

HIGHLAND COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2007

HIGHLAND COMMUNITY SCHOOL DISTRICT
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HIGHLAND COMMUNITY SCHOOL DISTRICT
 Officials
 June 30, 2007

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
(Before September 2006 Election)		
Mike Roberts	Board President	2007
Vaughn Davisson	Board Member	2006
Kevin Engel	Board Member	2006
Robert Schneider, Jr.	Board Member	2007
Cindy Michel	Board Member	2007
Ed Ossman	Board Member	2008
Bruce Temple	Board Member	2008
(After September 2006 Election)		
Mike Roberts	Board President	2007
Robert Schneider, Jr.	Board Member	2007
Cindy Michel	Board Member	2007
Ed Ossman	Board Member	2008
Bruce Temple	Board Member	2008
Becky Hanson	Board Member	2009
Kevin Engel	Board Member	2009
School Officials		
Carol Montz	Superintendent	2007
Bev Colbert	District Secretary/Treasurer	2007
C. Joseph Holland	Attorney	2007

KAY L. CHAPMAN, CPA PC

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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, 2007, 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, 2007, 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 March 13, 2008 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 41 through 42 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. Other supplementary information included in Schedules 1 through 6, 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. 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, 2006 (which are not presented herein) and expressed unqualified opinions on those financial statements. In my opinion, the information set forth in the supplementary information for each of the four years in the period ended June 30, 2007, appearing in Schedule 7, is fairly stated, in all material respects in relation to the basic and general purpose financial statements from which it has been derived.

Kay L. Chapman, CPA PC

Kay L. Chapman, CPA PC
March 13, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$5,253,224 in fiscal 2006 to \$5,548,181 in fiscal 2007, while General Fund expenditures increased from \$5,157,832 in fiscal 2006 to \$5,613,376 in fiscal 2007. The District's General Fund balance decreased from \$(13,802) in fiscal 2006 to \$(77,437) in fiscal 2007, a 461% decrease.
- The increase in General Fund revenues was attributable to an increase in property tax and state and federal grant revenue in fiscal 2007. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits and restricted grant expenditures. The reason the General Fund balance decreased was because expenditures were greater than revenues by \$65,195.

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.

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.

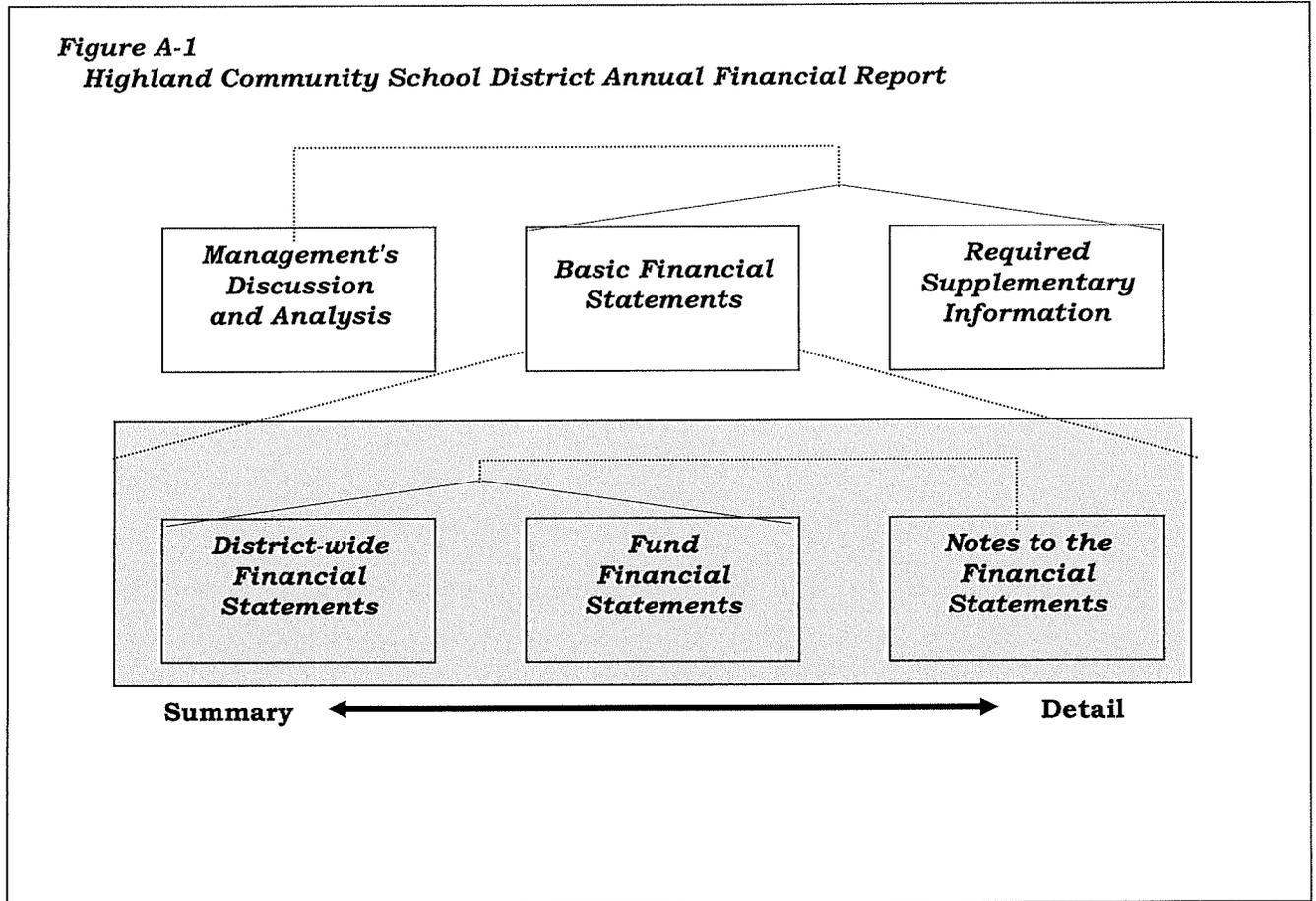


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary 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 preschool program
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows
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
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
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

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, 2007 compared to June 30, 2006.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2007	2006	2007	2006	2007	2006	2006-2007
Current and other assets	\$ 4,563,640	\$ 4,064,724	\$ 35,298	\$ 23,473	\$ 4,598,938	\$ 4,088,197	12.49%
Capital assets	<u>4,846,474</u>	<u>4,661,718</u>	<u>6,971</u>	<u>9,600</u>	<u>4,853,445</u>	<u>4,671,318</u>	3.90%
Total assets	<u>9,410,114</u>	<u>8,726,442</u>	<u>42,269</u>	<u>33,073</u>	<u>9,452,383</u>	<u>8,759,515</u>	7.91%
Long-term obligations	2,953,787	3,248,538	-	-	2,953,787	3,248,538	-9.07%
Other liabilities	<u>3,969,479</u>	<u>3,745,403</u>	<u>41,576</u>	<u>14,000</u>	<u>4,011,055</u>	<u>3,759,403</u>	6.69%
Total liabilities	<u>6,923,266</u>	<u>6,993,941</u>	<u>41,576</u>	<u>14,000</u>	<u>6,964,842</u>	<u>7,007,941</u>	-0.62%
Net assets							
Invested in capital assets, net of related debt	2,056,474	1,611,718	6,971	9,600	2,063,445	1,621,318	27.27%
Restricted	428,565	347,733	-	-	428,565	347,733	23.25%
Unrestricted	<u>1,809</u>	<u>(226,950)</u>	<u>(6,278)</u>	<u>(13,845)</u>	<u>(4,469)</u>	<u>(240,795)</u>	98.14%
Total net assets	<u>\$ 2,486,848</u>	<u>\$ 1,732,501</u>	<u>\$ 693</u>	<u>\$ (4,245)</u>	<u>\$ 2,487,541</u>	<u>\$ 1,728,256</u>	43.93%

The District's combined net assets increased by approximately 44%, or \$759,285, 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 \$80,832, or approximately 23% over the prior year. The increase was primarily a result of increases in the balances of the Physical Plant and Equipment Levy and the Capital Projects funds.

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 \$236,326, or approximately 98%. This increase in unrestricted net assets was a result of the District's revenues being greater than the District's expenditures.

Figure A-4 shows the change in net assets for the year ended June 30, 2007 compared to the year ended June 30, 2006.

Figure A-4
Change in Net Assets

	Governmental		Business Type		Total		Total
	Activities		Activities		District		Change
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2006-2007</u>
Revenues							
Program revenues							
Charges for service and sales	\$ 624,155	\$ 587,591	\$ 226,220	\$ 210,722	\$ 850,375	\$ 798,313	6.52%
Operating grants and contributions	601,469	553,016	81,947	78,954	683,416	631,970	8.14%
General revenues							
Property tax	2,585,423	2,195,850	-	-	2,585,423	2,195,850	17.74%
Local option sales and services tax	357,817	326,496	-	-	357,817	326,496	9.59%
Unrestricted state grants	2,584,897	2,558,407	-	-	2,584,897	2,558,407	1.04%
Unrestricted investment earnings	84,187	61,199	113	-	84,300	61,199	37.75%
Contributions and donations	103,602	12,161	-	-	103,602	12,161	751.92%
Other	10,802	6,713	-	-	10,802	6,713	60.91%
Gain (loss) on disposal of assets	-	2,902	-	-	-	2,902	-100.00%
Contributed capital	-	-	-	2,900	-	2,900	-100.00%
Total revenues	<u>6,952,352</u>	<u>6,304,335</u>	<u>308,280</u>	<u>292,576</u>	<u>7,260,632</u>	<u>6,596,911</u>	10.06%
Program expenses							
Governmental activities							
Instruction	3,773,392	3,486,107	-	-	3,773,392	3,486,107	8.24%
Support services	1,912,487	1,703,365	-	-	1,912,487	1,703,365	12.28%
Non-instructional programs	-	-	303,342	282,213	303,342	282,213	7.49%
Other expenses	<u>512,126</u>	<u>518,194</u>	<u>-</u>	<u>-</u>	<u>512,126</u>	<u>518,194</u>	-1.17%
Total expenses	<u>6,198,005</u>	<u>5,707,666</u>	<u>303,342</u>	<u>282,213</u>	<u>6,501,347</u>	<u>5,989,879</u>	8.54%
Change in net assets	<u>\$ 754,347</u>	<u>\$ 596,669</u>	<u>\$ 4,938</u>	<u>\$ 10,363</u>	<u>\$ 759,285</u>	<u>\$ 607,032</u>	25.08%

In fiscal 2007, property tax and unrestricted state grants account for approximately 71% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for approximately 99% of the revenue from business type activities.

The District's total revenues were \$7,260,632 of which \$6,952,352 was for governmental activities and \$308,280 was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 10% increase in revenues and a 9% increase in expenses. The increase in revenues was due to increased property taxes, investment earnings, and donations and grants from the Washington County Riverboat Foundation. The increase in expenses related to increases in the negotiated salary and benefits as well as increases in support services.

Governmental Activities

Revenues for governmental activities were \$6,952,352 and expenses were \$6,198,005. In a difficult budget year, the District’s expenditures were less than available revenues due to increased property taxes, grants and fund balances.

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

	Total Cost of Services			Net Cost of Services		
	2007	2006	Change 2006-2007	2007	2006	Change 2006-2007
Instruction	\$ 3,773,392	\$ 3,486,107	8.2%	\$ 2,761,214	\$ 2,565,277	7.6%
Support services	1,912,487	1,703,365	12.3%	1,904,887	1,699,398	12.1%
Other expenses	<u>512,126</u>	<u>518,494</u>	-1.2%	<u>306,280</u>	<u>302,384</u>	1.3%
Total expenses	<u>\$ 6,198,005</u>	<u>\$ 5,707,966</u>	8.6%	<u>\$ 4,972,381</u>	<u>\$ 4,567,059</u>	8.9%

- The cost financed by users of the District’s programs was \$624,155.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$601,469.
- The net cost of governmental activities was financed with \$2,943,240 in property and other taxes and \$2,584,897 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$308,280 representing a 5 percent increase over the prior year while expenses totaled \$303,342, a 7 percent increase over the prior year. 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 \$362,606, above last year’s ending fund balances of \$337,708. The primary reason for the increase was from the balance in the Capital Projects fund due to SILO revenues and increased revenues in the PPEL fund.

Governmental Fund Highlights

- The District's deteriorating General Fund financial position is the result of many factors. The primary factor was that revenues only increased by 5.6% over fiscal year 2006 while expenditures increased by 8.8% over fiscal year 2006.
- The General Fund balance decreased from \$(13,802) to \$(77,437), due to the fact that expenditures were greater than revenues for the fiscal year 2007.

Proprietary Fund Highlights

Enterprise Fund net assets increased from \$(4,245) at June 30, 2006 to \$693 at June 30, 2007, representing an increase of approximately 116%. This increase was due to prudent fiscal management of the school nutrition and preschool programs.

BUDGETARY HIGHLIGHTS

The District did not amend its budget during the year ended June 30, 2007.

The District's revenues were \$317,012 more than budgeted revenues, a variance of approximately 4%. The most significant variance resulted from the District receiving more revenue from local sources including PPEL and SILO funds and local grant funding for fiscal 2007.

Total disbursements were \$148,688 more than budgeted, due primarily to increased expenditures in the support services area.

In spite of the District's budgetary practice, the certified budget was exceeded in the Instruction and Support Services functional areas, as well as in total, 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, 2007, the District had invested \$4,853,445, 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 increase of approximately 4% over 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 \$266,755.

The original cost of the District's capital assets was \$7,760,193. Governmental funds account for \$7,679,785, with the remainder of \$80,408 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 the purchase of technology equipment and one school bus during fiscal 2007.

Figure A-6

Capital Assets, Net of Depreciation

	Governmental		Business-type		Total		Total
	Activities		Activities		School District		Change
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2006-2007</u>
Land	\$ 76,612	\$ 76,612	\$ -	\$ -	\$ 76,612	\$ 76,612	0.00%
Buildings and improvements	4,166,429	4,097,191	-	-	4,166,429	4,097,191	1.69%
Improvements, other than buildings	195,788	199,235	-	-	195,788	199,235	-1.73%
Furniture and equipment	<u>407,645</u>	<u>288,680</u>	<u>6,971</u>	<u>9,600</u>	<u>414,616</u>	<u>298,280</u>	39.00%
Totals	<u>\$4,846,474</u>	<u>\$4,661,718</u>	<u>\$ 6,971</u>	<u>\$ 9,600</u>	<u>\$4,853,445</u>	<u>\$4,671,318</u>	3.90%

Long-Term Debt

At June 30, 2007, the District had \$2,953,787 in general obligation and other long-term debt outstanding. This represents a decrease of approximately 9% 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.

Figure A-7

Outstanding Long-term Obligations

	Total		Total
	School District		Change
	<u>2007</u>	<u>2006</u>	<u>2006-</u> <u>2007</u>
General obligation bonds	\$ 2,065,000	\$ 2,200,000	-6.14%
Capital loan notes	725,000	850,000	-14.71%
Compensated absences	42,106	35,668	18.05%
Early retirement	<u>121,681</u>	<u>162,870</u>	-25.29%
Total	<u>\$ 2,953,787</u>	<u>\$ 3,248,538</u>	-9.07%

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 2005 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 of 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 full impact of the casino on the taxable valuation will not be felt until the fiscal 2009 school year.

- Taxable valuation continues to slowly increase in this part of the county and enrollment is fairly stable with no major increases or decreases in certified enrollment. Open enrollment has seen an increase of students into the district and a decrease of students out of the district putting the open enrolled in count higher than the open enrolled out count for the first time.
- SILO funds were used to purchase one new school bus during fiscal 2007, which in the past have been funded by capital loan notes from the General Fund. We will no longer be using the General Fund for long-term purchases of this type.
- Johnson County passed a SILO election on February 13, 2007 which will be effective July 2007. This will increase our SILO revenues for fiscal year 2008.
- The Board has earmarked \$25,000-\$30,000 per year for computer hardware from the SILO fund. Also, we have applied for and received grants from the Washington County Riverboat Foundation for major technology purchases. We will continue to use this new avenue of funding for major equipment acquisitions and additions to the Highland Community School District, which frees up funds in the General Fund for other expenses.
- To improve the financial position of the school lunch program we are continuing with the state coop purchasing program and closely monitoring revenues and expenditures.

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 Bev Colbert, Board Secretary/Treasurer, Highland Community School District, PO Box B, 1715 Vine Avenue, Riverside, Iowa 52327.

Basic Financial Statements

HIGHLAND COMMUNITY SCHOOL DISTRICT
Statement of Net Assets
June 30, 2007

Exhibit A

Assets	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
Cash and cash equivalents			
ISCAP	\$ 1,109,953	\$ -	\$ 1,109,953
Other	817,396	32,048	849,444
Receivables			
Property tax			
Delinquent	28,050	-	28,050
Succeeding year	2,177,738	-	2,177,738
Income surtax	248,776	-	248,776
Accounts receivable	1,281	900	2,181
Accrued interest			
ISCAP	6,974	-	6,974
Due from other governments	158,672	-	158,672
Due from other fund	14,800	-	14,800
Inventories	-	2,350	2,350
Non-depreciable capital assets	76,612	-	76,612
Capital assets, net of accumulated depreciation	<u>4,769,862</u>	<u>6,971</u>	<u>4,776,833</u>
Total assets	<u>9,410,114</u>	<u>42,269</u>	<u>9,452,383</u>
 Liabilities			
Accounts payable	108,559	-	108,559
Salaries and benefits payable	541,036	24,026	565,062
Accrued interest payable	17,221	-	17,221
Due to other fund	-	14,800	14,800
Deferred revenue			
Succeeding year property tax	2,177,738	-	2,177,738
Other	-	2,750	2,750
ISCAP warrants payable	1,112,000	-	1,112,000
ISCAP accrued interest payable	5,928	-	5,928
ISCAP unamortized premium	6,997	-	6,997
Long-term liabilities			
Portion due within one year			
General obligation bonds payable	145,000	-	145,000
Capital loan notes payable	135,000	-	135,000
Early retirement payable	25,981	-	25,981

See notes to financial statements.

HIGHLAND COMMUNITY SCHOOL DISTRICT
Statement of Net Assets
June 30, 2007

Exhibit A

	Governmental Activities	Business Type Activities	Total
Liabilities (continued)			
Long-term liabilities (continued)			
Portion due after one year			
General obligation bonds payable	\$ 1,920,000	\$ -	\$ 1,920,000
Capital loan notes payable	590,000	-	590,000
Compensated absences	42,106	-	42,106
Early retirement payable	95,700	-	95,700
Total liabilities	6,923,266	41,576	6,964,842
Net Assets			
Invested in capital assets, net of related debt	2,056,474	6,971	2,063,445
Restricted for			
Professional development program	2,134	-	2,134
Additional professional development program	4,746	-	4,746
Market factor pay program	4,958	-	4,958
Teacher compensation program	194	-	194
Physical plant and equipment levy	66,394	-	66,394
Debt service	1,043	-	1,043
Other special revenue purposes	84,541	-	84,541
Capital projects	264,555	-	264,555
Unrestricted	1,809	(6,278)	(4,469)
Total net assets	\$ 2,486,848	\$ 693	\$ 2,487,541

See notes to financial statements.

HIGHLAND COMMUNITY SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2007

Exhibit B

<u>Functions/Programs</u> Primary Government	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>	<u>Primary Government</u>	<u>Total</u>
Governmental activities						
Instruction						
Regular instruction	\$ 2,293,596	\$ 467,544	\$ 313,177	\$ -	\$ (1,512,875)	\$ (1,512,875)
Special instruction	774,348	146,901	73,439	-	(554,008)	(554,008)
Other instruction	705,448	3,320	7,797	-	(694,331)	(694,331)
	3,773,392	617,765	394,413	-	(2,761,214)	(2,761,214)
Support services						
Student	71,665	-	-	-	(71,665)	(71,665)
Instructional staff	340,209	-	-	-	(340,209)	(340,209)
Administration	713,648	-	-	-	(713,648)	(713,648)
Operation and maintenance of plant	529,524	2,390	1,210	-	(525,924)	(525,924)
Transportation	257,441	4,000	-	-	(253,441)	(253,441)
	1,912,487	6,390	1,210	-	(1,904,887)	(1,904,887)
Non-instructional programs	-	-	-	-	-	-
Other expenditures						
Facilities acquisition	31,723	-	-	-	(31,723)	(31,723)
Long-term debt interest	130,734	-	-	-	(130,734)	(130,734)
AEA flowthrough	205,846	-	205,846	-	-	-
Depreciation (unallocated) *	143,823	-	-	-	(143,823)	(143,823)
	512,126	-	205,846	-	(306,280)	(306,280)
Total governmental activities	6,198,005	624,155	601,469	-	(4,972,381)	(4,972,381)

See notes to financial statements.

HIGHLAND COMMUNITY SCHOOL DISTRICT

Statement of Activities

For the Year Ended June 30, 2007

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	Primary Government	Total
<u>Functions/Programs (continued)</u>					
Primary Government (continued)					
Business type activities					
Non-instructional programs					
Food service operations	\$ 241,200	\$ 154,966	\$ -	\$ (4,287)	\$ (4,287)
Preschool operations	62,142	71,254	-	9,112	9,112
Total business type activities	303,342	226,220	-	4,825	4,825
Total primary government	\$ 6,501,347	\$ 850,375	\$ -	4,825	(4,967,556)
<u>General Revenues</u>					
Property tax levied for					
General purposes					2,122,995
Debt service					229,009
Capital outlay					233,419
Local option sales and services tax					357,817
Unrestricted state grants					2,584,897
Contributions and donations					103,602
Unrestricted investment earnings				113	84,300
Other					10,802
Total general revenues		5,726,728		113	5,726,841
Change in net assets		754,347		4,938	759,285
Net assets, beginning of year		1,732,501		(4,245)	1,728,256
Net assets, end of year		\$ 2,486,848		\$ 693	\$ 2,487,541

* This amount excludes the depreciation included in the direct expenses of the various programs.

See notes to financial statements.

HIGHLAND COMMUNITY SCHOOL DISTRICT

Exhibit C

Balance Sheet
Governmental Funds

June 30, 2007

Assets	<u>General</u>	Nonmajor Governmental <u>Funds</u>	<u>Total</u>
Cash and pooled investments			
ISCAP	\$1,109,953	\$ -	\$1,109,953
Other	460,648	356,748	817,396
Receivables			
Property tax			
Delinquent	20,472	7,578	28,050
Succeeding year	1,588,582	589,156	2,177,738
Accounts receivable	1,281	-	1,281
Accrued interest			
ISCAP	6,974	-	6,974
Income surtaxes	248,776	-	248,776
Due from other governments	82,955	75,717	158,672
Due from other funds	14,800	-	14,800
Total assets	<u>\$3,534,441</u>	<u>\$ 1,029,199</u>	<u>\$4,563,640</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 108,559	\$ -	\$ 108,559
Salaries and benefits payable	541,036	-	541,036
ISCAP warrants payable	1,112,000	-	1,112,000
ISCAP accrued interest payable	5,928	-	5,928
ISCAP unamortized premium	6,997	-	6,997
Deferred revenue			
Succeeding year property tax	1,588,582	589,156	2,177,738
Income surtaxes	248,776	-	248,776
Total liabilities	<u>3,611,878</u>	<u>589,156</u>	<u>4,201,034</u>
Fund balances			
Reserved for			
Teacher Comp	194	-	194
Professional Development	2,134	-	2,134
Additional professional development	4,746	-	4,746
Market Factor	4,958	-	4,958
Debt service	-	18,264	18,264
Unreserved, governmental funds	(89,469)	264,555	175,086
Unreserved, special revenue funds	-	157,224	157,224
Total fund balances	<u>(77,437)</u>	<u>440,043</u>	<u>362,606</u>
Total liabilities and fund balances	<u>\$3,534,441</u>	<u>\$ 1,029,199</u>	<u>\$4,563,640</u>

See notes to financial statements.

HIGHLAND COMMUNITY SCHOOL DISTRICT
Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets
June 30, 2007

Exhibit D

Total fund balances of governmental funds	\$ 362,606
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.	4,846,474
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	248,776
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.	(17,221)
Long-term liabilities, including bonds and notes payable, early retirement and compensated absences payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(2,953,787)</u>
Net assets of governmental activities	<u><u>\$2,486,848</u></u>

See notes to financial statements.

HIGHLAND COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2007

Exhibit E

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	<u>Total</u>
Revenues			
Local sources			
Local tax	\$1,773,144	\$ 920,005	\$ 2,693,149
Tuition	395,840	-	395,840
Other	191,877	217,242	409,119
State sources	3,053,409	363	3,053,772
Federal sources	133,911	-	133,911
Total revenues	<u>5,548,181</u>	<u>1,137,610</u>	<u>6,685,791</u>
 Expenditures			
Current			
Instruction			
Regular	2,327,498	-	2,327,498
Special	775,085	-	775,085
Other	563,921	143,292	707,213
	<u>3,666,504</u>	<u>143,292</u>	<u>3,809,796</u>
Support services			
Student	76,196	-	76,196
Instructional staff	313,451	109,081	422,532
Administration	663,484	58,863	722,347
Operation and maintenance of plant	487,201	36,251	523,452
Transportation	200,694	79,962	280,656
	<u>1,741,026</u>	<u>284,157</u>	<u>2,025,183</u>
Other expenditures			
Facilities acquisition	-	229,728	229,728
Long-term debt			
Principal	-	260,000	260,000
Interest and fiscal charges	-	131,900	131,900
AEA flowthrough	205,846	-	205,846
	<u>205,846</u>	<u>621,628</u>	<u>827,474</u>
Total expenditures	<u>5,613,376</u>	<u>1,049,077</u>	<u>6,662,453</u>

See notes to financial statements.

HIGHLAND COMMUNITY SCHOOL DISTRICT
 Statement of Revenues, Expenditures and Changes in Fund Balances
 Governmental Funds
 For the Year Ended June 30, 2007

Exhibit E

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	<u>Total</u>
Excess (deficiency) of revenues over (under) expenditures	\$ (65,195)	\$ 88,533	\$ 23,338
Other financing sources (uses)			
Sale of equipment and materials	1,560	-	1,560
Interfund operating transfers in	-	162,860	162,860
Interfund operating transfers (out)	-	<u>(162,860)</u>	<u>(162,860)</u>
Total other financing sources	<u>1,560</u>	<u>-</u>	<u>1,560</u>
Net change in fund balances	(63,635)	88,533	24,898
Fund balance, beginning of year	<u>(13,802)</u>	<u>351,510</u>	<u>337,708</u>
Fund balance, end of year	<u>\$ (77,437)</u>	<u>\$ 440,043</u>	<u>\$ 362,606</u>

See notes to financial statements.

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, 2007

Exhibit F

Net change in fund balances - total governmental funds \$ 24,898

**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 not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures and depreciation expense are as follows:

Expenditures for capital assets	\$448,882	
Depreciation expense	<u>(264,126)</u>	184,756

Certain revenues not collected for several months after year-end are not considered available revenue and are deferred in the governmental funds.	248,776
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Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	260,000
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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 governmental funds, as follows:

Early retirement	\$ 41,189	
Compensated absences	<u>(6,438)</u>	34,751

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.	<u>1,166</u>
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Change in net assets of governmental activities \$754,347

HIGHLAND COMMUNITY SCHOOL DISTRICT
 Statement of Net Assets
 Proprietary Funds
 June 30, 2007

Exhibit G

	<u>Nonmajor Enterprise</u>
Assets	
Cash and pooled investments	\$ 32,048
Accounts receivable	900
Inventories	2,350
Capital assets, net of accumulated depreciation	<u>6,971</u>
Total assets	<u>42,269</u>
Liabilities	
Salaries and benefits payable	24,026
Due to other fund	14,800
Deferred revenue	<u>2,750</u>
Total liabilities	<u>41,576</u>
Net Assets	
Invested in capital assets, net of related debt	6,971
Unrestricted	<u>(6,278)</u>
Total net assets	<u>\$ 693</u>

See notes to financial statements.

HIGHLAND COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For the Year Ended June 30, 2007

Exhibit H

	<u>Nonmajor Enterprise</u>
Operating revenue	
Local sources	
Charges for service	<u>\$226,220</u>
 Operating expenses	
Support services	
Administration	
Salaries	7,139
Benefits	<u>711</u>
	7,850
Operation and maintenance of plant	
Purchased services	<u>4,789</u>
Total support services	<u>12,639</u>
 Non-instructional programs	
Food service operations	
Salaries	90,504
Benefits	20,603
Purchased services	1,055
Supplies	113,770
Depreciation	<u>2,629</u>
	<u>228,561</u>
Preschool operations	
Salaries	47,924
Benefits	13,765
Supplies	453
	<u>62,142</u>
Total non-instructional programs	<u>290,703</u>
Total operating expenses	<u>303,342</u>
Operating (loss)	<u>(77,122)</u>
 Non-operating revenue	
Interest income	113
State sources	3,210
Federal sources	<u>78,737</u>
Total non-operating revenue	<u>82,060</u>
Net income	4,938
Net assets, beginning of year	<u>(4,245)</u>
Net assets, end of year	<u>\$ 693</u>

See notes to financial statements.

HIGHLAND COMMUNITY SCHOOL DISTRICT
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2007

Exhibit I

	<u>Nonmajor Enterprise</u>
Cash flows from operating activities	
Cash received from sale of services	\$ 156,539
Cash received from other operations	70,354
Cash payments to employees for services	(175,659)
Cash payments to suppliers for goods and services	<u>(107,384)</u>
Net cash used in operating activities	<u>(56,150)</u>
Cash flows from non-capital financing activities	
State grants received	3,210
Federal grants received	<u>62,110</u>
Net cash provided by non-capital financing activities	<u>65,320</u>
Cash flows from capital and related financing activities	<u>-</u>
Cash flows from investing activities	
Interest on investments	<u>113</u>
Net increase in cash and cash equivalents	9,283
Cash and cash equivalents, beginning of year	<u>22,765</u>
Cash and cash equivalents, end of year	<u>\$ 32,048</u>

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

Operating loss	\$ (77,122)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation	2,629
Commodities used	16,627
Decrease in accounts receivable	(900)
Decrease in inventory	(1,642)
Increase in due to other funds	800
Increase in due to other governments	1,196
Increase in accrued salaries and benefits	<u>2,262</u>
Net cash used in operating activities	<u>\$ (56,150)</u>

Non-cash investing, capital and financing activities

During the year ended June 30, 2007, the District received \$16,627 of federal commodities.

See notes to financial statements.

HIGHLAND COMMUNITY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2007

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 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 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 not meeting 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 funds:

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 funds are 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 twelve 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, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2006.

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	\$1,500
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
Other on-road vehicles	4 years
Furniture and equipment	5-12 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, 2007. The compensated absences liability attributable to the governmental activities would be paid primarily by the General Fund.

Early Retirement Termination Benefits - 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, 2007. 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 and income surtax 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 Balance - 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.

Net Assets - Invested in capital assets, net of related debt consists of capital assets net of accumulated depreciation and reduced by the outstanding balance of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets consist of net assets with constraints placed on the use either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The government-wide statement of net assets reports no restricted net assets which are restricted by 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, 2007, expenditures exceeded the amounts budgeted in the Instruction and Support Services functions, as well as in total.

Note 2. Cash and Pooled Investments

The District's deposits in banks at June 30, 2007 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, 2007, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
Diversified Portfolio	\$ 786,214

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

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 30, 2007 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
	Non-major	
General	School Nutrition	\$ 14,800

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, 2008.

Note 4. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2007 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Non-major	Non-major	
Debt Service	Physical Plant and Equipment Levy	\$ 162,860

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, 2007, 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>
2006-07B	1/26/07	1/25/08	\$ 298,238	\$ 6,731	\$ 299,000	\$ 5,721	\$ 964
2007-08A	6/27/07	6/27/08	<u>811,715</u>	<u>243</u>	<u>813,000</u>	<u>207</u>	<u>6,033</u>
			<u>\$ 1,109,953</u>	<u>\$ 6,974</u>	<u>\$ 1,112,000</u>	<u>\$ 5,928</u>	<u>\$6,997</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, 2007 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>
2006-07A	\$ -	\$ 345,000	\$ 345,000	\$ -

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>
2006-07A	4.50%	5.676%
2006-07B	4.25%	5.315%
2007-08A	4.50%	5.455%

Note 6. Capital Assets

Capital assets activity for the year ended June 30, 2007 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
Capital assets being depreciated:				
Buildings and improvements	5,601,981	183,304	-	5,785,285
Improvements other than buildings	454,302	14,701	-	469,003
Furniture and equipment	<u>1,176,660</u>	<u>250,877</u>	<u>(78,652)</u>	<u>1,348,885</u>
Total capital assets being depreciated	<u>7,232,943</u>	<u>448,882</u>	<u>(78,652)</u>	<u>7,603,173</u>
Less accumulated depreciation for:				
Buildings and improvements	1,504,790	114,066	-	1,618,856
Improvements other than buildings	255,067	18,148	-	273,215
Furniture and equipment	<u>887,980</u>	<u>131,912</u>	<u>(78,652)</u>	<u>941,240</u>
Total accumulated depreciation	<u>2,647,837</u>	<u>264,126</u>	<u>(78,652)</u>	<u>2,833,311</u>
Total capital assets being depreciated, net	<u>4,585,106</u>	<u>184,756</u>	<u>-</u>	<u>4,769,862</u>
Governmental activities capital assets, net	<u>\$ 4,661,718</u>	<u>\$ 184,756</u>	<u>\$ -</u>	<u>\$ 4,846,474</u>
<u>Business-type activities</u>				
Furniture and equipment	\$ 80,408	\$ -	\$ -	\$ 80,408
Less accumulated depreciation	<u>70,808</u>	<u>2,629</u>	<u>-</u>	<u>73,437</u>
Business-type activities capital assets, net	<u>\$ 9,600</u>	<u>\$ (2,629)</u>	<u>\$ -</u>	<u>\$ 6,971</u>

Depreciation expense was charged to the following functions:

Governmental activities

Instruction		
Regular		\$ 6,704
Special		3,622
Other		9,335
Support services		
Student		1,133
Instructional staff		42,938
Administration		4,156
Operation and maintenance of plant		4,784
Transportation		47,631
Unallocated depreciation		<u>143,823</u>
Total governmental activities depreciation expense		<u>\$ 264,126</u>

Business type activities

Food services \$ 2,629

Note 7. Long-term Liabilities

Changes in long-term liabilities for the year ended June 30, 2007 are summarized as follows:

	Balance, Beginning of Year	<u>Additions</u>	<u>Reductions</u>	Balance, End of Year	Due Within <u>One Year</u>
General obligation bonds	\$ 2,200,000	\$ -	\$ (135,000)	\$ 2,065,000	\$ 145,000
Capital loan notes	850,000	-	(125,000)	725,000	135,000
Compensated absences	35,668	19,638	(13,200)	42,106	-
Early retirement	<u>162,870</u>	<u>-</u>	<u>(41,189)</u>	<u>121,681</u>	<u>25,981</u>
Totals	<u>\$ 3,248,538</u>	<u>\$ 19,638</u>	<u>\$ (314,389)</u>	<u>\$ 2,953,787</u>	<u>\$ 305,981</u>

Interest costs incurred and charged to expense on all long-term debt was \$130,734 for the year ended June 30, 2007. During the year ended June 30, 2007, the District made principal payments on total long-term debt of \$314,389.

General Obligation Bonds

Details of the District's June 30, 2007 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond issue of November 1, 2005			Bond issue of May 1, 1998				
	Interest Rates	Interest	Principal	Total	Interest Rates	Interest	Principal	Total
2008		\$ 54,102	\$ -	\$ 54,102	4.50%	\$33,056	\$145,000	\$178,056
2009		54,102	-	54,102	4.60%	26,530	150,000	176,530
2010		54,102	-	54,102	4.65%	19,630	155,000	174,630
2011		54,102	-	54,102	4.65%	12,422	165,000	177,422
2012	3.75%	54,102	45,000	99,102	4.75%	4,750	100,000	104,750
2013-2017	3.8%-4.1%	182,231	1,065,000	1,247,231		-	-	-
2018	4.15%	<u>9,960</u>	<u>240,000</u>	<u>249,960</u>		-	-	-
Totals		<u>\$462,701</u>	<u>\$1,350,000</u>	<u>\$1,812,701</u>		<u>\$96,388</u>	<u>\$715,000</u>	<u>\$811,388</u>

Year Ending June 30,	Totals		
	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2008	\$87,158	\$145,000	\$232,158
2009	80,632	150,000	230,632
2010	73,732	155,000	228,732
2011	66,524	165,000	231,524
2012	58,852	145,000	203,852
2013-2017	182,231	1,065,000	1,247,231
2018	<u>9,960</u>	<u>240,000</u>	<u>249,960</u>
Totals	<u>\$559,089</u>	<u>\$2,065,000</u>	<u>\$2,624,089</u>

Capital Loan Notes

Details of the District's June 30, 2007 capital loan notes are as follows:

Year Ending June 30,	Interest Rates	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	4.30%	140,000	26,665	166,665
2010	4.40%	145,000	20,645	165,645
2011	4.55%	150,000	14,265	164,265
2012	4.65%	<u>155,000</u>	<u>7,440</u>	<u>162,440</u>
Totals		<u>\$ 725,000</u>	<u>\$ 101,350</u>	<u>\$ 826,350</u>

Refunded Bonds

In a prior year, the District defeased certain general obligation bonds by placing the proceeds of new bonds in an escrow account to provide for all future debt service payments on the old bonds. These bonds were called and repaid on May 1, 2007. Therefore, the liability is not included in the District's financial statements at June 30, 2007.

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 \$42,106 at June 30, 2007. No individuals had requested payment for unused vacation hours as of June 30, 2007.

Early Retirement Termination Benefits

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 single health 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, 2007, the maximum accumulated retirement benefits of the District was \$121,681 and six individuals had requested early retirement and were receiving the benefit. Early retirement expenditures for the year ended June 30, 2007 totaled \$41,189.

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, 2007, 2006 and 2005. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$189,057, \$175,666 and \$161,670, respectively, equal to the required contributions for each year.

Note 9. Risk Management

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 \$205,846 for the year ended June 30, 2007 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 and Enterprise Fund-School Nutrition Fund of \$89,469 and \$23,425 at June 30, 2007. The business-type activities and the Enterprise Funds also had negative unrestricted net assets of \$6,278 at June 30, 2007.

Note 12. Subsequent Event

During the fiscal year ending June 30, 2008, the District will begin receiving monies from the local option sales and services tax imposed by Johnson County. Voters in the county authorized a 1% tax for a period of 10 years, effective July 1, 2007. The District expects to receive approximately \$16,500 annually from this revenue source.

Note 13. Contingencies

Grant Funding - The District participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants were subjected to local audit but still remain open to audit by the appropriate grantor government. If expenditures are disallowed by the grantor government due to noncompliance with grant program regulations, the District may be required to reimburse the grantor government. As of June 30, 2007, significant amounts of grant expenditures have not been audited by granting authorities but the District believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual governmental funds or the overall financial position of the District.

Required Supplementary Information

HIGHLAND COMMUNITY SCHOOL DISTRICT
Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual
All Governmental Funds and Proprietary Funds
Required Supplementary Information
For the Year Ended June 30, 2007

	Governmental Funds		Proprietary Funds	Total	Budgeted Amounts		Final to
	Actual	Actual	Actual	Actual	Original	Final	Actual Variance
Revenues							
Local sources	\$3,498,108	\$226,333	\$3,724,441	\$3,433,536	\$3,433,536	\$3,433,536	\$ 290,905
State sources	3,053,772	3,210	3,056,982	3,036,151	3,036,151	3,036,151	20,831
Federal sources	133,911	78,737	212,648	207,372	207,372	207,372	5,276
Total revenues	<u>6,685,791</u>	<u>308,280</u>	<u>6,994,071</u>	<u>6,677,059</u>	<u>6,677,059</u>	<u>6,677,059</u>	<u>317,012</u>
Expenditures							
Instruction	3,809,796	-	3,809,796	3,802,303	3,802,303	3,802,303	(7,493)
Support services	2,025,183	12,639	2,037,822	1,758,455	1,758,455	1,758,455	(279,367)
Non-instructional programs	-	290,703	290,703	308,325	308,325	308,325	17,622
Other expenditures	827,474	-	827,474	948,024	948,024	948,024	120,550
Total expenditures	<u>6,662,453</u>	<u>303,342</u>	<u>6,965,795</u>	<u>6,817,107</u>	<u>6,817,107</u>	<u>6,817,107</u>	<u>(148,688)</u>
Excess (deficiency) of revenues over (under) expenditures	23,338	4,938	28,276	(140,048)	(140,048)	(140,048)	168,324
Net other financing sources	<u>1,560</u>	-	<u>1,560</u>	<u>500</u>	<u>500</u>	<u>500</u>	<u>1,060</u>
Net change in fund balance	24,898	4,938	29,836	(139,548)	(139,548)	(139,548)	169,384
Balance, beginning of year	337,708	(4,245)	333,463	189,361	189,361	189,361	144,102
Balance, end of year	<u>\$ 362,606</u>	<u>\$ 693</u>	<u>\$ 363,299</u>	<u>\$ 49,813</u>	<u>\$ 49,813</u>	<u>\$ 49,813</u>	<u>\$ 313,486</u>

See accompanying Independent Auditor's Report.

HIGHLAND COMMUNITY SCHOOL DISTRICT
Notes to Required Supplementary Information – Budgetary Reporting
For the Year Ended June 30, 2007

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 and each major Special Revenue Fund.

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 GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. 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 function level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District did not adopt any budget amendments.

During the year ended June 30, 2007, District expenditures exceeded the amounts budgeted in the Instruction and Support Services functions, as well as in total.

Other Supplementary Information

HIGHLAND COMMUNITY SCHOOL DISTRICT

Schedule 1

Combining Balance Sheet
 Nonmajor Governmental Funds
 June 30, 2007

	<u>Special Revenue</u>					
	Management Levy	Student Activity	Physical Plant and Equipment Levy	Capital Projects	Debt Service	Total
Assets						
Cash and pooled investments	\$ 4,915	\$84,541	\$ 63,243	\$188,877	\$ 15,172	\$ 356,748
Receivables						
Property tax						
Delinquent	1,367	-	3,135	-	3,076	7,578
Succeeding year	100,000	-	256,498	-	232,658	589,156
Due from other governments	7	-	16	75,678	16	75,717
Total assets	<u>\$106,289</u>	<u>\$84,541</u>	<u>\$322,892</u>	<u>\$264,555</u>	<u>\$250,922</u>	<u>\$1,029,199</u>
Liabilities and Fund Balances						
Liabilities						
Deferred revenue						
Succeeding year property tax	\$100,000	-	\$256,498	-	\$232,658	\$ 589,156
Fund balances						
Reserved for debt service	-	-	-	-	18,264	18,264
Unreserved fund balances	6,289	84,541	66,394	264,555	-	421,779
Total fund balances	<u>6,289</u>	<u>84,541</u>	<u>66,394</u>	<u>264,555</u>	<u>18,264</u>	<u>440,043</u>
Total liabilities and fund balances	<u>\$106,289</u>	<u>\$84,541</u>	<u>\$322,892</u>	<u>\$264,555</u>	<u>\$250,922</u>	<u>\$1,029,199</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, 2007

Schedule 2

	Special Revenue					
	Management Levy	Student Activity	Physical Plant and Equipment Levy	Capital Projects	Debt Service	Total
Revenues						
Local sources						
Local taxes	\$ 100,059	-	\$ 233,268	\$ 357,817	\$ 228,861	\$ 920,005
Other	6,619	143,151	4,269	60,419	2,784	217,242
State sources	64	-	151	-	148	363
Total revenues	106,742	143,151	237,688	418,236	231,793	1,137,610
Expenditures						
Current						
Instruction						
Other	-	143,292	-	-	-	143,292
Support services						
Instructional staff	-	-	-	109,081	-	109,081
Administration	58,863	-	-	-	-	58,863
Operation and maintenance of plant	36,251	-	-	-	-	36,251
Transportation	9,116	-	6,000	64,846	-	79,962
Total support services	104,230	-	6,000	173,927	-	284,157

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, 2007

	Special Revenue					
	Management Levy	Student Activity	Physical Plant and Equipment Levy	Capital Projects	Debt Service	Total
Expenditures (continued)						
Other expenditures						
Facilities acquisition	\$ -	\$ -	\$ 40,546	\$ 189,182	\$ -	\$ 229,728
Long-term debt						
Principal	-	-	-	-	260,000	260,000
Interest and fiscal charges	-	-	-	-	131,900	131,900
Total other expenditures	<u>-</u>	<u>-</u>	<u>40,546</u>	<u>189,182</u>	<u>391,900</u>	<u>621,628</u>
Total expenditures	<u>104,230</u>	<u>143,292</u>	<u>46,546</u>	<u>363,109</u>	<u>391,900</u>	<u>1,049,077</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,512</u>	<u>(141)</u>	<u>191,142</u>	<u>55,127</u>	<u>(160,107)</u>	<u>88,533</u>
Other financing sources (uses)						
Interfund operating transfers in	-	-	-	-	162,860	162,860
Interfund operating transfers (out)	-	-	(162,860)	-	-	(162,860)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(162,860)</u>	<u>-</u>	<u>162,860</u>	<u>-</u>
Net change in fund balances	2,512	(141)	28,282	55,127	2,753	88,533
Fund balances, beginning of year	3,777	84,682	38,112	209,428	15,511	351,510
Fund balances, end of year	<u>\$ 6,289</u>	<u>\$ 84,541</u>	<u>\$ 66,394</u>	<u>\$ 264,555</u>	<u>\$ 18,264</u>	<u>\$ 440,043</u>

HIGHLAND COMMUNITY SCHOOL DISTRICT
Combining Statement of Net Assets
Nonmajor Enterprise Funds
June 30, 2007

Schedule 3

	<u>School Nutrition</u>	<u>Preschool</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 72	\$31,976	\$32,048
Accounts receivable	-	900	900
Inventories	2,350	-	2,350
Capital assets, net of accumulated depreciation	<u>6,971</u>	-	<u>6,971</u>
Total assets	<u>9,393</u>	<u>32,876</u>	<u>42,269</u>
Liabilities			
Salaries and benefits payable	15,268	8,758	24,026
Due to other fund	14,800	-	14,800
Deferred revenue	<u>2,750</u>	-	<u>2,750</u>
Total liabilities	<u>32,818</u>	<u>8,758</u>	<u>41,576</u>
Net Assets			
Invested in capital assets	6,971	-	6,971
Unrestricted	<u>(30,396)</u>	<u>24,118</u>	<u>(6,278)</u>
Total net assets	<u><u>\$(23,425)</u></u>	<u><u>\$24,118</u></u>	<u><u>\$ 693</u></u>

See accompanying Independent Auditor's Report.

HIGHLAND COMMUNITY SCHOOL DISTRICT
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
Nonmajor Enterprise Funds
For the Year Ended June 30, 2007

Schedule 4

	School <u>Nutrition</u>	<u>Preschool</u>	<u>Total</u>
Operating revenue			
Local sources			
Charges for service	\$ 154,966	\$71,254	\$ 226,220
Operating expenses			
Support services			
Administration			
Salaries	7,139	-	7,139
Benefits	711	-	711
	<u>7,850</u>	<u>-</u>	<u>7,850</u>
Operation and maintenance of plant			
Purchased services	4,789	-	4,789
Non-instructional programs			
Food service operations			
Salaries	90,504	-	90,504
Benefits	20,603	-	20,603
Purchased services	1,055	-	1,055
Supplies	113,770	-	113,770
Depreciation	2,629	-	2,629
	<u>228,561</u>	<u>-</u>	<u>228,561</u>
Preschool operations			
Salaries	-	47,924	47,924
Benefits	-	13,765	13,765
Supplies	-	453	453
	<u>-</u>	<u>62,142</u>	<u>62,142</u>
Total operating expenses	<u>241,200</u>	<u>62,142</u>	<u>303,342</u>
Operating income (loss)	<u>(86,234)</u>	<u>9,112</u>	<u>(77,122)</u>
Non-operating revenue			
Interest income	-	113	113
State sources	3,210	-	3,210
Federal sources	78,737	-	78,737
Total non-operating revenue	<u>81,947</u>	<u>113</u>	<u>82,060</u>
Net income (loss)	(4,287)	9,225	4,938
Net assets, beginning of year	(19,138)	14,893	(4,245)
Net assets, end of year	<u>\$ (23,425)</u>	<u>\$24,118</u>	<u>\$ 693</u>

See accompanying Independent Auditor's Report.

HIGHLAND COMMUNITY SCHOOL DISTRICT
Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the Year Ended June 30, 2007

Schedule 5

	<u>School</u>		
	<u>Nutrition</u>	<u>Preschool</u>	<u>Total</u>
Cash flows from operating activities			
Cash received from sale of services	\$ 156,539	\$ -	\$ 156,539
Cash received from other operations	-	70,354	70,354
Cash payments to employees for services	(115,198)	(60,461)	(175,659)
Cash payments to suppliers for goods and services	<u>(106,931)</u>	<u>(453)</u>	<u>(107,384)</u>
Net cash provided by (used in) operating activities	<u>(65,590)</u>	<u>9,440</u>	<u>(56,150)</u>
Cash flows from non-capital financing activities			
State grants received	3,210	-	3,210
Federal grants received	<u>62,110</u>	<u>-</u>	<u>62,110</u>
Net cash provided by non-capital financing activities	<u>65,320</u>	<u>-</u>	<u>65,320</u>
Cash flows from capital and related financing activities	<u>-</u>	<u>-</u>	<u>-</u>
Cash flows from investing activities			
Interest on investments	<u>-</u>	<u>113</u>	<u>113</u>
Net increase (decrease) in cash and cash equivalents	(270)	9,553	9,283
Cash and cash equivalents, beginning of year	<u>342</u>	<u>22,423</u>	<u>22,765</u>
 Cash and cash equivalents, end of year	 <u>\$ 72</u>	 <u>\$31,976</u>	 <u>\$ 32,048</u>

Reconciliation of operating income (loss) to net cash used in operating activities

Operating income (loss)	\$ (86,234)	\$ 9,112	\$ (77,122)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Depreciation	2,629	-	2,629
Commodities used	16,627	-	16,627
(Increase) in accounts receivable	-	(900)	(900)
(Increase) in inventory	(1,642)	-	(1,642)
Increase in due to other funds	800	-	800
Increase in deferred revenue	1,196	-	1,196
Increase in accrued salaries and benefits	<u>1,034</u>	<u>1,228</u>	<u>2,262</u>
Net cash provided by (used in) operating activities	<u>\$ (65,590)</u>	<u>\$ 9,440</u>	<u>\$ (56,150)</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2007, the District received \$16,627 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, 2007

Schedule 6

Account	Balance, Beginning of Year	Revenues	Expenditures	Balance, End of Year
Vocal	\$ 1,542	\$ 813	\$ 1,252	\$ 1,103
Instrumental	1,234	3,221	3,962	493
Pop & concessions	7,155	12,085	11,518	7,722
Student fundraising	6,835	-	-	6,835
Sixth grade class	-	150	-	150
Seventh grade class	115	15	-	130
Eighth grade class	184	25	-	209
Freshman class	218	502	367	353
Sophomore class	59	100	133	26
Junior class	200	5,453	4,473	1,180
Senior class	519	130	588	61
Annual	2,092	6,249	4,694	3,647
Cheerleaders	1,808	11,162	10,395	2,575
Drill team	194	4,620	4,346	468
National Honor Society	424	21	185	260
Sr high student council	1,949	2,413	3,459	903
Jr high student council	842	905	422	1,325
Drama club	667	1,327	1,496	498
Art club	-	362	-	362
Spanish club	323	6,668	6,754	237
Athletics	48,156	78,042	84,400	41,798
Jump Rope for Heart	368	-	-	368
Riverside fund	4,910	2,689	1,287	6,312
Ainsworth fund	2,245	2,015	1,488	2,772
Win with Wellness	1,758	2,035	220	3,573
High school fund	885	2,149	1,853	1,181
Totals	<u>\$ 84,682</u>	<u>\$ 143,151</u>	<u>\$ 143,292</u>	<u>\$ 84,541</u>

See accompanying Independent Auditor's Report.

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

Schedule 7

	Modified Accrual Basis			
	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Revenues				
Local sources				
Local tax	\$2,693,149	\$2,521,084	\$2,284,988	\$1,975,205
Tuition	395,840	340,475	274,251	231,774
Other	409,119	314,129	273,500	243,793
Intermediate sources	-	12,600	-	-
State sources	3,053,772	2,965,288	2,643,349	2,566,864
Federal sources	133,911	147,397	125,535	125,143
Total revenues	<u>\$6,685,791</u>	<u>\$6,300,973</u>	<u>\$5,601,623</u>	<u>\$5,142,779</u>
Expenditures				
Instruction				
Regular	2,327,498	2,340,221	2,041,513	1,871,992
Special	775,085	717,324	646,978	626,402
Other	707,213	440,947	527,389	332,137
Support services				
Student	76,196	91,367	84,720	133,943
Instructional staff	422,532	269,235	238,941	299,640
Administration	722,347	659,599	582,102	500,669
Operation and maintenance of plant	523,452	495,074	438,447	367,344
Transportation	280,656	361,661	175,373	175,000
Non-instructional programs	-	-	4,766	3,749
Other expenditures				
Facilities acquisition	229,728	75,898	83,515	1,210,971
Long-term debt				
Principal	260,000	265,395	266,405	219,477
Interest and other charges	131,900	198,608	163,902	228,534
AEA flowthrough	205,846	194,410	175,545	183,551
Total expenditures	<u>\$6,662,453</u>	<u>\$6,109,739</u>	<u>\$5,429,596</u>	<u>\$6,153,409</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, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued my report thereon dated March 13, 2008. 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 as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing my opinion on the effectiveness of Highland Community School District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Highland Community School District's internal control over financial reporting.

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

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

that is more than inconsequential will not be prevented or detected by Highland Community School District's internal control. I consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Highland Community School District's internal control.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, I believe items A and B are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Highland Community School District's financial statements are free of material misstatement, I 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, 2007 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.

Highland Community School District's responses to findings identified in my audit are described in the accompanying Schedule of Findings. While I have expressed my conclusions in the District's responses, I did not audit Highland Community School District's responses and, accordingly, I express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Highland Community School District and other parties to whom Highland Community School 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

Kay L. Chapman, CPA PC
March 13, 2008

HIGHLAND COMMUNITY SCHOOL DISTRICT
Schedule of Findings
For the Year Ended June 30, 2007

Part I. Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE

No matters were noted.

SIGNIFICANT DEFICIENCIES

- 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, I noted that the same person performs the following functions: 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.

- B. Financial Reporting - Reporting financial data reliably in accordance with generally accepted accounting principles (GAAP) requires the business manager or district management to possess sufficient knowledge and expertise to select and apply appropriate accounting principles and prepare year-end financial statements, including footnote disclosures. Although the business manager has a good working knowledge of GAAP accounting, she does not have current comprehensive knowledge of the footnote disclosure requirements of GAAP financial statements. In essence, this means that the business manager would not necessarily detect a misstatement (error) in the financial statements or footnote disclosures, including omitted required disclosures, in the financial statements prepared by the auditor. This is a common situation in small entities where accounting personnel typically either do not have four-year accounting degrees and/or do not receive annual training in order to stay current on new accounting and reporting standards and requirements. However, the business manager is quite capable of performing her day-to-day duties and the CAR in compliance with the Department of Education requirements.

HIGHLAND COMMUNITY SCHOOL DISTRICT
Schedule of Findings
For the Year Ended June 30, 2007

Recommendation - Although the business manager attends trainings each year to keep current on various accounting changes affecting schools, this training does not cover information about the footnote disclosures required by GAAP. The district should consider having the business manager take courses annually to stay current on the changes to GAAP accounting, reporting and disclosure requirements so that she is able to prepare the year-end financial statements and footnote disclosures.

Response - We believe that the business manager has sufficient knowledge to perform her daily duties and take responsibility for the annual financial statements and footnote disclosures in compliance with GAAP, as prepared by the auditor. We will investigate alternatives to our controls, but believe that it would not be an efficient use of District funds to get the necessary training for the business manager to comply with this recommendation.

Conclusion - Response accepted.

Part II. Other Findings Related to Statutory Reporting:

1. Certified Budget - Expenditures for the year ended June 30, 2007 exceeded the amounts budgeted in the Instruction and Support Services functional areas, as well as in total.

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

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

Conclusion - Response accepted.

2. Questionable Expenditures - I noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
3. 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.
4. Business Transactions - No business transactions between the District and District officials or employees were noted.
5. 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.

HIGHLAND COMMUNITY SCHOOL DISTRICT
Schedule of Findings
For the Year Ended June 30, 2007

6. Board Minutes - I noted no transactions requiring Board approval which had not been approved by the Board.
7. Certified Enrollment - No variances in the basic enrollment data certified to the Iowa Department of Education were noted.
8. 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.
9. 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.
10. Financial Condition - The District had unreserved, undesignated deficits in the General Fund and Enterprise-School Nutrition Fund of \$89,469 and \$23,425 at June 30, 2007. The business-type activities and the Enterprise Funds also had negative unrestricted net assets of \$6,278 at June 30, 2007.

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, 2007

This audit was performed by

Kay Chapman, CPA
Tammy Calvert, staff accountant