

HIGHLAND COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2009

HIGHLAND COMMUNITY SCHOOL DISTRICT
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HIGHLAND COMMUNITY SCHOOL DISTRICT
 Officials
 June 30, 2009

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>	
Board of Education			
(Before September 2008 Election)			
Mike Roberts	Board President	2010	
Ed Ossman	Board Member	2008	
Bruce Temple	Board Member	2008	
Becky Hanson	Board Member	2009	
Kevin Engel	Board Member	2009	
Robert Schneider, Jr.	Board Member	2010	
Cindy Michel	Board Member	2010	
(After September 2008 Election)			
Mike Roberts	Board President	2013	*
Ed Ossman	Board Member	2011	
Bruce Temple	Board Member	2011	
Robert Schneider, Jr.	Board Member	2011	*
Cindy Michel	Board Member	2011	*
Becky Hanson	Board Member	2013	*
Kevin Engel	Board Member	2013	*
School Officials			
Chris Armstrong	Superintendent	2009	
Bev Colbert	District Secretary/Treasurer	2009	
C. Joseph Holland	Attorney	2009	

* Board term extended per the District's transition plan for changing Board terms from 3 to 4 years in accordance with Chapter 39.24 of the Code of Iowa.

KAY L. CHAPMAN, CPA PC

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

Independent Auditor's Report

To the Board of Education
Highland Community School District

I have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of Highland Community School District, Riverside, Iowa, as of and for the year ended June 30, 2009, 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, 2009, 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 22, 2010 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 five years ended June 30, 2008 (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 six years in the period ended June 30, 2009, appearing in Schedule 7, is fairly stated, in all material respects in relation to the basic financial statements from which it has been derived.

Kay L. Chapman, CPA PC

Kay L. Chapman, CPA PC
March 22, 2010

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, 2009. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2009 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$6,199,389 in fiscal 2008 to \$6,378,861 in fiscal 2009, while General Fund expenditures increased from \$6,062,428 in fiscal 2008 to \$6,647,054 in fiscal 2009. The District's General Fund balance decreased from \$59,618 in fiscal 2008 to \$(208,575) in fiscal 2009, a 450% decrease.
- The increase in General Fund revenues was attributable to an increase in property tax and state revenues in fiscal 2009. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits which was more than the new money that we received for the year and the high costs of utilities (LP gas, gasoline, diesel, etc.).

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 and enterprise funds.

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

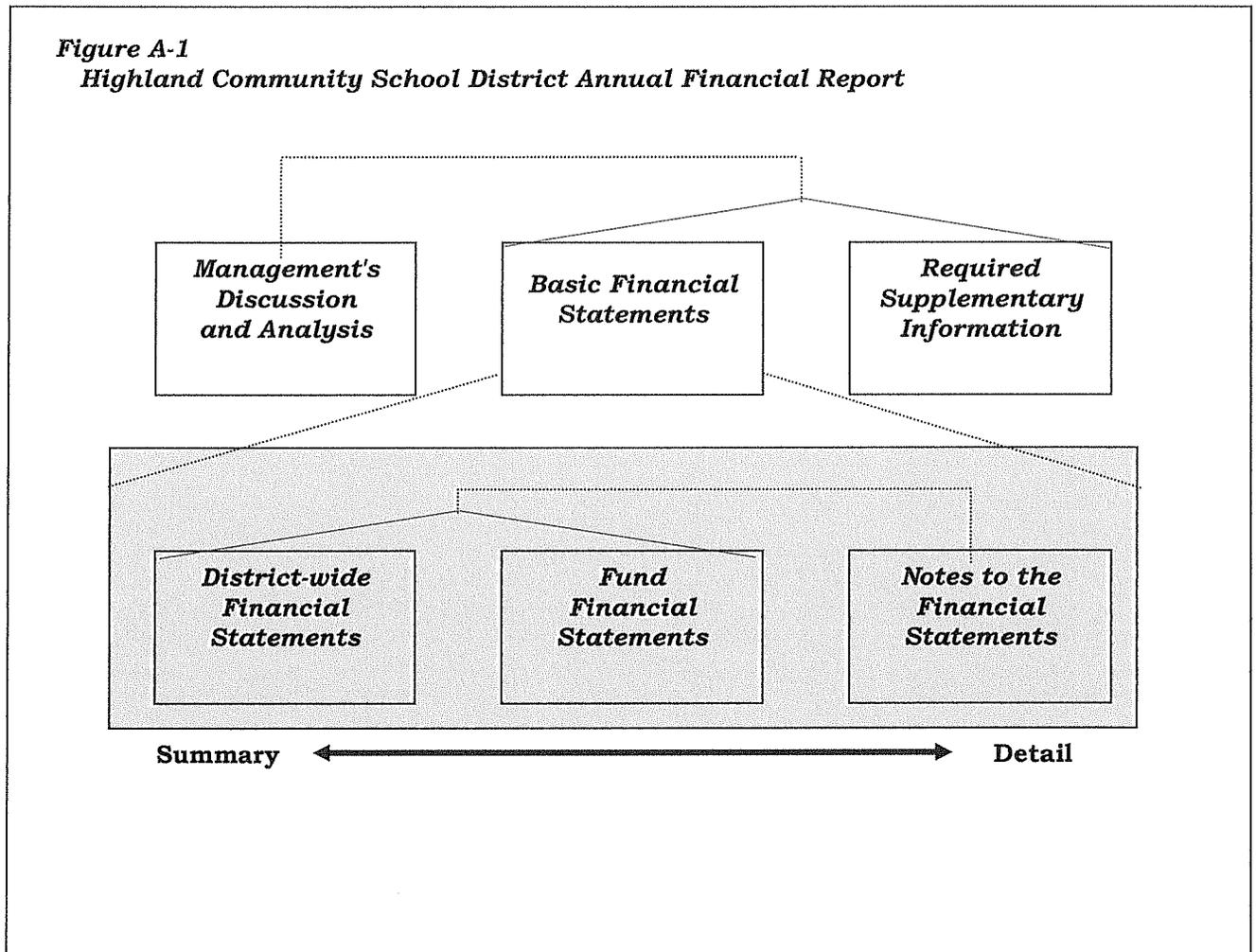


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire District	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 net assets, 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, 2009 compared to June 30, 2008.

Figure A-3

	Condensed Statement of Net Assets						
	Governmental		Business Type		Total		Total
	Activities		Activities		District		
	2009	2008	2009	2008	2009	2008	2008-2009
Current and other assets	\$ 8,701,858	\$ 5,020,181	\$ 14,806	\$ 22,352	\$ 8,716,664	\$ 5,042,533	72.86%
Capital assets	5,110,219	4,912,152	19,397	5,477	5,129,616	4,917,629	4.31%
Total assets	<u>13,812,077</u>	<u>9,932,333</u>	<u>34,203</u>	<u>27,829</u>	<u>13,846,280</u>	<u>9,960,162</u>	39.02%
Long-term liabilities	6,009,249	2,678,004	-	-	6,009,249	2,678,004	124.39%
Other liabilities	4,548,887	3,939,746	41,360	43,553	4,590,247	3,983,299	15.24%
Total liabilities	<u>10,558,136</u>	<u>6,617,750</u>	<u>41,360</u>	<u>43,553</u>	<u>10,599,496</u>	<u>6,661,303</u>	59.12%
Net assets							
Invested in capital assets,							
net of related debt	2,324,095	2,402,152	19,397	5,477	2,343,492	2,407,629	-2.66%
Restricted	1,113,466	763,151	-	-	1,113,466	763,151	45.90%
Unrestricted	<u>(183,620)</u>	<u>149,280</u>	<u>(26,554)</u>	<u>(21,201)</u>	<u>(210,174)</u>	<u>128,079</u>	-264.10%
Total net assets	<u>\$ 3,253,941</u>	<u>\$ 3,314,583</u>	<u>\$ (7,157)</u>	<u>\$ (15,724)</u>	<u>\$ 3,246,784</u>	<u>\$ 3,298,859</u>	-1.58%

The District's combined net assets decreased by approximately 2%, or \$52,075, from the prior year. The largest portion of the District's net assets is the restricted net assets. 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 \$350,315, or approximately 46% over the prior year. The increase was primarily a result of increases in the balance of the Capital Projects fund.

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 – decreased \$338,253, or approximately 264%. This decrease in unrestricted net assets was a result of the District's expenditures being greater than the District's revenues.

Figure A-4 shows the changes in net assets for the year ended June 30, 2009 compared to the year ended June 30, 2008.

Figure A-4

	Change in Net Assets							
	Governmental		Business Type		Total		Total	
	Activities		Activities		District			Change
	2009	2008	2009	2008	2009	2008	2008-2009	
Revenues								
Program revenues								
Charges for service	\$ 663,569	\$ 635,124	\$ 192,441	\$ 181,148	\$ 856,010	\$ 816,272		4.87%
Operating grants and contributions	871,081	863,175	111,002	90,079	982,083	953,254		3.02%
General revenues								
Property tax	2,667,557	2,583,226	-	-	2,667,557	2,583,226		3.26%
Statewide sales and services tax	401,248	376,771	-	-	401,248	376,771		6.50%
Unrestricted state grants	2,962,476	2,774,602	-	-	2,962,476	2,774,602		6.77%
Contributions and donations	174,265	135,766	-	-	174,265	135,766		28.36%
Unrestricted investment earnings	36,641	88,275	79	119	36,720	88,394		-58.46%
Other	15,531	12,280	-	-	15,531	12,280		26.47%
Contributed capital	-	-	14,454	-	14,454	-		100.00%
Total revenues	<u>7,792,368</u>	<u>7,469,219</u>	<u>317,976</u>	<u>271,346</u>	<u>8,110,344</u>	<u>7,740,565</u>		4.78%
Program expenses								
Governmental activities								
Instruction	4,511,755	4,120,708	-	-	4,511,755	4,120,708		9.49%
Support services	2,385,460	2,040,849	-	-	2,385,460	2,040,849		16.89%
Non-instructional programs	-	-	309,409	287,763	309,409	287,763		7.52%
Other expenses	955,795	479,927	-	-	955,795	479,927		99.15%
Total expenses	<u>7,853,010</u>	<u>6,641,484</u>	<u>309,409</u>	<u>287,763</u>	<u>8,162,419</u>	<u>6,929,247</u>		17.80%
Change in net assets	<u>\$ (60,642)</u>	<u>\$ 827,735</u>	<u>\$ 8,567</u>	<u>\$ (16,417)</u>	<u>\$ (52,075)</u>	<u>\$ 811,318</u>		-106.42%

In fiscal 2009, property tax and unrestricted state grants account for approximately 72% 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 \$8,110,344 of which \$7,792,368 was for governmental activities and \$317,976 was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 5% increase in revenues and an 18% increase in expenses. The increase in revenues was due to increased property taxes 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 other expenses due to the building project.

Governmental Activities

Revenues for governmental activities were \$7,792,368 and expenses were \$7,853,010 for the year ended June 30, 2009. In a difficult budget year, the

District's expenditures were more than available revenues due to an across-the-board cut in state funding.

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, for the year ended June 30, 2009 compared to the year ended June 30, 2008.

Figure A-5

	Total and Net Cost of Governmental Activities					
	Total Cost of Services			Net Cost of Services		
	2009	2008	Change 2008-2009	2009	2008	Change 2008-2009
Instruction	\$ 4,511,755	\$ 4,120,708	9.5%	\$ 3,215,112	\$ 2,849,591	12.8%
Support services	2,385,460	2,040,849	16.9%	2,382,080	2,036,454	17.0%
Other expenses	955,795	479,927	99.2%	721,168	257,140	180.5%
Total expenses	<u>\$ 7,853,010</u>	<u>\$ 6,641,484</u>	18.2%	<u>\$ 6,318,360</u>	<u>\$ 5,143,185</u>	22.8%

For the year ended June 30, 2009:

- The cost financed by users of the District's programs was \$663,569.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$871,081.
- The net cost of governmental activities was financed with \$3,068,805 in property and other taxes and \$2,962,476 in unrestricted state grants.

Business Type Activities

Revenues for business type activities during the year ended June 30, 2009 were \$317,976 representing a 17% increase over the prior year while expenses totaled \$309,409, an 8% increase over the prior year. The District's business type activities include the School Nutrition Fund and Preschool Fund. Revenues for these activities were comprised of charges for service, federal and state reimbursements and investment income. The increase in revenues was due to more students utilizing the school hot lunch program.

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 \$3,942,076, above last year's ending fund balances of \$847,320. The primary reason for the increase was from the balance in the Capital Projects fund due to borrowing against the state sales tax for a building project.

Governmental Fund Highlights

- The District's deteriorating General Fund financial position is the result of many factors. The primary factor was that revenues increased by only 2.9% and

expenditures increased by 9.6% over fiscal year 2008. This was due in part to an across-the-board state cut in funding after the budget was certified and contracts settled. Increased costs for utilities also played a part in the increase in expenditures.

- The General Fund balance decreased from \$59,618 to \$(208,575), due to the fact that expenditures were greater than revenues for the fiscal year 2009.
- The Capital Fund balance increased from \$576,157 to \$3,985,340 due to the sale of tax revenue bonds in the SILO fund for a construction project at the middle and high school buildings.

Proprietary Fund Highlights

Enterprise Fund net assets increased from \$693 at June 30, 2008 to \$9,260 at June 30, 2009, representing an increase of approximately 1236%. This increase was due to higher participation in the school hot lunch during fiscal year 2009.

BUDGETARY HIGHLIGHTS

Over the course of the year, the District amended its budget one time to reflect additional expenditures the facilities acquisition portion of the budget due to the building project.

The District's revenues were \$131,533 more than budgeted revenues, a variance of approximately 2%. The most significant variance resulted from the District receiving more revenue from local sources including income surtax and local grant funding for fiscal 2009.

Total expenditures were \$880,809 less than budgeted, due to lower expenditures in the support services area.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2009, the District had invested \$5,129,616, 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 \$350,758.

The original cost of the District's capital assets was \$8,544,837. Governmental funds account for \$8,447,796, with the remainder of \$97,041 accounted for in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the improvements other than buildings category, which increased from \$234,556 to \$338,034. This was due to parking lot improvements and improvements to the athletic facilities.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental		Business Type		Total		Total
	Activities		Activities		District		Change
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2008-2009</u>
Land	\$ 76,612	\$ 76,612	\$ -	\$ -	\$ 76,612	\$ 76,612	0.00%
Buildings and improvements	4,160,494	4,117,322	-	-	4,160,494	4,117,322	1.05%
Improvements, other than buildings	338,034	234,556	-	-	338,034	234,556	44.12%
Furniture and equipment	<u>535,079</u>	<u>483,662</u>	<u>19,397</u>	<u>5,477</u>	<u>554,476</u>	<u>489,139</u>	13.36%
Totals	<u>\$5,110,219</u>	<u>\$4,912,152</u>	<u>\$19,397</u>	<u>\$ 5,477</u>	<u>\$5,129,616</u>	<u>\$4,917,629</u>	4.31%

Long-Term Debt

At June 30, 2009, the District had \$6,009,249 in general obligation and other long-term debt outstanding. This represents an increase of approximately 124% over last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 7 to the financial statements.

The District continues to carry a general obligation bond rating of A assigned by national rating agencies to the District's debt. The Constitution of the State of Iowa limits the amount of general obligation debt districts can issue to 5 percent of the assessed value of all taxable property within the District. The District's outstanding general obligation debt is significantly below its constitutional debt limit of approximately \$10 million.

In June 2009, the District issued \$3,660,000 of statewide sales and services tax revenue bonds to finance upgrades to the HVAC system, installation of a geothermal system and remodeling projects at the JH/HS and elementary buildings.

Figure A-7
Outstanding Long-term Obligations

	Total		Total
	District		Change
	<u>2009</u>	<u>2008</u>	<u>2008-2009</u>
General obligation bonds	\$ 1,770,000	\$ 1,920,000	-7.81%
Revenue bonds	3,660,000	-	100.00%
Capital loan notes	450,000	590,000	-23.73%
Compensated absences	46,642	35,382	31.82%
Termination benefits	<u>82,607</u>	<u>132,622</u>	-37.71%
Total	<u>\$ 6,009,249</u>	<u>\$ 2,678,004</u>	124.39%

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 2006 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 and the TIF is projected to expire in 2012.

- PPEL and SILO funds are now used for major purchases that were previously paid for out of the General Fund. We will no longer be using the General Fund for major purchases that can now be purchased from the PPEL and SILO Funds.
- The State of Iowa passed a one-cent penny sales tax, effective July 1, 2009, to be used for school infrastructure, which replaced the SILO taxes voted on by the 99 Iowa counties. The Highland Community School District passed a new revenue purpose statement on September 9, 2009. This gives Highland the power to borrow against these funds through 2029. We have borrowed \$3,660,000 against the state sales tax penny for a building project that includes additional classrooms at the middle and high school buildings, a new weight room/wrestling facility, a new media center and new high school offices. The project is projected to be completed by the start of school in the fall of 2010. Even with the downturn in the current economic situation we will be able to do necessary improvements and additions to the middle school/high school building without using property taxes and still have funds remaining to do necessary building repairs/maintenance and the purchase of transportation equipment.
- The Board has earmarked \$50,000 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. At this time we have received a total of \$626,555 in grant funds from the Washington County Riverboat Foundation.
- Enrollment in the district has started to climb after a leveling off for the past four years. The October 2010 enrollment showed an increase of 16.2 students over the October 2009 enrollment.
- 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. We also increased the prices of breakfast and lunch for the 2009-10 school year.

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, 2009

Exhibit A

	Governmental Activities	Business Type Activities	Total
Assets			
Cash and cash equivalents			
ISCAP	\$ 979,263	\$ -	\$ 979,263
Cash with fiscal agent	305,947	-	305,947
Other	4,307,962	13,289	4,321,251
Receivables			
Property tax			
Delinquent	57,372	-	57,372
Succeeding year	2,596,364	-	2,596,364
Income surtax	242,277	-	242,277
Accounts receivable	2,492	-	2,492
Accrued interest			
ISCAP	121	-	121
Other	4,460	-	4,460
Due from other governments	186,800	-	186,800
Due from other fund	18,800	-	18,800
Inventories	-	1,517	1,517
Non-depreciable capital assets	76,612	-	76,612
Capital assets, net of accumulated depreciation	5,033,607	19,397	5,053,004
Total assets	13,812,077	34,203	13,846,280
Liabilities			
Accounts payable	358,681	-	358,681
Salaries and benefits payable	579,679	17,865	597,544
Accrued interest payable	31,382	-	31,382
Due to other fund	-	18,800	18,800
Due to other governments	-	4,695	4,695
Deferred revenue			
Succeeding year property tax	2,596,364	-	2,596,364
ISCAP warrants payable	964,000	-	964,000
ISCAP accrued interest payable	120	-	120
ISCAP unamortized premium	18,661	-	18,661

See notes to financial statements.

HIGHLAND COMMUNITY SCHOOL DISTRICT
Statement of Net Assets
June 30, 2009

Exhibit A

	Governmental Activities	Business Type Activities	Total
Liabilities (continued)			
Long-term liabilities			
Portion due within one year			
General obligation bonds payable	\$ 155,000	\$ -	\$ 155,000
Revenue bonds payable	100,000	-	100,000
Capital loan notes payable	145,000	-	145,000
Termination benefits	35,137	-	35,137
Portion due after one year			
General obligation bonds payable	1,615,000	-	1,615,000
Revenue bonds payable	3,560,000	-	3,560,000
Capital loan notes payable	305,000	-	305,000
Compensated absences	46,642	-	46,642
Termination benefits	47,470	-	47,470
Total liabilities	10,558,136	41,360	10,599,496
Net Assets			
Invested in capital assets, net of related debt	2,324,095	19,397	2,343,492
Restricted for			
Categorical funding	90,302	-	90,302
Physical plant and equipment levy	51,550	-	51,550
Other special revenue purposes	80,150	-	80,150
Capital projects	891,464	-	891,464
Unrestricted	(183,620)	(26,554)	(210,174)
Total net assets	\$ 3,253,941	\$ (7,157)	\$3,246,784

See notes to financial statements.

HIGHLAND COMMUNITY SCHOOL DISTRICT

Statement of Activities

For the Year Ended June 30, 2009

Exhibit B

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions/Programs							
Governmental activities							
Instruction							
Regular instruction	\$ 2,834,747	\$ 459,617	\$ 453,812	\$ -	\$ (1,921,318)	\$ -	\$ (1,921,318)
Special instruction	960,996	157,707	173,460	-	(629,829)	-	(629,829)
Other instruction	716,012	43,596	8,451	-	(663,965)	-	(663,965)
	<u>4,511,755</u>	<u>660,920</u>	<u>635,723</u>	<u>-</u>	<u>(3,215,112)</u>	<u>-</u>	<u>(3,215,112)</u>
Support services							
Student	79,221	-	-	-	(79,221)	-	(79,221)
Instructional staff	365,088	-	-	-	(365,088)	-	(365,088)
Administration	936,612	-	-	-	(936,612)	-	(936,612)
Operation and maintenance of plant	642,629	2,649	-	-	(639,980)	-	(639,980)
Transportation	361,910	-	731	-	(361,179)	-	(361,179)
	<u>2,385,460</u>	<u>2,649</u>	<u>731</u>	<u>-</u>	<u>(2,382,080)</u>	<u>-</u>	<u>(2,382,080)</u>
Other expenses							
Facilities acquisition	399,554	-	-	-	(399,554)	-	(399,554)
Long-term debt interest	157,158	-	-	-	(157,158)	-	(157,158)
AEA flowthrough	234,627	-	234,627	-	-	-	-
Depreciation (unallocated) *	164,456	-	-	-	(164,456)	-	(164,456)
	<u>955,795</u>	<u>-</u>	<u>234,627</u>	<u>-</u>	<u>(721,168)</u>	<u>-</u>	<u>(721,168)</u>
Total governmental activities	<u>7,853,010</u>	<u>663,569</u>	<u>871,081</u>	<u>-</u>	<u>(6,318,360)</u>	<u>-</u>	<u>(6,318,360)</u>

See notes to financial statements.

HIGHLAND COMMUNITY SCHOOL DISTRICT

Statement of Activities

For the Year Ended June 30, 2009

Exhibit B

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Total
<u>Functions/Programs (continued)</u>					
Business type activities					
Non-instructional programs					
Food service operations	\$ 277,279	\$ 169,730	\$ 111,002	\$ -	\$ 3,453
Preschool operations	32,130	22,711	-	-	(9,419)
Total business type activities	309,409	192,441	111,002	-	(5,966)
Total	\$ 8,162,419	\$ 856,010	\$ 982,083	\$ -	(6,324,326)
<u>General Revenues</u>					
Property tax levied for					
General purposes					2,091,570
Debt service					232,103
Capital outlay					343,884
Statewide sales and services tax					401,248
Unrestricted state grants					2,962,476
Contributions and donations					174,265
Unrestricted investment earnings					36,641
Other					15,531
Special item - capital contribution					14,454
Total general revenues and special item					6,257,718
Change in net assets					(60,642)
Net assets, beginning of year					3,314,583
Net assets, end of year					\$ 3,253,941
					\$ (7,157)
					\$ 3,246,784

* This amount excludes the depreciation included in the direct expenses of the various programs.
See notes to financial statements.

HIGHLAND COMMUNITY SCHOOL DISTRICT
Balance Sheet
Governmental Funds
June 30, 2009

Exhibit C

	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Assets				
Cash and pooled investments				
ISCAP	\$ 979,263	\$ -	\$ -	\$ 979,263
Cash with fiscal agent	-	305,947	-	305,947
Other	375,692	3,778,838	153,432	4,307,962
Receivables				
Property tax				
Delinquent	43,425	-	13,947	57,372
Succeeding year	1,846,945	-	749,419	2,596,364
Accounts receivable	610	-	1,882	2,492
Accrued interest				
ISCAP	121	-	-	121
Other	4,460	-	-	4,460
Income surtax	242,277	-	-	242,277
Due from other governments	110,427	76,373	-	186,800
Due from other fund	18,800	-	-	18,800
Total assets and other debits	<u>\$3,622,020</u>	<u>\$4,161,158</u>	<u>\$ 918,680</u>	<u>\$8,701,858</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 178,913	\$ 175,818	\$ 3,950	\$ 358,681
Salaries and benefits payable	579,679	-	-	579,679
ISCAP warrants payable	964,000	-	-	964,000
ISCAP accrued interest payable	120	-	-	120
ISCAP unamortized premium	18,661	-	-	18,661
Deferred revenue				
Succeeding year property tax	1,846,945	-	749,419	2,596,364
Income surtax	242,277	-	-	242,277
Total liabilities	<u>3,830,595</u>	<u>175,818</u>	<u>753,369</u>	<u>4,759,782</u>
Fund balances				
Reserved for				
Debt service	-	-	22,994	22,994
Categorical funding	90,302	-	-	90,302
Unreserved, governmental funds	(298,877)	3,985,340	-	3,686,463
Unreserved, special revenue funds	-	-	142,317	142,317
Total fund balances	<u>(208,575)</u>	<u>3,985,340</u>	<u>165,311</u>	<u>3,942,076</u>
Total liabilities and fund balances	<u>\$3,622,020</u>	<u>\$4,161,158</u>	<u>\$ 918,680</u>	<u>\$8,701,858</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, 2009

Exhibit D

Total fund balances of governmental funds	\$3,942,076
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.	5,110,219
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	242,277
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.	(31,382)
Long-term liabilities, including bonds and notes payable, compensated absences and termination benefits are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(6,009,249)</u>
Net assets of governmental activities	<u>\$3,253,941</u>

HIGHLAND COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2009

Exhibit E

	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Revenues				
Local sources				
Local tax	\$1,946,533	\$ 401,248	\$ 726,327	\$3,074,108
Tuition	534,280	-	-	534,280
Other	63,666	71,173	220,966	355,805
State sources	3,655,087	-	292	3,655,379
Federal sources	179,295	-	-	179,295
Total revenues	<u>6,378,861</u>	<u>472,421</u>	<u>947,585</u>	<u>7,798,867</u>
Expenditures				
Current				
Instruction				
Regular	2,851,839	-	10,626	2,862,465
Special	969,265	-	-	969,265
Other	590,721	-	128,800	719,521
	<u>4,411,825</u>	<u>-</u>	<u>139,426</u>	<u>4,551,251</u>
Support services				
Student	78,088	-	-	78,088
Instructional staff	290,327	-	-	290,327
Administration	746,681	50,739	144,633	942,053
Operation and maintenance of plant	594,402	-	54,422	648,824
Transportation	291,104	69,300	22,737	383,141
	<u>2,000,602</u>	<u>120,039</u>	<u>221,792</u>	<u>2,342,433</u>
Other expenditures				
Facilities acquisition	-	570,259	234,104	804,363
Long-term debt				
Principal	-	-	290,000	290,000
Interest and fiscal charges	-	-	108,497	108,497
AEA flowthrough	234,627	-	-	234,627
	<u>234,627</u>	<u>570,259</u>	<u>632,601</u>	<u>1,437,487</u>
Total expenditures	<u>6,647,054</u>	<u>690,298</u>	<u>993,819</u>	<u>8,331,171</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, 2009

Exhibit E

	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Deficiency of revenues under expenditures	\$ (268,193)	\$ (217,877)	\$ (46,234)	\$ (532,304)
Other financing sources (uses)				
Proceeds from issuance of bonds	-	3,693,403	-	3,693,403
Discount on bond issuance	-	(66,343)	-	(66,343)
Interfund operating transfers in	-	-	167,065	167,065
Interfund operating transfers (out)	-	-	(167,065)	(167,065)
Total other financing sources	-	3,627,060	-	3,627,060
Net change in fund balances	(268,193)	3,409,183	(46,234)	3,094,756
Fund balance, beginning of year	59,618	576,157	211,545	847,320
Fund balance, end of year	\$ (208,575)	\$3,985,340	\$ 165,311	\$3,942,076

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, 2009

Exhibit F

Net change in fund balances - total governmental funds **\$3,094,756**

**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	\$ 546,112	
Depreciation expense	<u>(348,045)</u>	198,067

Certain revenues not collected for several months after year-end are not considered available revenue and are deferred in the governmental funds. (6,499)

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. 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.

Issued	\$(3,660,000)	
Repaid	<u>290,000</u>	(3,370,000)

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:

Termination benefits	\$ 50,015	
Compensated absences	<u>(11,260)</u>	38,755

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 governmental funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. (15,721)

Change in net assets of governmental activities **\$ (60,642)**

HIGHLAND COMMUNITY SCHOOL DISTRICT
Statement of Net Assets
Proprietary Funds
June 30, 2009

Exhibit G

	Business Type <u>Activities</u> Nonmajor <u>Enterprise</u>
Assets	
Cash and cash equivalents	\$ 13,289
Inventories	1,517
Capital assets, net of accumulated depreciation	<u>19,397</u>
Total assets	<u>34,203</u>
 Liabilities	
Salaries and benefits payable	17,865
Due to other governments	4,695
Due to other fund	<u>18,800</u>
Total liabilities	<u>41,360</u>
 Net Assets	
Invested in capital assets	19,397
Unrestricted	<u>(26,554)</u>
Total net assets	<u>\$ (7,157)</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, 2009

Exhibit H

	Business Type <u>Activities</u> Nonmajor <u>Enterprise</u>
Operating revenue	
Local sources	
Charges for service	\$ <u>192,441</u>
Operating expenses	
Support services	
Administration	
Salaries	7,729
Benefits	1,070
Purchased services	<u>85</u>
	8,884
Operation and maintenance of plant	
Purchased services	<u>5,955</u>
Total support services	<u>14,839</u>
Non-instructional programs	
Food service operations	262,440
Preschool operations	<u>32,130</u>
Total non-instructional programs	<u>294,570</u>
Total operating expenses	<u>309,409</u>
Operating loss	<u>(116,968)</u>
Non-operating revenue	
Interest income	79
State sources	3,525
Federal sources	<u>107,477</u>
Total non-operating revenue	<u>111,081</u>
Net loss before capital contributions	(5,887)
Capital contributions	<u>14,454</u>
Net income	8,567
Net assets, beginning of year	<u>(15,724)</u>
Net assets, end of year	<u><u>\$ (7,157)</u></u>

See notes to financial statements.

HIGHLAND COMMUNITY SCHOOL DISTRICT
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2009

Exhibit I

	Business Type <u>Activities</u> Nonmajor <u>Enterprise</u>
Cash flows from operating activities	
Cash received from sale of services	\$ 193,013
Cash payments to employees for services	(165,194)
Cash payments to suppliers for goods and services	(128,489)
Net cash used in operating activities	<u>(100,670)</u>
Cash flows from non-capital financing activities	
State grants received	3,525
Federal grants received	91,130
Net cash provided by non-capital financing activities	<u>94,655</u>
Cash flows from capital and related financing activities	
Contribution for purchase of capital assets	14,454
Acquisition of capital assets	(16,633)
Net cash used in capital and related financing activities	<u>(2,179)</u>
Cash flows from investing activities	
Interest on investments	<u>79</u>
Net decrease in cash and cash equivalents	(8,115)
Cash and cash equivalents, beginning of year	<u>21,404</u>
Cash and cash equivalents, end of year	<u>\$ 13,289</u>
Reconciliation of operating loss to net cash used in operating activities	
Operating loss	\$(116,968)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation	2,713
Commodities used	16,347
(Increase) in inventory	(569)
Increase in deferred revenue	572
(Decrease) in accrued salaries and benefits	(2,765)
Net cash used in operating activities	<u><u>\$(100,670)</u></u>

Non-cash investing, capital and financing activities

During the year ended June 30, 2009, the District received \$16,347 of federal commodities.

See notes to financial statements.

HIGHLAND COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2009

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 Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

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, termination benefits 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 financial statements:

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

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

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

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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½ % per month penalty for delinquent payments; is based on January 1, 2007 assessed property valuations; is for the tax accrual period July 1, 2008 through June 30, 2009 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2008.

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, 2009. The compensated absences liability attributable to the governmental activities would be paid primarily by the General Fund.

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, 2009. 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 unspent federal grant proceeds as well as 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 \$51,550 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, 2009, expenditures in the Non-instructional Programs and Other Expenditures functional areas exceeded the amounts budgeted.

Note 2. Cash and Pooled Investments

The District's deposits in banks at June 30, 2009 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, 2009, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	Amortized Cost
Diversified Portfolio	<u>\$4,211,511</u>

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, 2009 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Non-major School Nutrition	\$18,800

The School Nutrition Fund is repaying the General Fund for salaries and benefits paid by the General Fund for food service employees. The balance is expected to be repaid during the fiscal year ending June 30, 2010.

Note 4. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2009 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Non-major Debt Service	Non-major Physical Plant and Equipment Levy	\$167,065

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, 2009, is as follows:

<u>Series</u>	<u>Warrant Date</u>	<u>Final Warrant Maturity</u>	<u>Final Warrant Investments</u>	<u>Accrued Interest Receivable</u>	<u>Accrued Warrants Payable</u>	<u>Accrued Interest Payable</u>	<u>Unamortized Premium</u>
2009-10A	06/25/09	06/23/10	\$ 979,263.	\$ 121	\$ 964,000	\$ 120	\$ 18,661

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, 2009 is as follows:

<u>Series</u>	Balance, <u>Beginning</u> <u>of Year</u>	<u>Advances</u> <u>Received</u>	<u>Advances</u> <u>Repaid</u>	Balance, <u>End of</u> <u>Year</u>
2008-09A	\$ -	\$365,000	\$365,000	\$ -

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

<u>Series</u>	<u>Interest</u> <u>Rates on</u> <u>Warrants</u>	<u>Interest</u> <u>Rates on</u> <u>Investments</u>
2008-09A	3.50%	3.469%
2008-09B	3.00%	2.110%
2009-10A	2.50%	0.902%

Note 6. Capital Assets

Capital assets activity for the year ended June 30, 2009 was as follows:

<u>Governmental activities</u>	Balance, <u>Beginning</u> <u>of Year</u>	<u>Additions</u>	<u>Deletions</u>	Balance, <u>End of</u> <u>Year</u>
Capital assets not being depreciated:				
Land	\$ 76,612	\$ -	\$ -	\$ 76,612
Capital assets being depreciated:				
Buildings and improvements	5,851,665	161,801	-	6,013,466
Improvements other than buildings	529,104	131,000	(20,494)	639,610
Furniture and equipment	1,526,042	253,311	(61,245)	1,718,108
Total capital assets being depreciated	7,906,811	546,112	(81,739)	8,371,184
Less accumulated depreciation for:				
Buildings and improvements	1,734,343	118,629	-	1,852,972
Improvements other than buildings	294,548	27,522	(20,494)	301,576
Furniture and equipment	1,042,380	201,894	(61,245)	1,183,029
Total accumulated depreciation	3,071,271	348,045	(81,739)	3,337,577
Total capital assets being depreciated, net	4,835,540	198,067	-	5,033,607
Governmental activities capital assets, net	\$ 4,912,152	\$ 198,067	\$ -	\$ 5,110,219

Business type activities

Furniture and equipment	\$ 80,408	\$ 16,633	\$ -	\$ 97,041
Less accumulated depreciation	<u>74,931</u>	<u>2,713</u>	<u>-</u>	<u>77,644</u>
Business type activities capital assets, net	<u>\$ 5,477</u>	<u>\$ 13,920</u>	<u>\$ -</u>	<u>\$ 19,397</u>

Depreciation expense was charged to the following functions:

Governmental activities

Instruction		
Regular	\$ 6,822	
Special	8,098	
Other	13,130	
Support services		
Student	1,133	
Instructional staff	78,283	
Administration	6,932	
Operation and maintenance of plant	8,622	
Transportation	<u>60,569</u>	
	183,589	
Unallocated depreciation	<u>164,456</u>	
Total governmental activities depreciation expense	<u>\$ 348,045</u>	

Business type activities

Food services	<u>\$ 2,713</u>
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Note 7. Long-term Liabilities

Changes in long-term liabilities for the year ended June 30, 2009 are summarized as follows:

	Balance, Beginning of Year	Additions	Reductions	Balance, End of Year	Due Within One Year
Governmental activities					
General obligation bonds	\$ 1,920,000	\$ -	\$ (150,000)	\$ 1,770,000	\$ 155,000
Revenue bonds	-	3,660,000	-	3,660,000	100,000
Capital loan notes	590,000	-	(140,000)	450,000	145,000
Compensated absences	35,382	21,029	(9,769)	46,642	-
Termination benefits	<u>132,622</u>	<u>-</u>	<u>(50,015)</u>	<u>82,607</u>	<u>35,137</u>
Totals	<u>\$ 2,678,004</u>	<u>\$ 3,681,029</u>	<u>\$ (349,784)</u>	<u>\$ 6,009,249</u>	<u>\$ 435,137</u>

Interest costs incurred and charged to expense on all long-term debt was \$157,158 for the year ended June 30, 2009. During the year ended June 30, 2009, the District made principal payments on total long-term debt of \$290,000.

General Obligation Bonds

Details of the District's June 30, 2009 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
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	3.80%	52,415	195,000	247,415		-	-	-
2014	3.90%	45,005	205,000	250,005		-	-	-
2015-2018	3.9-4.15%	<u>94,770</u>	<u>905,000</u>	<u>999,770</u>		-	-	-
Totals		<u>\$ 354,496</u>	<u>\$ 1,350,000</u>	<u>\$ 1,704,496</u>		<u>\$ 36,802</u>	<u>\$ 420,000</u>	<u>\$ 456,802</u>

Year Ending June 30,	Totals		
	Interest	Principal	Total
2010	\$ 73,732	\$ 155,000	\$ 228,732
2011	66,524	165,000	231,524
2012	58,852	145,000	203,852
2013	52,415	195,000	247,415
2014	45,005	205,000	250,005
2015-2018	<u>94,770</u>	<u>905,000</u>	<u>999,770</u>
Totals	<u>\$ 391,298</u>	<u>\$ 1,770,000</u>	<u>\$ 2,161,298</u>

Revenue Bonds

Details of the District's June 30, 2009 statewide sales and services tax revenue bonded indebtedness are as follows:

Year Ending June 30,	Bond issue of June 1, 2009			
	Interest Rates	Interest	Principal	Total
2010	4.25%	\$ 104,240	\$ 100,000	\$ 204,240
2011	4.25%	174,447	100,000	274,447
2012	4.25%	170,198	100,000	270,198
2013	4.25%	165,947	140,000	305,947
2014	4.25%	159,998	145,000	304,998
2015-2019	4.25-4.5%	703,087	810,000	1,513,087
2020-2024	4.75-5.3%	501,053	1,000,000	1,501,053
2025-2029	5.3-5.45%	<u>212,680</u>	<u>1,265,000</u>	<u>1,477,680</u>
Totals		<u>\$ 2,191,650</u>	<u>\$ 3,660,000</u>	<u>\$ 5,851,650</u>

The District has pledged future statewide sales and services tax revenues to repay the \$3,660,000 of bonds issued in June 2009. The bonds were issued to finance remodeling projects at the JH/HS building and elementary. The bonds are payable solely from the proceeds of the statewide sales and services tax revenues received by the District and are payable through 2029. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. Annual principal and interest payments on the bonds are expected to require approximately 75% of the statewide sales and services tax revenues. The total principal and interest remaining to be paid on the bonds is \$5,851,650. For the current year, no principal and interest was paid on the bonds and statewide sales and services tax revenues was \$401,248.

The resolution providing for the issuance of the statewide sales and services tax revenue bonds includes the following provisions:

- a) \$305,947 of the proceeds from the issuance of the revenue bonds shall be deposited to a reserve account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the sinking account. The balance of the proceeds shall be deposited to the project account.
- b) All proceeds from the statewide sales and services tax shall be placed in a revenue account.
- c) Monies in the revenue account shall be disbursed to make deposits into a sinking account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- d) Any monies remaining in the revenue account after the required transfer to the sinking account may be transferred to the project account to be used for any lawful purpose.

The District complied with all the revenue bond provisions during the year ended June 30, 2009.

Capital Loan Notes

Details of the District's June 30, 2009 capital loan notes are as follows:

Year Ending	Interest			
<u>June 30,</u>	<u>Rates</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$ 450,000</u>	<u>\$ 42,350</u>	<u>\$ 492,350</u>

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 \$46,642 at June 30, 2009. No individuals had requested payment for unused vacation hours as of June 30, 2009.

Termination Benefits

Certified District employees who have 10 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 becomes eligible for Medicare. 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 March fifteenth to receive the early retirement benefits. At June 30, 2009, the maximum accumulated retirement benefits of the District was \$82,607 and six individuals had requested early retirement and were receiving the benefit. Early retirement expenditures for the year ended June 30, 2009 totaled \$50,015.

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 were required to contribute 4.10% of their annual covered salary and the District was required to contribute 6.35% of annual covered payroll for the year ended June 30, 2009. Plan members were required to contribute 3.90% and 3.70% of their annual covered salary and the District was required to contribute 6.05% and 5.75% of annual covered payroll for the years ended June 30, 2008 and 2007, respectively. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2009, 2008 and 2007 were \$254,546, \$213,82 and \$189,057, 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 \$234,627 for the year ended June 30, 2009 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 \$298,877 and \$34,065 at June 30, 2009. The business-type activities and the Enterprise Funds also had negative unrestricted net assets of \$26,554 at June 30, 2009.

Note 12. Construction Commitment

The District has entered into contracts totaling \$2,891,901 for remodeling projects at the JH/HS building and one of the elementary buildings. As of June 30, 2009, costs of \$175,418 had been incurred against the contracts. The balance of \$2,716,483 remaining at June 30, 2009 will be paid as work on the projects progresses.

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, 2009, 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.

Note 14. Related Party Transactions

The District had business transactions between the District and District officials totaling \$435 during the year ended June 30, 2009.

Required Supplementary Information

HIGHLAND COMMUNITY SCHOOL DISTRICT
Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances - Budget and Actual
All Governmental Funds and Proprietary Funds
Required Supplementary Information
For the Year Ended June 30, 2009

	Governmental Funds		Proprietary Funds		Total Actual	Budgeted Amounts		Final to Actual Variance
	Actual		Actual			Original	Final	
Revenues								
Local sources	\$ 3,964,193		\$192,520		\$4,156,713	\$3,960,792	\$ 3,960,792	\$ 195,921
State sources	3,655,379		3,525		3,658,904	3,782,064	3,782,064	(123,160)
Federal sources	179,295		107,477		286,772	228,000	228,000	58,772
Total revenues	<u>7,798,867</u>		<u>303,522</u>		<u>8,102,389</u>	<u>7,970,856</u>	<u>7,970,856</u>	<u>131,533</u>
Expenditures/Expenses								
Current								
Instruction	4,551,251		-		4,551,251	5,044,121	5,044,121	492,870
Support services	2,342,433		14,839		2,357,272	3,046,450	3,046,450	689,178
Non-instructional programs	-		294,570		294,570	280,818	280,818	(13,752)
Other expenditures	1,437,487		-		1,437,487	636,527	1,150,000	(287,487)
Total expenditures/expenses	<u>8,331,171</u>		<u>309,409</u>		<u>8,640,580</u>	<u>9,007,916</u>	<u>9,521,389</u>	<u>880,809</u>
Deficiency of revenues under expenditures/expenses	(532,304)		(5,887)		(538,191)	(1,037,060)	(1,550,533)	1,012,342
Net other financing sources	<u>3,627,060</u>		<u>14,454</u>		<u>3,641,514</u>	-	-	<u>3,641,514</u>
Net change in fund balance	3,094,756		8,567		3,103,323	(1,037,060)	(1,550,533)	4,653,856
Balance, beginning of year	847,320		(15,724)		831,596	488,787	488,787	342,809
Balance, end of year	<u>\$ 3,942,076</u>		<u>\$ (7,157)</u>		<u>\$3,934,919</u>	<u>\$ (548,273)</u>	<u>\$ (1,061,746)</u>	<u>\$4,996,665</u>

See accompanying Independent Auditor's Report.

HIGHLAND COMMUNITY SCHOOL DISTRICT
Notes to Required Supplementary Information – Budgetary Reporting
For the Year Ended June 30, 2009

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 adopted one budget amendment increasing budgeting expenditures by \$513,473.

During the year ended June 30, 2009, expenditures in the Non-instructional Programs and Other Expenditures functional areas exceeded the amounts budgeted.

Other Supplementary Information

HIGHLAND COMMUNITY SCHOOL DISTRICT
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2009

Schedule 1

	Special Revenue				
	Management	Student	Physical Plant and Equipment	Debt	Total
	<u>Levy</u>	<u>Activity</u>	<u>Levy</u>	<u>Service</u>	
Assets					
Cash and pooled investments	\$ 8,077	\$81,288	\$ 45,088	\$ 18,979	\$153,432
Receivables					
Property tax					
Delinquent	3,740	-	6,192	4,015	13,947
Succeeding year	150,000	-	369,886	229,533	749,419
Accounts receivable	-	112	1,770	-	1,882
Total assets	<u>\$161,817</u>	<u>\$81,400</u>	<u>\$422,936</u>	<u>\$252,527</u>	<u>\$918,680</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 1,200	\$ 1,250	\$ 1,500	\$ -	\$ 3,950
Deferred revenue					
Succeeding year property tax	<u>150,000</u>	<u>-</u>	<u>369,886</u>	<u>229,533</u>	<u>749,419</u>
Total liabilities	<u>151,200</u>	<u>1,250</u>	<u>371,386</u>	<u>229,533</u>	<u>753,369</u>
Fund balances					
Reserved for debt service	-	-	-	22,994	22,994
Unreserved fund balances	<u>10,617</u>	<u>80,150</u>	<u>51,550</u>	<u>-</u>	<u>142,317</u>
Total fund balances	<u>10,617</u>	<u>80,150</u>	<u>51,550</u>	<u>22,994</u>	<u>165,311</u>
Total liabilities and fund balances	<u>\$161,817</u>	<u>\$81,400</u>	<u>\$422,936</u>	<u>\$252,527</u>	<u>\$918,680</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, 2009

Schedule 2

Revenues	Special Revenue				Total
	Management Levy	Student Activity	Physical Plant and Equipment Levy	Debt Service	
Local sources					
Local taxes	\$ 150,550	\$ -	\$ 343,758	\$ 232,019	\$ 726,327
Other	13,365	120,747	86,210	644	220,966
State sources	83	-	125	84	292
Total revenues	163,998	120,747	430,093	232,747	947,585
Expenditures					
Current					
Instruction					
Regular	10,626	-	-	-	10,626
Other	-	128,800	-	-	128,800
Total instruction	10,626	128,800	-	-	139,426
Support services					
Administration	103,320	-	41,313	-	144,633
Operation and maintenance of plant	38,088	-	16,334	-	54,422
Transportation	10,237	-	12,500	-	22,737
Total support services	151,645	-	70,147	-	221,792
Other expenditures					
Facilities acquisition	-	-	234,104	-	234,104
Long-term debt					
Principal	-	-	-	290,000	290,000
Interest and fiscal charges	-	-	-	108,497	108,497
Total other expenditures	-	-	234,104	398,497	632,601
Total expenditures	162,271	128,800	304,251	398,497	993,819
Excess (deficiency) of revenues over (under) expenditures	1,727	(8,053)	125,842	(165,750)	(46,234)
Other financing sources (uses)					
Interfund operating transfers in	-	-	-	167,065	167,065
Interfund operating transfers (out)	-	-	(167,065)	-	(167,065)
Total other financing sources (uses)	-	-	(167,065)	167,065	-
Net change in fund balances	1,727	(8,053)	(41,223)	1,315	(46,234)
Fund balances, beginning of year	8,890	88,203	92,773	21,679	211,545
Fund balances, end of year	\$ 10,617	\$ 80,150	\$ 51,550	\$ 22,994	\$ 165,311

See accompanying Independent Auditor's Report.

HIGHLAND COMMUNITY SCHOOL DISTRICT
Combining Statement of Net Assets
Nonmajor Enterprise Funds
June 30, 2009

Schedule 3

	<u>School Nutrition</u>	<u>Preschool</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 1,339	\$11,950	\$ 13,289
Inventories	1,517	-	1,517
Capital assets, net of accumulated depreciation	<u>19,397</u>	<u>-</u>	<u>19,397</u>
Total assets	<u>22,253</u>	<u>11,950</u>	<u>34,203</u>
Liabilities			
Salaries and benefits payable	13,426	4,439	17,865
Deferred revenue	4,695	-	4,695
Due to other fund	<u>18,800</u>	<u>-</u>	<u>18,800</u>
Total liabilities	<u>36,921</u>	<u>4,439</u>	<u>41,360</u>
Net Assets			
Invested in capital assets	19,397	-	19,397
Unrestricted	<u>(34,065)</u>	<u>7,511</u>	<u>(26,554)</u>
Total net assets	<u><u>\$(14,668)</u></u>	<u><u>\$ 7,511</u></u>	<u><u>\$ (7,157)</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, 2009

Schedule 4

	<u>School</u>		<u>Total</u>
	<u>Nutrition</u>	<u>Preschool</u>	
Operating revenue			
Local sources			
Charges for service	\$169,730	\$22,711	\$ 192,441
Operating expenses			
Support services			
Administration			
Salaries	7,729	-	7,729
Benefits	1,070	-	1,070
Purchased services	85	-	85
Operation and maintenance of plant			
Purchased services	5,955	-	5,955
Total support services	<u>14,839</u>	<u>-</u>	<u>14,839</u>
Non-instructional programs			
Salaries	104,582	25,270	129,852
Benefits	17,591	6,187	23,778
Purchased services	494	-	494
Supplies	137,060	673	137,733
Depreciation	2,713	-	2,713
	<u>262,440</u>	<u>32,130</u>	<u>294,570</u>
Total operating expenses	<u>277,279</u>	<u>32,130</u>	<u>309,409</u>
Operating loss	<u>(107,549)</u>	<u>(9,419)</u>	<u>(116,968)</u>
Non-operating revenue			
Interest income	-	79	79
State sources	3,525	-	3,525
Federal sources	107,477	-	107,477
Total non-operating revenue	<u>111,002</u>	<u>79</u>	<u>111,081</u>
Net income (loss) before capital contributions	3,453	(9,340)	(5,887)
Capital contributions	14,454	-	14,454
Net income (loss)	17,907	(9,340)	8,567
Net assets, beginning of year	(32,575)	16,851	(15,724)
Net assets, end of year	<u>\$ (14,668)</u>	<u>\$ 7,511</u>	<u>\$ (7,157)</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, 2009

Schedule 5

	School <u>Nutrition</u>	<u>Preschool</u>	<u>Total</u>
Cash flows from operating activities			
Cash received from sale of services	\$ 170,302	\$ 22,711	\$ 193,013
Cash payments to employees for services	(133,897)	(31,297)	(165,194)
Cash payments to suppliers for goods and services	<u>(127,816)</u>	<u>(673)</u>	<u>(128,489)</u>
Net cash used in operating activities	<u>(91,411)</u>	<u>(9,259)</u>	<u>(100,670)</u>
Cash flows from non-capital financing activities			
State grants received	3,525	-	3,525
Federal grants received	<u>91,130</u>	<u>-</u>	<u>91,130</u>
Net cash provided by non-capital financing activities	<u>94,655</u>	<u>-</u>	<u>94,655</u>
Cash flows from capital and related financing activities			
Contribution for purchase of capital assets	14,454	-	14,454
Acquisition of capital assets	<u>(16,633)</u>	<u>-</u>	<u>(16,633)</u>
Net cash used in capital and related financing activities	<u>(2,179)</u>	<u>-</u>	<u>(2,179)</u>
Cash flows from investing activities			
Interest on investments	<u>-</u>	<u>79</u>	<u>79</u>
Net increase (decrease) in cash and cash equivalents	1,065	(9,180)	(8,115)
Cash and cash equivalents, beginning of year	274	21,130	21,404
Cash and cash equivalents, end of year	<u>\$ 1,339</u>	<u>\$ 11,950</u>	<u>\$ 13,289</u>

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

Operating loss	\$(107,549)	\$ (9,419)	\$(116,968)
Adjustments to reconcile operating loss to net cash used in operating activities			
Depreciation	2,713	-	2,713
Commodities used	16,347	-	16,347
(Increase) in inventory	(569)	-	(569)
Increase in deferred revenue	572	-	572
Increase (decrease) in accrued salaries and benefits	<u>(2,925)</u>	<u>160</u>	<u>(2,765)</u>
Net cash used in operating activities	<u>\$ (91,411)</u>	<u>\$ (9,259)</u>	<u>\$(100,670)</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2009, the District received \$16,347 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, 2009

Schedule 6

Account	Balance, Beginning of Year	Revenues	Expenditures	Intrafund Transfers	Balance, End of Year
Vocal	\$ 772	\$ 2,206	\$ 2,335	\$ -	\$ 643
Instrumental	2,118	1,283	1,561	-	1,840
Pop & concessions	1,231	11,317	10,850	-	1,698
Student fundraising	6,835	-	-	-	6,835
Sixth grade class	-	125	-	-	125
Seventh grade class	125	15	-	-	140
Eighth grade class	200	50	-	-	250
Freshman class	140	105	-	-	245
Sophomore class	334	130	-	-	464
Junior class	549	5,356	3,848	-	2,057
Senior class	2,418	70	1,424	-	1,064
Prior year senior class	244	-	-	(244)	-
Annual	3,961	7,668	5,837	-	5,792
Cheerleaders	3,345	7,481	8,642	-	2,184
Drill team	(1,033)	2,350	1,681	-	(364)
National Honor Society	50	83	127	243	249
Sr high student council	886	807	838	-	855
Jr high student council	1,164	1,042	1,025	-	1,181
Drama club	-	429	218	-	211
Art club	462	203	-	-	665
Spanish club	237	-	-	-	237
Athletics	45,870	72,678	88,177	-	30,371
Jump Rope for Heart	368	-	-	(368)	-
Riverside fund	8,758	2,792	270	184	11,464
Ainsworth fund	3,371	1,740	1,200	185	4,096
Middle school fund	4,753	2,537	276	-	7,014
High school fund	1,045	280	491	-	834
Totals	<u>\$ 88,203</u>	<u>\$ 120,747</u>	<u>\$ 128,800</u>	<u>\$ -</u>	<u>\$ 80,150</u>

See accompanying Independent Auditor's Report.

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

Schedule 7

	Modified Accrual Basis					
	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Revenues						
Local sources						
Local tax	\$3,074,108	\$2,958,685	\$2,693,149	\$2,521,084	\$2,284,988	\$ 1,975,205
Tuition	534,280	466,772	395,840	340,475	274,251	231,774
Other	355,805	399,915	409,119	314,129	273,500	243,793
Intermediate sources		-	-	12,600	-	-
State sources	3,655,379	3,494,399	3,053,772	2,965,288	2,643,349	2,566,864
Federal sources	179,295	144,692	133,911	147,397	125,535	125,143
Total revenues	<u>\$7,798,867</u>	<u>\$7,464,463</u>	<u>\$6,685,791</u>	<u>\$6,300,973</u>	<u>\$5,601,623</u>	<u>\$ 5,142,779</u>
Expenditures						
Current						
Instruction						
Regular	\$2,862,465	\$2,529,325	\$2,327,498	\$2,340,221	\$2,041,513	\$ 1,871,992
Special	969,265	851,882	775,085	717,324	646,978	626,402
Other	719,521	781,751	707,213	440,947	527,389	332,137
Support services						
Student	78,088	73,865	76,196	91,367	84,720	133,943
Instructional staff	290,327	393,429	422,532	269,235	238,941	299,640
Administration	942,053	760,712	722,347	659,599	582,102	500,669
Operation and maintenance of plant	648,824	597,414	523,452	495,074	438,447	367,344
Transportation	383,141	250,736	280,656	361,661	175,373	175,000
Non-instructional programs		-	-	-	4,766	3,749
Other expenditures						
Facilities acquisition	804,363	117,250	229,728	75,898	83,515	1,210,971
Long-term debt						
Principal	290,000	280,000	260,000	265,395	266,405	219,477
Interest and other charges	108,497	120,692	131,900	198,608	163,902	228,534
AEA flowthrough	234,627	222,787	205,846	194,410	175,545	183,551
Total expenditures	<u>\$8,331,171</u>	<u>\$6,979,843</u>	<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, 2009, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued my report thereon dated March 22, 2010. 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, including 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, 2009 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 on 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, including federal awarding agencies and pass-through entities. 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.

A handwritten signature in black ink that reads "Kay L. Chapman, CPA PC". The signature is written in a cursive, flowing style.

Kay L. Chapman, CPA PC
March 22, 2010

HIGHLAND COMMUNITY SCHOOL DISTRICT
Schedule of Findings
For the Year Ended June 30, 2009

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 Statement Preparation - Financial statement preparation is the responsibility of the District. At the present time, District personnel do not have the skills necessary to prepare the District's financial statements and related note disclosures in compliance with generally accepted accounting principles (GAAP). This is not an unusual situation for small governmental entities.

Recommendation - The business manager should consider obtaining additional GAAP training through reading relevant accounting literature and/or attending professional education courses. Since GAAP reporting and disclosures change constantly, the business manager should consider taking training annually to stay up-to-date on GAAP reporting and disclosure requirements. The District should also obtain current governmental accounting, reporting and disclosure reference materials and update them as new pronouncements become effective.

HIGHLAND COMMUNITY SCHOOL DISTRICT
Schedule of Findings
For the Year Ended June 30, 2009

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 disclosure in compliance with GAAP, as prepared by the auditor. We certainly understand the need for continuing education classes for all of our staff, including the business manager. The business manager has completed the Iowa School Business Management Academy and regularly attends school finance conferences to renew the certification and keep updated on new accounting and GAAP requirements applicable to her job requirements. However, the business manager does not keep current on the constantly-changing disclosure requirements necessary to prepare the footnote disclosures required for the annual financial statements, as we have determined that this is outside of her job duties. We believe it is more efficient use of District funds to have the auditor prepare the annual financial statements and footnote disclosures.

Conclusion - Response accepted.

Part II. Other Findings Related to Statutory Reporting:

1. Certified Budget - Expenditures for the year ended June 30, 2009 exceeded the amounts budgeted in the Non-instructional Programs and Other Expenditures functional areas.

Recommendation - The certified budget was amended in accordance with Chapter 24.9 of the Code of Iowa; however, it was not amended to a sufficient amount before expenditures were allowed to exceed the budget. The budget should have been amended to sufficient amounts so that expenditures would not exceed budgeted amounts.

Response - Future budgets will be amended in sufficient amounts to ensure that the certified budget is not exceeded.

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.

HIGHLAND COMMUNITY SCHOOL DISTRICT
 Schedule of Findings
 For the Year Ended June 30, 2009

4. Business Transactions - Business transactions between the District and District officials are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Cobert Trucking, LLC owned by husband of Bev Colbert, Business Manager	trucking	\$435

The transactions with the Business Manager's husband's business does not appear to represent a conflict of interest since the total did not exceed \$2,500 for the fiscal year, as allowed by Chapter 279.7A of the Code of Iowa.

Recommendation - The District should consult legal counsel to determine the disposition of this matter.

Response - We will review the situation.

Conclusion - Response accepted.

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.
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 \$298,877 and \$34,065 at June 30, 2009. The business-type activities and the Enterprise Funds also had negative unrestricted net assets of \$26,554 at June 30, 2009.

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

HIGHLAND COMMUNITY SCHOOL DISTRICT
Schedule of Findings
For the Year Ended June 30, 2009

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

Conclusion - Response accepted.

11. Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds.

12. Statewide Sales and Services Tax - No instances of non-compliance with the use of the statewide sales and services tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales and services tax. For the year ended June 30, 2009, the District's financial activity and other required information for the statewide sales and services tax are as follows:

Beginning balance		\$ 576,157	
Revenues			
Statewide sales and services tax revenue	\$ 401,248		
Interest earned	6,173		
Donations	65,000		
Debt issuance for school infrastructure	<u>3,627,060</u>	4,099,481	
Expenditures/transfers out			
School infrastructure			
Equipment	\$(195,452)		
Other improvements	<u>(494,846)</u>	<u>(690,298)</u>	
Ending balance			<u><u>\$ 3,985,340</u></u>

HIGHLAND COMMUNITY SCHOOL DISTRICT

Audit Staff
June 30, 2009

This audit was performed by

Kay Chapman, CPA
Tammy Calvert, staff accountant