

HIGHLAND COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS,  
SUPPLEMENTARY INFORMATION  
AND SCHEDULE OF FINDINGS

JUNE 30, 2005

HIGHLAND COMMUNITY SCHOOL DISTRICT  
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HIGHLAND COMMUNITY SCHOOL DISTRICT  
 Officials  
 June 30, 2005

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education</b>		
(Before September 2004 Election)		
Mike Roberts	Board President	2004
Robert Schneider, Jr.	Board Member	2004
Cindy Michel	Board Member	2004
Ed Ossman	Board Member	2005
Becky Hanson	Board Member	2005
Vaughn Davisson	Board Member	2006
Kevin Engel	Board Member	2006
(After September 2004 Election)		
Mike Roberts	Board President	2007
Ed Ossman	Board Member	2005
Becky Hanson	Board Member	2005
Vaughn Davisson	Board Member	2006
Kevin Engel	Board Member	2006
Robert Schneider, Jr.	Board Member	2007
Cindy Michel	Board Member	2007
<b>School Officials</b>		
Carol Montz	Superintendent	2005
Bev Colbert	District Secretary/Treasurer	2005
C. Joseph Holland	Attorney	2005

# KAY L. CHAPMAN, CPA PC

210 Cedar Street  
Muscatine, Iowa 52761  
563-264-1385

## Independent Auditor's Report

To the Board of Education  
Highland Community School District

I have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of Highland Community School District, Riverside, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with U.S. generally accepted auditing standards 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 I 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. I believe my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of Highland Community School District as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, I have also issued my report dated August 11, 2005 on my consideration of Highland Community School District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of my 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 my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 42 through 44 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Highland Community School District's basic financial statements. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2004 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 7, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my 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 "Kay L. Chapman, CPA PC". The signature is written in a cursive, flowing style.

Kay L. Chapman, CPA PC  
August 11, 2005

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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Highland Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2005 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$4,478,678 in fiscal 2004 to \$4,846,833 in fiscal 2005, while General Fund expenditures increased from \$4,472,421 in fiscal 2004 to \$4,718,336 in fiscal 2005. The District's General Fund balance increased from \$(204,813) in fiscal 2004 to \$(98,996) in fiscal 2005, a 52% increase.
- The increase in General Fund revenues was attributable to an increase in property tax and state and federal grant revenue in fiscal 2005. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits and restricted grant expenditures. One reason the General Fund balance increased is because the Board levied for a cash reserve in the amount of \$142,066, part of which was to cover the special education deficit and the fiscal year 2004 2.25% budget cut. This was necessary since we were on the budget guarantee for fiscal year 2005 funding. Also, contract settlements were funded by the retirement and realignment of the administrative staff for a reduction of 1.0 FTE.
- On May 11, 2004 a SILO election was passed in Washington County, which comprises the majority of the Highland Community School District. The levy was effective January 1, 2005 and expenditures for computers and computer hardware were made from this levy that in the past had been purchased from the General Fund, thus freeing up General Fund monies for other purposes.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Highland Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Highland Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds.

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Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the non-major Governmental Funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

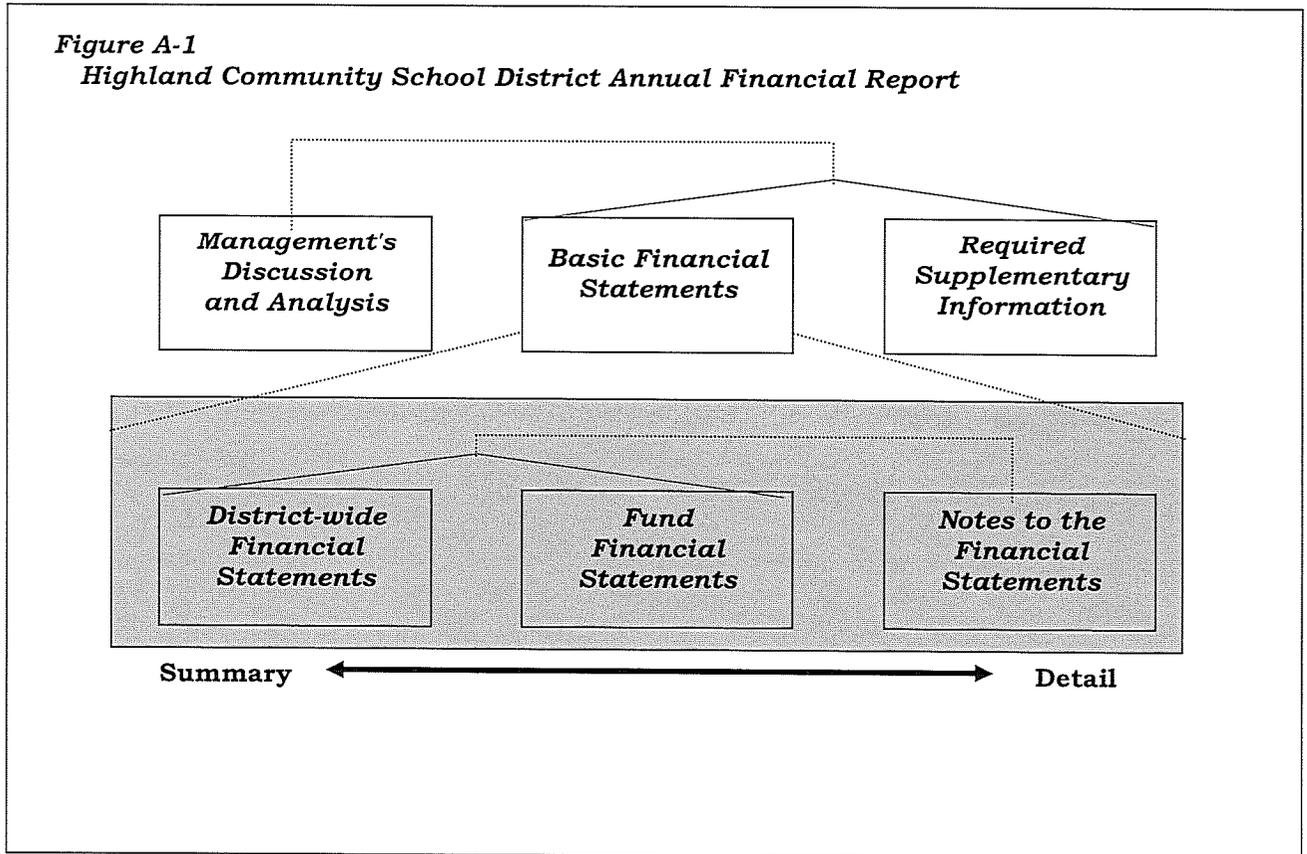


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

<b>Figure A-2 Major Features of the Government-wide and Fund Financial Statements</b>				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services and adult education	Instances in which the District administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of revenues, expenses and changes in fund net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

## **REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statements*

The government-wide financial 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 includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition and preschool programs are included here.

#### *Fund Financial Statements*

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds, or to show that it is properly using certain revenues, such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has two Enterprise Funds, the School Nutrition Fund and Preschool Fund.

The required financial statements for proprietary funds include a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2005 compared to June 30, 2004.

Figure A-3  
Condensed Statement of Net Assets

	Governmental		Business Type		Total		Total Change
	Activities		Activities		School District		
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2004-2005</u>
Current and other assets	\$ 3,903,970	\$ 3,558,324	\$ 12,233	\$ 7,929	\$ 3,916,203	\$ 3,566,253	9.81%
Capital assets	<u>4,558,423</u>	<u>4,678,294</u>	<u>10,032</u>	<u>13,123</u>	<u>4,568,455</u>	<u>4,691,417</u>	-2.62%
Total assets	<u>8,462,393</u>	<u>8,236,618</u>	<u>22,265</u>	<u>21,052</u>	<u>8,484,658</u>	<u>8,257,670</u>	2.75%
Long-term obligations	3,495,573	3,765,121	-	-	3,495,573	3,765,121	0.00%
Other liabilities	<u>3,830,988</u>	<u>3,659,143</u>	<u>36,873</u>	<u>36,670</u>	<u>3,867,861</u>	<u>3,695,813</u>	4.66%
Total liabilities	<u>7,326,561</u>	<u>7,424,264</u>	<u>36,873</u>	<u>36,670</u>	<u>7,363,434</u>	<u>7,460,934</u>	-1.31%
Net assets							
Invested in capital assets, net of related debt	1,293,028	1,146,493	10,032	13,123	1,303,060	1,159,616	12.37%
Restricted	203,872	130,889	-	-	203,872	130,889	55.76%
Unrestricted	<u>(361,068)</u>	<u>(465,028)</u>	<u>(24,640)</u>	<u>(28,741)</u>	<u>(385,708)</u>	<u>(493,769)</u>	21.88%
Total net assets	<u>\$ 1,135,832</u>	<u>\$ 812,354</u>	<u>\$ (14,608)</u>	<u>\$ (15,618)</u>	<u>\$ 1,121,224</u>	<u>\$ 796,736</u>	40.73%

The District's combined net assets increased by approximately 41%, or \$324,488, over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$72,983, or approximately 56% over the prior year. The increase was primarily a result of balances in the Physical Plant and Equipment Levy and the Capital Projects fund. The SILO funds were earmarked for the purchase of two school buses which were ordered in March and not received until August 2005.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased \$108,061, or approximately 22%. This increase in unrestricted net assets was a result of the District's revenues being greater than the District's expenditures by 5%. This was due in part to the cash reserve levy in the General Fund.

Figure A-4 shows the change in net assets for the years ended June 30, 2005 and 2004.

Figure A-4

	Change in Net Assets					
	Governmental Activities		Business Type Activities		Total District	
	2005	2004	2005	2004	2005	2004
<b>Revenues</b>						
Program revenues						
Charges for service and sales	\$ 493,822	\$ 462,941	\$ 184,422	\$ 190,683	\$ 678,244	\$ 653,624
Operating grants, contributions and restricted interest	445,681	477,739	73,227	66,260	518,908	543,999
Capital grants, contributions and restricted interest	32,874	-	-	-	32,874	-
General revenues						
Property tax	2,286,297	1,976,448	-	-	2,286,297	1,976,448
Unrestricted state grants	2,289,020	2,213,025	-	-	2,289,020	2,213,025
Unrestricted investment earnings	33,808	8,936	-	-	33,808	8,936
Contributions and donations	22,989	-	-	-	22,989	-
Other	1,873	6,427	-	-	1,873	6,427
Gain (loss) on disposal of assets	(1,393)	2,737	-	-	(1,393)	2,737
<b>Total revenues</b>	<u>5,604,971</u>	<u>5,148,253</u>	<u>257,649</u>	<u>256,943</u>	<u>5,862,620</u>	<u>5,405,196</u>
<b>Program expenses</b>						
Governmental activities						
Instruction	3,216,511	2,979,057	-	-	3,216,511	2,979,057
Support services	1,557,663	1,611,928	-	-	1,557,663	1,611,928
Non-instructional programs	4,766	4,639	256,639	253,155	261,405	257,794
Other expenses	502,553	486,573	-	-	502,553	486,573
<b>Total expenses</b>	<u>5,281,493</u>	<u>5,082,197</u>	<u>256,639</u>	<u>253,155</u>	<u>5,538,132</u>	<u>5,335,352</u>
<b>Change in net assets</b>	<u>\$ 323,478</u>	<u>\$ 66,056</u>	<u>\$ 1,010</u>	<u>\$ 3,788</u>	<u>\$ 324,488</u>	<u>\$ 69,844</u>

Property tax and unrestricted state grants account for approximately 78% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 86% of the total expenses.

### Governmental Activities

Revenues for governmental activities were \$5,604,971 and expenses were \$5,281,493. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5  
Total and Net Cost of Governmental Activities

	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
Instruction	\$ 3,216,511	\$ 2,454,999
Support services	1,557,663	1,555,217
Non-instructional programs	4,766	4,766
Other expenses	<u>502,553</u>	<u>294,134</u>
Total expenses	<u>\$ 5,281,493</u>	<u>\$ 4,309,116</u>

- The cost financed by users of the District's programs was \$493,822.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$478,555.
- The net cost of governmental activities was financed with \$2,286,297 in property taxes and \$2,289,020 in unrestricted state grants.

**Business Type Activities**

Revenues for business type activities were \$257,649 and expenses were \$256,639. The District's business type activities include the School Nutrition Fund and Preschool Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

**INDIVIDUAL FUND ANALYSIS**

As previously noted, Highland Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$94,962, well above last year's ending fund balances of \$(77,165). The primary reason for the increase was the implementation of the cash reserve levy.

**Governmental Fund Highlights**

- The District's improving General Fund financial position is the result of many factors. The primary factor was the growth during the year in tax and grants resulting in an increase in revenues of 8.2% over fiscal year 2004. At the same time General Fund expenditures increased only 5.5% over fiscal year 2004.
- The General Fund balance increased from \$(204,813) to \$(98,996), due in part to the cash reserve levy, the realignment of the administrative staff and the reallocation of computer expenditures to the SILO fund.

## **Proprietary Fund Highlights**

Enterprise Fund net assets increased from \$(15,618) at June 30, 2004 to \$(14,608) at June 30, 2005, representing an increase of approximately 6%. This increase was due to prudent fiscal management of the school nutrition and preschool programs.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, Highland Community School District amended its annual budget one time to reflect additional revenue and expenditures associated with instruction, student support services, noninstructional programs and other expenditures.

The District's receipts were \$337,631 more than budgeted receipts, a variance of approximately 6%. The most significant variance resulted from the District receiving funds from the SILO levy that had not been budgeted for fiscal 2005.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through the line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the District's budgetary practice, the certified budget was exceeded in the Support Services and Non-instructional Programs functional areas due to the UFA Chart of Account code conversion required by the Department of Education to meet federal regulations concerning financial reporting.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

At June 30, 2005, the District had invested \$4,568,455, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net decrease of approximately 3% from last year. More detailed information about the District's capital assets is presented in Note 6 to the financial statements. Depreciation expense for the year was \$205,878.

The original cost of the District's capital assets was \$7,187,583. Governmental funds account for \$7,110,075, with the remainder of \$77,508 accounted for in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the furniture and equipment category. This was due to a reclassification of those assets prior to fiscal 2004 that was required by the Department of Education.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental		Business Type		Total		Total
	Activities		Activities		School District		Change
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2004-2005</u>
Land	\$ 76,612	\$ 76,612	\$ -	\$ -	\$ 76,612	\$ 76,612	0.00%
Buildings and improvements	4,166,393	4,256,369	-	-	4,166,393	4,256,369	-2.11%
Improvements, other than buildings	200,130	208,115	-	-	200,130	208,115	-3.84%
Furniture and equipment	<u>115,288</u>	<u>137,198</u>	<u>10,032</u>	<u>13,123</u>	<u>125,320</u>	<u>150,321</u>	-16.63%
Totals	<u>\$4,558,423</u>	<u>\$4,678,294</u>	<u>\$10,032</u>	<u>\$13,123</u>	<u>\$4,568,455</u>	<u>\$4,691,417</u>	-2.62%

**Long-Term Debt**

At June 30, 2005, the District had \$3,495,573 in general obligation and other long-term debt outstanding. This represents a decrease of approximately 7% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 7 to the financial statements.

Included in the long-term debt are general obligation bonds of \$3,255,000; capital loan notes of \$10,395 which will be paid off in FY06; and compensated absences and early retirement benefits of \$230,178.

Figure A-7  
Outstanding Long-term Obligations

	Total		Total
	School District		Change
	<u>2005</u>	<u>2004</u>	<u>2004-2005</u>
General obligation bonds	\$ 3,255,000	\$ 3,500,000	-7.00%
Bank loans	-	11,318	-100.00%
Capital loan notes	10,395	20,483	-49.25%
Compensated absences	29,334	22,924	27.96%
Early retirement	<u>200,844</u>	<u>210,396</u>	-4.54%
Total	<u>\$ 3,495,573</u>	<u>\$ 3,765,121</u>	-7.16%

## **ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE**

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- In August 2004 a vote was held to build a new casino in Riverside, Iowa. The property will be annexed into the city and even though the area will be in a tax increment district for a maximum ten years to pay for water and sewer infrastructure it will affect the tax base in the immediate future for the debt service and physical plant and equipment levies. A private foundation has been formed to allocate funds (\$2.6 to \$3.2 million) annually to public entities such as school districts, non-profit organizations and for economic development. This will have a long-term affect on the district due to an increased tax base, foundation funds, one-cent sales tax, increased employment and therefore an increase in people moving into the district.
- The Highland Community School District had an increase of 30.3 students for fiscal 2006. This amounted to an increase of \$243,890 in funding for fiscal 2006. We were therefore able to fund wage increases without exceeding our "new money". The cash reserve levy was continued and the management levy was increased to pay the deficit in that fund.
- SILO funds were used to purchase two new school buses, which in the past have been funded by capital loan notes from the General Fund. The last bus loan from the General Fund was made in September 2005 therefore freeing up additional monies to be used for instructional and educational purposes. We will no longer be using the General Fund for long-term purchases of this type.
- To improve the financial position of the school lunch program we are continuing with the state coop purchasing program and staffing changes have reduced expenditures in this area.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Board Secretary/Business Manager Bev Colbert at 319-648-3822 or 319-657-4180.

## Basic Financial Statements

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Statement of Net Assets  
June 30, 2005

Exhibit A

	Governmental Activities	Business Type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents			
ISCAP	\$ 1,237,784	\$ -	\$ 1,237,784
Other	544,139	11,170	555,309
Receivables			
Property tax			
Delinquent	24,616	-	24,616
Succeeding year	1,954,340	-	1,954,340
Accrued interest			
ISCAP	5,978	-	5,978
Accounts receivable	1,225	-	1,225
Due from other governments	118,338	-	118,338
Due from other funds	17,550	-	17,550
Inventories	-	1,063	1,063
Capital assets, net of accumulated depreciation	4,558,423	10,032	4,568,455
Total assets	8,462,393	22,265	8,484,658
 <b>LIABILITIES</b>			
Accounts payable	169,956	-	169,956
Salaries and benefits payable	431,991	19,323	451,314
Due to other funds	-	17,550	17,550
Accrued interest payable	21,980	-	21,980
Deferred revenue - succeeding year property tax	1,954,340	-	1,954,340
ISCAP warrants payable	1,233,000	-	1,233,000
ISCAP accrued interest payable	6,455	-	6,455
ISCAP unamortized premium	13,266	-	13,266
Long-term liabilities			
Portion due within one year			
Bonds payable	250,000	-	250,000
Capital loan notes	10,395	-	10,395
Compensated absences	29,334	-	29,334
Early retirement	43,061	-	43,061

See notes to financial statements and Independent Auditor's Report.

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Statement of Net Assets  
June 30, 2005

Exhibit A

	Governmental Activities	Business Type Activities	Total
<b>LIABILITIES (continued)</b>			
Long-term liabilities (continued)			
Portion due after one year			
Bonds payable	\$ 3,005,000	\$ -	\$ 3,005,000
Early retirement	157,783	-	157,783
Total liabilities	7,326,561	36,873	7,363,434
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	1,293,028	10,032	1,303,060
Restricted for			
Physical plant and equipment levy	28,013	-	28,013
Other special revenue purposes	78,289	-	78,289
Capital projects	97,570	-	97,570
Unrestricted	(361,068)	(24,640)	(385,708)
Total net assets	\$ 1,135,832	\$ (14,608)	\$ 1,121,224

See notes to financial statements and Independent Auditor's Report.

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Statement of Activities  
For the Year Ended June 30, 2005

Exhibit B

	Program Revenues			Operating Grants, Capital Grants, Contributions and Restricted Interest		Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Interest	Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
<b><u>Functions/Programs</u></b>							
Governmental activities							
Instruction							
Regular instruction	\$ 2,038,653	\$ 266,790	\$ 200,085	\$ -	\$ (1,571,778)	\$ -	\$ (1,571,778)
Special instruction	650,250	116,219	68,036	-	(465,995)	-	(465,995)
Other instruction	527,608	109,013	1,369	-	(417,226)	-	(417,226)
	<u>3,216,511</u>	<u>492,022</u>	<u>269,490</u>	-	<u>(2,454,999)</u>	-	<u>(2,454,999)</u>
Support services							
Student services	84,720	-	-	-	(84,720)	-	(84,720)
Instructional staff services	255,958	-	-	-	(255,958)	-	(255,958)
Administration services	580,638	-	-	-	(580,638)	-	(580,638)
Operation and maintenance of plant services	439,506	1,800	-	-	(437,706)	-	(437,706)
Transportation services	196,841	-	646	-	(196,195)	-	(196,195)
	<u>1,557,663</u>	<u>1,800</u>	<u>646</u>	-	<u>(1,555,217)</u>	-	<u>(1,555,217)</u>
	<u>4,766</u>	-	-	-	<u>(4,766)</u>	-	<u>(4,766)</u>
Non-instructional programs							
Other expenditures							
Facilities acquisition	29,487	-	-	32,874	3,387	-	3,387
Long-term debt interest	162,227	-	-	-	(162,227)	-	(162,227)
AEA flowthrough	175,545	-	175,545	-	-	-	-
Depreciation (unallocated) *	135,294	-	-	-	(135,294)	-	(135,294)
	<u>502,553</u>	-	<u>175,545</u>	<u>32,874</u>	<u>(294,134)</u>	-	<u>(294,134)</u>
Total governmental activities	<u>5,281,493</u>	<u>493,822</u>	<u>445,681</u>	<u>32,874</u>	<u>(4,309,116)</u>	-	<u>(4,309,116)</u>

See notes to financial statements and Independent Auditor's Report.

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Statement of Activities  
For the Year Ended June 30, 2005

Exhibit B

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
<b><u>Functions/Programs (continued)</u></b>						
Business type activities						
Non-instructional programs						
Food service operations	\$ 223,626	\$ 73,227	\$ -	\$ -	\$ (3,680)	\$ (3,680)
Preschool program operations	<u>33,013</u>	<u>37,703</u>	-	-	4,690	<u>4,690</u>
Total business type activities	<u>256,639</u>	<u>73,227</u>	-	-	1,010	<u>1,010</u>
Total	<u>\$ 5,538,132</u>	<u>\$ 518,908</u>	<u>\$ 32,874</u>	<u>(4,309,116)</u>	<u>1,010</u>	<u>(4,308,106)</u>
<b><u>General Revenues</u></b>						
Property tax levied for						
General purposes				1,737,395	-	1,737,395
Debt service				239,074	-	239,074
Capital outlay				309,828	-	309,828
Unrestricted state grants				2,289,020	-	2,289,020
Unrestricted investment earnings				33,808	-	33,808
Contributions and donations				22,989	-	22,989
Other				1,873	-	1,873
Loss on disposal of assets				(1,393)	-	(1,393)
Total general revenues				<u>4,632,594</u>	<u>-</u>	<u>4,632,594</u>
Change in net assets				323,478	1,010	324,488
Net assets, beginning of year				812,354	(15,618)	796,736
Net assets, end of year				<u>\$ 1,135,832</u>	<u>\$ (14,608)</u>	<u>\$ 1,121,224</u>

\* This amount excludes the depreciation that is included in the direct expenses of the various programs.  
See notes to financial statements and Independent Auditor's Report.

HIGHLAND COMMUNITY SCHOOL DISTRICT

Exhibit C

Balance Sheet  
Governmental Funds  
June 30, 2005

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and pooled investments			
ISCAP	\$ 1,237,784	\$ -	\$ 1,237,784
Other	392,558	151,581	544,139
Receivables			
Property tax			
Delinquent	17,897	6,719	24,616
Succeeding year	1,380,445	573,895	1,954,340
Accounts receivable	1,225	-	1,225
ISCAP accrued interest receivable	5,978	-	5,978
Local Sales and Services Tax	-	35,658	35,658
Due from other funds	17,550	-	17,550
Due from other governments	82,680	-	82,680
Total assets and other debits	<u>\$ 3,136,117</u>	<u>\$ 767,853</u>	<u>\$ 3,903,970</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities			
Accounts payable	\$ 169,956	\$ -	\$ 169,956
Salaries and benefits payable	431,991	-	431,991
ISCAP warrants payable	1,233,000	-	1,233,000
ISCAP accrued interest payable	6,455	-	6,455
ISCAP unamortized premium	13,266	-	13,266
Deferred revenue - Succeeding year property tax	1,380,445	573,895	1,954,340
Total liabilities	<u>3,235,113</u>	<u>573,895</u>	<u>3,809,008</u>
Fund balances			
Reserved for			
Debt service	-	8,713	8,713
Unreserved			
Special revenue funds	-	87,675	87,675
Other governmental	(98,996)	97,570	(1,426)
Total fund balances	<u>(98,996)</u>	<u>193,958</u>	<u>94,962</u>
Total liabilities and fund balances	<u>\$ 3,136,117</u>	<u>\$ 767,853</u>	<u>\$ 3,903,970</u>

See notes to financial statements and Independent Auditor's Report.

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Reconciliation of the Balance Sheet - Governmental Funds  
to the Statement of Net Assets  
June 30, 2005

Exhibit D

Total fund balances of governmental funds	\$ 94,962
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	4,558,423
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(21,980)
Long-term liabilities, including early retirement, bonds payable, notes payable, capital loan notes and compensated absences are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(3,495,573)</u>
Net assets of governmental activities	<u>\$ 1,135,832</u>

See notes to financial statements and Independent Auditor's Report.

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended June 30, 2005

Exhibit E

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	<u>Total</u>
Revenues			
Local sources			
Local tax	\$ 1,651,811	\$ 633,177	\$ 2,284,988
Tuition	274,251	-	274,251
Other	152,255	121,245	273,500
State sources	2,642,981	368	2,643,349
Federal sources	125,535	-	125,535
Total revenues	<u>4,846,833</u>	<u>754,790</u>	<u>5,601,623</u>
Expenditures			
Current			
Instruction			
Regular instruction	2,005,001	36,512	2,041,513
Special instruction	646,978	-	646,978
Other instruction	420,908	106,481	527,389
	<u>3,072,887</u>	<u>142,993</u>	<u>3,215,880</u>
Support services			
Student services	84,543	177	84,720
Instructional staff services	238,853	88	238,941
Administration services	566,472	15,630	582,102
Operation and maintenance of plant services	416,402	22,045	438,447
Transportation services	163,634	11,739	175,373
	<u>1,469,904</u>	<u>49,679</u>	<u>1,519,583</u>
Non-instructional programs	<u>-</u>	<u>4,766</u>	<u>4,766</u>
Other expenditures			
Facilities acquisition	-	83,515	83,515
Long-term debt			
Principal	-	266,405	266,405
Interest and fiscal charges	-	163,902	163,902
AEA flowthrough	175,545	-	175,545
	<u>175,545</u>	<u>513,822</u>	<u>689,367</u>
Total expenditures	<u>4,718,336</u>	<u>711,260</u>	<u>5,429,596</u>

See notes to financial statements and Independent Auditor's Report.

HIGHLAND COMMUNITY SCHOOL DISTRICT  
 Statement of Revenues, Expenditures and Changes in Fund Balances  
 Governmental Funds  
 For the Year Ended June 30, 2005

Exhibit E

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	<u>Total</u>
Excess of revenues over expenditures	\$ 128,497	\$ 43,530	\$ 172,027
Other financing sources (uses)			
Sale of equipment and materials	100	-	100
Interfund operating transfers	<u>(22,780)</u>	<u>22,780</u>	<u>-</u>
Total other financing sources (uses)	<u>(22,680)</u>	<u>22,780</u>	<u>100</u>
Net change in fund balances	105,817	66,310	172,127
Fund balance, beginning of year	<u>(204,813)</u>	<u>127,648</u>	<u>(77,165)</u>
Fund balance, end of year	<u>\$ (98,996)</u>	<u>\$ 193,958</u>	<u>\$ 94,962</u>

See notes to financial statements and Independent Auditor's Report.

HIGHLAND COMMUNITY SCHOOL DISTRICT  
 Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances  
 Governmental Funds to the Statement of Activities  
 For the Year Ended June 30, 2005

Exhibit F

Net change in fund balances - total governmental funds \$ 172,127

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 84,309	
Loss on disposal of capital assets	(1,393)	
Depreciation expense	<u>(202,787)</u>	(119,871)

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets. 266,406

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Early retirement		9,552
Compensated absences		(6,410)

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 1,674

Change in net assets of governmental activities \$ 323,478

See notes to financial statements and Independent Auditor's Report.

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Statement of Net Assets  
Proprietary Funds  
June 30, 2005

Exhibit G

	Nonmajor Enterprise Funds
<b>ASSETS</b>	
Cash and cash equivalents	\$ 11,170
Inventories	1,063
Capital assets, net of accumulated depreciation	<u>10,032</u>
Total assets	<u>22,265</u>
 <b>LIABILITIES</b>	
Due to other funds	17,550
Salaries and benefits payable	<u>19,323</u>
Total liabilities	<u>36,873</u>
 <b>NET ASSETS</b>	
Invested in capital assets	10,032
Unrestricted	<u>(24,640)</u>
Total net assets	<u>\$ (14,608)</u>

See notes to financial statements and Independent Auditor's Report.

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Statement of Revenues, Expenses and Changes in Fund Net Assets  
Proprietary Funds  
For the Year Ended June 30, 2005

Exhibit H

	Nonmajor Enterprise Funds
Operating revenue	
Local sources	
Charges for service	<u>\$ 184,422</u>
Operating expenses	
Non-instructional programs	
Food service operations	
Salaries	95,569
Benefits	16,283
Purchased services	2,005
Supplies	106,678
Depreciation	<u>3,091</u>
	<u>223,626</u>
Preschool program	
Salaries	23,021
Benefits	8,682
Purchased services	536
Supplies	<u>774</u>
	<u>33,013</u>
Total operating expenses	<u>256,639</u>
Operating loss	<u>(72,217)</u>
Non-operating revenues	
State sources	3,293
Federal sources	<u>69,934</u>
Total non-operating revenues	<u>73,227</u>
Change in net assets	1,010
Net assets, beginning of year	<u>(15,618)</u>
Net assets, end of year	<u>\$ (14,608)</u>

See notes to financial statements and Independent Auditor's Report.

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended June 30, 2005

Exhibit I

	<u>Nonmajor Enterprise Funds</u>
Cash flows from operating activities	
Cash received from sale of meals	\$ 146,719
Cash received from sale of other services	37,703
Cash payments to employees for services	(143,352)
Cash payments to suppliers for goods and services	<u>(97,371)</u>
Net cash used in operating activities	<u>(56,301)</u>
Cash flows from non-capital financing activities	
State grants received	3,293
Federal grants received	<u>56,796</u>
Net cash provided by non-capital financing activities	<u>60,089</u>
Net increase in cash and cash equivalents	3,788
Cash and cash equivalents, beginning of year	<u>7,382</u>
Cash and cash equivalents, end of year	<u><u>\$ 11,170</u></u>

**Reconciliation of operating loss to net cash used in operating activities**

Operating loss	\$ (72,217)
Adjustments to reconcile operating loss to net cash used in operating activities	
Commodities used	13,138
Depreciation	3,091
(Increase) in inventories	(516)
Increase in due to other fund	1,100
(Decrease) in salaries and benefits payable	<u>(897)</u>
Net cash used in operating activities	<u><u>\$ (56,301)</u></u>

**Non-cash investing, capital and financing activities**

During the year ended June 30, 2005, the District received \$13,138 of federal commodities.

See notes to financial statements and Independent Auditor's Report.

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Notes to Financial Statements  
June 30, 2005

**Note 1. Summary of Significant Accounting Policies**

The Highland Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the Cities of Ainsworth and Riverside, Iowa, and the predominant agricultural territory in Louisa, Johnson and Washington Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Highland Community School District has included all funds, organizations, agencies, boards, commissions, and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the District. The Highland Community School District has no component units, which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the County Assessor's Conference Board.

B. Basis of Presentation

Government-wide financial statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund financial statements - Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental fund:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The District reports no major proprietary funds. However, the District reports two nonmajor enterprise funds. The School Nutrition Fund, which is used to account for the food service operations of the District and the Preschool/Daycare Fund, which is used to account for the preschool and daycare operations of the District.

### C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, early retirement and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary funds of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

#### D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value, except for the investment in the Iowa Schools Joint Investment Trust, which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current year and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½ % per month penalty for delinquent payments; is based on January 1, 2003 assessed property valuations; is for the tax accrual period July 1, 2004 through June 30, 2005 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2004.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives

are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Land	\$2,500
Buildings	\$1,500
Improvements other than buildings	\$1,500
Furniture and equipment:	
School Nutrition Fund equipment	\$ 500
Other furniture and equipment	\$1,500

Capital assets are depreciated using the straight line method of depreciation over the following estimated useful lives:

Buildings	50 years
Improvements other than buildings	20 years
Buses	7 years
Vans	4 years
Furniture and equipment	5 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Compensated Absences - Certain District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2005. The compensated absences liability attributable to the governmental activities would be paid primarily by the General Fund.

Early Retirement - District employees meeting certain requirements are eligible for early retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The early retirement liability has been computed based on rates of pay in effect at June 30, 2005. The early retirement liability attributable to the governmental activities would be paid primarily by the General and Management Funds. This liability has been computed based on amounts established in the District's adopted board policy regarding early retirement benefits.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of property tax receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the Support Services and Non-instructional Programs functions. However, disbursements did not exceed its General Fund unspent authorized budget.

**Note 2. Cash and Pooled Investments**

The District's deposits in banks at June 30, 2005 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2005, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	Amortized Cost
Diversified Portfolio	<u>\$442,410</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Investment rate risk. The District's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the District.

Credit risk. The investment in the Iowa Schools Joint Investment Trust was rated Aaa by Moody's Investors Service.

**Note 3. Due From and Due to Other Funds**

The detail of interfund receivables and payables at June 20, 3004 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Enterprise Fund School Nutrition	\$ 17,550

The School Nutrition Fund is repaying the General Fund for salaries and benefits paid by the General Fund for food service employees. The balance will be repaid during the fiscal year ending June 30, 2006.

**Note 4. Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	General	\$ 22,780
Debt Service	Physical Plant and Equipment Levy	<u>167,235</u>
Total		<u>\$ 190,015</u>

These transfers move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

**Note 5. Iowa Schools Cash Anticipation Program (ISCAP)**

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2005, is as follows:

<u>Series</u>	<u>Warrant Date</u>	<u>Final Warrant Maturity</u>	<u>Investments</u>	<u>Accrued Interest Receivable</u>	<u>Warrants Payable</u>	<u>Accrued Interest Payable</u>	<u>Unamortized Premium</u>
2004-05B	1/28/05	1/27/05	\$ 441,271	\$5,978	\$ 440,000	\$6,455	\$ 2,616
2005-06A	6/30/05	6/30/06	<u>796,513</u>	<u>-</u>	<u>793,000</u>	<u>-</u>	<u>10,650</u>
			<u>\$1,237,784</u>	<u>\$5,978</u>	<u>\$1,233,000</u>	<u>\$6,455</u>	<u>\$13,266</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2005 is as follows:

<u>Series</u>	<u>Balance, Beginning of Year</u>	<u>Advances Received</u>	<u>Advances Repaid</u>	<u>Balance, End of Year</u>
2004-05A	\$ -	\$ 510,000	\$ 510,000	\$ -

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

<u>Series</u>	<u>Interest Rates on Warrants</u>	<u>Interest Rates on Investments</u>
2004-05A	3.000%	2.4630%
2004-05B	3.500%	2.2800%
2005-06A	3.500%	3.9030%

## Note 6. Capital Assets

Capital assets activity for the year ended June 30, 2005 was as follows:

	Balance, Beginning of Year	Additions	Deletions	Balance, End of Year
<u>Governmental activities</u>				
Capital assets not being depreciated:				
Land	\$ 76,612	\$ -	\$ -	\$ 76,612
Total capital assets, not being depreciated	<u>76,612</u>	<u>-</u>	<u>-</u>	<u>76,612</u>
Capital assets being depreciated:				
Buildings and improvements	5,541,183	19,600	-	5,560,783
Improvements other than buildings	428,843	8,941	-	437,784
Furniture and equipment	<u>988,228</u>	<u>55,768</u>	<u>(9,100)</u>	<u>1,034,896</u>
Total capital assets being depreciated	<u>6,958,254</u>	<u>84,309</u>	<u>(9,100)</u>	<u>7,033,463</u>
Less accumulated depreciation for:				
Buildings and improvements	1,284,814	109,576	-	1,394,390
Improvements other than buildings	220,728	16,926	-	237,654
Furniture and equipment	<u>851,030</u>	<u>76,285</u>	<u>(7,707)</u>	<u>919,608</u>
Total accumulated depreciation	<u>2,356,572</u>	<u>202,787</u>	<u>(7,707)</u>	<u>2,551,652</u>
Total capital assets being depreciated, net	<u>4,601,682</u>	<u>(118,478)</u>	<u>(1,393)</u>	<u>4,481,811</u>
Governmental activities capital assets, net	<u>\$ 4,678,294</u>	<u>\$(118,478)</u>	<u>\$(1,393)</u>	<u>\$ 4,558,423</u>
<u>Business type activities</u>				
Furniture and equipment	\$ 77,508	\$ -	\$ -	\$ 77,508
Less accumulated depreciation	<u>64,385</u>	<u>3,091</u>	<u>-</u>	<u>67,476</u>
Business type activities capital assets, net	<u>\$ 13,123</u>	<u>\$(3,091)</u>	<u>\$ -</u>	<u>\$ 10,032</u>

Depreciation expense was charged to the following functions:

**Governmental activities**

Instruction		
Regular	\$	5,355
Special		5,908
Other		7,861
Support services		
Instructional staff		18,592
Administration		4,335
Operation and maintenance of plant		3,974
Transportation		21,468
Unallocated depreciation		<u>135,294</u>
Total governmental activities depreciation expense	\$	<u>202,787</u>

**Business type activities**

Food services	\$	<u>3,091</u>
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**Note 7. Long-term Liabilities**

Changes in long-term liabilities for the year ended June 30, 2005 are summarized as follows:

	Balance, Beginning of Year	Additions	Reductions	Balance, End of Year	Due Within One Year
General obligation bonds	\$ 3,500,000	\$ -	\$(245,000)	\$ 3,255,000	\$ 250,000
Bank loans	11,318	-	(11,318)	-	-
Capital loan notes	20,483	-	(10,088)	10,395	10,395
Compensated absences	22,924	17,759	(11,349)	29,334	29,334
Early retirement	<u>210,396</u>	<u>26,094</u>	<u>(35,646)</u>	<u>200,844</u>	<u>43,061</u>
Totals	<u>\$ 3,765,121</u>	<u>\$ 43,853</u>	<u>\$(313,401)</u>	<u>\$ 3,495,573</u>	<u>\$ 332,790</u>

General Obligation Bonds Payable

Details of the District's June 30, 2005 general obligation bonded indebtedness are as follows:

Year Ending June 30.	Bond issue of May 1, 1998			Bond issue of August 1, 2001		
	<u>Interest</u>	<u>Principal</u>	<u>Total</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2006	\$ 109,054	\$ 130,000	\$ 239,054	\$ 43,122	\$ 120,000	\$ 163,122
2007	103,334	135,000	238,334	38,322	125,000	163,322
2008	97,326	145,000	242,326	33,072	135,000	168,072
2009	90,801	150,000	240,801	27,268	140,000	167,268
2010	83,901	155,000	238,901	21,108	145,000	166,108
2011	76,694	165,000	241,694	14,656	150,000	164,656
2012	69,021	135,000	204,021	7,680	160,000	167,680
2013	62,565	185,000	247,565	-	-	-
2014	53,546	195,000	248,546	-	-	-
2015	44,040	205,000	249,040	-	-	-
2016	33,893	215,000	248,893	-	-	-
2017	23,250	225,000	248,250	-	-	-
2018	<u>12,000</u>	<u>240,000</u>	<u>252,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Totals	<u>\$ 859,425</u>	<u>\$ 2,280,000</u>	<u>\$ 3,139,425</u>	<u>\$185,228</u>	<u>\$ 975,000</u>	<u>\$ 1,160,228</u>

Year Ending June 30.	Totals		
	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2006	\$ 152,176	\$ 250,000	\$ 402,176
2007	141,656	260,000	401,656
2008	130,398	280,000	410,398
2009	118,069	290,000	408,069
2010	105,009	300,000	405,009
2011	91,350	315,000	406,350
2012	76,701	295,000	371,701
2013	62,565	185,000	247,565
2014	53,546	195,000	248,546
2015	44,040	205,000	249,040
2016	33,893	215,000	248,893
2017	23,250	225,000	248,250
2018	<u>12,000</u>	<u>240,000</u>	<u>252,000</u>
Totals	<u>\$ 1,044,653</u>	<u>\$ 3,255,000</u>	<u>\$ 4,299,653</u>

Bank Loans Payable

On March 31, 2000, the District entered into a loan agreement with Peoples Trust and Savings Bank for \$50,000 for ICN equipment. At June 30, 2005, the loan was fully repaid. The District made principal and interest payments totaling \$11,758 under the agreement during the year ended June 30, 2005.

Capital Loan Note

The District issued a capital loan note to Peoples Trust and Savings Bank on March 1, 2001 for the purchase of a bus. The capital loan note bears interest at 6.0 percent. The capital loan note will be repaid in 10 semi-annual payments of \$5,511 beginning on September 1, 2001. The capital loan note is scheduled to be repaid as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 10,395	\$ 627	\$ 11,022

During the year ended June 30, 2005, the District made principal and interest payments totaling \$11,022 under this agreement.

Compensated Absences

Certain District employees accumulate vacation hours for subsequent use or for payment upon termination, retirement, or death. The District's maximum liability for accumulated compensated absences was \$29,334 at June 30, 2005. No individuals had requested payment for unused vacation hours as of June 30, 2005.

Early Retirement

Certified District employees who have 15 years of continuous service at Highland Community School District and are age 55 or older are eligible for early retirement pay. The early retirement incentive for each eligible certified employee approved by the Board shall be the cost to the District for providing continuing coverage under the District's group insurance plan until the certified employee reached age 65. The coverage shall constitute the employee's singlehealth and dental coverage applicable at the time of separation. The certified employee must meet the requirements of the insurer to continue coverage under this plan.

The Board has complete discretion to offer or not offer an early retirement plan for certified employees on an annual basis. The Board may discontinue the District's early retirement plan at any time.

The employee must notify the Board by April first to receive the early retirement benefits. At June 30, 2005, the maximum accumulated retirement benefits of the District was \$200,844 and eight individuals had requested early retirement and were receiving the benefit. Early retirement expenditures for the year ended June 30, 2005 totaled \$35,646.

## **Note 8. Pension and Retirement Benefits**

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, IA, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2005, 2004 and 2003. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$161,670, \$157,140 and \$151,189, respectively, equal to the required contributions for each year.

## **Note 9. Risk Management**

The District is a member in the Iowa School Employees Benefits Association, an Iowa Code Chapter 28E organization. The Iowa School Employees Benefits Association (the Association) is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: medical, dental, vision, prescription drugs, and long-term disability. The District is involved only in the dental and long-term disability coverage.

Each member's contributions to the Association funds current operations and provides capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, ISEBA's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital.

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2005 were \$24,475.

Payments from participating members are the sole source for paying claims and establishing reserves for the ISEBA self-funded programs. Stop loss insurance is purchased by the Association to protect against large claims, but the potential exists for claims to exceed the premium payments made by members into the program. In the event that claims exceed premiums and reserves, an assessment may be necessary to pay claims and replenish reserves in the program.

The District does not report a liability for losses in excess of stop loss insurance unless it is deemed probable that such losses have occurred and the amount of such a loss can be reasonably estimated. Accordingly, at June 30, 2005, no liability has been recorded in the District's financial statements. As of June 30, 2005, settled claims have not exceeded the risk pool or reinsurance company coverage.

Members agree to continue membership in the pool for a period of not less than one full year. After such period, a member who has given 30 days prior written notice may withdraw. The Association will pay claims incurred before the termination date.

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**Note 10. Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media, and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$175,545 for the year ended June 30, 2005 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**Note 11. Deficit Balances**

The District had unreserved, undesignated fund deficits in the General Fund, Special Revenue-Management Fund and Enterprise Fund-School Nutrition Fund of \$98,996, \$18,627 and \$30,963, respectively, at June 30, 2005.

Required Supplementary Information

HIGHLAND COMMUNITY SCHOOL DISTRICT  
 Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis)  
 All Governmental Funds and Proprietary Funds  
 Required Supplementary Information  
 For the Year Ended June 30, 2005

	Governmental Fund Types	Proprietary Fund Types	Total Actual	Budgeted Amounts Original	Final	Final to Actual Variance
Receipts						
Local sources	\$ 2,944,772	\$ 184,422	\$ 3,129,194	\$ 2,843,476	\$ 2,843,476	\$ 285,718
State sources	2,647,822	3,293	2,651,115	2,671,135	2,671,135	(20,020)
Federal sources	181,703	56,796	238,499	166,566	166,566	71,933
Total receipts	<u>5,774,297</u>	<u>244,511</u>	<u>6,018,808</u>	<u>5,681,177</u>	<u>5,681,177</u>	<u>337,631</u>
Disbursements						
Instruction	3,075,845	-	3,075,845	3,136,686	3,200,000	124,155
Support services	1,627,332	-	1,627,332	1,539,840	1,600,000	(27,332)
Non-instructional programs	254,959	240,723	495,682	246,000	300,000	(195,682)
Other expenditures	689,367	-	689,367	713,100	813,100	123,733
Total disbursements	<u>5,647,503</u>	<u>240,723</u>	<u>5,888,226</u>	<u>5,635,626</u>	<u>5,913,100</u>	<u>24,874</u>
Excess (deficiency) of receipts over (under) disbursements	126,794	3,788	130,582	45,551	(231,923)	362,505
Other financing sources, net	<u>100</u>	-	<u>100</u>	<u>1,000</u>	<u>1,000</u>	<u>(900)</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements	126,894	3,788	130,682	46,551	(230,923)	361,605
Balance, beginning of year	417,245	7,382	424,627	407,555	407,555	17,072
Balance, end of year	<u>\$ 544,139</u>	<u>\$ 11,170</u>	<u>\$ 555,309</u>	<u>\$ 454,106</u>	<u>\$ 176,632</u>	<u>\$ 378,677</u>

See accompanying Independent Auditor's Report.

HIGHLAND COMMUNITY SCHOOL DISTRICT  
 Budgetary Comparison Schedule - Budget to GAAP Reconciliation  
 Required Supplementary Information  
 For the Year Ended June 30, 2005

	Governmental Fund Types		
	Cash	Accrual	Modified
	<u>Basis</u>	<u>Adjustments</u>	<u>Basis</u>
Revenues	\$ 5,774,297	\$ (172,674)	\$ 5,601,623
Expenditures	<u>5,647,503</u>	<u>(217,907)</u>	<u>5,429,596</u>
Net	126,794	45,233	172,027
Other financing sources	100	-	100
Beginning fund balances	<u>417,245</u>	<u>(494,410)</u>	<u>(77,165)</u>
Ending fund balances	<u>\$ 544,139</u>	<u>\$ (449,177)</u>	<u>\$ 94,962</u>

	Proprietary Fund Type		
	Enterprise		
	Cash	Accrual	Accrual
	<u>Basis</u>	<u>Adjustments</u>	<u>Basis</u>
Revenues	\$ 244,511	\$ 13,138	\$ 257,649
Expenditures	<u>240,723</u>	<u>15,916</u>	<u>256,639</u>
Net	3,788	(2,778)	1,010
Beginning fund balances	<u>7,382</u>	<u>(23,000)</u>	<u>(15,618)</u>
Ending fund balances	<u>\$ 11,170</u>	<u>\$ (25,778)</u>	<u>\$ (14,608)</u>

See accompanying Independent Auditor's Report.

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Notes to Required Supplementary Information – Budgetary Reporting  
For the Year Ended June 30, 2005

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted disbursements by \$284,211.

During the year ended June 30, 2005, District disbursements exceeded the amount budgeted in the Support Services and Non-instructional Programs functional areas. However, General Fund disbursements did not exceed the unspent authorized budget.

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund.

## Other Supplementary Information

HIGHLAND COMMUNITY SCHOOL DISTRICT

Schedule 1

Combining Balance Sheet  
 Nonmajor Governmental Funds  
 June 30, 2005

	<u>Special Revenue</u>					
	Management Levy	Student Activity	Physical Plant and Equipment Levy	Capital Projects	Debt Service	Total
<b>ASSETS</b>						
Cash and pooled investments	\$ -	\$ 78,289	\$ 25,353	\$ 61,912	\$ 5,747	\$ 171,301
Receivables						
Property tax						
Current year delinquent	1,093	-	2,660	-	2,966	6,719
Succeeding year	115,000	-	219,341	-	239,554	573,895
Local Sales and Services Tax	-	-	-	35,658	-	35,658
Total assets	<u>\$ 116,093</u>	<u>\$ 78,289</u>	<u>\$ 247,354</u>	<u>\$ 97,570</u>	<u>\$ 248,267</u>	<u>\$ 787,573</u>

**LIABILITIES AND FUND EQUITY**

Liabilities						
Warrants issued in excess of bank balance	\$ 19,720	\$ -	\$ -	\$ -	\$ -	\$ 19,720
Deferred revenue						
Succeeding year property tax	115,000	-	219,341	-	239,554	573,895
Total liabilities	<u>134,720</u>	<u>-</u>	<u>219,341</u>	<u>-</u>	<u>239,554</u>	<u>593,615</u>
Fund Equity						
Reserved for debt service	(18,627)	78,289	28,013	97,570	8,713	8,713
Unreserved fund balances	(18,627)	78,289	28,013	97,570	8,713	185,245
Total fund equity	<u>(18,627)</u>	<u>78,289</u>	<u>28,013</u>	<u>97,570</u>	<u>8,713</u>	<u>193,958</u>
Total liabilities and fund equity	<u>\$ 116,093</u>	<u>\$ 78,289</u>	<u>\$ 247,354</u>	<u>\$ 97,570</u>	<u>\$ 248,267</u>	<u>\$ 787,573</u>

See accompanying Independent Auditor's Report.

HIGHLAND COMMUNITY SCHOOL DISTRICT  
 Combining Schedule of Revenues, Expenditures and Changes in Fund Balances  
 Nonmajor Governmental Funds  
 For the Year Ended June 30, 2005

	Special Revenue					
	Management Levy	Student Activity	Physical Plant and Equipment Levy	Capital Projects	Debt Service	<u>Total</u>
<b>Revenues</b>						
Local sources	\$ 84,586	-	\$ 214,261	\$ 95,420	\$ 238,910	\$ 633,177
Local taxes		117,318	2,603	465	859	121,245
Other	57	-	147	-	164	368
State sources						
<b>Total revenues</b>	84,643	117,318	217,011	95,885	239,933	754,790
<b>Expenditures</b>						
Current						
Instruction						
Regular instruction	36,512	-	-	-	-	36,512
Other instruction	-	106,481	-	-	-	106,481
Support services						
Student services	177	-	-	-	-	177
Instructional staff support services	88	-	-	-	-	88
Administration services	15,630	-	-	-	-	15,630
Operation and maintenance of plant services	22,045	-	-	-	-	22,045
Transportation services	11,739	-	-	-	-	11,739
Non-instructional programs	4,766	-	-	-	-	4,766

See accompanying Independent Auditor's Report.

HIGHLAND COMMUNITY SCHOOL DISTRICT  
 Combining Schedule of Revenues, Expenditures and Changes in Fund Balances  
 Nonmajor Governmental Funds  
 For the Year Ended June 30, 2005

	Special Revenue					Total
	Management Levy	Student Activity	Physical Plant and Equipment Levy	Capital Projects	Debt Service	
Expenditures (continued)						
Other expenditures						
Facilities acquisition	\$ -	\$ -	\$ 41,000	\$ 42,515	\$ -	\$ 83,515
Long-term debt						
Principal	-	-	-	-	266,405	266,405
Interest and fiscal charges	-	-	-	-	163,902	163,902
Total expenditures	<u>90,957</u>	<u>106,481</u>	<u>41,000</u>	<u>42,515</u>	<u>430,307</u>	<u>711,260</u>
Excess (deficiency) of revenues over (under) expenditures	(6,314)	10,837	176,011	53,370	(190,374)	43,530
Other financing sources (uses)						
Intefund operating transfers in (out)	-	-	(167,235)	-	190,015	22,780
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing (uses)	(6,314)	10,837	8,776	53,370	(359)	66,310
Fund balances, beginning of year	<u>(12,313)</u>	<u>67,452</u>	<u>19,237</u>	<u>44,200</u>	<u>9,072</u>	<u>127,648</u>
Fund balances, end of year	<u><u>\$(18,627)</u></u>	<u><u>\$ 78,289</u></u>	<u><u>\$ 28,013</u></u>	<u><u>\$ 97,570</u></u>	<u><u>\$ 8,713</u></u>	<u><u>\$ 193,958</u></u>

See accompanying Independent Auditor's Report.

**HIGHLAND COMMUNITY SCHOOL DISTRICT**  
 Combining Statement of Net Assets  
 Nonmajor Proprietary Funds  
 June 30, 2005

Schedule 3

	<u>School Nutrition</u>	<u>Preschool</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 743	\$10,427	\$ 11,170
Inventories	1,063	-	1,063
Capital assets, net of accumulated depreciation	<u>10,032</u>	<u>-</u>	<u>10,032</u>
Total assets	<u>11,838</u>	<u>10,427</u>	<u>22,265</u>
<b>LIABILITIES</b>			
Due to other funds	17,550	-	17,550
Salaries and benefits payable	<u>15,219</u>	<u>4,104</u>	<u>19,323</u>
Total liabilities	<u>32,769</u>	<u>4,104</u>	<u>36,873</u>
<b>NET ASSETS</b>			
Invested in capital assets	10,032	-	10,032
Unrestricted	<u>(30,963)</u>	<u>6,323</u>	<u>(24,640)</u>
Total net assets	<u>\$(20,931)</u>	<u>\$ 6,323</u>	<u>\$(14,608)</u>

See accompanying Independent Auditor's Report.

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets  
Nonmajor Proprietary Funds  
For the Year Ended June 30, 2005

Schedule 4

	<u>School Nutrition</u>	<u>Preschool</u>	<u>Total</u>
Operating revenue			
Local sources			
Charges for service	<u>\$ 146,719</u>	<u>\$ 37,703</u>	<u>\$ 184,422</u>
Operating expenses			
Non-instructional programs			
Salaries	95,569	23,021	118,590
Benefits	16,283	8,682	24,965
Purchased services	2,005	536	2,541
Supplies	106,678	774	107,452
Depreciation	<u>3,091</u>	<u>-</u>	<u>3,091</u>
Total operating expenses	<u>223,626</u>	<u>33,013</u>	<u>256,639</u>
Operating income (loss)	<u>(76,907)</u>	<u>4,690</u>	<u>(72,217)</u>
Non-operating revenue			
State sources	3,293	-	3,293
Federal sources	<u>69,934</u>	<u>-</u>	<u>69,934</u>
Total non-operating revenue	<u>73,227</u>	<u>-</u>	<u>73,227</u>
Change in net assets	(3,680)	4,690	1,010
Net assets, beginning of year	<u>(17,251)</u>	<u>1,633</u>	<u>(15,618)</u>
Net assets, end of year	<u>\$ (20,931)</u>	<u>\$ 6,323</u>	<u>\$ (14,608)</u>

See accompanying Independent Auditor's Report.

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Combining Statement of Cash Flows  
Nonmajor Proprietary Funds  
For the Year Ended June 30, 2005

Schedule 5

	<u>School</u> <u>Nutrition</u>	<u>Preschool</u>	<u>Total</u>
Cash flows from operating activities			
Cash received from sale of meals	\$ 146,719	\$ -	\$ 146,719
Cash received from sale of services	-	37,703	37,703
Cash payments to employees for services	(110,087)	(33,265)	(143,352)
Cash payments to suppliers for goods and services	<u>(96,061)</u>	<u>(1,310)</u>	<u>(97,371)</u>
Net cash provided by (used in) operating activities	<u>(59,429)</u>	<u>3,128</u>	<u>(56,301)</u>
Cash flows from non-capital financing activities			
State grants received	3,293	-	3,293
Federal grants received	<u>56,796</u>	<u>-</u>	<u>56,796</u>
Net cash provided by non-capital financing activities	<u>60,089</u>	<u>-</u>	<u>60,089</u>
Net increase in cash and cash equivalents	660	3,128	3,788
Cash and cash equivalents, beginning of year	<u>83</u>	<u>7,299</u>	<u>7,382</u>
Cash and cash equivalents, end of year	<u>\$ 743</u>	<u>\$ 10,427</u>	<u>\$ 11,170</u>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities</b>			
Operating income (loss)	\$ (76,907)	\$ 4,690	\$ (72,217)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Commodities used	13,138	-	13,138
Depreciation	3,091	-	3,091
(Increase) in inventories	(516)	-	(516)
Increase in due to other fund	1,100	-	1,100
Increase (decrease) in salaries and benefits payable	<u>665</u>	<u>(1,562)</u>	<u>(897)</u>
Net cash provided by (used in) operating activities	<u>\$ (59,429)</u>	<u>\$ 3,128</u>	<u>\$ (56,301)</u>

**Non-cash investing, capital and financing activities:**

During the year ended June 30, 2005 the District received \$13,138 of federal commodities.

See accompanying Independent Auditor's Report.

HIGHLAND COMMUNITY SCHOOL DISTRICT  
 Schedule of Changes in Special Revenue Fund, Student Activity Accounts  
 For the Year Ended June 30, 2005

Schedule 6

Account	Balance, Beginning of Year	Revenues	Expenditures	Balance, End of Year
Vocal	\$ 1,432	\$ 1,686	\$ 1,455	\$ 1,663
Instrumental	39	1,905	1,798	146
Pop & concessions	3,994	16,591	12,893	7,692
Student fundraising	5,577	6,973	5,715	6,835
Sixth grade class	-	125	-	125
Seventh grade class	-	134	-	134
Eighth grade class	-	50	-	50
Freshman class	100	-	-	100
Sophomore class	150	50	-	200
Junior class	250	5,477	5,727	-
Senior class	130	979	1,109	-
Class of 2004	7	-	7	-
Annual	(1,546)	7,077	4,129	1,402
Cheerleaders	5	1,170	1,047	128
Drill team	738	5,555	5,252	1,041
National Honor Society	396	-	222	174
Sr high student council	2,063	1,793	2,398	1,458
Jr high student council	17	327	272	72
Drama club	1,044	747	1,156	635
Art club	55	-	-	55
Spanish club	2,853	3,303	5,833	323
Library fund	577	-	577	-
Athletics	43,735	57,391	52,301	48,825
Jump Rope for Heart	368	-	-	368
Riverside fund	2,939	2,981	2,169	3,751
Ainsworth fund	1,473	1,975	1,602	1,846
Win with Wellness	727	1,609	1,127	1,209
High school fund	329	-	272	57
Totals	<u>\$ 67,452</u>	<u>\$ 117,898</u>	<u>\$ 107,061</u>	<u>\$ 78,289</u>

See accompanying Independent Auditor's Report.

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Schedule of Revenues by Source and Expenditures by Function  
All Governmental Funds  
For the Last Four Years

Schedule 7

	Modified Accrual Basis			
	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Revenues				
Local sources				
Local tax	\$ 2,284,988	\$ 1,975,205	\$ 1,960,630	\$ 1,761,098
Tuition	274,251	231,774	122,869	142,661
Other	273,500	243,793	236,871	287,031
State sources	2,643,349	2,566,864	2,472,148	2,478,603
Federal sources	125,535	125,143	178,111	614,212
Total revenues	<u>\$ 5,601,623</u>	<u>\$ 5,142,779</u>	<u>\$ 4,970,629</u>	<u>\$ 5,283,605</u>
Expenditures				
Instruction				
Regular instruction	\$ 2,041,513	\$ 1,871,992	\$ 1,825,594	\$ 1,743,152
Special instruction	646,978	626,402	597,195	491,975
Other instruction	527,389	332,137	348,441	313,773
Support services				
Student services	84,720	133,943	154,119	147,683
Instructional staff services	238,941	299,640	261,855	264,092
Administration services	582,102	500,669	476,655	464,928
Operation and maintenance of plant services	438,447	367,344	349,801	383,546
Transportation services	175,373	175,000	144,199	191,157
Non-instructional programs	4,766	3,749	5,427	5,549
Other expenditures				
Facilities acquisition	83,515	1,210,971	670,769	77,061
Long-term debt				
Principal	266,405	219,477	164,283	182,253
Interest and other charges	163,902	228,534	144,965	142,738
AEA flowthrough	175,545	183,551	185,149	187,472
Total expenditures	<u>\$ 5,429,596</u>	<u>\$ 6,153,409</u>	<u>\$ 5,328,452</u>	<u>\$ 4,595,379</u>

See accompanying Independent Auditor's Report.

**KAY L. CHAPMAN, CPA PC**

210 Cedar Street  
Muscatine, Iowa 52761  
563-264-1385

Independent Auditor's Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance  
with Government Auditing Standards

To the Board of Education  
Highland Community School District

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Highland Community School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued my report thereon dated August 11, 2005. I conducted my audit in accordance with U.S. generally accepted auditing standards 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 my audit, I considered Highland Community School District's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, I believe item (A) Segregation of Duties, is a material weakness.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Highland Community School 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, non-compliance 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the District. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the Highland Community School District and other parties to whom the District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by the personnel of the Highland Community School District during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.



Kay L. Chapman, CPA PC  
August 11, 2005

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Schedule of Findings  
For the Year Ended June 30, 2005

**Part I. Findings Related to the Financial Statements**

INSTANCES OF NON-COMPLIANCE

No matters were noted.

REPORTABLE CONDITIONS

- (A) Segregation of Duties - The limited number of accounting personnel makes it difficult to achieve adequate internal accounting control through the segregation of duties and responsibilities, such as recording and processing cash receipts, preparing checks and bank reconciliations, preparation of journals and general financial information for ledger posting, and the analysis of financial information. A small staff makes it difficult to establish an ideal system of automatic internal checks on accounting record accuracy and reliability, although I noted the District had taken steps to segregate duties between the present personnel. This is not an unusual condition but it is important the District officials are aware that the condition exists.

Recommendation - I realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review the operating procedures of the District to obtain the maximum internal control possible under the circumstances.

Response - We will review our procedures and implement changes to improve internal control, as we deem necessary.

Conclusion - Response accepted.

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Schedule of Findings  
For the Year Ended June 30, 2005

**Part II. Other Findings Related to Statutory Reporting:**

1. Official Depositories - A resolution naming official depositories has been approved by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.
2. Certified Budget - Expenditures for the year ended June 30, 2005 exceeded the amended amounts budgeted in the Support Services and Non-instructional Programs functional areas.

Recommendation - The District should have amended the budget in sufficient amounts before expenditures were allowed to exceed the budget.

Response - We will be more attentive of this in the future and amend the budget in sufficient amounts, as necessary.

Conclusion - Response accepted.

3. Questionable Disbursements - I noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
4. Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
5. Business Transactions - No business transactions between the District and District officials or employees were noted.
6. Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
7. Board Minutes - I noted no transactions requiring Board approval which had not been approved by the Board.
8. Certified Enrollment - No variances in the basic enrollment data certified to the Iowa Department of Education were noted.
9. Deposits and Investments - I noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Schedule of Findings  
For the Year Ended June 30, 2005

10. Certified Annual Reports - The Certified Annual Report was filed with the Department of Education timely and I noted no significant deficiencies in the amounts reported.
11. Financial Condition - The District had unreserved, undesignated deficits in the General Fund, Special Revenue-Management Fund and Enterprise-School Nutrition Fund of \$98,996, \$18,627 and \$30,963, respectively at June 30, 2005.

Recommendation - The District should continue to monitor these accounts and investigate alternatives to eliminate these deficits.

Response - We will review the situation and implement changes, as needed.

Conclusion - Response accepted.

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Audit Staff  
June 30, 2005

This audit was performed by

Kay Chapman, CPA  
Christina Chamberlin, staff accountant

"Expect Excellence"



H I G H L A N D  
COMMUNITY SCHOOL DISTRICT OF AINSWORTH - RIVERSIDE  
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## NEWS RELEASE

FOR RELEASE:

Kay L. Chapman, CPA PC of Muscatine, Iowa today released an audit report on the Highland Community School District in Riverside, Iowa.

The District's revenues totaled \$5,862,620 for the year ended June 30, 2005, an 8 percent increase from the prior year. Revenues included \$2,286,297 in local tax, charges for service of \$678,244, operating grants, contributions and restricted interest of \$518,908, unrestricted state grants of \$2,289,020, unrestricted interest of \$33,808 and other general revenues of \$1,873.

Expenses for District operations totaled \$5,538,132, a 4 percent increase from the prior year. Expenses included \$3,216,511 for instruction, \$1,557,663 for support services, \$261,405 for non-instructional programs and \$502,553 for other expenses.

A copy of the audit report is available for review in the office of the Auditor of State and the District Secretary's office.

### Board of Directors

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HIGHLAND HIGH SCHOOL 319 • 648-2891 / 319 • 657-4101 HIGHLAND MIDDLE SCHOOL 319 • 648-5018 / 319 • 657-2091

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Edward Pundt, High School Principal Shawn Donovan, Middle School Principal Carol Montz, Riverside Elementary Principal Shawn Donovan, Ainsworth Elementary Princip