

FINANCIAL STATEMENTS
JUNE 30, 2008

JOINT SCHOOL DISTRICT NO. 2

JOINT SCHOOL DISTRICT NO. 2
District Officials

July 1, 2007 - June 30, 2008

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
Barbara Leeds	Director of Human Resources
Don Nesbitt	Director of Region I North
Joe Yochum	Director of Region II Central
Dr. Mandy Saras	Director of Region III South
Cathy Thornton	Director of Special Education
Cindy Sisson	Director of Student Achievement
Alex Simpson	Budget and Finance Manager
Jim Correia	Controller
Trish Duncan	Clerk of the Board

JOINT SCHOOL DISTRICT NO. 2

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Joint School District No. 2, (the "District") as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2008, and the respective changes in financial position and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2008, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The 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.

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

Boise, Idaho
October 10, 2008

JOINT SCHOOL DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008

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

FINANCIAL HIGHLIGHTS

- The District opened one new elementary school, a new K-8 school and a new middle school.
- The District's Net Assets increased \$20,158,042 due to current year operations.
- The District took out a \$2,383,000 Revenue Anticipation Refunding Note to provide funds to retire a portion of the district's outstanding revenue anticipation note, series 2006.
- An escrow account was established using \$14,500,000 from the bond reserve funds to pay off bonds that mature in the future. The escrow account will make all interest and principal payments on the Series 2002 and Series 2005 bonds, negating the need to make these payments from property tax revenues.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

Government-Wide Financial Statements (GWFS)

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

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

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

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

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

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

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

JOINT SCHOOL DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008

Fund Based Financial Statements

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

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

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

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

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

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

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

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

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

JOINT SCHOOL DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008

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 \$184,439,959 at the close of the most recent fiscal year.

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
ASSETS		
Current assets	\$ 83,212,636	\$ 122,995,828
Non-current asset	2,857,040	3,242,993
Capital assets (net of depreciation)	<u>365,699,827</u>	<u>341,848,341</u>
Total assets	<u>451,769,503</u>	468,087,162
LIABILITIES		
Current liabilities	32,056,420	34,661,707
Long-term liabilities	<u>235,273,124</u>	<u>269,143,538</u>
Total liabilities	<u>267,329,544</u>	303,805,245
NET ASSETS		
Invested in capital assets, net of related debt	151,276,257	124,822,644
Restricted	17,345,232	19,026,616
Unrestricted	<u>15,818,470</u>	<u>20,432,657</u>
Total net assets	<u>\$ 184,439,959</u>	<u>\$ 164,281,917</u>

The largest portion of the District's net assets (82.0%) 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 9% of the District's net assets. These resources are subject to external restrictions on how they may be used. The remaining 9% represents unrestricted net assets.

At the end of the current fiscal year, the District's total net assets increased by 12.3% to \$184,439,959. This represents an overall increase of \$20,158,042 which is the result of current year operations.

Changes in Net Assets – The table below shows the changes in net assets for the fiscal years ended June 30, 2007 and 2008. The District relies on state support for 64.3% of its governmental activities. The District had total revenues of \$240,373,219 and total expenses of \$220,215,177 generating an increase in net assets of 20,158,042.

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
REVENUES		
Program Revenues		
Charges for service	\$ 5,917,665	\$ 5,819,481
Operating grants and contributions	14,511,861	13,071,884
Capital grants and contributions	4,080,191	5,637,116
General Revenues		

**JOINT SCHOOL DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008**

Property taxes	56,632,490	48,744,141
State support	154,645,391	143,718,733
Grants and contributions not restricted	452,258	1,005,308
Other	4,133,363	7,071,181
Total revenues	<u>240,373,219</u>	<u>225,067,844</u>
EXPENSES		
Instruction	126,805,809	116,128,650
Support services	68,948,408	63,113,181
Non-instructional services	9,021,602	7,462,005
Community support	70,921	60,052
Capital improvements	2,968,472	1,096,258
Interest and fees on long-term debt	12,399,965	12,432,425
Total expenses	<u>220,215,177</u>	<u>200,292,571</u>
CHANGE IN NET ASSETS	<u>\$ 20,158,042</u>	<u>\$ 24,775,273</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 spend able 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 \$21,446,767, which is up 14.0% from the ending balance in fiscal year 2007 of \$18,820,210.

Expenditures for general District purposes totaled \$182,233,149, an increase of 8% during the current fiscal year; this increase was mainly for additional staffing and supplies within the instructional and support services functions due to the increase in student enrollment and the opening of three new schools.

General fund salaries totaled \$115,260,701 while the associated fringe benefits of retirement, social security, unemployment, workers compensation, health, dental, vision and life added \$38,155,266 to arrive at 83.3% 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 \$14,593,925, down \$30,812,121 from the ending balance in fiscal year 2007 of \$45,406,046. The primary reason for this decrease was the completion of a new K-8 school, a new high school, and the purchase of 20 new school buses.

General Fund Budgetary Highlights

The District adopts an original budget in June for the subsequent year. The District's fund balance was \$4,436,415 greater than the beginning balance budgeted in 2007-2008. The difference between the original

**JOINT SCHOOL DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008**

revenue budget and the final amended revenue budget was a decrease of \$2,474,097. The decrease was due to enrollment of 750 students less than projected. The difference between the original expense budget and the final amended budget was an increase of \$1,181,910. The district added to the budget to accommodate salary and benefits for additional staff and for operational material and supplies due to special state funding for classroom supplies.

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 \$387,490,389 in a wide range of capital assets. The total accumulated depreciation on these assets amounts to \$78,435,459.

- Capital asset acquisitions for governmental activities totaled \$38,725,737 for the fiscal year.
- The District has \$56,644,896 in construction in progress. Those funds include costs for one elementary school and two high schools.

Long-Term Debt

At year end the District had \$227,268,000 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	\$ 2,590,000
Series 1998 – Refunding	\$ 26,615,000
Series 2001	\$ 4,205,000
Series 2002	\$ 35,975,000
Series 2004 – Refunding	\$ 7,835,000
Certificates of Participation	\$ 4,395,000
Series 2005 – Refunding	\$ 31,385,000
Series 2005	\$111,885,000
Revenue Anticipation Note	\$ 2,383,000

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 2008-09 school year but they did increase the minimum salary for teachers to \$31,750.

Although enrollment dipped slightly in 2007-08, The District continues an average annual increase in enrollment in excess of 1000 students as families migrate to the western portion of Ada County and the eastern portion of Canyon County. The projected increase in enrollment for the 2008-2009 budget process was 635 students. The actual growth for the 2008-2009 school year was 1,144. 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

**JOINT SCHOOL DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008**

for the 2008-2009 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 Mike Carrithers at the Meridian School District Services Center, 1303 E Central Drive, Meridian ID 83642, by phone at (208) 350-5003, or by e-mail at carrithers.michael@meridianschools.org.

JOINT SCHOOL DISTRICT NO. 2
STATEMENT OF NET ASSETS
JUNE 30, 2008

	Governmental Activities
ASSETS	
Cash and investments	\$ 32,460,148
Restricted cash and investments	20,895,897
Property taxes receivable	24,163,297
State and federal receivables	4,651,489
Interest receivable	13,917
Receivables	1,027,888
Debt issuance costs (net of amortization)	1,195,948
Prepaid interest on refunded bonds (net of amortization)	1,661,092
Land and construction in progress	84,564,787
Depreciable capital assets (net of depreciation)	281,135,040
Total assets	<u>451,769,503</u>
LIABILITIES	
Accounts, salaries, and other payables	26,025,457
Deferred revenue	261,161
Accrued interest payable bonds	5,259,401
Arbitrage liability	510,401
Long-term liabilities	
Bond premium (net of amortization)	6,803,124
Due within one year - bonds	13,568,000
Due in more than one year - bonds	213,700,000
Due in more than one year - other liabilities	1,202,000
Total liabilities	<u>267,329,544</u>
NET ASSETS	
Invested in capital assets, net of related debt	151,276,257
Restricted for	
Debt service	17,345,232
Unrestricted	<u>15,818,470</u>
Total net assets	<u><u>\$ 184,439,959</u></u>

JOINT SCHOOL DISTRICT NO. 2
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2008

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	\$ 53,070,352	\$ 621,569	\$ 3,334,278	\$ -	\$ (49,114,505)
Secondary/alternative programs	50,407,699	26,124	1,156,346	-	(49,225,229)
Exceptional/preschool program	20,060,732	-	5,065,710	-	(14,995,022)
Other instructional programs	3,267,026	248,500	844,258	-	(2,174,268)
Support services:					
Attendance, guidance, health	6,154,574	-	809,619	-	(5,344,955)
Ancillary	7,883,592	-	-	-	(7,883,592)
Instructional improvement	5,737,170	-	-	-	(5,737,170)
Educational media	2,231,060	-	-	-	(2,231,060)
School administration	13,100,925	-	-	-	(13,100,925)
Administration	5,177,636	-	-	-	(5,177,636)
Maintenance and custodial	15,956,651	170,242	-	-	(15,786,409)
Grounds	425,542	-	-	-	(425,542)
Security	701,476	-	-	-	(701,476)
Pupil transportation services	11,579,782	166,692	-	-	(11,413,090)
Non-instructional	9,021,602	4,684,538	3,301,650	-	(1,035,414)
Community service programs	70,921	-	-	-	(70,921)
Capital improvements	2,968,472	-	-	4,080,191	1,111,719
Interest on long-term debt	12,399,965	-	-	-	(12,399,965)
Total Governmental Activities	\$220,215,177	\$ 5,917,665	\$ 14,511,861	\$ 4,080,191	(195,705,460)
General revenues:					
Taxes:					
					16,780,963
					28,656,816
					11,194,711
					33,353
Grants and contributions not restricted to specific programs:					
					154,612,038
					1,008
					451,250
Interest and investment earnings:					
					2,369,860
					1,746,692
					16,811
					<u>215,863,502</u>
					<u>20,158,042</u>
					<u>164,281,917</u>
					<u>\$ 184,439,959</u>

JOINT SCHOOL DISTRICT NO. 2
BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2008

	General	Debt Service	Capital Projects
ASSETS			
Cash and investments	\$ 32,460,148	\$ -	\$ -
Restricted cash and investments	-	6,421,250	14,076,662
Receivables			
Current property taxes receivable	6,438,337	10,976,278	4,309,570
Delinquent property taxes receivable	731,849	1,240,673	466,590
State receivable	1,994,563	-	-
Interest receivable	-	-	13,917
Federal receivable	-	12,501	-
Other receivables	986,112	-	-
Total assets	<u>\$ 42,611,009</u>	<u>\$ 18,650,702</u>	<u>\$ 18,866,739</u>
LIABILITIES AND FUND BALANCE			
LIABILITIES			
Accounts payable	\$ 395,074	\$ -	\$ 3,806,224
Salaries and benefits payable	20,037,319	-	-
Deferred revenue	731,849	1,240,673	466,590
Arbitrage liability	-	510,401	-
Total liabilities	<u>21,164,242</u>	<u>1,751,074</u>	<u>4,272,814</u>
FUND BALANCE			
Reserved for			
Debt service	1,607,292	16,899,628	-
Reserved for special projects	912,611	-	-
Unreserved			
Designated for special projects	591,278	-	-
Designated for subsequent year	16,500,000	-	14,593,925
Designated for special revenue funds	-	-	-
Undesignated	1,835,586	-	-
Total fund balance	<u>21,446,767</u>	<u>16,899,628</u>	<u>14,593,925</u>
Total liabilities and fund balance	<u>\$ 42,611,009</u>	<u>\$ 18,650,702</u>	<u>\$ 18,866,739</u>

Other Governmental Funds	Total Governmental Funds
\$ -	\$ 32,460,148
397,985	20,895,897
-	21,724,185
-	2,439,112
338,206	2,332,769
-	13,917
2,318,720	2,331,221
29,275	1,015,387
<u>\$ 3,084,186</u>	<u>\$ 83,212,636</u>

\$ 7,595	\$ 4,208,893
1,779,245	21,816,564
261,161	2,700,273
-	510,401
<u>2,048,001</u>	<u>29,236,131</u>

-	18,506,920
-	912,611
-	591,278
-	31,093,925
1,036,185	1,036,185
-	1,835,586
<u>1,036,185</u>	<u>53,976,505</u>
<u>\$ 3,084,186</u>	<u>\$ 83,212,636</u>

JOINT SCHOOL DISTRICT NO. 2
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
YEAR ENDED JUNE 30, 2008

Total fund balances - governmental funds \$ 53,976,505

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. 365,699,827

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. 2,439,112

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. (3,946,084)

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. (233,729,401)

Net assets \$ 184,439,959

JOINT SCHOOL DISTRICT NO. 2
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2008

	General	Debt Service	Capital Projects
REVENUE			
Local revenues			
Property taxes	\$ 16,416,680	\$ 28,110,433	\$ 10,928,251
Earnings on investments	2,369,860	534,205	1,151,183
State revenue	154,237,091	497,825	2,276,177
Federal revenue	476,092	-	-
Other revenue	1,736,992	-	260,152
Total revenue	<u>175,236,715</u>	<u>29,142,463</u>	<u>14,615,763</u>
EXPENDITURES			
Instructional			
Elementary school programs	50,935,164	-	1,375,331
Secondary school programs	35,143,340	-	1,214,431
Alternative school programs	4,943,063	-	138,637
Exceptional school programs	13,314,004	-	4,994
Preschool school programs	932,761	-	-
Gifted and talented school programs	1,237,916	-	-
Interscholastic school programs	1,919,976	-	-
School activity programs	739,453	-	-
Summer school programs	316,421	-	-
Driver education program	224,669	-	-
Total instructional	<u>109,706,767</u>	<u>-</u>	<u>2,733,393</u>
Support Services			
Attendance, guidance, health program	5,281,268	-	-
Ancillary program	7,203,707	-	-
Instructional improvement program	3,531,733	-	2,016
Instructional technology program	1,190,116	-	-
Media program	2,204,467	-	-
School administration program	11,426,057	-	402,854
Administration program	3,617,878	-	-
Administration technology program	1,621,537	-	-
Custodial program	10,531,059	-	-
Maintenance and warehouse programs	2,957,444	-	2,436,213
Grounds program	349,042	-	-
Security program	699,214	-	-
Transportation program	10,490,350	-	15,519
Total support services	<u>61,103,872</u>	<u>-</u>	<u>2,856,602</u>

Other Governmental Funds	Total Governmental Funds
\$ -	\$ 55,455,364
61,304	4,116,552
2,081,675	159,092,768
11,767,085	12,243,177
4,783,030	6,780,174
<u>18,693,094</u>	<u>237,688,035</u>
1,859,977	54,170,472
1,718,630	38,076,401
-	5,081,700
4,026,316	17,345,314
358,013	1,290,774
266	1,238,182
-	1,919,976
-	739,453
16,083	332,504
-	224,669
<u>7,979,285</u>	<u>120,419,445</u>
828,538	6,109,806
508,565	7,712,272
818,729	4,352,478
169,948	1,360,064
-	2,204,467
25,280	11,854,191
104,149	3,722,027
-	1,621,537
-	10,531,059
-	5,393,657
-	349,042
-	699,214
2,100	10,507,969
<u>2,457,309</u>	<u>66,417,783</u>

JOINT SCHOOL DISTRICT NO. 2
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2008

	General	Debt Service	Capital Projects
EXPENDITURES (continued)			
Non-instructional	188,475	-	-
Community program	65,144	-	-
Capital outlay program	154,184	-	38,571,552
Debt service			
Principal	10,475,000	12,690,000	-
Interest and agent fees	539,707	12,732,440	-
Total debt service	<u>11,014,707</u>	<u>25,422,440</u>	<u>-</u>
TOTAL EXPENDITURES	<u>182,233,149</u>	<u>25,422,440</u>	<u>44,161,547</u>
Excess (deficiency) of revenue over (under) expenditures	(6,996,434)	3,720,023	(29,545,784)
Other financing sources (uses)			
Net interfund transfers	1,541,771	-	(1,375,005)
Debt proceeds	2,383,000	-	-
Proceeds from sale of fixed assets	6,718,571	-	65,680
Refund of insurance proceeds	(1,020,351)	-	-
Payment to refunded bond escrow agent	-	(13,575,000)	-
Unrealized loss on investments	-	(26,177)	42,988
	<u>9,622,991</u>	<u>(13,601,177)</u>	<u>(1,266,337)</u>
Excess of revenues and other financing sources (uses) over expenditures and other financing sources (uses)	2,626,557	(9,881,154)	(30,812,121)
FUND BALANCE, BEGINNING OF YEAR	<u>18,820,210</u>	<u>26,780,782</u>	<u>45,406,046</u>
FUND BALANCE, END OF YEAR	<u>\$ 21,446,767</u>	<u>\$ 16,899,628</u>	<u>\$ 14,593,925</u>

Other Governmental Funds	Total Governmental Funds
8,862,985	9,051,460
5,168	70,312
-	38,725,736
-	23,165,000
-	13,272,147
-	36,437,147
<u>19,304,747</u>	<u>271,121,883</u>
(611,653)	(33,433,848)
(166,766)	-
-	2,383,000
-	6,784,251
-	(1,020,351)
-	(13,575,000)
-	16,811
<u>(166,766)</u>	<u>(5,411,289)</u>
(778,419)	(38,845,137)
<u>1,814,604</u>	<u>92,821,642</u>
<u>\$ 1,036,185</u>	<u>\$ 53,976,505</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, 2008

Total net change in fund balances - governmental funds \$ (38,845,137)

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. 23,851,486

Repayment of bond principal and capital leases. 23,165,000

Retirement of bonds in the current year. 13,575,000

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. 1,124,511

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. (2,053,539)

Change in OPEB Liability (1,202,000)

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. 542,721

CHANGE IN NET ASSETS \$ 20,158,042

JOINT SCHOOL DISTRICT NO. 2
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2008

	<u>Agency Funds</u>
ASSETS	
Cash	\$ 801,048
Investments	<u>1,401,690</u>
Total assets	<u><u>\$ 2,202,738</u></u>
 LIABILITIES	
Accounts payable	\$ 111,021
Due to student groups	<u>2,091,717</u>
Total liabilities	<u><u>\$ 2,202,738</u></u>

JOINT SCHOOL DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

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. Significant estimates used in preparing these financial statements include those assumed in determining the actuarial assumptions made in the other post employment liability. Accordingly, actual results could differ from those estimates.

Property Taxes

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

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

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

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

Capital Assets

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

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

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, 2008, 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.

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	\$ 444,135,286
Depreciation expense to date	<u>(78,435,459)</u>
Net adjustment	<u>\$ 365,699,827</u>

NOTES TO FINANCIAL STATEMENTS

Governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in treatment of long-term debt and related items. Balances at June 30, 2008 are:

Capitalized debt issuance costs	\$ 1,745,631
Amortization of debt issuance costs to date	(549,683)
Prepaid interest	2,410,463
Amortization of prepaid interest to date	(749,371)
Premium on bonds issued	(9,071,088)
Amortization of bond premium to date	<u>2,267,964</u>
Net adjustment	<u>\$ (3,946,084)</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, 2008 are:

Bonds payable	\$ (227,268,000)
Interest payable	(5,259,401)
Other post employment benefit obligations	<u>(1,202,000)</u>
Net adjustment	<u>\$ (233,729,401)</u>

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

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

Depreciation expense	\$ (9,633,862)
Proceeds from sale of capital assets	(6,748,767)
Gain on sale of capital assets	1,508,378
Capital outlays	<u>38,725,737</u>
Net adjustment	<u>\$ 23,851,486</u>

NOTES TO FINANCIAL STATEMENTS

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

Bond proceeds	\$ (2,383,000)
Amortization of debt issuance costs	(143,309)
Amortization of prepaid interest	(240,645)
Amortization of bond premium	<u>715,415</u>
Net adjustment	<u>\$ (2,053,539)</u>

NOTE 3 – CASH AND INVESTMENTS

At June 30, 2008, the District’s cash and investments consisted of the following:

<u>Deposits</u>	<u>Carrying Amount</u>	<u>Bank Amount</u>	<u>Insured or Collateralized</u>	<u>Uninsured and Uncollateralized</u>
Insured or collateralized	\$ 13,285,929	\$ 16,301,171	\$ 400,000	\$ 15,901,171
<u>Investments</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Maturity</u>	<u>Concentration</u>
State of Idaho Local Government				
Investment Pool (LGIP)	18,791,003	AAAf	Not applicable	47%
MBIA Repurchase Agreement	14,609,208	Not rated	July 1, 2008	36%
Bank of the Cascades				
Repurchase agreement	3,064,053	Not rated	July 1, 2008	8%
U.S. Treasury Notes	1,839,143	AAA	See table below	5%
Wells Fargo Repurchase Agreement	<u>1,767,009</u>	Not rated	July 1, 2008	<u>4%</u>
Total investments	<u>40,070,416</u>			<u>100%</u>
Total cash and investments	<u>\$ 53,356,345</u>			

Maturity of U.S. Treasury Notes

<u>Total</u>	<u>Under 90 Days</u>	<u>90 to 180 Days</u>	<u>80 Days to 1 Year</u>	<u>1 to 2 Years</u>	<u>2 to 5 Years</u>
\$ 1,839,143	\$ 1,839,143	\$ -	\$ -	\$ -	\$ -

NOTES TO FINANCIAL STATEMENTS

NOTE 4 – INTERFUND BALANCES AND TRANSFERS

As of June 30, 2008, 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 Fund
Interfund transfers out		
General fund	\$ -	\$ 901,832
Capital projects fund	2,276,837	-
Nonmajor governmental funds	166,766	-
Total interfund transfers	<u>\$ 2,443,603</u>	<u>\$ 901,832</u>

NOTE 5 – DUE FROM OTHER AGENCIES AND UNITS OF GOVERNMENT

Amounts due from other agencies and units of government were as follows as of June 30, 2008:

State Agencies	\$ 2,332,769
Federal Agencies	2,318,720
	<u>4,651,489</u>
County Agencies	24,163,297
Total	<u>\$ 28,814,786</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, 2008:

	General Fund	Debt Service Fund	Capital Projects Fund
Delinquent taxes	<u>\$ 731,849</u>	<u>\$ 1,240,673</u>	<u>\$ 466,590</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 7 – CAPITAL ASSETS

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

	<u>June 30, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2008</u>
Non depreciable capital assets:				
Land	\$ 27,919,891	\$ -	\$ -	\$ 27,919,891
Construction in progress	79,129,400	38,725,737	(61,210,241)	56,644,896
Total	<u>\$ 107,049,291</u>	<u>\$ 38,725,737</u>	<u>\$ (61,210,241)</u>	<u>\$ 84,564,787</u>
Depreciable capital assets:				
Buildings, and improvements	\$ 266,302,428	\$ 54,643,673	\$ (5,434,491)	\$ 315,511,610
Furniture and equipment	37,696,679	6,422,573	(60,363)	44,058,889
Total	<u>303,999,107</u>	<u>61,066,246</u>	<u>(5,494,854)</u>	<u>359,570,499</u>
Less accumulated depreciation for:				
Buildings, and improvements	(49,219,062)	(6,215,781)	384,750	(55,050,093)
Furniture and equipment	(19,980,995)	(3,418,081)	13,710	(23,385,366)
Total accumulated depreciation	<u>(69,200,057)</u>	<u>(9,633,862)</u>	<u>398,460</u>	<u>(78,435,459)</u>
Total depreciable capital assets, net	<u>\$ 234,799,050</u>	<u>\$ 51,432,384</u>	<u>\$ (5,096,394)</u>	<u>\$ 281,135,040</u>

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

Governmental activities:	
Elementary programs	\$ 3,549,171
Secondary/alternative programs	3,689,076
Other instructional programs	363,611
Instructional improvement	7,314
Administration	988,965
Maintenance and custodial	22,131
Grounds	3,523
Pupil transportation services	963,384
Non-instructional	46,687
Total depreciation expense –Governmental activities	<u>\$ 9,633,862</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 8 –LONG-TERM DEBT

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

	Balance at June 30, 2007	Additions	Deletions	Balance at June 30, 2008	Due within one year
Governmental activities					
Bonds payable:					
General obligation	\$ 261,625,000	\$ 2,383,000	\$ (36,740,000)	\$ 227,268,000	\$13,568,000

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

Other post employment benefits	\$ 1,202,000
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NOTE 9 – GENERAL OBLIGATION BONDS PAYABLE

General obligation bonds payable as of June 30, 2008 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.	\$ 2,590,000
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.	26,615,000
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.	4,205,000
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.	35,975,000
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%.	4,395,000

NOTES TO FINANCIAL STATEMENTS

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. 111,885,000

\$2,383,000 Revenue anticipation note with accrued interest and principal due on December 12, 2008; interest will accrue at a variable rate of equal to 63.5% of the Bank of America Prime rate, less 1.5%. 2,383,000

\$227,268,000

The annual requirements to pay principal and interest on outstanding general obligation bonds payable are as follows as of June 30, 2008:

Fiscal Year Ending June 30	General Obligation Bond Principal	Interest	Total
2009	\$ 13,568,000	\$ 13,163,472	\$ 26,731,472
2010	13,845,000	11,556,728	25,401,728
2011	11,585,000	9,947,552	21,532,552
2012	12,090,000	9,431,049	21,521,049
2013	12,620,000	8,903,559	21,523,559
2014-2018	76,705,000	33,921,408	110,626,408
2019-2023	65,840,000	15,995,494	81,835,494
2024-2025	21,015,000	1,826,375	22,841,375
	<u>\$227,268,000</u>	<u>\$ 104,745,637</u>	<u>\$ 332,013,637</u>

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

NOTES TO FINANCIAL STATEMENTS

Market value for assessment purposes	\$ 15,161,266,134
Multiplied by 5%	5%
Debt limit	<u>758,063,307</u>
Less outstanding indebtedness	<u>227,268,000</u>
Additional debt-incurring capacity	<u><u>\$ 530,795,307</u></u>

Refunded Bonds – In 1991, 1996, 1998, 2005, 2006 and 2008 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, 2008, the bonds payable amount still owing but considered extinguished was \$90,965,000.

NOTE 10– RETIREMENT HEALTHCARE PLAN

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

Funding Policy. The contribution requirement of plan members is established by the District’s insurance committee in conjunction with our insurance provider. The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2008 the District contributed approximately \$14.7 million to the plan for current premiums or approximately 83 percent of total premiums. Plan members receiving benefits contributed approximately \$3 million or approximately 17 percent of the total premiums. Retirees are required to pay 100% of the premiums for both the retiree and the dependent coverage. Monthly contribution rates in effect for retirees under age 65 during fiscal year 2008 were as follows:

Under 65

Medical	
Retiree Only	\$384
Retiree +1	\$845
Retiree +2 or more	\$910
Dental	
Retiree Only	\$35
Retiree +1	\$60
Retiree +2 or more	\$88

NOTES TO FINANCIAL STATEMENTS

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

Annual required contribution	\$ 1,621,000
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	<u>1,621,000</u>
Contributions made	<u>(419,000)</u>
Increase in net OPEB obligation	1,202,000
Net OPEB obligation—beginning of year	-
Net OPEB obligation—end of year	<u><u>\$ 1,202,000</u></u>

Three year disclosure of the District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation is not necessary as fiscal year 2008 is the year of implementation for GASB Statement 45.

NOTES TO FINANCIAL STATEMENTS

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

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

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

In the July 1, 2007, actuarial valuation, the Projected Unit Credit (PUC) actuarial cost method was used. The actuarial assumptions included a 4.5 percent discount rate assuming the District will fund the retirement benefit on a pay-as-you-go basis. The valuation assumes that 85% of eligible retirees will actually participate in the retiree medical benefit and 20% of their dependents will participate. The annual healthcare cost trend rate of 10% initially, decreasing approximately .5 percent per year until reaching an ultimate rate of 5 percent. It was assumed salary increases will be 4.5 percent per annum. The UAAL is being amortized as a level percentage of projected payrolls over a thirty year time period. The remaining amortization period at June 30, 2008 was twenty-nine years.

NOTE 11 – INSURANCE

The District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; and errors and omissions. The District purchases insurance for property losses from independent carriers. The District has in effect property insurance coverage up to \$536,669,898 with a \$2,500 deductible per incident. Worker's compensation insurance is purchased from the State of Idaho in accordance with State requirements. The District maintains a \$2,000,000 commercial general liability policy per occurrence and a \$5,000,000 maximum aggregate.

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

NOTE 12 - COMMITMENTS

The District had \$1,306,926 in open purchase orders at June 30, 2008 that were budgeted expenditures in the 2007/2008 school year.

NOTES TO FINANCIAL STATEMENTS

Several project bids were approved and incomplete as of June 30, 2008. Progress billings for work completed as of this date were accrued. The projects, bids, and amounts paid as of June 30, 2008, are as follows:

<u>Project</u>	<u>Contract Amount</u>	<u>Amount Paid as of June 30, 2008</u>
Rocky Mountain High School	\$ 47,294,028	\$ 43,090,207
Sienna Elementary School	10,928,721	7,765,933
Phase III District Service Center	1,602,830	1,466,460
Phase IV District Service Center	1,980,437	712,069
	<u>\$ 61,806,016</u>	<u>\$ 53,034,669</u>

NOTE 13 – PENSION PLAN

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

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, 2008 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 \$12,388,275, \$11,501,288, and \$10,531,198, for the three fiscal years ended June 30, 2008, 2007, and 2006, respectively.

NOTE 14 – EARLY RETIREMENT INCENTIVE PROGRAM

The District has an Early Retirement Incentive Program (the Program) available to all staff in the District who have at least fifteen years of service, attain age 55, and are not eligible for disability benefits or full PERSI benefits. The Program, implemented by the Board and subject to annual renewal, provides for payments to early retirees over a two-year period following retirement. The amount of benefits paid is based on age and salary at the date of retirement. Participation in the Program is subject to the approval of the District. The District funds the Program from current operating funds. During the year ended June 30, 2008, the District paid Program benefits totaling \$1,375,222.

NOTES TO FINANCIAL STATEMENTS

NOTE 15 – PROFESSIONAL TECHNICAL CENTER AGREEMENT

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

NOTE 16 – OPERATING LEASES

The District contracts out for copier services and pays by the copy. The contract guaranteed a price of 0.95 cents to 2.3 cents per copy (depending on the model of the copier) until June 30, 2008. The District made minimum lease payments in the amount of \$483,408 on this contract.

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, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUE				
Local revenues:				
Property taxes	\$ 17,802,530	\$ 16,559,159	\$ 16,416,680	\$ (142,479)
Earnings on investments	-	2,593,881	2,369,860	(224,021)
State revenue	155,917,013	154,559,584	154,237,091	(322,493)
Federal revenue	300,000	300,000	476,092	176,092
Other revenue	3,962,587	1,495,409	1,736,992	241,583
Total revenue	<u>177,982,130</u>	<u>175,508,033</u>	<u>175,236,715</u>	<u>(271,318)</u>
EXPENDITURES				
Instructional:				
Elementary school programs	51,791,124	51,816,762	50,935,164	881,598
Secondary school programs	36,779,784	35,949,974	35,143,340	806,634
Alternative school programs	4,763,735	5,038,844	4,943,063	95,781
Exceptional school programs	13,827,428	13,668,832	13,314,004	354,828
Preschool school programs	1,052,382	1,052,272	932,761	119,511
Gifted and talented school programs	1,393,458	1,332,593	1,237,916	94,677
Interscholastic school programs	1,952,460	1,956,228	1,919,976	36,252
School activity programs	672,749	672,849	739,453	(66,604)
Summer school programs	283,244	283,244	316,421	(33,177)
Driver education program	258,977	258,977	224,669	34,308
Total instructional	<u>112,775,341</u>	<u>112,030,575</u>	<u>109,706,767</u>	<u>2,323,808</u>
Support services:				
Attendance, guidance, health program	5,412,053	5,262,172	5,281,268	(19,096)
Ancillary program	6,975,498	7,676,224	7,203,707	472,517
Instructional improvement program	4,384,127	4,320,207	3,531,733	788,474
Instructional technology program	1,608,243	1,529,808	1,190,116	339,692
Media program	2,310,541	2,312,134	2,204,467	107,667
School administration program	11,176,850	11,740,091	11,426,057	314,034
Administration program	3,440,277	3,698,832	3,617,878	80,954
Administration technology program	1,698,019	1,755,044	1,621,537	133,507
Custodial program	12,059,721	12,217,486	10,531,059	1,686,427
Maintenance and warehouse programs	2,405,936	2,513,270	2,957,444	(444,174)
Grounds program	471,629	472,766	349,042	123,724
Security program	735,890	772,529	699,214	73,315
Transportation program	10,757,794	10,800,141	10,490,350	309,791
Total support services	<u>63,436,578</u>	<u>65,070,704</u>	<u>61,103,872</u>	<u>3,966,832</u>

JOINT SCHOOL DISTRICT NO. 2
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL – GENERAL FUND
JUNE 30, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
EXPENDITURES (continued)				
Non-instructional	164,800	175,000	188,475	(13,475)
Community program	68,904	68,904	65,144	3,760
Capital outlay program	4,225	286,575	154,184	132,391
Debt service program				
Principal	11,015,928	11,015,928	10,475,000	540,928
Interest and agent fees	-	-	539,707	(539,707)
Total expenditures	<u>187,465,776</u>	<u>188,647,686</u>	<u>182,233,149</u>	<u>6,414,537</u>
Excess of revenue over expenditures	(9,483,646)	(13,139,653)	(6,996,434)	6,143,219
Other financing sources (uses):				
Net interfund transfer	1,532,398	1,550,566	1,541,771	(8,795)
Bonds issued	-	-	2,383,000	2,383,000
Proceeds from sale of fixed assets	6,281,111	6,281,111	6,718,571	437,460
Refund of insurance proceeds	-	-	(1,020,351)	(1,020,351)
	<u>7,813,509</u>	<u>7,831,677</u>	<u>9,622,991</u>	<u>1,791,314</u>
Excess of revenues and financing sources (uses) over expenditures and other financing sources (uses)	<u>\$ (1,670,137)</u>	<u>\$ (5,307,976)</u>	<u>\$ 2,626,557</u>	<u>\$ 7,934,533</u>

JOINT SCHOOL DISTRICT NO. 2
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2008

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, 2008.
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, 2008

	Beginning Balance <u>June 30, 2007</u>	Receipts	Expenditures	Ending Balance <u>June 30, 2008</u>
ASSETS				
Cash				
Meridian High School	\$ 36,880	\$ 1,201,326	\$ 1,217,988	\$ 20,218
Centennial High School	158,758	1,063,357	1,066,090	156,025
Eagle High School	88,112	1,267,956	1,320,350	35,718
Mountain View High School	20,694	1,421,939	1,431,793	10,840
Meridian Middle School	14,150	191,501	189,529	16,122
Lowell Scott Middle School	10,201	191,442	192,314	9,329
Lake Hazel Middle School	7,259	96,899	99,318	4,840
Eagle Middle School	13,153	186,078	189,232	9,999
Lewis and Clark Middle School	8,998	168,498	173,064	4,432
Sawtooth Middle School	6,853	105,651	103,981	8,523
Heritage Middle School	-	110,811	95,007	15,804
Academies	69,396	158,850	147,294	80,952
Elementary Schools	425,841	1,521,174	1,518,769	428,246
Total cash	<u>860,295</u>	<u>7,685,482</u>	<u>7,744,729</u>	<u>801,048</u>
Investments				
Meridian High School	161,509	(60,793)	-	100,716
Centennial High School	281,517	12,894	-	294,411
Eagle High School	297,223	31,559	-	328,782
Mountain View High School	338,959	(18,184)	-	320,775
Meridian Middle School	59,197	3,428	(20,000)	82,625
Lowell Scott Middle School	59,719	2,556	-	62,275
Lake Hazel Middle School	52,082	2,695	4,800	49,977
Eagle Middle School	79,914	4,262	7,000	77,176
Lewis and Clark Middle School	60,807	(8,833)	-	51,974
Sawtooth Middle School	32,129	1,344	13,000	20,473
Heritage Middle School	-	506	(12,000)	12,506
Total investments	<u>1,423,056</u>	<u>(28,566)</u>	<u>(7,200)</u>	<u>1,401,690</u>
Total assets	<u>\$ 2,283,351</u>	<u>\$ 7,656,916</u>	<u>\$ 7,737,529</u>	<u>\$ 2,202,738</u>

LIABILITIES	Beginning Balance <u>June 30, 2007</u>	<u>Receipts</u>	<u>Expenditures</u>	Ending Balance <u>June 30, 2008</u>
Accounts payable				
Meridian High School	\$ 15,570	\$ 35,585	\$ 41,863	\$ 9,292
Centennial High School	50,076	49,773	46,898	52,951
Eagle High School	22,154	37,665	39,684	20,135
Mountain View High School	2,371	73,204	67,873	7,702
Meridian Middle School	4,595	2,217	1,577	5,235
Lowell Scott Middle School	6,596	1,322	544	7,374
Lake Hazel Middle School	3,302	4,429	7,057	674
Eagle Middle School	2,126	5,267	5,725	1,668
Lewis and Clark Middle School	2,602	557	464	2,695
Sawtooth Middle School	2,171	2,103	1,739	2,535
Heritage Middle School	-	670	(90)	760
Total accounts payable	<u>111,563</u>	<u>212,792</u>	<u>213,334</u>	<u>111,021</u>
Due to student groups				
Meridian High School	182,819	1,104,949	1,176,126	111,642
Centennial High School	390,199	1,026,297	1,019,011	397,485
Eagle High School	363,181	1,261,669	1,280,485	344,365
Mountain View High School	357,282	1,330,551	1,363,920	323,913
Meridian Middle School	68,752	192,713	167,953	93,512
Lowell Scott Middle School	63,324	193,107	192,201	64,230
Lake Hazel Middle School	56,039	95,166	97,062	54,143
Eagle Middle School	90,941	185,072	190,506	85,507
Lewis and Clark Middle School	67,203	159,129	172,621	53,711
Sawtooth Middle School	36,811	104,891	115,241	26,461
Heritage Middle School	-	110,646	83,096	27,550
Academy Schools	69,396	158,851	147,295	80,952
Elementary Schools	425,841	1,521,174	1,518,769	428,246
Total due to student groups	<u>2,171,788</u>	<u>7,444,215</u>	<u>7,524,286</u>	<u>2,091,717</u>
Total liabilities	<u>\$ 2,283,351</u>	<u>\$ 7,657,007</u>	<u>\$ 7,737,620</u>	<u>\$ 2,202,738</u>

JOINT SCHOOL DISTRICT NO. 2

SINGLE AUDIT AND GOVERNMENT AUDITING STANDARDS INFORMATION



CPAs & BUSINESS ADVISORS

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Joint School District No. 2, (the "District") as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 10, 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 the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District'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, 2008-1 and 2008-2.

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 District'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, of the significant deficiencies described above, we consider items 2008-1 and 2008-2 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2008-3.

We noted certain matters that we reported to management of the District in a separate letter dated October 10, 2008.

District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit 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 Sully LLP". The signature is written in a cursive, flowing style.

Boise, Idaho
October 10, 2008



CPAs & BUSINESS ADVISORS

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

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

Compliance

We have audited the compliance of the Joint School District No. 2 (the “District”) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The District’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of 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, 2008. 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 2008-4.

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.

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

Boise, Idaho
October 10, 2008

JOINT SCHOOL DISTRICT NO. 2
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
<u>U.S. Department of Agriculture</u>		
Passed Through State Department of Education:		
Food Distribution	10.550	\$ 457,526
National School Lunch Program	10.555	2,114,942
School Breakfast Program	10.553	635,855
Summer Food Service Program	10.559	11,110
Special Milk Program for Children	10.556	64,342
Child Nutrition Discretionary Grants	10.579	4,229
Child Nutrition Fresh Fruits and Vegetables	10.582	8,919
		<u>3,296,923</u>
 <u>U.S. Department of Justice</u>		
Passed Through State Department of Justice		
Enforcing Underage Drinking Laws Program	16.727	8,323
 <u>U.S. Department of Transportation</u>		
Passed Through State Department of Education:		
Alcohol Traffic Safety and Drunk Driving Prevention	20.600	4,994
 National Endowment for the Humanities		
National Endowment for the Arts	45.025	1,077
State Library Program	45.310	5,210
		<u>6,287</u>

JOINT SCHOOL DISTRICT NO. 2
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008

U.S. Department of Education

Passed Through State Department of Education:

Title I, Grants to Local Educational Agencies	84.010	1,771,094
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Title VIB, Special Education

Discretionary and Flow-Through	84.027	4,699,809
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Pre-School	84.173	235,080
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Meridian Schools District Crisis Response Plan	84.184E	100,549
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Safe and Drug-Free Schools and Communities	84.186	100,230
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Homeless Education	84.196	22,824
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Innovative Education Program Strategies	84.298	40,779
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Technology Literacy Challenge Fund Grants	84.318	71,300
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English Language Acquisition	84.365	131,365
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Improving Teacher Quality	84.367	632,960
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Smaller Learning Communities	84.215L	346,098
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Passed Through Idaho Division of Vocational Technical Education:

Carl Perkins	84.048	259,914
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<u>8,412,002</u>

U.S. Department of Health and Human Services

Passed Through State Department of Health and Welfare:

Refugee and Entrant Assistance	93.576	51,799
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School Health Program to Prevent the Spread of HIV/AIDS	93.638	3,000
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<u>54,799</u>

Total		<u><u>\$ 11,783,328</u></u>
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JOINT SCHOOL DISTRICT NO. 2
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2008

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, 2008:

<u>Program</u>	<u>CFDA Number</u>
Child Nutrition Cluster	Various
Food Distribution	10.550
Title VI-B, Special Education Cluster	Various
Title I, Grants to Local Education Agencies	84.010

The following programs have been clustered for the determination of Type A or Type B programs for the year ended June 30, 2008:

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

NOTE 3 – COMMODITIES

The commodities food distribution program (CFDA# 10.550) valued at \$457,526 is not included in the Schedule of Expenditures of Federal Awards. This amount is included in the Federal Revenue amount presented in the financial statements.

JOINT SCHOOL DISTRICT NO. 2
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008

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 reported

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

Material weakness identified? No
 Significant deficiency None reported

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

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)? Yes

Identification of major programs:

<u>CFDA number</u>	<u>Name of Federal Program or Cluster</u>
84.027	Title IV-B, Special Education
84.010	Title I, Grants to Local Education Agencies
10.550	Food Distribution
10.553, 10.555, 10.556, 10.559	Child Nutrition Cluster

Dollar threshold used to distinguish between Type A and Type B programs \$353,500

Auditee qualified as low-risk auditee? No

JOINT SCHOOL DISTRICT NO. 2
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008

Section II - Financial Statement Findings

2008-1

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:

The District agrees that having an internal control system over financial reporting is an important part of the District's overall internal control process. The District has performed a cost / benefit analysis of implementing these controls and concluded the resources were not in place to effectively implement the necessary changes for the year ended June 30, 2008. The District has added 2.5 FTE's in the accounting staff and will work toward this goal in the next fiscal year.

JOINT SCHOOL DISTRICT NO. 2
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008

2008-2

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.

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 that will allow us to identify and make adjustments on a timely basis. Additionally, transactions at year-end will be more closely scrutinized to ensure they are reported in the correct fiscal period.

JOINT SCHOOL DISTRICT NO. 2
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008

2008-3

Criteria:

Pursuant to Idaho Code 33-1019 the District is required to allocate at least two percent of the replacement value of student-occupied buildings, owned by the district or with a lease-purchase agreement, for future qualifying school building maintenance. If the full two percent is not expended, the difference must be reserved for future qualifying repairs and maintenance.

Condition:

The District did not expend the required two percent on school building maintenance in the current year. The District is not reserving the unexpended maintenance funds for future qualifying repairs and maintenance.

Effect:

Funds will not be available from a reserve for future repairs and maintenance of buildings occupied by students. The funds will have to come from other sources in the future.

Cause:

Management has taken the position of being unable to reserve the amount of funds Idaho Code requires.

Recommendation:

We recommend reserving the funds for qualified school building maintenance as stated under Idaho Code 33-1019.

Response and Action Plan of Management:

The District is committed to maintaining all of our facilities at the highest level. As a growing district, we find that the average age of our buildings is relatively young, therefore, do not require this level of maintenance spending. The District spent 5.6 million maintaining our facilities in 2007-2008. We feel that our strategy of identifying and acting upon maintenance items before or as they arise mitigates the need to reserve a large amount of funds for this purpose, allowing our maintenance needs to be met by current-year funding.

JOINT SCHOOL DISTRICT NO. 2
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008

Section III - Federal Award Findings and Questioned Costs

2008-4

Criteria:

The District is required to ensure that any paraprofessional who worked in a program supported by Title I, Part A funds must meet specific qualification requirements as defined in 34 CFR section 200.58. The specific qualifications include meeting one of the following requirements; complete two years of study at an institute of higher education, obtain an associate's or higher degree, or meet a rigorous standard of quality demonstrated through a formal State or Local academic assessment.

Condition:

The District does not have a system in place to monitor the supporting documentation validating that all paraprofessionals paid with Title I part A funds meet the specific qualification requirements. This resulted in a paraprofessional that was paid with Title I funds that was not supported by documentation supporting the status of being highly qualified.

Effect:

The District has multiple paraprofessionals that have met the specific qualification requirements that are not paid with Title I funds. The effect is that proper documentation is not always obtained and properly tracked.

Cause:

The documentation obtained for new hires supporting the status as highly qualified is maintained by the principal at each location. This created no central source and monitoring of required documentation for the District.

Recommendation:

The District implements a process to monitor the documentation obtained by each employee paid with Title I funds ensuring they are properly classified as high qualified.

Response and Action Plan of Management:

Our new Title I Coordinator is working with our principals and paraprofessionals to ensure that these people meet the requirements of a highly qualified employee. Steps are being taken to analyze qualifications and develop a plan for training to ensure that the highly qualified competencies are met.