Historically, virtually all ad valorem taxes receivable were collected since they are secured by property; therefore, there is no allowance for uncollectible taxes.

Capital Assets

Capital assets are recorded at historical cost and depreciated over their estimated useful lives (excluding salvage value). Donated capital assets are recorded at their estimated fair value at the date of donation. Estimated useful lives are management’s estimate of how long the asset is expected to meet service demands.

Straight-line depreciation is used based on the following estimated useful lives:

| | |
|-----------------------------------|-------------|
| Buildings | 25-50 years |
| Improvements other than buildings | 15-50 years |
| Vehicles | 5-20 years |
| Furniture and equipment | 3-10 years |

NOTES TO FINANCIAL STATEMENTS

The costs of land and buildings acquired before 1996 are recorded at estimated historical cost. Land and buildings acquired after 1996 are recorded at historical cost. The cost of equipment and vehicles is based on historical cost.

The District's capitalization threshold is \$20,000 unless the assets were purchased with bond funds. Under these circumstances, it is the District's policy to include capital assets less than \$20,000. The purpose of the lower threshold is to properly match capital assets with the related liabilities already included in the financial statements.

The cost of normal maintenance and repairs not adding to the value of the asset or materially extending asset lives are not capitalized.

The District does not possess any material amounts of infrastructure capital assets (e.g. roads, bridges, parking lots, sewer). Amounts expended for such items prior to June 30, 2001 were considered part of the cost of the buildings or other immovable property. In the future, if such items are built or constructed, and appear to be material in cost compared to all capital assets, they will be capitalized and depreciated over their estimated useful lives.

Capital Leases

Capital leases are recorded at the inception of the leases as expenditures and other financing sources in governmental fund financial statements at the present value of the future minimum lease payments, using the stated or implicit interest rate in the leases. Lease payments are recorded as expenditures on the due date. Capital leases are recorded as a liability in the government-wide financial statements at the time of inception and the corresponding asset is recorded in the capital asset section on the balance sheet. As of June 30, 2010, the District does not have any outstanding capital leases.

Long-Term Liabilities

For government-wide reporting, the costs associated with the bonds are recognized over the lives of the bonds. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

For fund financial reporting, bond premiums and discounts, as well as issuance costs, are recognized in the period the bonds are issued. Bond proceeds are reported as another financing source, net of the applicable premium or discount. Issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures.

NOTES TO FINANCIAL STATEMENTS

Restricted Net Assets

For the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net assets use are either:

Externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments;

Imposed by law through constitutional provisions or enabling legislation.

The District applies restricted resources before applying unrestricted resources to expenses incurred for which both restricted and unrestricted resources are available.

Fund Balances of Fund Financial Statements

Reserved fund balance indicates that portion of fund equity, which has been segregated for specific purposes.

Designated fund balance indicates that portion of fund equity for which the District management has made tentative plans or intentions for the use of the funds, which may be subject to change.

Undesignated fund balance indicates that portion of fund equity, which is available for budgeting in future periods.

Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures, or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transfers are reported as operating transfers.

Deferred Revenue

The District reports deferred revenues on its statement of net assets and fund balance sheet. Deferred revenues arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the occurrence of qualifying expenditures. In subsequent periods, when the District has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and the revenue is recognized. On the government fund financial statements property taxes that are delinquent are recorded as deferred revenue since they are not available within 30 days of the fiscal year end, however in the government-wide financial statements all property taxes are recognized in the year they are measurable.

Compensated Absences

All 12-month or full time employees earn vacation and sick leave in amounts varying with tenure and classification. Employees cannot accumulate more than 22.5 days of vacation leave. Upon retirement, unused vacation leave up to 22.5 days is paid to employees. No reimbursement or accrual is made for unused sick leave.

NOTES TO FINANCIAL STATEMENTS

The District's recognition and measurement criteria for compensated absences follow:

GASB Statement No. 16 provides that vacation leave and other compensated absences with similar characteristics should be accrued as a liability as the benefits are earned by the employees if both the following conditions are met:

1. The employees' right to receive compensation is attributable to services already rendered.
2. It is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts, if any, are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported since it cannot be easily determined. The liability is liquidated from resources from the General Fund and Special Revenue Funds (Other Governmental Funds).

Grants and Other Intergovernmental Revenues

Federal and State reimbursement-type grants are recorded as intergovernmental revenues when the related expenditures/expenses are incurred and, in the governmental funds, when the revenues meet the availability criterion.

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Explanation of certain differences between the Governmental Fund Balance Sheet and the Statement of Net Assets:

The cost of capital assets (land, buildings, furniture, equipment and construction in process) purchased or constructed is reported as an expenditure in governmental funds. The Statement of Net Assets includes those capital assets among the assets of the District as a whole. The cost of those capital assets is allocated over their estimated useful lives (as depreciation expense) to the various programs reported as governmental activities in the Statement of Activities. Because depreciation expense does not affect financial resources, it is not reported in government funds.

| | | |
|------------------------------|----|---------------------------|
| Costs of capital assets | \$ | 483,736,646 |
| Depreciation expense to date | | <u>(99,655,833)</u> |
| Net adjustment | \$ | <u><u>384,080,813</u></u> |

NOTES TO FINANCIAL STATEMENTS

Governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in treatment of long-term debt and related items. Balances at June 30, 2010 are:

| | |
|---|-------------------------------|
| Newly issued bonds | \$ (26,275,628) |
| Capitalized debt issuance costs | 1,828,674 |
| Amortization of debt issuance costs to date | (832,913) |
| Prepaid interest | 5,001,811 |
| Amortization of prepaid interest to date | (1,323,154) |
| Premium on bonds issued | (10,982,901) |
| Amortization of bond premium to date | <u>3,736,969</u> |
| Net adjustment | <u><u>\$ (28,847,142)</u></u> |

Long-term liabilities applicable to the District's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the Statement of Net Assets. Balances payable at June 30, 2010 are:

| | |
|----------------------------|--------------------------------|
| Bonds payable | \$ (173,975,000) |
| Interest payable | (4,325,470) |
| Arbitrage rebate liability | (187,960) |
| OPEB liability | <u>(3,542,001)</u> |
| Net adjustment | <u><u>\$ (182,030,431)</u></u> |

Explanation of certain differences between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance and the government-wide Statement of Activities:

Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays during the fiscal year:

| | |
|------------------------------------|----------------------------|
| Depreciation expense | \$ (11,757,481) |
| Loss on disposal of capital assets | (6,564) |
| Capital outlays | <u>10,881,877</u> |
| Net adjustment | <u><u>\$ (882,168)</u></u> |

NOTES TO FINANCIAL STATEMENTS

Proceeds from bond issue is a revenue in the governmental funds, but the proceeds increase long-term liabilities in the Statement of Net Assets. Governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in treatment of long-term debt and related items.

| | |
|-------------------------------------|-------------------------------|
| Bond proceeds | \$ (26,275,628) |
| Capitalized debt issuance costs | 83,043 |
| Capitalized prepaid interest | 2,591,348 |
| Capitalized bond premium | (1,911,813) |
| Amortization of debt issuance costs | (143,714) |
| Amortization of prepaid interest | (333,137) |
| Amortization of bond premium | <u>772,754</u> |
| Net adjustment | <u><u>\$ (25,217,147)</u></u> |

NOTE 3 – CASH AND INVESTMENTS

At June 30, 2010, the District’s cash and investments consisted of the following:

| <u>Deposits</u> | <u>Carrying Amount</u> | <u>Bank Amount</u> | <u>Insured or Collateralized</u> | <u>Uninsured and Uncollateralized</u> |
|---|-----------------------------|------------------------|--------------------------------------|---|
| Insured or collateralized | \$ 25,403,280 | \$ 26,039,545 | \$ 26,039,545 | \$ - |
| | | | | |
| <u>Investments</u> | <u>Fair Value</u> | <u>Rating</u> | <u>Maturity</u> | <u>Concentration</u> |
| State of Idaho Local Government Investment Pool (LGIP) | <u>749,382</u> | Unrated | Not applicable | <u>100%</u> |
| Total investments | <u>749,382</u> | | | <u>100%</u> |
| Total cash and investments | <u><u>\$ 26,152,662</u></u> | | | |

NOTES TO FINANCIAL STATEMENTS

NOTE 4 – INTERFUND BALANCES AND TRANSFERS

As of June 30, 2010, the Capital Projects Fund has an interfund payable to the General Fund for \$2,433,642 and the Other Governmental Funds have an interfund payable to the General Fund for \$3,167,158 from allocations of the Districts pooled cash accounts. The following transfers occurred in the fiscal year for the purpose of funding operations:

| | Interfund transfers in | |
|-----------------------------|-----------------------------|-----------------------------|
| | General Fund | Capital Projects Fund |
| | <u> </u> | <u> </u> |
| Interfund transfers out | | |
| General fund | \$ - | \$ 985,130 |
| Nonmajor governmental funds | 556,650 | - |
| Total interfund transfers | <u>\$ 556,650</u> | <u>\$ 985,130</u> |

NOTE 5 – DUE FROM OTHER AGENCIES AND UNITS OF GOVERNMENT

Amounts due from other agencies and units of government were as follows as of June 30, 2010:

| | |
|------------------|----------------------|
| State Agencies | \$ 3,719,013 |
| Federal Agencies | 5,170,884 |
| | <u>8,889,897</u> |
| County Agencies | <u>22,421,395</u> |
| Total | <u>\$ 31,311,292</u> |

NOTE 6 – DEFERRED REVENUES

Revenues are deferred in accordance with the modified accrual basis of accounting for the fund financial statements. The following deferred revenues are measurable but do not represent available expendable resources for the fund financial statements for the fiscal year ended June 30, 2010:

| | General Fund | Debt Service Fund | Capital Projects Fund | Other Governmental Fund |
|------------------|-----------------------------|-----------------------------|-----------------------------|-------------------------------|
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Delinquent taxes | <u>\$ 1,047,873</u> | <u>\$ 1,457,746</u> | <u>\$ 1,112,545</u> | <u>\$ 2,162</u> |

NOTES TO FINANCIAL STATEMENTS

NOTE 7 – CAPITAL ASSETS

A summary of activity in the Capital Assets is as follows:

| | June 30, 2009 | Additions | Deletions | Transfers | June 30, 2010 |
|---------------------------------------|-----------------------|------------------------|-------------------|-----------------------|-----------------------|
| Non depreciable capital assets | | | | | |
| Land | \$ 27,919,891 | \$ - | \$ - | \$ - | \$ 27,919,891 |
| Construction in progress | 17,993,850 | 9,770,717 | - | (4,617,639) | 23,146,928 |
| Total | <u>\$ 45,913,741</u> | <u>\$ 9,770,717</u> | <u>\$ -</u> | <u>\$ (4,617,639)</u> | <u>\$ 51,066,819</u> |
| Depreciable capital assets | | | | | |
| Buildings, and improvements | \$ 378,954,574 | \$ - | \$ - | \$ 1,000,829 | \$ 379,955,403 |
| Furniture and equipment | 48,277,118 | 1,111,160 | (290,664) | 3,616,810 | 52,714,424 |
| Total | 427,231,692 | 1,111,160 | (290,664) | 4,617,639 | 432,669,827 |
| Less accumulated depreciation for | | | | | |
| Buildings, and improvements | (61,855,683) | (7,922,740) | - | - | (69,778,423) |
| Furniture and equipment | (26,326,769) | (3,834,741) | 284,100 | - | (29,877,410) |
| Total accumulated depreciation | <u>(88,182,452)</u> | <u>(11,757,481)</u> | <u>284,100</u> | <u>-</u> | <u>(99,655,833)</u> |
| Total depreciable capital assets, net | <u>\$ 339,049,240</u> | <u>\$ (10,646,321)</u> | <u>\$ (6,564)</u> | <u>\$ 4,617,639</u> | <u>\$ 333,013,994</u> |

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

| | |
|---|----------------------|
| Governmental activities | |
| Elementary programs | \$ 3,659,095 |
| Secondary/alternative programs | 4,104,525 |
| Other instructional programs | 320,895 |
| Instructional improvement | 7,314 |
| Administration | 2,572,805 |
| Maintenance and custodial | 26,134 |
| Grounds | 3,523 |
| Pupil transportation services | 1,016,504 |
| Non-instructional | 46,686 |
| Total depreciation expense –Governmental activities | <u>\$ 11,757,481</u> |

NOTES TO FINANCIAL STATEMENTS

NOTE 8 –LONG-TERM DEBT

A summary of activity in the long-term debt is as follows:

| | Balance at June 30, 2009 | Additions | Deletions | Balance at June 30, 2010 | Due within one year |
|-------------------------|-----------------------------|---------------|-----------------|-----------------------------|------------------------|
| Governmental activities | | | | | |
| Bonds payable | | | | | |
| General obligation | \$ 213,700,000 | \$ 26,275,628 | \$ (39,725,000) | \$ 200,250,628 | \$ 11,585,000 |

Due to employees – benefits represent amounts not expected to be paid from expendable and available resources are as follows:

| | |
|--------------------------------|--------------|
| Other post employment benefits | \$ 3,542,001 |
|--------------------------------|--------------|

NOTE 9 – GENERAL OBLIGATION BONDS PAYABLE

General obligation bonds payable as of June 30, 2010 consist of the following:

Series 1998 General Obligation Refunding Bonds in the original principal amount of \$34,375,000 maturing through July 30, 2016. Principal payments are due annually on July 30, and interest is payable semi-annually on January 31 and July 30 of each year. Interest rates range from 5.0% to 5.5% on the outstanding bonds.

\$ 20,720,000

Series 2002 General Obligation School Bonds in the original principal amount of \$56,130,000 maturing through July 30, 2022. Principal payments are due annually on July 30, and interest is payable semi-annually on January 31 and July 30 of each year. Interest rates range from 3.25% to 5.125% on the outstanding bonds.

6,260,000

NOTES TO FINANCIAL STATEMENTS

Series 2004 General Obligation Refunding Bonds in the original principal amount of \$13,195,000 maturing through July 30, 2018. Principal payments are due annually on July 30, and interest is payable semi-annually on January 31 and July 30 of each year. Interest rates range from 3.0% to 5.0% on the outstanding bonds. 7,835,000

2003 Certificates of Participation in the original principal amount of \$6,145,000 maturing through February 1, 2016. Principal payments are due annually on August 1, and interest is payable semi-annually on February 1 and August 1 of each year. Interest rates range from 2.75% to 4.15% on the outstanding certificates. 3,440,000

Series 2005 General Obligation Refunding Bonds in the original principal amount of \$31,385,000 maturing through February 15, 2020. Principal payments are due annually on February 15, and interest is payable semi-annually on February 15 and August 15 of each year. Interest rates range from 3.5% to 4.75% on the outstanding bonds. 29,110,000

Series 2005 General Obligation School Bonds in the original principal amount of \$134,580,000 maturing through August 15, 2024. Principal payments are due annually on August 15, and interest is payable semi-annually on February 15 and August 15 of each year. Interest rates range from 4.0% to 5.0% on the outstanding bonds. 106,610,000

Series 2010 General Obligation School Bonds in the original principal amount of \$25,880,000 maturing through January 30, 2022. Principal payments are due annually on January 30, and interest is payable semi-annually on January 30 and July 30 of each year. Interest rates range from 2.5% to 5.0% on the outstanding bonds. 25,880,000

Series 2010 Supplemental General Obligation School Bonds in the original principal amount of \$395,627 maturing through July 30, 2013. The principal payment is due on July 30, 2013, and interest is payable on July 30, 2013. The interest rate on the bond is 1.75% 395,628

\$ 200,250,628

NOTES TO FINANCIAL STATEMENTS

The annual requirements to pay principal and interest on outstanding general obligation bonds payable are as follows as of June 30, 2010:

| Fiscal Year Ending June 30 | General Obligation Bond Principal | Interest | Total |
|-------------------------------------|---|----------------------|-----------------------|
| 2011 | \$ 11,585,000 | \$ 10,283,611 | \$ 21,868,611 |
| 2012 | 12,090,000 | 9,838,624 | 21,928,624 |
| 2013 | 12,620,000 | 8,675,256 | 21,295,256 |
| 2014 | 13,535,628 | 7,483,668 | 21,019,296 |
| 2015 | 14,215,000 | 6,814,990 | 21,029,990 |
| 2016-2020 | 77,585,000 | 23,912,595 | 101,497,595 |
| 2021-2025 | 58,620,000 | 6,990,750 | 65,610,750 |
| | <u>\$ 200,250,628</u> | <u>\$ 73,999,494</u> | <u>\$ 274,250,122</u> |

The general obligation bonded debt of the District is limited by State law to 5% of the market value for assessment purposes, less the aggregate outstanding indebtedness. Thus the debt limit and additional debt-incurring capacity of the District is calculated as follows:

| | |
|--------------------------------------|-----------------------|
| Market value for assessment purposes | \$ 13,186,942,968 |
| Multiplied by 5% | <u>5%</u> |
| Debt limit | 659,347,148 |
| Less outstanding indebtedness | <u>200,250,628</u> |
| Additional debt-incurring capacity | <u>\$ 459,096,520</u> |

Refunded Bonds – In 1991, 1996, 1998, 2005, 2006, 2008 and 2010 the District entered into refunding transactions whereby refunding bonds were issued to facilitate the retirement of the District’s general obligation bonds already outstanding. The proceeds of the refunding issues were placed in the irrevocable escrow accounts and invested in U.S. Treasury obligations that, together with interest earned thereon, will provide amounts sufficient for future payment of interest and principal on the issues being refunded. The refunded bonds are not included in the District’s outstanding long-term debt since the District legally satisfied its obligation with respect thereto through consummation of the refunding transaction. Any gain or loss on a refunding is recognized in the period in which the refunding occurs. At June 30, 2010, the bonds payable amount still owing but considered extinguished was \$108,370,000.

NOTE 10 – RETIREMENT HEALTHCARE PLAN

Plan Description. Joint School District No. 2’s Post-Retirement Healthcare Plan (the plan) is a single-employer defined benefit healthcare plan administered by the Blue Cross of Idaho and Delta Dental. Blue Cross provides medical and prescription drug insurance benefits to eligible retirees and their eligible dependents. Delta Dental provides dental insurance benefits to eligible retirees and their eligible dependants. A retiree who retires with the Public Employee Retirement System of Idaho (PERSI) is eligible to keep the District’s health insurance as a retiree until age 65, or until the retiree is eligible for coverage under Medicare. Retirement eligibility is determined based on a minimum of reaching age 55 with at least 5 years of membership service with a PERSI employer. The retiree is on the same medical plan as the District’s active employees.

NOTES TO FINANCIAL STATEMENTS

Funding Policy. The contribution requirement of plan members is established by the District’s insurance committee in conjunction with our insurance provider. The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2010 the District contributed approximately \$544 thousand to the plan for current premiums or approximately 29% of total premiums. Plan members receiving benefits contributed approximately \$1.3 million or approximately 71% of the total premiums. Retirees are required to pay 100% of the premiums for both the retiree and the dependent coverage. Monthly contribution rates in effect for retirees under age 65 during fiscal year 2010 were as follows:

| Under 65 | |
|--------------------|---------|
| Medical | |
| Retiree Only | \$447 |
| Retiree +1 | \$983 |
| Retiree +2 or more | \$1,059 |
| | |
| Dental | |
| Retiree Only | \$34 |
| Retiree +1 | \$60 |
| Retiree +2 or more | \$88 |

Annual OPEB Cost and Net OPEB Obligation. The District’s annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District’s net OPEB obligation to Joint School District No. 2’s Post Retirement Healthcare Plan:

| | |
|--|----------------------------|
| Annual required contribution | \$ 1,595,840 |
| Interest on net OPEB obligation | 111,150 |
| Adjustment to annual required contribution | <u>(91,220)</u> |
| Annual OPEB cost (expense) | 1,615,770 |
| Contributions made | <u>(543,769)</u> |
| Increase in net OPEB obligation | 1,072,001 |
| Net OPEB obligation—beginning of year | <u>2,470,000</u> |
| | |
| Net OPEB obligation—end of year | <u><u>\$ 3,542,001</u></u> |

Three year trend disclosure information of the District’s plan is as follows:

| | Year Ended June 30, | Annual OPEB Cost | Actual Contributions | Percentage of OPEB Contributed | Net OPEB Obligation |
|------|------------------------|---------------------|-------------------------|-----------------------------------|------------------------|
| OPEB | 2008 | \$ 1,621,000 | \$ 419,000 | 26% | \$ 1,202,000 |
| | 2009 | 1,787,000 | 519,000 | 29% | 2,470,000 |
| | 2010 | 1,615,770 | 543,769 | 34% | 3,542,001 |

NOTES TO FINANCIAL STATEMENTS

Funded Status and Funding Progress. As of July 1, 2009 and July 1, 2007, the actuarial valuation dates, the actuarial accrued liability (AAL) and the unfunded actuarial accrued liability (UAAL) for benefits was \$12.4 million and \$12.9mm, respectively. The District's plan is considered to be unfunded since there are no assets and retiree benefits are paid annually on a cash basis. Because the plan is unfunded, the AAL and UAAL are equal. The covered payroll (annual payroll of active employees covered by the plan) was \$125.4 million and the ratio of the UAAL to the covered payroll was 9.9% as of July 1, 2009. The covered payroll (annual payroll of active employees covered by the plan) was \$96.2 million and the ratio of the UAAL to the covered payroll was 13.4% as of July 1, 2007.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, the healthcare cost trend, amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress will be presented in the future when multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 26, 2010 actuarial valuation, the Projected Unit Credit (PUC) actuarial cost method was used. The actuarial assumptions included a 4.5% discount rate assuming the District will fund the retirement benefit on a pay-as-you-go basis. The valuation assumes that 85% of eligible retirees will actually participate in the retiree medical benefit and 10% of their dependents will participate. The annual healthcare cost trend rate of 7.9% initially, decreasing gradually until reaching an ultimate rate of 4.9%. It was assumed salary increases will be 3.75% per annum. The UAAL is being amortized as a level percentage of projected payrolls over a thirty year time period.

NOTE 11 – INSURANCE

The District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; and errors and omissions. The District purchases insurance for property losses from independent carriers. The District has in effect property insurance coverage up to \$621,659,998 with a \$2,500 deductible per incident. Worker's compensation insurance is purchased from the State of Idaho in accordance with State requirements. The District maintains a \$2,000,000 commercial general liability policy per occurrence and a \$5,000,000 maximum aggregate.

There have been no significant reductions in insurance coverage from the previous year, and no settlements in excess of insurance coverage in any of the prior three fiscal years.

NOTES TO FINANCIAL STATEMENTS

NOTE 12 – COMMITMENTS AND CONTINGENCIES

The District had \$546,916 in open purchase orders at June 30, 2010 that were budgeted expenditures in the 2009/2010 school year.

The District approved improvements to the Renaissance High School of \$1,738,126 during the year. As of June 30, 2010, \$1,034,139 has been expended. There were no other significant contracts in construction as of June 30, 2010.

Under the terms of federal and state grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Any disallowed claims, including amounts already collected, could become a liability of the District. District management believes disallowances, if any, will be immaterial.

The District has been named as defendant in various legal actions, the results of which are not presently determinable. However, in the opinion of the District's management and legal counsel, the amount of losses that might be sustained, if any, would not materially affect the District's financial position.

NOTE 13 – PENSION PLAN

The Public Employee Retirement System of Idaho (PERSI), a cost sharing multiple-employer public retirement system, was created by the Idaho State Legislature. It is a defined benefit plan requiring both the member and the employer to contribute. The plan provides benefits based on members' years of service, age, and compensation. In addition, benefits are provided for disability, death, and survivors of eligible members or beneficiaries. The authority to establish and amend benefit provisions is established in Idaho Code. Designed as a mandatory system for eligible state and school district employees, the legislation provided for other political subdivisions to participate by contractual agreement with PERSI.

After 5 years of credited service, members become fully vested in retirement benefits earned to date. Members are eligible for retirement benefits upon attainment of the ages specified for their employment classification. For each month of credited service, the annual service retirement allowance is 2.0% of the average monthly salary for the highest consecutive 42 months.

PERSI issues publicly available stand alone statements and required supplementary information. These reports may be obtained from PERSI's website www.persi.idaho.gov.

The actuarially determined contribution requirements of the District and its employees are established and may be amended by the PERSI Board of Trustees. For the fiscal year ended June 30, 2010 the required contribution rate as a percentage of covered payroll was 6.23% for general members. The employer rate as a percentage of covered payroll was 10.39% for general members.

The District's contributions required and paid were \$13,672,694, \$13,300,673, and \$12,388,275, for the three fiscal years ended June 30, 2010, 2009, and 2008, respectively.

NOTES TO FINANCIAL STATEMENTS

NOTE 14 – EARLY RETIREMENT INCENTIVE PROGRAM

The District has an Early Retirement Incentive Program (the Program) available to all staff in the District who have at least fifteen years of service, attain age 55, and are not eligible for disability benefits or full PERSI benefits. The Program, implemented by the Board and subject to annual renewal, provides for payments to early retirees over a two-year period following retirement. The amount of benefits paid is based on age and salary at the date of retirement. Participation in the Program is subject to the approval of the District. The District funds the Program from current operating funds. During the year ended June 30, 2010, the District paid Program benefits totaling \$1,524,478.

NOTE 15 – PROFESSIONAL TECHNICAL CENTER AGREEMENT

The District has an agreement with the Boise School District (Boise) to participate in the education of Meridian students attending the Professional Technical Center owned and operated by Boise. The agreement provided for the District to contribute \$1,600,000 to Boise to assist in the construction costs. This funding was spent during the 2000 fiscal year. District students are entitled to occupy 30% of the Professional Technical Center for a fifteen-year period at no cost. The agreement does provide for both entities to fund any operating deficits based on the percentage of students. In the event of termination of the agreement, Boise will reimburse the District on a declining basis \$106,666 per year over the fifteen-year period. Boise has full operating and management responsibility.

NOTE 16 – OPERATING LEASES

The District contracts out for copier services and pays by the copy. The contract guaranteed a price of 0.0019 cents to .0384 cents per copy (depending on the model of the copier) until April 26, 2015. The District made minimum lease payments in the amount of \$33,551 on this contract.

NOTE 17 – DEFICIT FUND BALANCES

Special Revenue Fund 290 (included in Other Governmental Funds) had a negative fund balance of \$906,746 as of June 30, 2010. The District plans to reduce the deficit over the next two years with future revenue increases from lunch price changes, and reductions in expenses primarily in labor and food purchase costs.

JOINT SCHOOL DISTRICT NO. 2

REQUIRED SUPPLEMENTARY INFORMATION

JOINT SCHOOL DISTRICT NO. 2
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL GENERAL FUND
YEAR ENDED JUNE 30, 2010

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget- Positive (Negative) |
|--------------------------------------|--------------------|--------------------|--------------------|--|
| | Original | Final | | |
| REVENUE | | | | |
| Local revenues | | | | |
| Property taxes | \$ 14,317,678 | \$ 13,753,042 | \$ 13,881,284 | \$ 128,242 |
| Earnings on investments | - | - | 130,765 | 130,765 |
| State revenue | 161,082,601 | 160,820,458 | 142,741,367 | (18,079,091) |
| Federal revenue | 1,757,663 | 2,400,000 | 21,199,549 | 18,799,549 |
| Other revenue | 2,927,437 | 3,023,240 | 2,477,163 | (546,077) |
| Total revenue | <u>180,085,379</u> | <u>179,996,740</u> | <u>180,430,128</u> | <u>433,388</u> |
| EXPENDITURES | | | | |
| Instructional | | | | |
| Elementary school programs | 54,614,031 | 54,466,556 | 54,871,295 | (404,739) |
| Secondary school programs | 37,973,321 | 38,495,289 | 38,095,776 | 399,513 |
| Alternative school programs | 5,281,137 | 6,042,686 | 5,862,668 | 180,018 |
| Exceptional school programs | 13,497,809 | 13,514,817 | 13,000,671 | 514,146 |
| Preschool school programs | 1,067,376 | 971,600 | 954,167 | 17,433 |
| Gifted and talented school programs | 1,334,316 | 1,563,348 | 1,368,098 | 195,250 |
| Interscholastic school programs | 2,309,017 | 2,440,692 | 2,362,610 | 78,082 |
| School activity programs | 640,579 | 640,497 | 697,493 | (56,996) |
| Summer school programs | 330,246 | 326,065 | 325,140 | 925 |
| Total instructional | <u>117,047,832</u> | <u>118,461,550</u> | <u>117,537,918</u> | <u>923,632</u> |
| Support services | | | | |
| Attendance, guidance, health program | 5,969,676 | 5,836,916 | 5,779,326 | 57,590 |
| Ancillary program | 8,212,285 | 6,859,136 | 6,758,846 | 100,290 |
| Instructional improvement program | 3,988,490 | 4,315,195 | 3,239,480 | 1,075,715 |
| Instructional technology program | 1,456,073 | 1,358,491 | 1,356,949 | 1,542 |
| Media program | 2,446,427 | 2,375,627 | 2,253,775 | 121,852 |
| School administration program | 13,434,446 | 13,201,216 | 12,278,199 | 923,017 |
| Administration program | 3,614,233 | 4,978,331 | 4,825,011 | 153,320 |
| Administration technology program | 2,206,637 | 2,215,488 | 2,152,593 | 62,895 |
| Custodial program | 13,001,244 | 12,492,470 | 9,204,335 | 3,288,135 |
| Maintenance and warehouse programs | 2,870,907 | 2,815,217 | 5,615,568 | (2,800,351) |
| Grounds program | 515,753 | 518,994 | 416,926 | 102,068 |
| Security program | 813,396 | 813,653 | 801,925 | 11,728 |
| Transportation program | 11,868,358 | 12,032,489 | 11,538,281 | 494,208 |
| Total support services | <u>70,397,925</u> | <u>69,813,223</u> | <u>66,221,214</u> | <u>3,592,009</u> |

JOINT SCHOOL DISTRICT NO. 2
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL GENERAL FUND
YEAR ENDED JUNE 30, 2010

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget- Positive (Negative) |
|--|-----------------------|-----------------------|-----------------------|--|
| | Original | Final | | |
| EXPENDITURES (continued) | | | | |
| Non-instructional | 190,550 | 190,550 | 214,974 | (24,424) |
| Community program | 72,452 | 81,437 | 152,230 | (70,793) |
| Debt service program | | | | |
| Principal | 450,000 | 450,000 | 450,000 | - |
| Interest and agent fees | 142,944 | 142,944 | 158,196 | (15,252) |
| Total expenditures | <u>188,301,703</u> | <u>189,139,704</u> | <u>184,734,532</u> | <u>4,405,172</u> |
| Deficiency of revenue over expenditures | (8,216,324) | (9,142,964) | (4,304,404) | 4,838,560 |
| Other financing sources (uses) | | | | |
| Net interfund transfer | (744,335) | (517,589) | (428,480) | 89,109 |
| Unrealized loss on investments | - | - | (12,626) | (12,626) |
| | <u>(744,335)</u> | <u>(517,589)</u> | <u>(441,106)</u> | <u>76,483</u> |
| Deficiency of revenues and financing sources (uses) over expenditures and other financing sources (uses) | <u>\$ (8,960,659)</u> | <u>\$ (9,660,553)</u> | <u>\$ (4,745,510)</u> | <u>\$ 4,915,043</u> |

JOINT SCHOOL DISTRICT NO. 2
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2010

NOTE 1 – BASIS OF BUDGETING

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

1. The District annually prepares a budget by estimating the probable amount of money necessary for all purposes for which an appropriation is to be made (including interest and principal due on the bonded debt) and by itemizing and classifying the proposed expenditures by department, fund or service as nearly as may be practicable. To support such proposed expenditures, the District prepares an estimate of the total revenue anticipated during the ensuing fiscal year for which a budget is being prepared and classifies such receipts by source as nearly as may be possible and practicable.
2. The proposed budget is published in the local newspaper.
3. A public hearing is conducted to obtain citizen comments.
4. The budget is formally adopted through approval by the board of trustees and published in the local newspaper.
5. The District may, after school starts and actual enrollment figures are known, amend the budget using the same procedure that was used in adopting the original budget. A budget may be amended downward in any instance. However, amendment to a greater amount than adopted can only happen if the District receives additional revenues in that fiscal year as a result of an increase in non-property tax related receipts. Once the change is justified, the process for formal adoption is as described above. The original budget was amended for the fiscal year ended June 30, 2010.
6. Formal budgetary integration is employed as a management control device during the year for all funds. Legal budgetary control is established based upon total revenues and expenditures.
7. Budget for funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). The level of control (level at which expenditures may not exceed budget) is the fund.
8. All annual appropriations lapse at fiscal year end.

JOINT SCHOOL DISTRICT NO. 2

OTHER FINANCIAL INFORMATION

JOINT SCHOOL DISTRICT NO. 2
COMBINING SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES – ALL FIDUCIARY FUNDS
JUNE 30, 2010

| | Beginning Balance <u>June 30, 2009</u> | Receipts | Expenditures | Ending Balance <u>June 30, 2010</u> |
|-------------------------------|--|-------------------------|-------------------------|---|
| ASSETS | | | | |
| Cash | | | | |
| Meridian High School | \$ 33,672 | \$ 783,031 | \$ 787,238 | \$ 29,465 |
| Centennial High School | 112,267 | 997,203 | 1,071,477 | 37,993 |
| Eagle High School | 33,106 | 932,830 | 941,687 | 24,249 |
| Mountain View High School | 25,457 | 1,203,459 | 1,211,540 | 17,376 |
| Rocky Mountain High School | 51,115 | 1,124,084 | 1,046,137 | 129,062 |
| Meridian Middle School | 8,289 | 170,841 | 164,927 | 14,203 |
| Lowell Scott Middle School | 3,642 | 209,444 | 161,874 | 51,212 |
| Lake Hazel Middle School | 3,402 | 133,027 | 132,949 | 3,480 |
| Eagle Middle School | 9,468 | 151,380 | 151,290 | 9,558 |
| Lewis and Clark Middle School | 6,344 | 157,404 | 147,934 | 15,814 |
| Sawtooth Middle School | 5,956 | 117,846 | 115,768 | 8,034 |
| Heritage Middle School | 6,149 | 166,243 | 165,759 | 6,633 |
| Academies | 81,117 | 166,831 | 157,585 | 90,363 |
| Elementary Schools | 448,610 | 1,646,783 | 1,568,339 | 527,054 |
| Total cash | <u>828,594</u> | <u>7,960,406</u> | <u>7,824,504</u> | <u>964,496</u> |
| Investments | | | | |
| Meridian High School | 103,453 | 25,378 | - | 128,831 |
| Centennial High School | 299,719 | 812 | - | 300,531 |
| Eagle High School | 315,700 | 855 | - | 316,555 |
| Mountain View High School | 307,761 | 15,974 | - | 323,735 |
| Rocky Mountain High School | 95,611 | 311 | - | 95,922 |
| Meridian Middle School | 76,176 | 227 | 2,000 | 74,403 |
| Lowell Scott Middle School | 63,547 | 194 | - | 63,741 |
| Lake Hazel Middle School | 48,423 | 24,996 | - | 73,419 |
| Eagle Middle School | 70,851 | 243 | 1,499 | 69,595 |
| Lewis and Clark Middle School | 64,031 | - | 6,784 | 57,247 |
| Sawtooth Middle School | 44,296 | 122 | 13,973 | 30,445 |
| Heritage Middle School | 25,871 | 8,527 | 4,439 | 29,959 |
| Total investments | <u>1,515,439</u> | <u>77,639</u> | <u>28,695</u> | <u>1,564,383</u> |
| Total assets | <u>\$ 2,344,033</u> | <u>\$ 8,038,045</u> | <u>\$ 7,853,199</u> | <u>\$ 2,528,879</u> |

| LIABILITIES | Beginning | | | Ending |
|-------------------------------|---------------------|---------------------|---------------------|---------------------|
| | Balance | Receipts | Expenditures | Balance |
| Accounts payable | June 30, 2009 | | | June 30, 2010 |
| Meridian High School | \$ 8,740 | \$ 65,598 | \$ 69,601 | \$ 4,737 |
| Centennial High School | 45,031 | 95,683 | 101,681 | 39,033 |
| Eagle High School | 48,455 | 74,752 | 85,740 | 37,467 |
| Mountain View High School | 6,402 | 79,931 | 67,577 | 18,756 |
| Rocky Mountain High School | 12,032 | 74,403 | 72,498 | 13,937 |
| Meridian Middle School | 5,992 | 8,378 | 9,449 | 4,921 |
| Lowell Scott Middle School | 6,630 | 6,141 | 4,944 | 7,827 |
| Lake Hazel Middle School | 1,854 | 7,198 | 6,004 | 3,048 |
| Eagle Middle School | 3,564 | 6,907 | 9,309 | 1,162 |
| Lewis and Clark Middle School | 2,664 | 6,018 | 6,189 | 2,493 |
| Sawtooth Middle School | 3,228 | 6,365 | 5,326 | 4,267 |
| Heritage Middle School | 505 | 10,185 | 9,758 | 932 |
| Academies | - | - | - | - |
| Elementary Schools | 760 | - | 760 | - |
| Total accounts payable | <u>145,857</u> | <u>441,559</u> | <u>448,836</u> | <u>138,580</u> |
| Due to student groups | | | | |
| Meridian High School | 128,387 | 742,811 | 717,639 | 153,559 |
| Centennial High School | 366,956 | 902,332 | 969,797 | 299,491 |
| Eagle High School | 300,351 | 858,934 | 855,948 | 303,337 |
| Mountain View High School | 326,818 | 1,125,974 | 1,130,437 | 322,355 |
| Rocky Mountain High School | 134,694 | 1,049,940 | 973,587 | 211,047 |
| Meridian Middle School | 78,472 | 162,690 | 157,477 | 83,685 |
| Lowell Scott Middle School | 60,560 | 203,496 | 156,930 | 107,126 |
| Lake Hazel Middle School | 49,970 | 126,014 | 102,133 | 73,851 |
| Eagle Middle School | 76,796 | 144,717 | 143,522 | 77,991 |
| Lewis and Clark Middle School | 67,671 | 144,564 | 141,667 | 70,568 |
| Sawtooth Middle School | 47,114 | 111,602 | 124,504 | 34,212 |
| Heritage Middle School | 30,660 | 156,147 | 151,147 | 35,660 |
| Academy Schools | 81,117 | 166,831 | 157,585 | 90,363 |
| Elementary Schools | 448,610 | 1,646,783 | 1,568,339 | 527,054 |
| Total due to student groups | <u>2,198,176</u> | <u>7,542,835</u> | <u>7,350,712</u> | <u>2,390,299</u> |
| Total liabilities | <u>\$ 2,344,033</u> | <u>\$ 7,984,394</u> | <u>\$ 7,799,548</u> | <u>\$ 2,528,879</u> |

JOINT SCHOOL DISTRICT NO. 2

SINGLE AUDIT AND GOVERNMENT AUDITING STANDARDS INFORMATION

**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**

To the Board of Trustees
Joint School District No. 2
Meridian, Idaho

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Joint School District No. 2, (the District) as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 25, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of 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 internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did identify a deficiency in internal control over financial reporting, as described in the accompanying schedule of findings and questioned costs as 2010-1 that we consider to be a material weakness, as defined above. We consider finding 2010-2 as described in the accompanying schedule of findings and questioned costs to be a significant deficiency 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*.

We noted certain matters that we reported to management of the District in a separate letter dated October 25, 2010.

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

This report is intended solely for the information and use of management, the Board of Trustees, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Boise, Idaho
October 25, 2010



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

To the Board of Trustees
Joint School District No. 2
Meridian, Idaho

Compliance

We have audited the compliance of the Joint School District No. 2 (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 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 the 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, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the 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 in order to determine our

auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A 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 over compliance 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 management, the Board of Trustees, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Boise, Idaho
October 25, 2010

JOINT SCHOOL DISTRICT NO. 2
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2010

| Program Title | Federal CFDA Number | Expenditures |
|---|---------------------------|--------------|
| <u>U.S. Department of Agriculture</u> | | |
| Passed Through State Department of Education | | |
| National School Lunch Program | 10.555 | \$ 3,489,292 |
| Commodities | 10.555 | 490,799 |
| School Breakfast Program | 10.553 | 472,848 |
| Summer Food Service Program | 10.559 | 94,780 |
| Special Milk Program | 10.556 | 37,562 |
| Fresh Fruits and Vegetables | 10.582 | 19,763 |
| Total U.S. Department of Education | | 4,605,044 |
| <u>U.S. Department of Education</u> | | |
| Teaching American History | 84.215 | 490,941 |
| Indian Education | 84.060 | 6,815 |
| Passed Through State Department of Education | | |
| Stabilization Fund American Recovery Act | 84.394A | 21,159,529 |
| Title I Local Program - 2010 | 84.010 | 2,201,586 |
| Title I Local Program Recovery Act | 84.389A | 921,416 |
| Title VI-B - 2010 | 84.027 | 5,725,178 |
| Title VI-B Recovery Act | 84.391A | 3,441,412 |
| Title VI-B Preschool - 2010 | 84.173 | 57,361 |
| Title VI-B Preschool Recovery Act | 84.392A | 124,482 |
| Drug Free Schools Act Grant - 2010 | 84.186 | 119,715 |
| Education of Homeless | 84.196 | 4,512 |
| Education of Homeless Recovery Act | 84.387A | 43,843 |
| Education Technology State Grant Recovery Act | 84.386A | 17,005 |
| Title III - English Language - 2010 | 84.365 | 140,492 |
| Title II EESA -2010 | 84.367 | 659,656 |
| Statewide Data Systems | 84.372 | 3,000 |
| Passed Through Idaho Division of Vocational Technical Education | | |
| Carl Perkins | 84.048 | 268,719 |
| Total U.S. Department of Education | | 35,385,662 |

JOINT SCHOOL DISTRICT NO. 2
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2010

U.S. Department of Health and Human Services

Passed Through State Department of Health and Welfare

Refugee Grant

93.576

39,665

Total U.S. Department of Health and Human Services

39,665

Other Federal Financial Assistance

Passed Through State Commission on Arts

National Arts Endowment

45.025

450

Passed Through State Department of Environmental Quality

State Clean Diesel Grant Program

66.040

18,118

Total Other Financial Assistance

18,568

TOTAL FEDERAL FINANCIAL ASSISTANCE

\$ 40,048,939

JOINT SCHOOL DISTRICT NO. 2
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2010

NOTE 1 – BASIS OF PRESENTATION

The Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of the District. The reporting entity is defined in Note 1 to the District's basic financial statements.

The Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting as described in Note 1 to the District's basic financial statements.

JOINT SCHOOL DISTRICT NO. 2
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued Unqualified

Internal control over financial reporting:

Material weakness identified Yes

Significant deficiency Yes

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

Material weakness identified? No

Significant deficiency None reported

Type of auditor's report issued on compliance for major programs Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)? No

Identification of major programs:

| <u>CFDA number</u> | <u>Name of Federal Program or Cluster</u> |
|----------------------------------|---|
| 84.027, 84.173, 84.391A, 84.392A | Title IV-B |
| 84.010, 84.389A | Title I |
| 84.394A | American Recovery Act Stabilization |

Dollar threshold used to distinguish between Type A and Type B programs \$1,201,468

Auditee qualified as low-risk auditee? No

JOINT SCHOOL DISTRICT NO. 2
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

Section II - Financial Statement Findings

2010-1

Financial Statement Preparation and Audit Adjustments

Criteria:

Management should have an internal control system in place designed to provide for the preparation of the financial statements being audited. This includes proper reporting on a modified accrual basis of accounting and the ability to convert the trial balance from modified accrual to full accrual under the requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34. It also includes the ability to prepare the footnote disclosures required by GASB. Additionally, this includes posting of all material adjustments necessary to close the year and accurately reflect the activity of the District throughout the year.

Condition:

Statement on Auditing Standard No. 115 Communicating Internal Control Related Matters Identified in an Audit defines a material weakness and significant deficiency. According to these definitions, an internal control system design must include elements to accurately prepare financial statements without adjustments by the auditor. As auditors, we were requested to assist management in the preparation of the financial statements from the trial balances. This preparation included certain accrual closing entries, government-wide reporting conversion entries and footnotes.

Effect:

Management relied on the auditing firm to report financial data in accordance with generally accepted accounting principles. The auditor proposed certain accrual closing entries, government-wide reporting conversion entries and prepared the footnotes and reported financial data in accordance with generally accepted accounting principles.

Cause:

Joint School District No. 2 (the District) has not implemented an internal control structure that encompasses financial reporting in accordance with Generally Accepted Accounting Standards.

Recommendation:

We recommend management and those charged with governance annually analyze the cost/benefit of implementing a control system which would allow for the preparation of financial statements and the related disclosure and reconsider whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response and Action Plan of Management:

The District agrees that having an internal control system over financial reporting is an important part of the District's overall internal control process. We have begun working towards this goal and will continue to take the necessary steps to prepare our financial statements as we feel it is a key part of the integrity of our financial statements. We will continue to periodically review our general ledger transactions as we have found this process to be highly effective in helping us identify needed adjustments. We will increase the frequency of our review at year-end to a minimum of weekly monitoring following check runs to ensure that accounts payable transactions are posted to the correct fiscal period.

JOINT SCHOOL DISTRICT NO. 2
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

2010-2

Information Technology Access Controls

Criteria:

The accounting system should provide limited access to individuals not related to specific job functions in order to provide proper segregation of duties.

Condition:

The accounting system does not limit access based on job functions.

Effect:

During our testing of the information technology (IT) system, we observed risk of unauthorized transactions, modification of transaction / customer record details by persons who are primarily responsible for input, processing and output of the data without proper authorization by department management.

Cause:

In prior years, the District implemented a new accounting system. The implementation of the system created deficiencies in access controls that have not been resolved.

Recommendation

We recommend the District conduct a formal review of user access assignments by user role to verify privileges concur with job functions for initiating and authorizing transaction processing through the accounting system to ensure access grants are restricted to the minimum necessary. Based on results from review of user access rights, consider establishing formal procedures for requesting and authorizing user access to application and network systems.

Response and Action Plan of Management:

The District had been working on implementation of an upgrade to our accounting system that featured an entirely redesigned security system that required we thoroughly review and create security assignments by user and their corresponding job responsibilities. However, the State Department of Education is implementing a new longitudinal data collection system requiring us to delay our upgrade and divert 100% of our resources to the implementation and testing of the state's new program. We will resume our system upgrade after completion of the state reporting project. We anticipate the system will be upgraded by Spring/Summer 2011.

Section III - Federal Award Findings and Questioned Costs

None