

**FINANCIAL STATEMENTS  
JUNE 30, 2007**

**JOINT SCHOOL DISTRICT NO. 2**

JOINT SCHOOL DISTRICT NO. 2  
District Officials

July 1, 2006 - June 30, 2007

SUPERINTENDENT

Dr. Linda Clark

BOARD OF TRUSTEES:

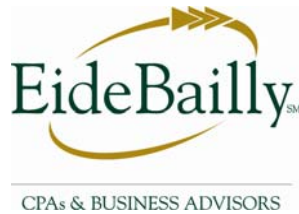
Reid Olsen	Zone 1
Mike Vuittonet, Chairman	Zone 2
Jana Nichols	Zone 3
Ann Ritter	Zone 4
Janet Calinsky	Zone 5
Dr. Bruce Gestrin	Assistant Superintendent
Dr. Jan Horning	Assistant Superintendent
Barbara Leeds	Director of Secondary Education
Dr. Mandy Saras	Director of Elementary Education
Cathy Thornton	Director of Special Education
Cindy Sisson	Director of Student Achievement
Evee Kiler	Director of Finance
Jim Correia	Controller
Trish Duncan	Clerk of the Board

## JOINT SCHOOL DISTRICT NO. 2

### Table of Contents

---

	<u>Page</u>
<b>FINANCIAL SECTION</b>	
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
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund	38
Notes to Required Supplementary Information	40
<b>OTHER FINANCIAL INFORMATION</b>	
Combining Schedule of Changes in Assets and Liabilities – All Fiduciary Funds	41
<b>SINGLE AUDIT</b>	
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>	43
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	45
Schedule of Expenditures of Federal Awards	47
Notes to Schedule of Expenditures of Federal Awards	49
Schedule of Findings and Questioned Costs	50



## 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, as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Joint School District No. 2'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 Joint School District No. 2 (District), as of June 30, 2007, 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 March 14, 2008, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

PEOPLE. PRINCIPLES. POSSIBILITIES.

[www.eidebailly.com](http://www.eidebailly.com)

877 West Main St., Ste. 800 • Boise, Idaho 83702-5858 • Phone 208.344.7150 • Fax 208.344.7435 • EOE

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 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.

The image shows a handwritten signature in black ink that reads "Eide Sully LLP". The signature is written in a cursive, flowing style.

Boise, Idaho  
March 14, 2008

**JOINT SCHOOL DISTRICT NO. 2**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2007**

---

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 levied for a five million dollar override for the 2006-2007 school year. This was the second year of a two year override levy.
- The District opened two new elementary schools and a new middle school.
- The District purchased land for 2 future schools.
- The District purchased 18 new buses to bring the total fleet to 285.
- The Districts' Net Assets increased \$24,775,273 due to current year operations.
- The District settled the lawsuit over its HVAC discrepancies during the construction of Mountain View High School. The District was made whole for all expenses to repair the problem and legal fees.
- The District took out a \$10,000,000 Revenue Anticipation Note to purchase part of the new District Service Center. Proceeds from the law suit, the sale of the old Administration Office, the sale of part of the new District Service Center to Idaho State University and the sale of some small parcels of land will be used to repay this note.

**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 displays 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 government activities. Governmental activities include all regular and special education, all educational support activities,

**JOINT SCHOOL DISTRICT NO. 2**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2007**

---

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.

*Fund 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 financial statements focus on individual parts of the District. Fund 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, 2007**

---

**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 \$164,281,917 at the close of the most recent fiscal year.

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
<b>ASSETS</b>		
Current assets	\$ 122,995,828	\$ 182,941,772
Non-current asset	3,242,993	3,629,687
Capital assets (net of depreciation)	<u>341,848,341</u>	<u>252,353,542</u>
Total assets	<b>468,087,162</b>	438,925,001
<b>LIABILITIES</b>		
Current liabilities	34,661,707	29,418,723
Long-term liabilities	<u>269,143,538</u>	<u>269,999,634</u>
Total liabilities	<b>303,805,245</b>	299,418,357
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	124,822,644	109,950,246
Restricted	19,026,616	17,000,388
Unrestricted	<u>20,432,657</u>	<u>12,556,010</u>
Total net assets	<b><u>\$ 164,281,917</u></b>	<b><u>\$ 139,506,644</u></b>

The largest portion of the District's net assets (75.9%) 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 11.5% of the District's net assets. These resources are subject to external restrictions on how they may be used. The remaining 12.6% represents unrestricted net assets.

At the end of the current fiscal year, the District's total net assets increased by 17.7% to \$164,281,917. This represents an overall increase of \$24,775,273 which is the result of current year operations.

**JOINT SCHOOL DISTRICT NO. 2**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2007**

---

**Changes in Net Assets** – The table below shows the changes in net assets for the fiscal years ended June 30, 2006 and 2007. The District relies on state support for 65.3% of its governmental activities. The District had total revenues of \$225,067,844 and total expenses of \$200,292,571 that generated an increase in net assets of \$24,775,273.

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
<b>REVENUES</b>		
Program Revenues		
Charges for service	\$ 5,819,481	\$ 5,221,439
Operating grants and contributions	13,071,884	11,969,728
Capital grants and contributions	5,637,116	3,246,331
General Revenues		
Property taxes	48,744,141	66,188,820
State support	143,718,733	108,479,817
Grants and contributions not restricted	1,005,308	917,857
Other	<u>7,071,181</u>	<u>4,834,460</u>
Total revenues	<u>225,067,844</u>	<u>200,858,452</u>
<b>EXPENSES</b>		
Instruction	116,128,650	107,337,231
Support services	63,113,181	55,767,340
Non-instructional services	7,462,005	6,731,196
Community support	60,052	69,786
Capital improvements	1,096,258	
Interest and fees on long-term debt	<u>12,432,425</u>	<u>9,864,875</u>
Total expenses	<u>200,292,571</u>	<u>179,770,428</u>
<b>CHANGE IN NET ASSETS</b>	<u>\$ 24,775,273</u>	<u>\$ 21,088,024</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 \$18,820,210, which is up 1.5% from the ending balance in fiscal year 2006 of \$18,509,527.

Expenditures for general District purposes totaled \$168,768,107, an increase of 17.4% during the current fiscal year; this increase was mainly for additional staffing and supplies within the instructional services function due to the increase in student enrollment and the purchase of the new District Service Center.

**JOINT SCHOOL DISTRICT NO. 2**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2007**

---

General fund salaries totaled \$106,321,512 while the associated fringe benefits of retirement, social security, unemployment, workers compensation, health, dental, vision and life added \$33,893,825 to arrive at 83.0% of the District's general fund expenditures.

**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 \$45,406,046, down \$71,390,500 from the ending balance in fiscal year 2006 of \$116,796,546. The primary reason for this decrease was the completions of 2 new elementary schools, a new middle school, the purchase of 15 new school buses, the purchase of a future land sites, the purchase of the new District Service Center and the construction of 8 portable classrooms for use at various school sites.

*General Fund Budgetary Highlights*

The District adopts an original budget in June for the subsequent year. The District's fund balance was \$3,915,707 greater than the balance budgeted in 2006-2007. The difference between the original revenue budget and the final amended revenue budget was an increase of \$1,217,688. The increase was a result of over 1400 new students. The difference between the original expense budget and the final amended budget was an increase of \$24,092,869. The District added to the budget to accommodate salary and benefits for additional staff and for operational material and supplies for the increased staff and students, and the purchase of the new District Service Center.

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 \$411,048,398 in a wide range of capital assets. The total accumulated depreciation on these assets amounts to \$69,200,057.

- Capital asset acquisitions for governmental activities totaled \$44,766,768 for the fiscal year.
- The District has \$79,129,400 in construction in progress. Those funds include costs for 2 elementary schools, one high school, one middle school, and a major building addition to our Meridian High School.

Long-Term Debt

At year end the District had \$261,625,000 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	\$ 3,810,000
Series 1998 – Refunding	\$ 29,385,000
Series 2001	\$ 6,185,000
Series 2002	\$ 40,080,000
Series 2004 – Refunding	\$ 7,835,000
Certificates of Participation	\$ 4,870,000
Series 2005 – Refunding	\$ 31,385,000
Series 2005	\$128,075,000
Revenue Anticipation Note	\$ 10,000,000

**JOINT SCHOOL DISTRICT NO. 2  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2007**

---

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

**ECONOMIC FACTORS AND NEXT YEARS BUDGET**

The Legislature continues to fund schools at a relatively flat rate in the 2007-08 school year but they did increase the minimum salary for teachers to \$31,000. The legislature's new law, that eliminated all basic educational levies and replaced it with a 1 cent increase in the states sales tax, seems to have improved our cash flows but the long-term effects of this legislature will not be determined for at least 2 or 3 years.

The District continues to see an increase in enrollment as the demographics of the District continue to change. The District has seen an average annual increase in enrollment in excess of 1,000 students over the last ten years as families migrate to the western portion of Ada County and the eastern portion of Canyon County. The projected increase in enrollment for the 2007-2008 budget process was 1,644 students. Our actual enrollment for the 2007-2008 school year was 1,140. The housing market in the Treasure Valley has taken a dip due to overall economic conditions and the District expects to see the student growth to be closer to the 10 year average for the next few years. The District has four charter schools and we are not aware of any petitions for the 2007-2008 school year.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and 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 Jim Correia at the Meridian School District Administration Office, 1303 E Central Drive, Meridian ID 83642, by phone at (208) 855-4500, or by e-mail at [correia.jim@meridianschools.org](mailto:correia.jim@meridianschools.org).

**JOINT SCHOOL DISTRICT NO. 2**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2007**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and investments	\$ 33,548,521
Restricted cash and investments	61,721,305
Property taxes receivable	19,972,547
State and federal receivables	6,604,795
Interest receivable	357,321
Receivables	791,339
Debt issuance costs (net of amortization)	1,341,256
Prepaid interest on refunded bonds (net of amortization)	1,901,737
Land and construction in progress	107,049,291
Depreciable capital assets (net of depreciation)	<u>234,799,050</u>
Total assets	468,087,162
<b>LIABILITIES</b>	
Accounts, salaries, and other payables	28,858,095
Deferred revenue	1,490
Accrued interest payable bonds	5,802,122
Long-term liabilities:	
Bond premium (net of amortization)	7,518,538
Due within one year - bonds	23,165,000
Due in more than one year - bonds	<u>238,460,000</u>
Total liabilities	303,805,245
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	124,822,644
Restricted for:	
Debt service	24,915,943
Unrestricted	<u>14,543,330</u>
Total net assets	<u><u>\$ 164,281,917</u></u>

**JOINT SCHOOL DISTRICT NO. 2**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2007**

FUNCTIONS/PROGRAMS	Program Revenues				Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<i>Governmental activities:</i>					
Instruction:					
Elementary programs	\$ 48,272,526	\$ 681,575	\$ 3,413,910	\$ -	\$ (44,177,041)
Secondary/alternative programs	46,527,335	27,158	986,597	-	(45,513,580)
Exceptional/preschool program	18,549,658	-	4,725,027	-	(13,824,631)
Other instructional programs	2,779,131	324,895	262,863	-	(2,191,373)
Support services:					
Attendance, guidance, health	5,660,890	-	684,166	-	(4,976,724)
Ancillary	7,320,667	-	-	-	(7,320,667)
Instructional improvement	5,631,245	-	-	-	(5,631,245)
Educational media	1,993,746	-	-	-	(1,993,746)
School administration	11,596,392	-	-	-	(11,596,392)
Administration	4,759,436	-	-	-	(4,759,436)
Maintenance and custodial	14,567,111	152,953	-	-	(14,414,158)
Grounds	395,395	-	-	-	(395,395)
Security	610,102	-	-	-	(610,102)
Pupil transportation services	10,578,197	101,617	-	-	(10,476,580)
Non-instructional	7,462,005	4,531,283	2,999,321	-	68,599
Community service programs	60,052	-	-	-	(60,052)
Capital improvements	1,096,258	-	-	5,637,116	4,540,858
Interest on long-term debt	12,432,425	-	-	-	(12,432,425)
<b>Total Governmental Activities</b>	<b>\$ 200,292,571</b>	<b>\$ 5,819,481</b>	<b>\$ 13,071,884</b>	<b>\$ 5,637,116</b>	<b>(175,764,090)</b>
General revenues:					
Taxes:					
Property taxes, levied for general purposes					13,123,463
Property taxes, levied for debt services					27,874,537
Property taxes, levied for plant facility					7,746,141
State revenue in lieu of taxes					51,034
Grants and contributions not restricted to specific programs:					
State foundation program					143,667,699
Federal forest lands					990
Other					1,004,318
Interest and investment earnings:					
General fund					2,004,715
Other funds					5,035,014
Unrealized gain on investments					31,452
Total general revenues					<u>200,539,363</u>
Change in net assets					<u>24,775,273</u>
Net assets, beginning					<u>139,506,644</u>
Net assets, ending					<u>\$ 164,281,917</u>

**JOINT SCHOOL DISTRICT NO. 2**  
**BALANCE SHEET – GOVERNMENTAL FUNDS**  
**JUNE 30, 2007**

	General	Debt Service	Capital Projects
<b>ASSETS</b>			
Cash and investments	\$ 33,548,521	\$ -	\$ -
Restricted cash and investments	-	16,111,535	46,649,981
Receivables			
Current property taxes receivable	5,022,462	10,669,247	2,964,746
Delinquent property taxes receivable	421,671	694,290	200,131
State receivable	1,972,628	-	-
Interest receivable	-	-	357,321
Federal receivable	-	-	-
Other receivables	762,807	-	-
Total assets	<u>\$ 41,728,089</u>	<u>\$ 27,475,072</u>	<u>\$ 50,172,179</u>
<b>LIABILITIES AND FUND BALANCE</b>			
Liabilities			
Deficit in cash	\$ -	\$ -	\$ -
Accounts payable	374,100	-	4,566,003
Salaries and benefits payable	22,112,108	-	-
Deferred revenue	421,671	694,290	200,130
Total liabilities	<u>22,907,879</u>	<u>694,290</u>	<u>4,766,133</u>
<b>FUND BALANCE</b>			
Reserved for			
Debt service	-	26,780,782	-
Unreserved			
Designated for special projects	302,819	-	-
Designated for subsequent year	14,383,794	-	45,406,046
Undesignated	4,133,597	-	-
Total fund balance	<u>18,820,210</u>	<u>26,780,782</u>	<u>45,406,046</u>
Total liabilities and fund balance	<u>\$ 41,728,089</u>	<u>\$ 27,475,072</u>	<u>\$ 50,172,179</u>



Other Governmental Funds	Total Governmental Funds
\$ -	\$ 33,548,521
-	62,761,516
-	18,656,455
-	1,316,092
401,525	2,374,153
-	357,321
4,230,642	4,230,642
28,532	791,339
<u>\$ 4,660,699</u>	<u>\$ 124,036,039</u>

\$ 1,040,211	\$ 1,040,211
64,672	5,004,775
1,741,212	23,853,320
-	1,316,091
<u>2,846,095</u>	<u>31,214,397</u>

-	26,780,782
-	302,819
-	59,789,840
1,814,604	5,948,201
<u>1,814,604</u>	<u>92,821,642</u>
<u>\$ 4,660,699</u>	<u>\$ 124,036,039</u>

**JOINT SCHOOL DISTRICT NO. 2**  
**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET ASSETS**  
**YEAR ENDED JUNE 30, 2007**

---

Total fund balances - governmental funds \$ 92,821,642

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. 341,848,341

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. 1,314,601

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. (4,275,545)

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. (267,427,122)

Net assets \$ 164,281,917

**JOINT SCHOOL DISTRICT NO. 2**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2007**

	General	Debt Service	Capital Projects
<b>REVENUE</b>			
Local revenues:			
Property taxes	\$ 13,357,265	\$ 27,613,317	\$ 7,705,715
Earnings on investments	2,004,715	347,992	5,317,376
State revenue	143,741,116	530,112	1,326,471
Federal revenue	366,833	-	-
Other revenue	2,366,010	-	61,644
Total revenue	<u>161,835,939</u>	<u>28,491,421</u>	<u>14,411,206</u>
<b>EXPENDITURES</b>			
Instructional:			
Elementary school programs	46,222,423	-	1,432,191
Secondary school programs	32,861,855	-	1,159,504
Alternative school programs	4,541,319	-	196,161
Exceptional school programs	12,420,706	-	-
Preschool school programs	964,623	-	-
Gifted and talented school programs	1,262,630	-	-
Interscholastic school programs	2,080,493	-	-
School activity programs	206,875	-	-
Summer school programs	233,724	-	-
Driver education program	221,642	-	-
Total instructional	<u>101,016,290</u>	<u>-</u>	<u>2,787,856</u>
Support Services:			
Attendance, guidance, health program	4,996,315	-	-
Ancillary program	6,587,298	-	-
Instructional improvement program	3,440,270	-	21,098
Instructional technology program	1,293,293	-	-
Media program	1,993,746	-	-
School administration program	10,349,252	-	288,542
Administration program	3,262,612	-	-
Administration technology program	1,490,388	-	-
Custodial program	9,193,841	-	-
Maintenance and warehouse programs	2,749,582	-	1,952,428
Grounds program	343,596	-	-
Security program	610,102	-	-
Transportation program	9,657,687	-	24,022
Total support services	<u>55,967,982</u>	<u>-</u>	<u>2,286,090</u>

---

Other Governmental Funds	Total Governmental Funds
\$ -	\$ 48,676,297
103,644	7,773,727
1,298,372	146,896,071
11,344,136	11,710,969
4,575,222	7,002,876
<u>17,321,374</u>	<u>222,059,940</u>
2,071,202	49,725,816
1,019,892	35,041,251
17,364	4,754,844
3,595,121	16,015,827
307,656	1,272,279
(1,078)	1,261,552
-	2,080,493
-	206,875
15,298	249,022
-	221,642
<u>7,025,455</u>	<u>110,829,601</u>
664,575	5,660,890
591,179	7,178,477
669,194	4,130,562
200,076	1,493,369
-	1,993,746
21,860	10,659,654
242,855	3,505,467
-	1,490,388
-	9,193,841
-	4,702,010
-	343,596
-	610,102
3,803	9,685,512
<u>2,393,542</u>	<u>60,647,614</u>

**JOINT SCHOOL DISTRICT NO. 2**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2007**

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>
EXPENDITURES (continued)			
Non-instructional	167,391	-	27,198
Community program	56,184	-	-
Capital outlay program	10,921,397	-	87,340,191
Debt service			
Principal	450,000	14,425,000	-
Interest and agent fees	188,863	8,427,217	-
Total debt service	<u>638,863</u>	<u>22,852,217</u>	<u>-</u>
TOTAL EXPENDITURES	<u>168,768,107</u>	<u>22,852,217</u>	<u>92,441,335</u>
Excess (deficiency) of revenue over (under) expenditures	(6,932,168)	5,639,204	(78,030,129)
Other financing sources (uses)			
Net interfund transfers	(6,560,402)	-	6,736,646
Note issued	10,000,000	-	-
Proceeds from settlement of lawsuit	3,718,889	-	-
Unrealized gain (loss) on investments	84,364	44,105	(97,017)
	<u>7,242,851</u>	<u>44,105</u>	<u>6,639,629</u>
Excess (deficiency) of revenues and other financing sources (uses) over expenditures and other financing sources (uses)	310,683	5,683,309	(71,390,500)
FUND BALANCE, BEGINNING OF YEAR	<u>18,509,527</u>	<u>21,097,473</u>	<u>116,796,546</u>
FUND BALANCE, END OF YEAR	<u>\$ 18,820,210</u>	<u>\$ 26,780,782</u>	<u>\$ 45,406,046</u>

---

Other Governmental Funds	Total Governmental Funds
7,361,501	7,556,090
3,868	60,052
-	98,261,588
-	14,875,000
-	8,616,080
-	23,491,080
<u>16,784,366</u>	<u>300,846,025</u>
537,008	(78,786,085)
(176,244)	-
-	10,000,000
-	3,718,889
-	31,452
<u>(176,244)</u>	<u>13,750,341</u>
360,764	(65,035,744)
<u>1,453,840</u>	<u>157,857,386</u>
<u>\$ 1,814,604</u>	<u>\$ 92,821,642</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, 2007**

---

Total net change in fund balances - governmental funds \$ (65,035,744)

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 capital outlays exceeded depreciation during the fiscal year.	89,494,799
Repayment of bond principal and capital leases.	14,875,000
Amount paid out of escrow balance	(4,742,000)
	10,133,000

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.	(742,436)
---	-----------

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 fund 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.	(9,663,598)
---	-------------

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.	589,252
--	---------

Change in net assets	\$ 24,775,273
----------------------	---------------

**JOINT SCHOOL DISTRICT NO. 2**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**JUNE 30, 2007**

---

	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash	\$ 860,295
Investments	<u>1,423,056</u>
Total assets	<u><u>\$ 2,283,351</u></u>
 <b>LIABILITIES</b>	
Accounts payable	\$ 111,563
Due to student groups	<u>2,171,788</u>
Total liabilities	<u><u>\$ 2,283,351</u></u>

**JOINT SCHOOL DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

---

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Joint School District No. 2 of Meridian (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 principals 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 polices 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.

### *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.

Investments in certificates of deposits are stated at amortized cost. Investments in U.S. Treasury securities are stated at amortized cost. Investments in the Joint Powers Investment Pool and repurchase agreements are valued at fair value.

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.

Through cash management automatic daily repurchase agreements with MBIA, Wells Fargo Bank and Bank of the Cascades, the District invests idle cash in uninsured repurchase agreements and U.S Treasury Notes. The repurchase agreement is fully collateralized with an undivided, fractional interest in obligations of, or obligations that are fully guaranteed by, the United States government or any agency thereof. Title to the securities are vested in the banks. The bank repurchases the undivided, fractional interest from the District on the next banking day.

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 investments of the District are not rated and 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 is invested in U.S. Treasury Notes, LGIP and overnight repurchase agreements and 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.

## NOTES TO FINANCIAL STATEMENTS

---

### *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.

### *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. 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:

## NOTES TO FINANCIAL STATEMENTS

---

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

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, 2007, 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 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.

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

## NOTES TO FINANCIAL STATEMENTS

---

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.

### *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.

### *Significant Contracts*

The District has a contract with Meridian Education Association (MEA). The contract expired on November 30, 2007.

## NOTES TO FINANCIAL STATEMENTS

---

### 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	\$ 411,048,398
Depreciation expense to date	<u>(69,200,057)</u>
Net adjustment	<u>\$ 341,848,341</u>

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, 2007 are:

Capitalized debt issuance costs	\$ 1,745,631
Amortization of debt issuance costs to date	(404,375)
Prepaid interest	2,410,463
Amortization of prepaid interest to date	(508,726)
Premium on bonds issued	(9,071,088)
Amortization of bond premium to date	<u>1,552,550</u>
Net adjustment	<u>\$ (4,275,545)</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, 2007 are:

Bonds payable	\$ (261,625,000)
Interest payable	<u>(5,802,122)</u>
Net adjustment	<u>\$ (267,427,122)</u>

## NOTES TO FINANCIAL STATEMENTS

---

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 capital outlays exceeded depreciation during the fiscal year:

Depreciation expense	\$ (8,403,323)
Capital outlays	<u>97,898,122</u>
Net adjustment	<u>\$ 89,494,799</u>

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	\$ (10,000,000)
Amortization of debt issuance costs	(146,049)
Amortization of prepaid interest	723,096
Amortization of bond premium	<u>(240,645)</u>
Net adjustment	<u>\$ (9,663,598)</u>

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 – CASH AND INVESTMENTS**

At June 30, 2007, the District’s cash and investments consisted of the following:

Deposits	Carrying Amount	Bank Amount	Insured or Collateralized	Uninsured and Uncollateralized
Insured or collateralized	\$ 5,409,868	\$ 8,264,505	\$ 475,572	\$ 7,788,965
Investments	Fair Value	Rating	Maturity	Concentration
State of Idaho Local Government				
Investment Pool (LGIP)	36,892,236	AAAf	Not applicable	41%
U.S. Treasury Notes	36,919,577	AAA	See table below	41%
MBIA Repurchase Agreement	7,511,751	Not rated	July 1, 2007	8%
Bank of the Cascades				
Repurchase agreement	5,327,438	Not rated	July 1, 2007	6%
Wells Fargo Repurchase Agreement	3,208,956	Not rated	July 1, 2007	4%
<b>Total investments</b>	<b>89,859,958</b>			<b>100%</b>
<b>Total cash and investments</b>	<b>\$ 95,269,826</b>			

Maturity of U.S. Treasury Notes

Total	Under 90 Days	90 to 180 Days	80 Days to 1 Year	1 to 2 Years	2 to 5 Years
\$ 36,919,577	\$ 11,933,170	\$ 16,763,194	\$ 5,240,860	\$ 2,982,353	-

**NOTE 4 – INTERFUND BALANCES AND TRANSFERS**

As of June 30, 2007, no funds have outstanding interfund receivables or payables. However, the following transfers occurred in the fiscal year for the purpose of funding operations:

	Interfund transfers in	
	General Fund	Capital projects Fund
Interfund transfers out		
General fund	\$ -	\$ 6,736,646
Nonmajor governmental funds	176,244	-
<b>Total interfund transfers</b>	<b>\$ 176,244</b>	<b>\$ 6,736,646</b>

## NOTES TO FINANCIAL STATEMENTS

### 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, 2007:

State Agencies	\$ 2,374,153
Federal Agencies	4,230,642
	<u>6,604,795</u>
County Agencies	19,972,547
Total	<u><u>\$ 26,577,342</u></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, 2007:

	General Fund	Debt Service Fund	Capital Projects Fund
Delinquent taxes	<u><u>\$ 421,671</u></u>	<u><u>\$ 694,290</u></u>	<u><u>\$ 200,130</u></u>

### NOTE 7 – CAPITAL ASSETS

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

	<u>June 30, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2007</u>
Non depreciable capital assets:				
Land	\$ 27,011,051	\$ 908,840	\$ -	\$ 27,919,891
Construction in progress	26,582,693	98,222,315	(45,675,608)	79,129,400
Total	<u><u>\$ 53,593,744</u></u>	<u><u>\$ 99,131,155</u></u>	<u><u>\$ (45,675,608)</u></u>	<u><u>\$ 107,049,291</u></u>
Depreciable capital assets:				
Buildings, and improvements	\$ 225,622,352	\$ 41,004,269	\$ (324,193)	\$ 266,302,428
Furniture and equipment	33,934,180	3,762,499	-	37,696,679
Total	<u>259,556,532</u>	<u>44,766,768</u>	<u>(324,193)</u>	<u>303,999,107</u>
Less accumulated depreciation for:				
Buildings, and improvements	(43,974,503)	(5,244,559)	-	(49,219,062)
Furniture and equipment	(16,822,231)	(3,158,764)	-	(19,980,995)
Total accumulated depreciation	<u>(60,796,734)</u>	<u>(8,403,323)</u>	<u>-</u>	<u>(69,200,057)</u>
Total depreciable capital assets, net	<u><u>\$ 198,759,798</u></u>	<u><u>\$ 36,363,445</u></u>	<u><u>\$ (324,193)</u></u>	<u><u>\$ 234,799,050</u></u>

## NOTES TO FINANCIAL STATEMENTS

---

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

Governmental activities:

Elementary programs	2,995,773
Secondary/alternative programs	3,395,507
Other instructional programs	339,960
Instructional improvement	7,314
Administration	704,688
Maintenance and custodial	20,137
Grounds	3,523
Pupil transportation services	892,685
Non-instructional	43,736
Total depreciation expense –Governmental activities	<u>\$ 8,403,323</u>

Fund balance of \$806,743 in the Plant Facilities Fund, which is part of the Capital Projects Fund, is designated for maintenance and additions to facilities. The projects to be funded from the Capital Projects Fund include constructing new schools, purchase of land for new schools, technology equipment purchases, purchase of school buses, re-roofing schools, and various other maintenance projects throughout the District.

### NOTE 8 –LONG-TERM DEBT

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

	<u>Balance at</u> <u>June 30, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<b><u>Balance at</u></b> <b><u>June 30, 2007</u></b>	<u>Due within</u> <u>one year</u>
Governmental activities					
Bonds payable:					
General obligation	\$ 261,758,000	\$ 10,000,000	\$ (10,133,000)	<b>\$ 261,625,000</b>	\$ 23,165,000

## NOTES TO FINANCIAL STATEMENTS

---

### NOTE 9 – GENERAL OBLIGATION BONDS PAYABLE

General obligation bonds payable as of June 30, 2007 consist of the following:

General Obligation School Bonds, Series 1998 - \$4,980,000. Due in annual installments of \$1,220,000 to \$1,320,000 from July 30, 2007 to July 30, 2009; interest of 4.5% payable July 30, 2007 and semiannually thereafter.	\$ 3,810,000
General Obligation Refunding Bonds, Series 1998 - \$32,050,000. Due in annual installments of \$1,475,000 to \$3,915,000 from July 30, 2007 to July 30, 2016; interest from 4.0% to 5.5% payable July 30, 2006 and semiannually thereafter.	29,385,000
General Obligation School Bonds, Series 2001 - \$8,085,000. Due in annual installments of \$1,980,000 to \$2,145,000 from July 30, 2007 to July 30, 2009; interest from 4.5% to 6.0% payable July 30, 2007 and semiannually thereafter.	6,185,000
General Obligation School Bonds, Series 2002 - \$41,865,000. Due in annual installments of \$1,830,000 to \$3,465,000 from July 30, 2007 to July 30, 2022; interest from 3.25% to 5.0% payable July 30, 2007 and semiannually thereafter.	40,080,000
General Obligation Refunding Bonds, Series 2004 - \$7,835,000. Due in annual installments of \$755,000 to \$1,000,000 from July 30, 2010 to July 30, 2018; interest from 3.0% to 5.125% payable July 30, 2007 and semiannually thereafter.	7,835,000
\$6,145,000 2003 certificates of participation due in annual installments of \$450,000 to \$680,000 from February 1, 2008 to February 1, 2016; interest from 2.0% to 4.15%.	4,870,000
General Obligation Refunding Bonds, Series 2005 - \$31,385,000. Due in annual installments of \$2,275,000 to \$3,555,000 from February 15, 2010 to February 15, 2020; interest from 3.5% to 4.75% payable February 15, 2008 and semiannually thereafter.	31,385,000
General Obligation School Bonds, Series 2005 - \$134,580,000. Due in annual installments of \$2,585,000 to \$11,300,000 from August 15, 2007 to August 15, 2025; interest from 3.45% to 5.0% payable August 15, 2007 and semiannually thereafter.	128,075,000
\$10,000,000 Revenue anticipation note with accrued interest and principal due on December 18, 2007; interest will accrue at a rate of 3.58%.	<u>10,000,000</u>
Total	<u>\$ 261,625,000</u>

**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, 2007:

Fiscal Year Ending June 30	General Obligation Bond Principal	Interest	Total
2008	\$ 23,165,000	\$ 14,175,384	\$ 37,340,384
2009	11,185,000	13,129,913	24,314,913
2010	13,845,000	11,556,728	25,401,728
2011	11,585,000	9,947,552	21,532,552
1012	12,090,000	9,431,049	21,521,049
2013-2017	74,760,000	37,509,260	112,269,260
2018-2022	69,455,000	19,429,676	88,884,676
2023-2025	45,540,000	4,216,400	49,756,400
	\$ 261,625,000	\$ 119,395,962	\$ 381,020,962

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	\$ 12,132,798,781
Multiplied by 5%	5%
Debt limit	606,639,939
Less outstanding indebtedness	261,625,000
Additional debt-incurring capacity	\$ 345,014,939

Refunded Bonds – In 1991, 1996, 1998, 2005 and 2006 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, 2007, the bonds payable amount still owing but considered extinguished was \$81,290,000.

**NOTE 10 – 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 \$ 393,232,340 with a \$2,500 deductible per incident. Worker’s compensation insurance is purchased from the State of Idaho in accordance with State requirements.

**NOTES TO FINANCIAL STATEMENTS**

---

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.

**NOTE 11 - COMMITMENTS**

The District had \$387,416 in open purchase orders at June 30, 2007 that were budgeted expenditures in the 2006/2007 school year.

Several project bids were approved and incomplete as of June 30, 2007. Progress billings for work completed as of this date were accrued. The projects, bids, and amounts paid as of June 30, 2007, are as follows:

<u>Project</u>	<u>Contract Amount</u>	<u>Amount Paid as of June 30, 2007</u>
Galileo Target School	\$ 12,507,771	\$ 11,529,218
Paramount Elementary	9,024,577	8,423,161
Meridian High Vo-Tech Building	8,921,427	8,263,432
Rocky Mountain High School	46,583,970	20,440,037
Heritage Middle School	17,068,661	15,604,177
	<u>\$ 94,106,406</u>	<u>\$ 64,260,025</u>

**NOTE 12 – 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. Financial reports for the plan are available from PERSI upon request.

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.

## NOTES TO FINANCIAL STATEMENTS

---

The 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, 2007 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 \$11,501,288, \$10,531,198, and \$9,368,069, for the three fiscal years ended June 30, 2007, 2006, and 2005, respectively.

### **NOTE 13 – 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, 2007, the District paid Program benefits totaling \$703,491.

### **NOTE 14 – 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 15 – OPERATING LEASES**

The District contracts out for copier services and pays by the copy. The contract guaranteed a price of 0.95 cents to 2.3 cents per copy (depending on the model of the copier) until June 30, 2007. The District made minimum lease payments in the amount of \$483,408 on this contract.

### **NOTE 16 – SUBSEQUENT EVENT**

In accordance with a "Mutual Release and Settlement Agreement", dated February 6, 2008, the District paid Westport Insurance Corporation \$1,202,350 for reimbursement of defense expenses and costs incurred from currently defending a lawsuit arising out of a construction contract between the District and Turn-Key, Inc. doing business as Northern Mechanical involving the construction of Mountain View High School.

**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, 2007**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
<b>REVENUE</b>				
Local revenues:				
Property taxes	\$ 41,294,800	\$ 12,675,669	\$ 13,357,265	\$ 681,596
Earnings on investments	450,000	1,666,480	2,004,715	338,235
State revenue	115,610,040	143,925,180	143,741,116	(184,064)
Federal revenue	160,000	260,000	366,833	106,833
Other revenue	1,152,790	1,357,989	2,366,010	1,008,021
Total revenue	<u>158,667,630</u>	<u>159,885,318</u>	<u>161,835,939</u>	<u>1,950,621</u>
<b>EXPENDITURES</b>				
Instructional:				
Elementary school programs	46,341,210	46,538,644	46,222,423	316,221
Secondary school programs	32,669,780	33,108,867	32,861,855	247,012
Alternative school programs	4,734,480	4,537,951	4,541,319	(3,368)
Exceptional school programs	12,491,960	12,612,738	12,420,706	192,032
Preschool school programs	903,940	958,067	964,623	(6,556)
Gifted and talented school programs	1,407,250	1,347,575	1,262,630	84,945
Interscholastic school programs	2,255,070	2,275,432	2,080,493	194,939
School activity programs	193,790	276,160	206,875	69,285
Summer school programs	249,450	262,721	233,724	28,997
Driver education program	234,860	257,559	221,642	35,917
Total instructional	<u>101,481,790</u>	<u>102,175,714</u>	<u>101,016,290</u>	<u>1,159,424</u>
Support services:				
Attendance, guidance, health program	4,814,100	5,023,668	4,996,315	27,353
Ancillary program	6,268,610	6,661,480	6,587,298	74,182
Instructional improvement program	3,849,490	3,942,429	3,440,270	502,159
Instructional technology program	1,944,970	1,318,587	1,293,293	25,294
Media program	2,007,940	2,153,602	1,993,746	159,856
School administration program	10,592,160	10,323,476	10,349,252	(25,776)
Administration program	2,758,630	3,342,626	3,262,612	80,014
Administration technology program	662,070	1,520,016	1,490,388	29,628
Custodial program	9,996,770	10,290,776	9,193,841	1,096,935
Maintenance and warehouse programs	2,285,260	2,297,207	2,749,582	(452,375)
Grounds program	398,930	422,485	343,596	78,889
Security program	629,600	607,088	610,102	(3,014)
Transportation program	9,372,510	9,754,185	9,657,687	96,498
Total support services	<u>55,581,040</u>	<u>57,657,625</u>	<u>55,967,982</u>	<u>1,689,643</u>

**JOINT SCHOOL DISTRICT NO. 2**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -**  
**BUDGET AND ACTUAL – GENERAL FUND**  
**YEAR ENDED JUNE 30, 2007**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
EXPENDITURES (continued)				
Non-instructional	160,000	160,000	167,391	(7,391)
Community program	38,300	66,372	56,184	10,188
Capital outlay program	484,170	11,416,478	10,921,397	495,081
Debt service program				
Principal	639,020	11,001,000	450,000	10,551,000
Interest and agent fees	-	-	188,863	(188,863)
Total expenditures	<u>158,384,320</u>	<u>182,477,189</u>	<u>168,768,107</u>	<u>13,709,082</u>
Excess of revenue over expenditures	283,310	(22,591,871)	(6,932,168)	15,659,703
Other financing sources (uses):				
Net interfund transfer	(757,000)	(6,756,920)	(6,560,402)	196,518
Note issued	-	10,000,000	10,000,000	-
Proceeds from settlement of lawsuit	-	10,000,000	3,718,889	(6,281,111)
Unrealized gain on investments	-	-	84,364	84,364
	<u>(757,000)</u>	<u>13,243,080</u>	<u>7,242,851</u>	<u>(6,000,229)</u>
Excess of revenues and financing sources (uses) over expenditures and other financing sources (uses)	<u>\$ (473,690)</u>	<u>\$ (9,348,791)</u>	<u>\$ 310,683</u>	<u>\$ 9,659,474</u>

**JOINT SCHOOL DISTRICT NO. 2**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2007**

---

**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, 2006.
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, 2007**

---

	Beginning Balance June 30, 2006	Receipts	Expenditures	Ending Balance June 30, 2007
<b>ASSETS</b>				
Cash				
Meridian High School	\$ 56,304	\$ 995,678	\$ 1,015,102	\$ 36,880
Centennial High School	142,224	1,083,898	1,067,364	158,758
Eagle High School	22,839	1,346,414	1,281,141	88,112
Mountain View High School	10,040	1,236,300	1,225,646	20,694
Meridian Middle School	6,957	147,150	139,957	14,150
Lowell Scott Middle School	1,108	215,146	206,053	10,201
Lake Hazel Middle School	5,394	138,870	137,005	7,259
Eagle Middle School	1,754	199,177	187,778	13,153
Lewis and Clark Middle School	8,491	117,296	116,789	8,998
Sawtooth Middle School	7,070	185,790	186,007	6,853
Academies	52,838	144,023	127,465	69,396
Elementary Schools	389,520	1,421,773	1,385,452	425,841
Total cash	<u>704,539</u>	<u>7,231,515</u>	<u>7,075,759</u>	<u>860,295</u>
Investments				
Meridian High School	170,868	450	9,809	161,509
Centennial High School	268,299	13,218	-	281,517
Eagle High School	332,807	-	35,584	297,223
Mountain View High School	275,722	63,237	-	338,959
Meridian Middle School	58,459	3,238	2,500	59,197
Lowell Scott Middle School	32,354	27,365	-	59,719
Lake Hazel Middle School	73,451	3,631	25,000	52,082
Eagle Middle School	79,968	5,082	5,136	79,914
Lewis and Clark Middle School	52,902	7,905	-	60,807
Sawtooth Middle School	39,274	2,855	10,000	32,129
Total investments	<u>1,384,104</u>	<u>126,981</u>	<u>88,029</u>	<u>1,423,056</u>
Total assets	<u>\$ 2,088,643</u>	<u>\$ 7,358,496</u>	<u>\$ 7,163,788</u>	<u>\$ 2,283,351</u>

<b>LIABILITIES</b>	Beginning			Ending
	Balance	Receipts	Expenditures	Balance
	June 30, 2006			June 30, 2007
Accounts payable				
Meridian High School	\$ 9,473	\$ 34,592	\$ 28,495	\$ 15,570
Centennial High School	54,081	48,579	52,584	50,076
Eagle High School	14,778	39,297	31,921	22,154
Mountain View High School	2,403	61,127	61,159	2,371
Meridian Middle School	3,249	2,263	917	4,595
Lowell Scott Middle School	5,593	1,124	121	6,596
Lake Hazel Middle School	1,127	2,433	258	3,302
Eagle Middle School	1,733	2,967	2,574	2,126
Lewis and Clark Middle School	1,506	1,154	58	2,602
Sawtooth Middle School	923	4,029	2,781	2,171
Total accounts payable	<u>94,866</u>	<u>197,565</u>	<u>180,868</u>	<u>111,563</u>
Due to student groups				
Meridian High School	217,700	951,277	986,158	182,819
Centennial High School	356,442	1,035,319	1,001,562	390,199
Eagle High School	340,869	1,271,533	1,249,221	363,181
Mountain View High School	283,360	1,175,173	1,101,251	357,282
Meridian Middle School	62,169	142,387	135,804	68,752
Lowell Scott Middle School	27,868	214,022	178,566	63,324
Lake Hazel Middle School	77,717	111,437	133,115	56,039
Eagle Middle School	79,987	191,074	180,120	90,941
Lewis and Clark Middle School	59,887	116,142	108,826	67,203
Sawtooth Middle School	45,421	171,762	180,372	36,811
Academy Schools	52,838	144,023	127,465	69,396
Elementary Schools	389,519	1,421,773	1,385,451	425,841
Total due to student groups	<u>1,993,777</u>	<u>6,945,922</u>	<u>6,767,911</u>	<u>2,171,788</u>
Total liabilities	<u>\$ 2,088,643</u>	<u>\$ 7,143,487</u>	<u>\$ 6,948,779</u>	<u>\$ 2,283,351</u>

**JOINT SCHOOL DISTRICT NO. 2**

*SINGLE AUDIT*



**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, as of and for the year ended June 30, 2007, which collectively comprise the Joint School District No. 2's basic financial statements and have issued our report thereon dated March 14, 2008. 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 Joint School District No. 2'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 Joint School District No. 2's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Joint School District No. 2's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Joint School District No. 2's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Joint School District No. 2's financial statements that is more than inconsequential will not be prevented or detected by Joint School District No. 2's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting, 2007-1, 2007-2, 2007-3, and 2007-4.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Joint School District No. 2.'s internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that all of the significant deficiencies described above are material weaknesses.

#### *Compliance and Other Matters*

As part of obtaining reasonable assurance about whether Joint School District No. 2'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 Joint School District No. 2 in a separate letter dated March 14, 2008.

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

This report is intended solely for the information and use of the Board of Directors and management 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  
March 14, 2008



**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 Meridian School District (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, 2007. The District’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of 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, 2007. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2007-5.

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

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

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

The District's response to the finding 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 "Erik Bailly LLP". The signature is written in a cursive, flowing style.

Boise, Idaho  
March 14, 2008

**JOINT SCHOOL DISTRICT #2**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2007**

Program Title	Federal CFDA Number	Passthrough Number	Expenditures
<u>U.S. Department of Agriculture</u>			
Passed Through State Department of Education:			
<u>Child Nutrition Program - Cluster</u>			
National School Lunch Program	10.555	002	\$ 2,152,181
School Breakfast Program	10.553	002	378,613
Summer Food Service Program	10.559	002	29,055
Special Milk Program for Children	10.556	002	39,943
			2,599,792
Food Distribution	10.550	002	396,247
Child Nutrition Discretionary Grants	10.579	002	7,207
			3,003,246
 <u>U.S. Department of Justice</u>			
Passed Through State Department of Justice			
Enforcing Underage Drinking Laws Program	16.727	N/A	9,746
 <u>U.S. Department of Transportation</u>			
Passed Through State Department of Education:			
Alcohol Traffic Safety and Drunk Driving Prevention	20.600	N/A	5,848
 National Endowment for the Humanities			
National Endowment for the Arts	45.025	N/A	2,902
State Library Program	45.310	N/A	1,429
			4,331

---

U.S. Department of Education

Passed Through State Department of Education:

Title I, Grants to Local Educational Agencies	84.010	N/A	1,734,343
---	--------	-----	-----------

Title VIB, Special Education -Cluster

Discretionary and Flow-Through	84.027	N/A	4,390,306
--------------------------------	--------	-----	-----------

Pre-School	84.173	N/A	180,720
------------	--------	-----	---------

---

4,571,026

Meridian Schools District Crisis Response Plan	84.184E	N/A	242,159
--	---------	-----	---------

Safe and Drug-Free Schools and Communities	84.186	N/A	126,005
--	--------	-----	---------

Homeless Education	84.196	N/A	30,000
--------------------	--------	-----	--------

Innovative Education Program Strategies	84.298	N/A	49,582
---	--------	-----	--------

Technology Literacy Challenge Fund Grants	84.318	N/A	46,113
---	--------	-----	--------

English Language Acquisition	84.365	N/A	162,815
------------------------------	--------	-----	---------

Improving Teacher Quality	84.367	N/A	783,086
---------------------------	--------	-----	---------

Innovation in Education	84.215	N/A	10,435
-------------------------	--------	-----	--------

Smaller Learning Communities	84.215L	N/A	308,165
------------------------------	---------	-----	---------

Passed Through Idaho Division of Vocational

Technical Education:

Carl Perkins	84.048	N/A	238,536
--------------	--------	-----	---------

---

8,302,265

U.S. Department of Health and Human Services

Passed Through State Department of Health and Welfare:

Refugee and Entrant Assistance	93.576	N/A	40,826
--------------------------------	--------	-----	--------

Total			\$ 11,366,262
-------	--	--	---------------

---

---

**JOINT SCHOOL DISTRICT NO. 2**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**JUNE 30, 2007**

---

**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.

**NOTE 2 – MAJOR PROGRAMS**

The following programs have been identified as major programs for the year ended June 30, 2007:

<u>Program</u>	<u>CFDA Number</u>
Child Nutrition Cluster	Cluster
Improving Teach Quality	84.367
Food Distribution	10.550

The following programs have been clustered for the determination of Type A or Type B programs for the year ended June 30, 2007:

- Child Nutrition Cluster
- Title VI-B programs, Title VI-B Preschool programs

**JOINT SCHOOL DISTRICT NO. 2**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2007**

---

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 None

Noncompliance material to financial statements noted?

No

Federal Awards

Internal control over major programs:

Material weakness identified? No

Significant Deficiencies 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)?

Yes

Identification of major programs:

CFDA number

Name of Federal Program or Cluster

84.027

Title IV-B Programs

Dollar threshold used to distinguish between Type A and Type B programs

\$340,988

Auditee qualified as low-risk auditee?

Yes

**JOINT SCHOOL DISTRICT NO. 2**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2007**

---

Section II - Financial Statement Findings

**2007-1**

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.

Condition:

During 2006, Statement on Auditing Standard No. 112 Communicating Internal Control Related Matters Identified in an Audit was released which changed and expanded the definition of a material weakness and significant deficiency. Due to these expanded definitions, clients must be able to accurately prepare their own financial statements without assistance or adjustment by the auditor. As auditors, we were requested to prepare the audited financial statements and footnotes thereby resulting in non-compliance with the auditing standard requirements and a material weakness. This circumstance is not unusual in an organization of this size due to time constraints of management and costs associated with compliance of the standard.

Effect:

Management must rely on the auditing firm to report financial data reliably in accordance with generally accepted accounting principles.

Cause:

The size of the District and the limited number of accounting personnel makes it difficult to implement this level of internal control.

Recommendation:

Management and those charged with governance should make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response and Action Plan of Management:

An additional 1.5 full time staff accountants have been hired. This increase in staff now provides the necessary resources to prepare quality financial statements on a timely basis. The .5 accountant will focus on accounting for both of the Charter schools, allowing the other accounting staff to focus exclusively on the District's financial operation.

**2007-2**

Criteria:

Management should have an internal control system in place designed to provide for the preparation of the financial statements being audited. This includes posting of all material adjustments necessary to close the year and accurately reflect the activity of the District throughout the year.

Condition:

During the course of our engagement, we proposed material audit adjustments that would not have been identified as a result of the District's existing internal controls, and therefore could have resulted in a material misstatement of the District's financial statements.

**JOINT SCHOOL DISTRICT NO. 2**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2007**

---

Effect:

Management must rely on the auditing firm to report financial data reliably in accordance with generally accepted accounting principles.

Cause:

The size of the District and the limited number of accounting personnel makes it difficult to implement this level internal control.

Recommendation:

Management should develop written procedures for year-end closure to ensure that all year-end adjustments are recorded and that the financial information is recorded accurately and in a timely manner.

Response and Action Plan of Management:

The difficulties encountered with our new software installation disrupted our ability to make timely adjustments to our records as needed. Consequently, we have implemented a periodic review process and a monthly cash reconciliation that will allow us to identify and make adjustments on a timely basis.

**2007-3**

Criteria:

Management should have an internal control system in place designed to provide for a level of review and approval of all journal entries prior to entry into the general ledger.

Condition:

Not all journal entries are reviewed.

Effect:

Journal entries are created and posted by the same person with no other level of review or approval. This could lead to material misstatement of financial statements without management awareness.

Cause:

The size of the District and the limited number of accounting personnel makes it difficult to implement this level of internal control.

Recommendation:

A system should be set up that requires all journal entries to be reviewed and approved prior to entry into the system.

Response and Action Plan of Management:

Preparers of journal entries have been notified that all journal entries must be reviewed and approved by a level of management equal to or higher than themselves. Journal entries prepared by the controller will be reviewed by a staff accountant. Additionally, our journal entry form has been modified to include a line for the reviewer's signature.

**2007-4**

Criteria:

Management should have an internal control system in place designed to provide for timely preparation and a level of review and approval of all bank reconciliations.

**JOINT SCHOOL DISTRICT NO. 2**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2007**

---

Condition:

Bank reconciliations were not timely prepared and reviewed during the fiscal year resulting in unidentified variances in the year end bank reconciliation.

Effect:

Bank reconciliations are not prepared in a timely manor creating unidentified reconciling items. This could lead to material misstatement of financial statements without management awareness.

Cause:

The size of the District and the limited number of accounting personnel makes it difficult to implement this level of internal control.

Recommendation:

Bank reconciliations should be prepared monthly and reviewed by someone independent of the reconciliation process within a timely manner.

Response and Action Plan of Management:

Our increase in professional staffing in the accounting department provides us the necessary resources to perform timely and accurate reconciliation of our cash accounts.

Section III - Federal Award Findings and Questioned Costs

**2007-5**

Criteria:

The District is allowed to charge indirect costs to the School Lunch Program based on a percentage rate determined by the State Department of Education which is 1.7% for the fiscal year 2007.

Condition:

The District does not have a system in place to monitor the amount of indirect costs charged to the program to ensure excess indirect costs are not charged to the program.

Effect:

The District charged \$12,590 in excess indirect costs to the School Lunch Program.

Cause:

The size of the District and the limited number of accounting personnel makes it difficult to implement this level of internal control.

Recommendation:

The district implements a process to monitor the allocation of indirect costs to each program to ensure that excess indirect costs are not charged to the program

Response and Action Plan of Management:

The school district has re-evaluated its indirect cost allocation procedure and implemented controls to ensure the allocation rate is applied to the correct allocation base in future years.