

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

AUDIT REPORT
OF
SCHOOL TOWN OF HIGHLAND
LAKE COUNTY, INDIANA
July 1, 2005 to June 30, 2007



FILED
05/22/2008

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Independent Auditor's Report on Financial Statements and Supplementary Schedule of Expenditures of Federal Awards	3-4
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	5-6
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Activities and Net Assets – Cash and Investment Basis	7-8
Fund Financial Statements:	
Governmental Funds:	
Statement of Assets and Fund Balances and Receipts, Disbursements, and Changes in Fund Balances – Cash and Investments Basis – Governmental Funds	9-10
Proprietary Fund:	
Statement of Assets and Fund Balances and Receipts, Disbursements, and Changes in Fund Balances – Cash and Investments Basis – Proprietary Fund	11-12
Fiduciary Funds:	
Statement of Additions, Deductions, and Changes in Cash and Investment Balances – Fiduciary Funds	13-14
Notes to Financial Statements	15-25
Required Supplementary Information:	
Schedule of Funding Progress	26
Supplementary Information:	
Combining Schedule of Assets and Fund Balances and Receipts, Disbursements, and Changes in Fund Balances – Cash and Investment Basis – Other Governmental Funds	27-34
Schedule of Capital Assets	35
Schedule of Long-Term Debt	36
Audit Results and Comments:	
School Lunch Reconciliation to Form 9 (Annual Report)	37
Negative Cash Balances	37
Disbursements in Excess of Appropriation	37
Capital Asset Records – School Lunch	38
Textbook Rental Receipt Controls	38
Internal Control of Receipts	38-39
Dependent Care Receipts	39
Timely Deposits	40
Supplemental Audit of Federal Awards:	
Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133	42-43
Schedule of Expenditures of Federal Awards	44
Notes to Schedule of Expenditures of Federal Awards	45
Schedule of Findings and Questioned Costs	46-47
Auditee Prepared Schedules:	
Summary Schedule of Prior Audit Findings	48
Corrective Action Plan	49
Exit Conference	50
Official Response	51-52

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Hugh Rhein	07-01-05 to 09-17-05
	Vacant	09-18-05 to 09-22-05
	Michael Boskovich	09-23-05 to 10-01-07
	Lynn Kwilasz	10-02-07 to 06-30-08
Superintendent of Schools	Dr. Renner Ventling	07-01-05 to 08-07-06
	Michael Boskovich (Interim)	08-08-06 to 04-09-07
	Michael Boskovich	04-10-07 to 06-30-08
President of the School Board	Brad Meeder	07-01-05 to 06-30-06
	Carol Green-Fraley	07-01-06 to 06-30-08



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INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

TO: THE OFFICIALS OF THE SCHOOL TOWN OF HIGHLAND, LAKE COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the School Town of Highland (School Corporation), as of and for the years ended June 30, 2006 and 2007, which collectively comprise the School Corporation's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the School Corporation's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note I, the School Corporation prepares its financial statements on the prescribed basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash and investment balances of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the School Corporation as of June 30, 2006 and 2007, and the respective cash receipts and cash disbursements during the years then ended on the basis of accounting described in Note I.

In accordance with Government Auditing Standards, we have also issued a report dated March 11, 2008, on our consideration of the School Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Our report on compliance and on internal control over financial reporting should be read along with this report.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the School Corporation taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(Continued)

The Schedule of Funding Progress, as listed in the Table of Contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The School Corporation has not presented Management's Discussion and Analysis or Budgetary Comparison Schedules that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School Corporation's basic financial statements. The Combining Schedules, as listed in the Table of Contents, and the Schedule of Capital Assets, and Schedule of Long-Term Debt are presented for additional analysis and are not required parts of the basic financial statements. The Combining Schedules, as listed in the Table of Contents, have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Schedule of Capital Assets and Schedule of Long-Term Debt have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

March 11, 2008



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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 OFFICIALS OF THE SCHOOL TOWN OF HIGHLAND, LAKE COUNTY, INDIANA

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the School Town of Highland (School Corporation), as of and for the years ended June 30, 2006 and 2007, which collectively comprise the School Corporation's basic financial statements and have issued our report thereon dated March 11, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School Corporation's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in item 2007-1 of the accompanying Schedule of Findings and Questioned Costs 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 that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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
(Continued)

Our consideration of 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 internal control that might be significant deficiencies or material weaknesses. However, of the significant deficiency described above, we did not consider this item to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2007-1.

We noted certain matters that we reported to management in a separate letter dated March 11, 2008.

The School Corporation's response to the finding identified in our audit is described in the accompanying sections of the report entitled Corrective Action Plan and Official Response. We did not audit the School Corporation's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the School Corporation's management, the school board, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

March 11, 2008

SCHOOL TOWN OF HIGHLAND
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS
For the Year Ended June 30, 2006

<u>Functions/Programs</u>	<u>Disbursements</u>	Program Receipts		<u>Net (Disbursement) Receipts and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Totals</u>
Governmental activities:				
Instruction	\$ 6,007,845	\$ -	\$ 103,116	\$ (5,904,729)
Support services	13,396,856	1,045,641	299,457	(12,051,758)
Community services	469,992	-	-	(469,992)
Nonprogrammed charges	3,190,059	-	-	(3,190,059)
Debt service	13,751,074	-	-	(13,751,074)
Total governmental activities	\$ 36,815,826	\$ 1,045,641	\$ 402,573	(35,367,612)
General receipts:				
Property taxes				17,577,393
Other local sources				2,298,310
State aid				11,067,021
Bonds and loans				4,570,000
Grants and contributions not restricted to specific programs				555,260
Sale of property, adjustments, and refunds				526,731
Investment earnings				249,208
Total general receipts				36,843,923
Change in net assets				1,476,311
Net assets - beginning				5,951,795
Net assets - ending				\$ 7,428,106
Assets				
Cash and investments				\$ 4,067,217
Restricted assets:				
Cash and investments				3,360,889
Total assets				\$ 7,428,106
Net Assets				
Restricted for:				
Other purposes				\$ 3,360,889
Unrestricted				4,067,217
Total net assets				\$ 7,428,106

The notes to the financial statements are an integral part of this statement.

SCHOOL TOWN OF HIGHLAND
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS
For the Year Ended June 30, 2007

<u>Functions/Programs</u>	<u>Disbursements</u>	<u>Program Receipts</u>		<u>Totals</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Net (Disbursement) Receipts and Changes in Net Assets</u>
Governmental activities:				
Instruction	\$ 6,244,762	\$ -	\$ 103,701	\$ (6,141,061)
Support services	14,868,045	1,065,806	322,363	(13,479,876)
Community services	469,036	-	-	(469,036)
Nonprogrammed charges	3,737,008	-	-	(3,737,008)
Debt service	<u>7,555,667</u>	<u>-</u>	<u>-</u>	<u>(7,555,667)</u>
Total governmental activities	<u>\$ 32,874,518</u>	<u>\$ 1,065,806</u>	<u>\$ 426,064</u>	<u>(31,382,648)</u>
General receipts:				
Property taxes				14,979,471
Other local sources				2,245,205
State aid				10,374,358
Bonds and loans				5,970,000
Grants and contributions not restricted to specific programs				358,489
Sale of property, adjustments, and refunds				2,616
Investment earnings				<u>445,140</u>
Total general receipts				<u>34,375,279</u>
Change in net assets				2,992,631
Net assets - beginning				<u>7,428,106</u>
Net assets - ending				<u>\$ 10,420,737</u>
<u>Assets</u>				
Cash and investments				\$ 6,097,824
Restricted assets:				
Cash and investments				<u>4,322,913</u>
Total assets				<u>\$ 10,420,737</u>
<u>Net Assets</u>				
Restricted for:				
Debt service				\$ 550,004
Other purposes				3,772,909
Unrestricted				<u>6,097,824</u>
Total net assets				<u>\$ 10,420,737</u>

The notes to the financial statements are an integral part of this statement.

SCHOOL TOWN OF HIGHLAND
STATEMENT OF ASSETS AND FUND BALANCES AND RECEIPTS,
DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2006

	General	Transportation Operating	School Lunch	Debt Service	Capital Projects	School Bus Replacement	Other	Totals
Receipts:								
Local sources	\$ 11,705,717	\$ 1,011,661	\$ 779,907	\$ 3,720,347	\$ 2,688,465	\$ 159,082	\$ 710,383	\$ 20,775,562
Intermediate sources	343,638	-	-	-	-	-	-	343,638
State sources	11,151,837	-	22,154	-	-	-	355,145	11,529,136
Federal sources	60,000	-	247,514	-	-	-	188,204	495,718
Bonds and loans	3,330,000	300,000	-	-	860,000	80,000	-	4,570,000
Sale of property, adjustments and refunds	7,799	1,829	-	-	-	-	-	9,628
Interfund loans	210,000	-	-	-	-	-	-	210,000
Total receipts	26,808,991	1,313,490	1,049,575	3,720,347	3,548,465	239,082	1,253,732	37,933,682
Disbursements:								
Current:								
Instruction	7,802,637	-	-	-	-	-	114,359	7,916,996
Support services	9,509,472	859,724	837,224	-	2,181,741	152,850	784,289	14,325,300
Community services	350,192	-	-	-	-	-	119,800	469,992
Nonprogrammed charges	878,606	-	-	-	-	-	63,250	941,856
Debt services	7,236,146	540,000	-	4,556,165	1,225,000	-	193,763	13,751,074
Interfund loans	-	-	-	-	-	130,000	80,000	210,000
Total disbursements	25,777,053	1,399,724	837,224	4,556,165	3,406,741	282,850	1,355,461	37,615,218
Excess (deficiency) of receipts over disbursements	1,031,938	(86,234)	212,351	(835,818)	141,724	(43,768)	(101,729)	318,464
Other financing sources (uses):								
Transfers in	11,192	39,502	-	-	-	-	26,277	76,971
Transfers out	(14,352)	-	-	(42,960)	-	-	(19,659)	(76,971)
Total other financing sources (uses)	(3,160)	39,502	-	(42,960)	-	-	6,618	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	1,028,778	(46,732)	212,351	(878,778)	141,724	(43,768)	(95,111)	318,464
Cash and investments - beginning	1,433,260	134,528	504,991	553,318	530,546	159,573	432,537	3,748,753
Cash and investments - ending	\$ 2,462,038	\$ 87,796	\$ 717,342	\$ (325,460)	\$ 672,270	\$ 115,805	\$ 337,426	4,067,217
Amounts reported for governmental activities in the Statement of Cash Activities and Net Assets - Cash and Investment Basis are different because:								
Internal service funds are used by management to charge the costs of certain services to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Activities and Net Assets - Cash and Investment Basis.								
								<u>3,360,889</u>
Net assets of governmental activities								<u>\$ 7,428,106</u>
Cash and Investment Assets - Ending								
Total cash and investment assets - ending	\$ 2,462,038	\$ 87,796	\$ 717,342	\$ (325,460)	\$ 672,270	\$ 115,805	\$ 337,426	\$ 4,067,217
Cash and Investment Fund Balance - Ending								
Total cash and investment fund balance - ending	\$ 2,462,038	\$ 87,796	\$ 717,342	\$ (325,460)	\$ 672,270	\$ 115,805	\$ 337,426	\$ 4,067,217

The notes to the financial statements are an integral part of this statement.

SCHOOL TOWN OF HIGHLAND
STATEMENT OF ASSETS AND FUND BALANCES AND RECEIPTS,
DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2007

	General	Transportation Operating	School Lunch	Debt Service	Capital Projects	School Bus Replacement	Other	Totals
Receipts:								
Local sources	\$ 9,941,450	\$ 875,811	\$ 820,959	\$ 3,417,826	\$ 2,436,495	\$ 235,623	\$ 529,252	\$ 18,257,416
Intermediate sources	309,630	-	-	-	-	-	-	309,630
State sources	10,459,566	-	22,286	-	-	-	187,829	10,669,681
Federal sources	-	-	263,663	-	-	-	225,567	489,230
Bonds and loans	4,360,000	355,000	-	295,000	960,000	-	-	5,970,000
Sale of property, adjustments and refunds	2,650	-	-	-	-	-	-	2,650
Interfund loans	35,000	-	-	-	-	10,000	25,000	70,000
Total receipts	25,108,296	1,230,811	1,106,908	3,712,826	3,396,495	245,623	967,648	35,768,607
Disbursements:								
Current:								
Instruction	8,089,825	-	-	-	-	-	126,538	8,216,363
Support services	10,635,072	868,375	1,019,008	-	2,591,420	229,173	497,673	15,840,721
Community services	346,502	-	-	-	-	-	122,534	469,036
Nonprogrammed charges	904,209	-	-	-	-	-	132,000	1,036,209
Debt services	3,330,000	300,000	-	2,786,436	860,000	80,000	199,231	7,555,667
Interfund loans	35,000	-	-	-	-	10,000	25,000	70,000
Total disbursements	23,340,608	1,168,375	1,019,008	2,786,436	3,451,420	319,173	1,102,976	33,187,996
Excess (deficiency) of receipts over disbursements	1,767,688	62,436	87,900	926,390	(54,925)	(73,550)	(135,328)	2,580,611
Other financing sources (uses):								
Transfers in	14,507	25,150	-	-	-	-	36,737	76,394
Transfers out	-	-	-	(50,926)	-	-	(25,468)	(76,394)
Total other financing sources (uses)	14,507	25,150	-	(50,926)	-	-	11,269	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	1,782,195	87,586	87,900	875,464	(54,925)	(73,550)	(124,059)	2,580,611
Cash and investments - beginning	2,462,038	87,796	717,342	(325,460)	672,270	115,805	337,426	4,067,217
Cash and investments - ending	\$ 4,244,233	\$ 175,382	\$ 805,242	\$ 550,004	\$ 617,345	\$ 42,255	\$ 213,367	6,647,828
Amounts reported for governmental activities in the Statement of Cash Activities and Net Assets - Cash and Investment Basis are different because:								
Internal service funds are used by management to charge the costs of certain services to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Activities and Net Assets - Cash and Investment Basis.								
								3,772,909
Net assets of governmental activities								\$ 10,420,737
Cash and Investment Assets - Ending								
Cash and investments	\$ 4,244,233	\$ 175,382	\$ 805,242	\$ -	\$ 617,345	\$ 42,255	\$ 213,367	\$ 6,097,824
Restricted assets:								
Cash and investments	-	-	-	550,004	-	-	-	550,004
Total cash and investment assets - ending	\$ 4,244,233	\$ 175,382	\$ 805,242	\$ 550,004	\$ 617,345	\$ 42,255	\$ 213,367	\$ 6,647,828
Cash and Investment Fund Balance - Ending								
Restricted for:								
Debt service	\$ -	\$ -	\$ -	\$ 550,004	\$ -	\$ -	\$ -	\$ 550,004
Unrestricted	4,244,233	175,382	805,242	-	617,345	42,255	213,367	6,097,824
Total cash and investment fund balance - ending	\$ 4,244,233	\$ 175,382	\$ 805,242	\$ 550,004	\$ 617,345	\$ 42,255	\$ 213,367	\$ 6,647,828

The notes to the financial statements are an integral part of this statement.

SCHOOL TOWN OF HIGHLAND
STATEMENT OF ASSETS AND FUND BALANCES AND RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND BALANCES - CASH AND INVESTMENTS BASIS
PROPRIETARY FUND
For the Year Ended June 30, 2006

	Internal Service Fund
Operating receipts:	
Charges for services	\$ 2,837,595
Miscellaneous	568,455
Total operating receipts	3,406,050
Operating disbursements:	
Insurance claims and expense	2,248,203
Excess of operating receipts over operating disbursements	1,157,847
Cash and investment fund balance - beginning	2,203,042
Cash and investment fund balance - ending	\$ 3,360,889
<u>Cash and Investment Assets - Ending</u>	
Restricted assets:	
Cash and investments	\$ 3,360,889
<u>Cash and Investment Fund Balance - Ending</u>	
Restricted for:	
Other purposes	\$ 3,360,889

The notes to the financial statements are an integral part of this statement.

SCHOOL TOWN OF HIGHLAND
STATEMENT OF ASSETS AND FUND BALANCES AND RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND BALANCES - CASH AND INVESTMENTS BASIS
PROPRIETARY FUND
For the Year Ended June 30, 2007

	<u>Internal Service Fund</u>
Operating receipts:	
Charges for services	\$ 2,944,277
Miscellaneous	<u>168,542</u>
Total operating receipts	<u>3,112,819</u>
Operating disbursements:	
Insurance claims and expense	<u>2,700,799</u>
Excess of operating receipts over operating disbursements	412,020
Cash and investment fund balance - beginning	<u>3,360,889</u>
Cash and investment fund balance - ending	<u>\$ 3,772,909</u>
<u>Cash and Investment Assets - Ending</u>	
Restricted assets:	
Cash and investments	<u>\$ 3,772,909</u>
<u>Cash and Investment Fund Balance - Ending</u>	
Restricted for:	
Other purposes	<u>\$ 3,772,909</u>

The notes to the financial statements are an integral part of this statement.

SCHOOL TOWN OF HIGHLAND
STATEMENT OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
FIDUCIARY FUNDS
For the Year Ended June 30, 2006

	Pension Trust Fund	Agency Fund
Additions:		
Investment earnings:		
Interest	\$ 70,573	
Deductions:		
Benefits	1,530,056	
Deficiency of total additions over total deductions	(1,459,483)	
Cash and investment fund balance - beginning	2,194,821	
Cash and investment fund balance - ending	\$ 735,338	
Net assets:		
Cash and investments	\$ 735,338	\$ 6
Total net assets - cash and investment basis held in trust	\$ 735,338	\$ 6

The notes to the financial statements are an integral part of this statement.

SCHOOL TOWN OF HIGHLAND
STATEMENT OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
FIDUCIARY FUNDS
For the Year Ended June 30, 2007

	<u>Pension Trust Fund</u>
Additions:	
Investment earnings:	
Interest	\$ 33,014
Deductions:	
Benefits	<u>354,702</u>
Deficiency of total additions over total deductions	(321,688)
Cash and investment fund balance - beginning	<u>735,338</u>
Cash and investment fund balance - ending	<u><u>\$ 413,650</u></u>
Net assets:	
Cash and investments	<u>\$ 413,650</u>
Total net assets - cash and investment basis held in trust	<u><u>\$ 413,650</u></u>

The notes to the financial statements are an integral part of this statement.

SCHOOL TOWN OF HIGHLAND
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

School Corporation, as used herein, shall include, but is not limited to, school townships, school towns, school cities, consolidated school corporations, joint schools, metropolitan school districts, township school districts, county schools, united schools, school districts, cooperatives, educational service centers, community schools, community school corporations, and charter schools.

The School Corporation was established under the laws of the State of Indiana. The School Corporation operates under a Board of School Trustees form of government and provides educational services.

In determining the financial reporting entity, the School Corporation complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*.

Joint Venture

The School Corporation is a participant with 9 other school corporations in a joint venture to operate the Northwest Indiana Special Education Cooperative (NWISEC) which was created to provide educational instruction to children with special needs. The School Corporation is obligated by contract to remit a funding percentage based upon assessed valuation at March 1 of the previous year and the Average Daily Membership as compared to the total of all member school corporations, as determined annually. The governing board of the NWISEC consists of a member selected by each participating school corporation. The board has full authority to manage NWISEC, including responsibility for fiscal matters. The NWISEC's continued existence depends on continued funding by the School Corporation. Complete financial statements for the Northwest Indiana Special Education Cooperative can be obtained from NWISEC, 2150 West 97th Avenue, Crown Point, IN 46307.

The School Corporation is a participant with 23 other member school corporations in a joint venture to operate the Northwest Indiana Public Study Council (Study Council) which was created to improve education, and study the problems and issues involved in public education. The School Corporation is obligated by contract to remit \$1,250 annually to supplement the Study Council. Complete financial statements for the Northwest Indiana Public School Study Council can be obtained from Merrillville Community School Corporation, 6701 Delaware Street, Merrillville, IN 46410.

The School Corporation is a participant with 24 school corporations and five private schools in a joint venture to operate the Northwest Indiana Educational Service Center (Service Center), which was created to promote cooperation and sharing of programs, such as curriculum development, instructional materials, needs assessments, computer utilization, food service joint purchases, and in-service education. The School Corporation provides funding based upon Average Daily Membership counts as determined annually. Complete financial statements for the Northwest Indiana Educational Services Center can be obtained from the Service Center Administration Offices, 2939 41st Avenue, Highland, IN 46322.

The School Corporation is a participant with other participating school corporations in a joint venture to operate the Northwest Indiana Natural Gas Cooperative (Gas Cooperative), which was created to promote natural gas in more economical and efficient manner. The Gas Cooperative operates under the authority of the Northwest Indiana Educational Service Center. The School Corporation provides funding for administrative costs based upon a percentage of Average Daily

SCHOOL TOWN OF HIGHLAND
NOTES TO FINANCIAL STATEMENTS
(Continued)

Membership counts as determined annually, not to exceed \$10,000. Complete financial statements for the Northwest Indiana Natural Gas Cooperative can be obtained from the Service Center Administrative Offices at 2939 41st Avenue, Highland, IN 46322.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statements of Activities and Net Assets – Cash and Investment Basis, display information about the reporting government as a whole. It includes all funds of the reporting entity except for fiduciary funds. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, receipts, and disbursements. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. However, at this time, the School Corporation has not established any enterprise funds.

The School Corporation reports the following major governmental funds:

The general fund is the primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The transportation operating fund accounts for financial resources for the transportation of school children to and from school.

The school lunch fund accounts for financial resources to provide meals to students at each school.

The debt service fund accounts for debt from funds borrowed or advanced for the purchase or lease of school buildings, school buses, judgments against the corporation, equipment or capital construction, and interest on emergency and temporary loans.

The capital projects fund accounts for planned construction, repair, replacement or remodeling; and the purchase, lease, upgrade, maintenance, or repair of computer equipment.

The school bus replacement fund is used to account for receipts and disbursements concerning the acquisition and disposal of school buses.

Additionally, the School Corporation reports the following fund types:

The internal service fund accounts for medical benefits provided to other departments on a cost-reimbursement basis.

The pension trust fund accounts for bonds and payments anticipated to be made to employees on or after the termination of employment or to pay postretirement or severance benefits held by the school cooperation in a trustee capacity.

SCHOOL TOWN OF HIGHLAND
NOTES TO FINANCIAL STATEMENTS
(Continued)

The agency fund accounts for payroll and withholding assets held by the School Corporation as an agent for employees.

C. Measurement Focus and Basis of Accounting

The government-wide, governmental fund, proprietary fund, and fiduciary fund financial statements are reported using the basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Receipts are recorded when received and disbursements are recorded when paid.

The cash and investment basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash rather than when earned and disbursements are recognized when paid rather than when a liability is incurred. Investment transactions are not presented on the financial statements.

If the School Corporation utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities are provided to people outside the government (enterprise funds) or other departments or agencies primarily within the government (internal service funds). The School Corporation does not have any enterprise funds.

When both restricted and unrestricted resources are available for use, the School Corporation's policy is to use restricted resources first, then unrestricted resources as they are needed.

D. Assets and Cash and Investment Balances

1. Cash and Investments

Investments are stated at cost. Any changes in fair value of the investments are reported as interest receipts in the year of the sale of the investment.

2. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the School Corporation in June and in December. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which become delinquent if not paid by May 10 and November 10, respectively.

SCHOOL TOWN OF HIGHLAND
NOTES TO FINANCIAL STATEMENTS
(Continued)

3. Compensated Absences

a. Sick Leave

Employees earn sick leave at the rate of 10 days per year, based on job classification. Certified and classified employees may accumulate unused sick leave indefinitely. Accumulated sick leave, to a maximum of 300 days for classified employees, is paid through cash payments upon retirement.

b. Vacation Leave

Nonteaching or administrative and noncertified School Corporation employees earn vacation leave at rates from 10 days to 20 days per year based upon the number of years of service. Vacation leave does not accumulate from year to year.

c. Personal Leave

School Corporation employees earn personal leave at the rate of 1 to 3 days per year based on job classification. Unused personal leave is converted to sick leave.

d. Administrative Absence Days

Administrators earn absence days at a rate of 12 to 15 days based on the number of annual contract days. Such absences may be used for personal illness, family illness, personal business, or any other purpose. All unused absence days may accumulate indefinitely. A maximum of 300 absence days is paid to administrators through cash payments upon retirement. Administrators employed after July 1, 2003, shall receive 20 bonus absence days at the time of employment. Such bonus absence days shall be used only in case of an extended illness and only after all other sick, vacation, personal, or absence days have been exhausted. Bonus absence days do not accumulate from year to year.

4. Capital Assets

Capital assets arising from cash transactions acquired for use in governmental or proprietary fund operations are accounted for as disbursements of the fund upon acquisition.

5. Long-Term Debt

Long-term debt arising from cash basis transactions of governmental and proprietary funds is not reported as liabilities in the basic financial statements. The debt proceeds are reported as bonds and loans and payment of principal and interest reported as debt service disbursements.

6. Equity Classification

Government-Wide Statements

Equity is classified as net assets and displayed in two components:

- a. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation.

SCHOOL TOWN OF HIGHLAND
NOTES TO FINANCIAL STATEMENTS
(Continued)

- b. Unrestricted net assets – All other net assets that do not meet the definition of "restricted."

It is the School Corporation's policy to first use restricted net assets prior to the use of unrestricted net assets when a disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

Fund Financial Statements

Governmental fund equity is classified as fund balance. Proprietary fund equity is classified the same as in the government-wide statements.

E. Receipts and Disbursements

1. Program Receipts

Amounts reported as program receipts include (1) charges to customers or applicants for goods, services, or privileges provided, and (2) operating grants and contributions. Internally dedicated resources are reported as general receipts rather than as program receipts. Likewise, general receipts include all taxes.

2. Operating Receipts and Disbursements

Operating receipts and disbursements for proprietary funds result from providing services and producing and delivering goods and/or services. They also include all receipts and disbursements not related to capital and related financing, noncapital financing, or investing activities.

F. Internal and Interfund Balances and Activities

In the process of aggregating the financial information for the government-wide Statement of Activities and Net Assets, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

Fund Financial Statements

- 1. Interfund services – Sales or purchases of goods and services between funds are reported as receipts and disbursements.
- 2. Interfund reimbursements – Repayments from funds responsible for certain disbursements to the funds that initially paid for them are reported as reimbursements.
- 3. Interfund transfers – Flow of assets from one fund to another where repayment is not expected is reported as transfers in and out.

Government-Wide Financial Statements

Interfund activity and balances, if any, are eliminated or reclassified in the government-wide financial statements as follows:

Internal activities – Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Activities and Net Assets. The effects of interfund services between funds, if any, are not eliminated in the Statement of Activities and Net Assets.

SCHOOL TOWN OF HIGHLAND
NOTES TO FINANCIAL STATEMENTS
(Continued)

II. Stewardship, Compliance and Accountability

A. Budgetary Information

Annual budgets are adopted on the cash basis, which is not consistent with accounting principles generally accepted in the United States of America. All annual appropriations lapse at calendar year end.

Prior to the first required publication, the fiscal officer of the School Corporation submits to the governing board a proposed operating budget for the year commencing the following July 1. Prior to adoption, the budget is advertised and public hearings are conducted by the governing board to obtain taxpayer comments. In September of each year, the governing board, through the passage of a resolution/ordinance, approves the budget for the next year. Copies of the budget resolution/ordinance and the advertisement for funds for which property taxes are levied or highway use taxes are received are sent to the Indiana Department of Local Government Finance. The budget becomes legally enacted after the fiscal officer of the School Corporation receives approval of the Indiana Department of Local Government Finance.

The School Corporation's management cannot transfer budgeted appropriations between object classifications of a budget without approval of the governing board. The Indiana Department of Local Government Finance must approve any revisions to the appropriations for any fund or any department of the General Fund. The legal level of budgetary control is by object and department within the fund for the General Fund and by object within the fund for all other budgeted funds.

B. Disbursements in Excess of Appropriations

For the year ended December 31, 2006, disbursements exceeded budgeted appropriations in the following fund by the amount below:

Fund	December 31, 2006
Pension Bond Debt Service	\$ 6,185

C. Cash and Investment Balance Deficits

At June 30, 2006 and 2007, the following funds reported deficits in cash and investments, which are violations of the Uniform Compliance Guidelines and state statute:

Fund	June 30, 2006	June 30, 2007
Debt Service	\$ 325,460	\$ -
Title III ESL	208	-
Pension Bond Debt Service	15,974	94,805

Cash and investment deficits arose primarily from disbursements exceeding receipts due to the underestimate of current requirements; these deficits are to be repaid from future receipts.

SCHOOL TOWN OF HIGHLAND
NOTES TO FINANCIAL STATEMENTS
(Continued)

III. Detailed Notes on All Funds

A. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

B. Interfund Transfers

Interfund transfers for the years ended June 30, 2006 and 2007, were as follows:

Transfer From	Transfer To	2006	2007
General Fund	Other governmental funds	\$ 14,352	\$ -
Debt Service Fund	Transportation Operating Fund	39,502	25,150
	Other governmental funds	3,458	25,776
Other governmental funds	General Fund	11,192	14,507
	Other governmental funds	8,467	10,961
Totals		<u>\$ 76,971</u>	<u>\$ 76,394</u>

The School Corporation typically uses transfers for cash flow purposes as provided by various statutory provisions.

IV. Other Information

A. Risk Management

The School Corporation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

Medical Benefits

The School Corporation has chosen to establish a risk financing fund for risks associated with medical benefits. The risk financing fund is accounted for in the Self-Insurance Fund, an internal service fund, where assets are set aside for claim settlements. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years. Interfund premiums

SCHOOL TOWN OF HIGHLAND
NOTES TO FINANCIAL STATEMENTS
(Continued)

are paid into the fund by all affected funds and are available to pay claims, claim reserves, and administrative costs of the program. Interfund premiums are based upon an overall premium percentage which is applied to each affected fund and are reported as quasi-external interfund transactions.

B. Holding Corporation

The School Corporation has entered into a capital lease with the Highland School Building Corporation (the lessor). The lessor was organized as a not-for-profit corporation pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the School Corporation. The lessor has been determined to be a related party of the School Corporation. Lease payments during the year ending June 30, 2007, totaled \$2,166,000.

C. Subsequent Event

2006 Tax Rates and Levies and Tax Anticipation Warrants

Property tax rates and levies were not established by the Indiana Department of Local Government Finance as of February 15, 2006, as required by statute, due to continued delay caused in the completion of the reassessment of Lake County. The 2006 payable 2007 property tax bills were mailed out in December 2007 and were due January 15, 2008. Possible distribution is March or April 2008. In 2007, the School Corporation issued \$5,970,000 in Tax Anticipation Warrants to provide cash flow needs to off-set late tax distributions.

D. Postemployment Benefits

In addition to the pension benefits described below, the School Corporation provides postemployment life and health insurance benefits, as authorized by Indiana Code 5-10-8, to all employees who retire from the School Corporation and are eligible for retirement benefits from either the State Teachers' Retirement Fund or the Public Employees' Retirement Fund. Currently, 206 and 43 retirees meet these eligibility requirements for life and health insurance benefits, respectively. The School Corporation provides 100% of the life insurance postemployment benefit and 100% of the health insurance cap established by the retiree's contract in force at the time of retirement. Disbursements for those postemployment benefits are recognized on a pay-as-you-go basis. During the year ended June 30, 2007, disbursements of \$41,440 and \$337,115 were recognized for life and health insurance postemployment benefits, respectively.

E. Pension Plans

1. Agent Multiple-Employer Defined Benefit Pension Plan

Public Employees' Retirement Fund

Plan Description

The School Corporation contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in the defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system and give the School Corporation authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity

SCHOOL TOWN OF HIGHLAND
NOTES TO FINANCIAL STATEMENTS
(Continued)

provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

PERF administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. The report may be obtained by contacting:

Public Employees' Retirement Fund
Harrison Building, Room 800
143 West Market Street
Indianapolis, IN 46204
Ph. (317) 233-4162

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for PERF are established by the Board of Trustees of PERF. The School Corporation's annual pension cost and related information, as provided by the actuary, is presented in this note.

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 181,659
Interest on net pension obligation	(5,786)
Adjustment to annual required contribution	6,594
Annual pension cost	182,467
Contributions made	142,185
Increase in net pension obligation	40,282
Net pension obligation, beginning of year	(79,808)
Net pension obligation, end of year	\$ (39,526)
Contribution rates:	
School Corporation	5.50%
Plan members	3%
Actuarial valuation date	07-01-06
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
Amortization period	40 years
Amortization period (from date)	07-01-97
Asset valuation method	75% of expected actuarial value plus 25% of market value

SCHOOL TOWN OF HIGHLAND
NOTES TO FINANCIAL STATEMENTS
(Continued)

Actuarial Assumptions	PERF
Investment rate of return	7.25%
Projected future salary increases:	
Total	5%
Attributed to inflation	4%
Attributed to merit/seniority	1%
Cost-of-living adjustments	2%

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-04	\$ 125,640	110%	\$ (86,596)
	06-30-05	152,866	96%	(79,808)
	06-30-06	182,467	78%	(39,526)

2. Cost-Sharing Multiple-Employer Defined Benefit Pension Plan

Teachers' Retirement Fund

Plan Description

The School Corporation contributes to the Indiana Teachers' Retirement Fund (TRF), a defined benefit pension plan. TRF is a cost-sharing multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All employees engaged in teaching or in the supervision of teaching in the public schools of the State of Indiana are eligible to participate in TRF. State statute (IC 5-10.2) governs, through the TRF Board, most requirements of the system and gives the School Corporation authority to contribute to the plan. The TRF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The School Corporation may elect to make the contributions on behalf of the member.

TRF issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Teachers' Retirement Fund
150 West Market Street
Indianapolis, IN 46204
Ph. (317) 232-3860

Funding Policy and Annual Pension Costs

The School Corporation contributes the employer's share to TRF for certified employees employed under a federally funded program and all the certified employees hired after July 1, 1995. The School Corporation currently receives partial funding, through the school funding formula, from the State of Indiana for this contribution. The employer's share of contributions

SCHOOL TOWN OF HIGHLAND
NOTES TO FINANCIAL STATEMENTS
(Continued)

for certified personnel who are not employed under a federally funded program and were hired before July 1, 1995, is considered to be an obligation of, and is paid by, the State of Indiana.

The School Corporation is to contribute at an actuarially determined rate. The current rate has been actuarially determined under the entry age normal cost method to be 6.82% of covered wages. The School Corporation's required contributions to the plan for the fiscal years ended June 30, 2007, 2006, and 2005, were \$359,692, \$325,387, and \$301,640, respectively. The School Corporation actually contributed 100% of the required contribution for each of the fiscal years, respectively.

SCHOOL TOWN OF HIGHLAND
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-04	\$ 3,142,530	\$ 3,271,850	\$ (129,320)	96%	\$ 2,797,065	(5%)
07-01-05	3,258,468	3,648,786	(390,318)	89%	2,813,895	(14%)
07-01-06	3,509,871	3,677,649	(167,778)	95%	2,788,504	(6%)

SCHOOL TOWN OF HIGHLAND
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND RECEIPTS,
 DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2006

	Special Education Pre School	Textbook Rental	School Safe Haven	Employee Recognition	Gifted and Talented FY 2005-2006	Gifted and Talented FY 2004-2005
Receipts:						
Local sources	\$ 24,624	\$ 289,516	\$ -	\$ 5,923	\$ -	\$ -
State sources	54,020	29,789	3,439	-	16,481	-
Federal sources	-	-	-	-	-	-
Total receipts	78,644	319,305	3,439	5,923	16,481	-
Disbursements:						
Current:						
Instruction	-	-	-	-	13,743	1,901
Support services	-	415,223	15,871	5,745	951	65
Community services	-	-	-	-	-	-
Nonprogrammed charges	63,250	-	-	-	-	-
Debt services	-	-	-	-	-	-
Interfund loans	-	-	-	-	-	-
Total disbursements	63,250	415,223	15,871	5,745	14,694	1,966
Excess (deficiency) of receipts over disbursements	15,394	(95,918)	(12,432)	178	1,787	(1,966)
Other financing sources (uses):						
Transfers in	-	17,810	-	-	-	-
Transfers out	-	(682)	-	-	-	-
Total other financing sources (uses)	-	17,128	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	15,394	(78,790)	(12,432)	178	1,787	(1,966)
Cash and investments - beginning	66,884	173,386	12,432	1,777	-	1,966
Cash and investments - ending	<u>\$ 82,278</u>	<u>\$ 94,596</u>	<u>\$ -</u>	<u>\$ 1,955</u>	<u>\$ 1,787</u>	<u>\$ -</u>
<u>Cash and Investment Assets - Ending</u>						
Cash and investments	<u>\$ 82,278</u>	<u>\$ 94,596</u>	<u>\$ -</u>	<u>\$ 1,955</u>	<u>\$ 1,787</u>	<u>\$ -</u>
<u>Cash and Investment Fund Balance - Ending</u>						
Unrestricted	<u>\$ 82,278</u>	<u>\$ 94,596</u>	<u>\$ -</u>	<u>\$ 1,955</u>	<u>\$ 1,787</u>	<u>\$ -</u>

SCHOOL TOWN OF HIGHLAND
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND RECEIPTS,
 DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2006
 (Continued)

	Computer Technology	Special Drug Free	Language Minority	Title I FY 2004-2005	Title I FY 2005-2006	Title V
Receipts:						
Local sources	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
State sources	245,418	3,299	1,818	-	-	-
Federal sources	-	-	-	-	81,557	10,251
Total receipts	245,418	3,299	1,818	-	81,557	10,251
Disbursements:						
Current:						
Instruction	-	-	1,679	1,076	75,453	3,169
Support services	245,418	2,532	139	-	6,501	-
Community services	-	-	-	23	534	-
Nonprogrammed charges	-	-	-	-	-	-
Debt services	-	-	-	-	-	-
Interfund loans	-	-	-	-	-	-
Total disbursements	245,418	2,532	1,818	1,099	82,488	3,169
Excess (deficiency) of receipts over disbursements	-	767	-	(1,099)	(931)	7,082
Other financing sources (uses):						
Transfers in	-	-	-	-	7,785	-
Transfers out	-	-	-	(7,785)	-	(10,251)
Total other financing sources (uses)	-	-	-	(7,785)	7,785	(10,251)
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	-	767	-	(8,884)	6,854	(3,169)
Cash and investments - beginning	-	2,629	-	8,884	-	3,177
Cash and investments - ending	\$ -	\$ 3,396	\$ -	\$ -	\$ 6,854	\$ 8
Cash and Investment Assets - Ending						
Cash and investments	\$ -	\$ 3,396	\$ -	\$ -	\$ 6,854	\$ 8
Cash and Investment Fund Balance - Ending						
Unrestricted	\$ -	\$ 3,396	\$ -	\$ -	\$ 6,854	\$ 8

SCHOOL TOWN OF HIGHLAND
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND RECEIPTS,
 DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2006
 (Continued)

	Title VI	Drug Free Title IV	Dependent Care	Title II A	Title II D	Title III ESL
Receipts:						
Local sources	\$ -	\$ -	\$ 122,367	\$ -	\$ -	\$ -
State sources	-	-	-	-	-	-
Federal sources	-	9,703	-	68,762	1,680	16,251
Total receipts	-	9,703	122,367	68,762	1,680	16,251
Disbursements:						
Current:						
Instruction	640	-	-	-	-	16,698
Support services	-	1,777	22,907	37,896	4,254	889
Community services	-	-	119,243	-	-	-
Nonprogrammed charges	-	-	-	-	-	-
Debt services	-	-	-	-	-	-
Interfund loans	-	-	-	-	-	-
Total disbursements	640	1,777	142,150	37,896	4,254	17,587
Excess (deficiency) of receipts over disbursements	(640)	7,926	(19,783)	30,866	(2,574)	(1,336)
Other financing sources (uses):						
Transfers in	-	-	-	-	-	-
Transfers out	(941)	-	-	-	-	-
Total other financing sources (uses)	(941)	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(1,581)	7,926	(19,783)	30,866	(2,574)	(1,336)
Cash and investments - beginning	2,447	923	109,229	25,890	4,254	1,128
Cash and investments - ending	\$ 866	\$ 8,849	\$ 89,446	\$ 56,756	\$ 1,680	\$ (208)
<u>Cash and Investment Assets - Ending</u>						
Cash and investments	\$ 866	\$ 8,849	\$ 89,446	\$ 56,756	\$ 1,680	\$ (208)
<u>Cash and Investment Fund Balance - Ending</u>						
Unrestricted	\$ 866	\$ 8,849	\$ 89,446	\$ 56,756	\$ 1,680	\$ (208)

SCHOOL TOWN OF HIGHLAND
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND RECEIPTS,
 DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2006
 (Continued)

	Kindergarten Textbook Rental	Indiana Next	CAP Mini Grant	Pension Bond Debt Service	Construction	Totals
Receipts:						
Local sources	\$ 10,027	\$ 1,000	\$ -	\$ 256,905	\$ 21	\$ 710,383
State sources	881	-	-	-	-	355,145
Federal sources	-	-	-	-	-	188,204
Total receipts	10,908	1,000	-	256,905	21	1,253,732
Disbursements:						
Current:						
Instruction	-	-	-	-	-	114,359
Support services	15,193	1,000	-	-	7,928	784,289
Community services	-	-	-	-	-	119,800
Nonprogrammed charges	-	-	-	-	-	63,250
Debt services	-	-	-	193,763	-	193,763
Interfund loans	-	-	-	80,000	-	80,000
Total disbursements	15,193	1,000	-	273,763	7,928	1,355,461
Excess (deficiency) of receipts over disbursements	(4,285)	-	-	(16,858)	(7,907)	(101,729)
Other financing sources (uses):						
Transfers in	682	-	-	-	-	26,277
Transfers out	-	-	-	-	-	(19,659)
Total other financing sources (uses)	682	-	-	-	-	6,618
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(3,603)	-	-	(16,858)	(7,907)	(95,111)
Cash and investments - beginning	8,211	-	20	884	8,416	432,537
Cash and investments - ending	<u>\$ 4,608</u>	<u>\$ -</u>	<u>\$ 20</u>	<u>\$ (15,974)</u>	<u>\$ 509</u>	<u>\$ 337,426</u>
<u>Cash and Investment Assets - Ending</u>						
Cash and investments	<u>\$ 4,608</u>	<u>\$ -</u>	<u>\$ 20</u>	<u>\$ (15,974)</u>	<u>\$ 509</u>	<u>\$ 337,426</u>
<u>Cash and Investment Fund Balance - Ending</u>						
Unrestricted	<u>\$ 4,608</u>	<u>\$ -</u>	<u>\$ 20</u>	<u>\$ (15,974)</u>	<u>\$ 509</u>	<u>\$ 337,426</u>

SCHOOL TOWN OF HIGHLAND
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND RECEIPTS,
 DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2007

	Special Education Pre School	Textbook Rental	Employee Recognition	Gifted and Talented FY 2005-2006	Gifted and Talented FY 2006-2007	Computer Technology
Receipts:						
Local sources	\$ 19,420	\$ 267,535	\$ 5,973	\$ -	\$ -	\$ -
State sources	66,067	36,414	-	-	16,481	65,418
Federal sources	-	-	-	-	-	-
Interfund loans	-	-	-	-	-	-
Total receipts	85,487	303,949	5,973	-	16,481	65,418
Disbursements:						
Current:						
Instruction	-	-	-	1,787	9,059	-
Support services	-	301,455	5,201	-	615	65,418
Community services	-	-	-	-	-	-
Nonprogrammed charges	132,000	-	-	-	-	-
Debt services	-	-	-	-	-	-
Interfund loans	-	-	-	-	-	-
Total disbursements	132,000	301,455	5,201	1,787	9,674	65,418
Excess (deficiency) of receipts over disbursements	(46,513)	2,494	772	(1,787)	6,807	-
Other financing sources (uses):						
Transfers in	-	25,776	-	-	-	-
Transfers out	(9,442)	-	-	-	-	-
Total other financing sources (uses)	(9,442)	25,776	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(55,955)	28,270	772	(1,787)	6,807	-
Cash and investments - beginning	82,278	94,596	1,955	1,787	-	-
Cash and investments - ending	<u>\$ 26,323</u>	<u>\$ 122,866</u>	<u>\$ 2,727</u>	<u>\$ -</u>	<u>\$ 6,807</u>	<u>\$ -</u>
<u>Cash and Investment Assets - Ending</u>						
Cash and investments	<u>\$ 26,323</u>	<u>\$ 122,866</u>	<u>\$ 2,727</u>	<u>\$ -</u>	<u>\$ 6,807</u>	<u>\$ -</u>
<u>Cash and Investment Fund Balance - Ending</u>						
Unrestricted	<u>\$ 26,323</u>	<u>\$ 122,866</u>	<u>\$ 2,727</u>	<u>\$ -</u>	<u>\$ 6,807</u>	<u>\$ -</u>

SCHOOL TOWN OF HIGHLAND
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND RECEIPTS,
 DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2007
 (Continued)

	Special Drug Free	Language Minority	Title I FY 2004-2005	Title I FY 2005-2006	Title I Improvement	Title V
Receipts:						
Local sources	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
State sources	-	2,013	-	-	-	-
Federal sources	-	-	97,905	250	12,474	5,062
Interfund loans	-	-	-	-	-	-
Total receipts	-	2,013	97,905	250	12,474	5,062
Disbursements:						
Current:						
Instruction	-	2,013	86,800	54	813	-
Support services	3,396	-	7,892	25	4,230	-
Community services	-	-	523	109	-	-
Nonprogrammed charges	-	-	-	-	-	-
Debt services	-	-	-	-	-	-
Interfund loans	-	-	-	-	-	-
Total disbursements	3,396	2,013	95,215	188	5,043	-
Excess (deficiency) of receipts over disbursements	(3,396)	-	2,690	62	7,431	5,062
Other financing sources (uses):						
Transfers in	-	-	6,916	-	4,045	-
Transfers out	-	-	(4,045)	(6,916)	-	(5,062)
Total other financing sources (uses)	-	-	2,871	(6,916)	4,045	(5,062)
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(3,396)	-	5,561	(6,854)	11,476	-
Cash and investments - beginning	3,396	-	-	6,854	-	8
Cash and investments - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,561</u>	<u>\$ -</u>	<u>\$ 11,476</u>	<u>\$ 8</u>
<u>Cash and Investment Assets - Ending</u>						
Cash and investments	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,561</u>	<u>\$ -</u>	<u>\$ 11,476</u>	<u>\$ 8</u>
<u>Cash and Investment Fund Balance - Ending</u>						
Unrestricted	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,561</u>	<u>\$ -</u>	<u>\$ 11,476</u>	<u>\$ 8</u>

SCHOOL TOWN OF HIGHLAND
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND RECEIPTS,
 DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2007
 (Continued)

	Title VI	Drug Free Title IV	Dependent Care	Title II A	Title II D	Title III ESL
Receipts:						
Local sources	\$ -	\$ -	\$ 109,856	\$ -	\$ -	\$ -
State sources	-	-	-	-	-	-
Federal sources	-	7,638	-	75,684	-	26,554
Interfund loans	-	-	-	-	-	-
Total receipts	-	7,638	109,856	75,684	-	26,554
Disbursements:						
Current:						
Instruction	865	-	-	-	-	25,147
Support services	-	15,976	25,100	62,097	218	769
Community services	-	-	121,902	-	-	-
Nonprogrammed charges	-	-	-	-	-	-
Debt services	-	-	-	-	-	-
Interfund loans	-	-	-	-	-	-
Total disbursements	865	15,976	147,002	62,097	218	25,916
Excess (deficiency) of receipts over disbursements	(865)	(8,338)	(37,146)	13,587	(218)	638
Other financing sources (uses):						
Transfers in	-	-	-	-	-	-
Transfers out	(1)	(1)	-	-	-	-
Total other financing sources (uses)	(1)	(1)	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(866)	(8,339)	(37,146)	13,587	(218)	638
Cash and investments - beginning	866	8,849	89,446	56,756	1,680	(208)
Cash and investments - ending	\$ -	\$ 510	\$ 52,300	\$ 70,343	\$ 1,462	\$ 430
Cash and Investment Assets - Ending						
Cash and investments	\$ -	\$ 510	\$ 52,300	\$ 70,343	\$ 1,462	\$ 430
Cash and Investment Fund Balance - Ending						
Unrestricted	\$ -	\$ 510	\$ 52,300	\$ 70,343	\$ 1,462	\$ 430

SCHOOL TOWN OF HIGHLAND
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND RECEIPTS,
 DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2007
 (Continued)

	Kindergarten Textbook Rental	CAP Mini Grant	Pension Bond Debt Service	Construction	Totals
Receipts:					
Local sources	\$ 6,067	\$ -	\$ 120,400	\$ 1	\$ 529,252
State sources	1,436	-	-	-	187,829
Federal sources	-	-	-	-	225,567
Interfund loans	-	-	25,000	-	25,000
Total receipts	7,503	-	145,400	1	967,648
Disbursements:					
Current:					
Instruction	-	-	-	-	126,538
Support services	4,752	20	-	509	497,673
Community services	-	-	-	-	122,534
Nonprogrammed charges	-	-	-	-	132,000
Debt services	-	-	199,231	-	199,231
Interfund loans	-	-	25,000	-	25,000
Total disbursements	4,752	20	224,231	509	1,102,976
Excess (deficiency) of receipts over disbursements	2,751	(20)	(78,831)	(508)	(135,328)
Other financing sources (uses):					
Transfers in	-	-	-	-	36,737
Transfers out	-	-	-	(1)	(25,468)
Total other financing sources (uses)	-	-	-	(1)	11,269
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	2,751	(20)	(78,831)	(509)	(124,059)
Cash and investments - beginning	4,608	20	(15,974)	509	337,426
Cash and investments - ending	<u>\$ 7,359</u>	<u>\$ -</u>	<u>\$ (94,805)</u>	<u>\$ -</u>	<u>\$ 213,367</u>
<u>Cash and Investment Assets - Ending</u>					
Cash and investments	<u>\$ 7,359</u>	<u>\$ -</u>	<u>\$ (94,805)</u>	<u>\$ -</u>	<u>\$ 213,367</u>
<u>Cash and Investment Fund Balance - Ending</u>					
Unrestricted	<u>\$ 7,359</u>	<u>\$ -</u>	<u>\$ (94,805)</u>	<u>\$ -</u>	<u>\$ 213,367</u>

SCHOOL TOWN OF HIGHLAND
SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS

For The Year Ended June 30, 2007

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 672,990
Buildings and improvements	65,616,348
Machinery and equipment	<u>6,777,794</u>
Total governmental activities, capital assets not being depreciated	<u>\$ 73,067,132</u>

SCHOOL TOWN OF HIGHLAND
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT
 For The Year Ended June 30, 2007

The School Corporation has entered into the following debt:

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental Activities:		
Capital leases:		
High School and Middle School Buildings	\$ 27,795,000	\$ 2,384,000
Master Equipment Lease	1,461,983	243,638
Common school loans payable		
Loan #A0299 Merkley/Warren Elementaries	337,500	92,813
Loan #A1086 Data processing instructional equipment	192,960	66,089
Loan #A1180 Data processing instructional equipment	279,752	32,482
Bonds payable:		
General obligation bonds:		
Pension Bonds 2002	1,765,000	194,156
Elementary A/C Bonds 1993	490,000	254,743
Total governmental activities debt	<u>\$ 32,322,195</u>	<u>\$ 3,267,921</u>

SCHOOL TOWN OF HIGHLAND
AUDIT RESULTS AND COMMENTS

SCHOOL LUNCH RECONCILEMENT TO FORM 9 (Annual Report)

The School Corporation maintained both a manual and computerized ledger for the School Lunch Fund; however, the ledgers did not agree. The balance of the School Lunch Fund in the manual ledger was \$805,241.97, as of June 30, 2007, which agreed to the reconciled bank balance; however, the computerized ledger balance was only \$503,569.43 (a difference of \$301,672.54). The Annual Report (Form 9) reported the computerized ledger activity. A reconciliation between the bank account and the computerized ledger balance was not performed. A review of the computerized ledger indicated that payroll expense entries were duplicated in the computerized ledger. Officials agreed to bring the computerized balance of the School Lunch Fund into agreement with the manual ledger and bank reconciliements; therefore, the financial statements were adjusted to report the manual ledger activity and balance.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

NEGATIVE CASH BALANCES

The following funds had negative cash balances at June 30, 2006 and June 30, 2007:

<u>Fund</u>	<u>June 30, 2006</u>	<u>June 30, 2007</u>
Debt Service	\$ 325,460	\$ -
Title III, ESL	208	-
Pension Bond Debt Service	15,974	94,805

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

DISBURSEMENTS IN EXCESS OF APPROPRIATIONS

The Pension Bond Debt Service Fund had disbursements that exceeded the approved budget by \$6,185 for the year ended December 31, 2006. Principal and interest payments for the pension bonds were paid according to the amortization schedule for the 2002 General Obligation Bonds; however, the Department of Local Government Finance reduced the 2006 budget for this fund by \$6,185.

Disbursements from any program during the budget year are limited to the total amount appropriated for that program area unless additional appropriations are requested and approved. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 8)

SCHOOL TOWN OF HIGHLAND
AUDIT RESULTS AND COMMENTS
(Continued)

CAPITAL ASSET RECORDS - SCHOOL LUNCH

Equipment purchased during the FY 2005-2006 and FY 2006-2007, from the School Lunch Fund totaled \$54,321 and \$116,447, respectively. The purchases were not included in the Capital Asset records of the School Corporation and General Form 369, Capital Asset Ledger was not used. Capital assets purchased for school lunch in the prior audit also were not added to the School Corporation's records.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Indiana School Corporations, Chapter 9)

TEXTBOOK RENTAL RECEIPT CONTROLS

The central office has a surplus of an older version of the Official Receipt – Individual Textbook Rental List (TBR-2) receipts that are in triplicate but not bound in a receipt book. The central office distributes a group of TBR-2 receipts to individual schools, but they do not maintain a log to indicate which receipt numbers are issued to each school. The individual schools also did not keep a log nor maintain the duplicate TBR-2 receipts in receipt number order. Therefore, we were unable to account for all TBR-2 receipts.

Furthermore, the current version of the TBR-2 receipts includes a choice for the method of payment (cash, check, or money order), which the older version does not provide.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines for Extra-Curricular Accounts, Chapter 7)

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines for Extra-Curricular Accounts, Chapter 7)

INTERNAL CONTROL OF RECEIPTS (Applies to Johnston, Merkle, South Ridge Elementary and Warren Elementary)

Each school posts all textbook rental receipts to a computerized textbook rental software program to allow for the tracking of balances due. After the receipts are entered, the program produces a "Daily Fee Payment" report. If information is entered correctly, the report would provide information which could be compared to the deposit ticket; however, not all information was entered, and the reports were not always generated at the deposit date.

Furthermore, an older version of the Official Receipt – Individual Textbook Rental List (TBR-2) receipt was used, which did not allow for the Treasurer to indicate the method of payment (cash, check or money order). Therefore, composition agreement between the receipt and deposit could not be performed.

SCHOOL TOWN OF HIGHLAND
AUDIT RESULTS AND COMMENTS
(Continued)

Textbook Rental receipts were issued from more than one series of prenumbered receipts. A summary report called "Daily Fee Payment" can be generated each time a deposit of textbook rental payments is made. The report lists the student name and payment amount. The "Daily Fee Payment" was not provided for each deposit listing the TBR-2 receipts included in that deposit. We were unable to verify the composition of the textbook rental collections.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

Indiana Code 5-13-6-1(c) states in part: "Public funds deposited . . . shall be deposited in the same form in which they are received."

DEPENDENT CARE RECEIPTS (Applies to Johnston Elementary)

Before and after school child or dependent care is provided by the School Corporation at Johnston Elementary School. Receipts are issued to parents by the dependent care employees. Dependent care employees then deposit the collections directly to the bank. A monthly summary report is also prepared at this time, by the dependent care employees, which lists the payments received by payee. The report and a copy of the deposit ticket are given to the Extra-Curricular Treasurer. The Extra-Curricular Treasurer then issues a receipt and posts the dependent care collections. The following deficiencies over controls of the dependent care receipting process were noted:

1. Collections are only deposited to the bank once a month even though collections are received and receipted throughout the month.
2. The receipts issued by the Extra-Curricular Treasurer for the collections do not indicate the composition (cash, check, or money order).
3. Dependent care receipt numbers are not listed on the monthly summaries, nor are they provided in support of each deposit.
4. Receipts are written by the dependent care employees for credit balances. (Employees indicated this serves as a reminder that the parent does not owe money).

"The treasurer shall deposit without unreasonable delay, all receipts in one bank account. . . ." (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 1)

Indiana Code 5-13-6-1(c) states in part: "Public funds deposited . . . shall be deposited in the same form in which they were received."

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

SCHOOL TOWN OF HIGHLAND
AUDIT RESULTS AND COMMENTS
(Continued)

TIMELY DEPOSITS (Applies to Johnston, Merkley, South Ridge and Warren Elementary)

Textbook rental deposits were made up to 26 days after receipt of funds.

The treasurer shall deposit without unreasonable delay, all receipts in one bank account to be known as the "(name of school) School Extra-Curricular Account." (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 1)

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TO: THE OFFICIALS OF THE SCHOOL TOWN OF HIGHLAND, LAKE COUNTY, INDIANA

Compliance

We have audited the compliance of the School Town of Highland (School Corporation) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the years ended June 30, 2006 and 2007. The School Corporation's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the School Corporation's management. Our responsibility is to express an opinion on the School Corporation's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the School Corporation's compliance with those requirements.

In our opinion, the School Corporation complied in all material respects with the requirements referred to above that are applicable to its major federal program for the years ended June 30, 2006 and 2007.

Internal Control Over Compliance

The management of the School Corporation is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School Corporation's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School Corporation's internal control over compliance.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
(Continued)

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

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

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

The School Corporation's response to the finding identified in our audit is described in the accompanying Corrective Action Plan and Official Response sections of the report. We did not audit the School Corporation's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the School Corporation's management, the school board, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

March 11, 2008

SCHOOL TOWN OF HIGHLAND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Years Ended June 30, 2006 and 2007

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 06-30-06	Total Federal Awards Expended 06-30-07
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
Pass-Through Indiana Department of Education				
Child Nutrition Cluster				
School Breakfast Program	10.553		\$ -	\$ 5,477
National School Lunch Program	10.555		<u>267,050</u>	<u>322,556</u>
Total for federal grantor agency			<u>267,050</u>	<u>328,033</u>
<u>U.S. DEPARTMENT OF JUSTICE</u>				
Pass-Through Town of Highland Police Department				
Public Safety Partnership and Community Policing Grants	16.710			
Secure Our Schools Grant		2004CKWX0545	<u>60,000</u>	<u>-</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>				
Pass-Through Indiana Department of Education				
Title I Grants to Local Educational Agencies	84.010			
Allocation		05-4720	8,884	-
		06-4720	82,426	-
		07-4720	-	95,215
School Improvement		07-4720	<u>-</u>	<u>5,043</u>
Total for program			<u>91,310</u>	<u>100,258</u>
Safe and Drug Free Schools and Communities - State Grants	84.186			
		04-249	923	-
		05-061	854	8,849
		4720-06	<u>-</u>	<u>7,128</u>
Total for program			<u>1,777</u>	<u>15,977</u>
State Grants for Innovative Programs	84.298			
		03-072	3,177	-
		04-085	2,447	-
		05-076	10,251	-
		06-4720	<u>-</u>	<u>5,062</u>
Total for program			<u>15,875</u>	<u>5,062</u>
Education Technology State Grants	84.318			
Enhancing Education Through Technology Program		FY 2004/06	4,254	-
		FY 2005/07	<u>-</u>	<u>218</u>
Total for program			<u>4,254</u>	<u>218</u>
English Language Acquisition Grants	84.365			
		FY 2004/05	1,128	-
		FY 2005/06	16,252	-
		FY 2006/07	<u>-</u>	<u>25,075</u>
Total for program			<u>17,380</u>	<u>25,075</u>
Improving Teacher Quality State Grants	84.367			
		04-096	37,220	670
		05-211	676	60,716
		06-4720	<u>-</u>	<u>710</u>
Total for program			<u>37,896</u>	<u>62,096</u>
Total for federal grantor agency			<u>168,492</u>	<u>208,686</u>
Total federal awards expended			<u>\$ 495,542</u>	<u>\$ 536,719</u>

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

SCHOOL TOWN OF HIGHLAND
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

I. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the School Town of Highland (School Corporation) and is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Accordingly, the amount of federal awards expended is based on when the activity related to the award occurs. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Circular A-133 requires an annual audit of nonfederal entities expending a total amount of federal awards equal to or in excess of \$500,000 in any fiscal year unless by constitution or statute a less frequent audit is required. In accordance with the Indiana Code (IC 5-11-1 et seq.), audits of School Corporations shall be conducted biennially. Such audits shall include both years within the biennial period.

II. Noncash Assistance

The School Corporation expended the following amount of noncash assistance for the years ending June 30, 2006 and 2007. This noncash assistance is also included in the federal expenditures presented in the schedule.

Program Title	Federal CFDA Number	2006	2007
National School Lunch Program	10.555	\$ 33,230	\$ 61,139

SCHOOL TOWN OF HIGHLAND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified?	no
Reportable conditions identified that are not considered to be material weaknesses?	yes

Noncompliance material to financial statements noted? yes

Federal Awards:

Internal control over major programs:

Material weaknesses identified?	no
Reportable conditions identified that are not considered to be material weaknesses?	none reported

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

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? no

Identification of Major Programs:

Name of Federal Program or Cluster

Child Nutrition Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

2007-1, SCHOOL LUNCH RECONCILEMENT TO FORM 9 (Annual Report)

The School Corporation's Food Service Director maintains a manual ledger for the School Lunch Fund. The School Corporation Treasurer maintains a computerized ledger for the School Lunch Fund, which is the reported balance on the School Corporation's annual report. A comparison of the manual

SCHOOL TOWN OF HIGHLAND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

ledger to the computerized ledger indicated the ledgers did not agree. The balance of the School Lunch Fund in the manual ledger was \$805,241.97, as of June 30, 2007, which agreed to the reconciled bank balance; however, the computerized ledger balance was only \$503,569.43 (a difference of \$301,672.54). The Annual Report (Form 9) reported the computerized ledger activity. A reconciliation between the bank account and the computerized ledger balance was not performed. A review of the computerized ledger indicated that payroll expense entries were duplicated in the computerized ledger. Officials agreed to bring the computerized balance of the School Lunch Fund into agreement with the manual ledger and bank reconciliations; therefore, the financial statements were adjusted to report the manual ledger activity and balance. Reconciliations between the manual and computerized ledgers and the bank should be performed monthly.

The Food Service Director prepares the reports required by the Indiana Department of Education, so the reports were prepared based upon the manual ledgers.

The current audit period was the first audit period in which the computerized ledger for School Lunch was maintained. Prior to this period, the manual ledger was the only ledger used for all reporting. No one at the School Corporation or Food Service was aware that the two ledgers did not agree or needed to be reconciled to each other.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

We recommended that officials correct the computerized ledger balance for the School Lunch Fund as of July 1, 2007. Also we recommended that officials perform monthly reconciliations of the manual and computerized ledger to insure continued agreement with all reported amounts.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

SCHOOL TOWN OF HIGHLAND
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

SCHOOL TOWN OF HIGHLAND

9145 Kennedy Avenue • Highland, Indiana 46322
(219) 924-7400 • FAX (219) 922-5637

Administration

Michael Boskovich, *Superintendent*
Ronald Blake, *Director*
Sherri Mitchell, *Director*
Lynn Kwilasz, *Director*

Board of Trustees

Carol Green-Fraley, *President*
Luanne Jurczak, *Vice President*
Lawrence M. Vassar, *Secretary*
Robert Kuva, *Member*
Dave Turoci, *Member*

Section II – Financial Statement Findings

FINDING 2007-1, SCHOOL LUNCH RECONCILEMENT TO FORM 9 (Annual Report)

Auditee Contact Person: Lynn A. Kwilasz
Title of Contact Person: Treasurer/Director of Finance & Operations
Phone Number: 219-924-7400 ext 231

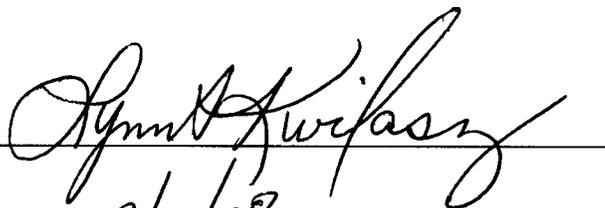
Briefly describe action to be taken to correct finding:

The School Town of Highland will make an adjustment to the RDS computerized system beginning balance of Fund 080 – School Lunch Fund for 1/1/08 to reflect the difference between the reconciled bank account/manual ledger balance and the RDS computerized system balance. This adjustment will reflect in the Form 9 balance reported at 6/30/08. The fund balance for the period ended 12/31/07 and the Form 9 balance for the period ended 12/31/07 will be corrected by manual notation to the records since the computerized system accounting ledger is closed and the Form 9 has been closed by the Indiana Department of Education, Division of Fiscal Management & Reporting.

In order to prevent this situation from persisting, the following steps will be or have already been taken:

- Each month, the RDS computerized system balance will be reconciled to the manual ledger and bank statement amount.
- A clearing account has been established in Fund 080 for the payroll expenditures to prevent a double accounting from incorrectly lowering the fund cash balance.

Signed: _____



Date: _____

3/11/08

Where Students Come First

SCHOOL TOWN OF HIGHLAND
EXIT CONFERENCE

The contents of this report were discussed on March 11, 2008, with Michael Boskovich, Superintendent of Schools; Lynn Kwilasz, Treasurer; Carol Green-Fraley, President of the School Board; Madeline Conn, Accounts Payable; Karen Sietsma, Deputy Treasurer; and Lucy Lobodzinski, Secretary/ Payroll. The official response has been made a part of this report and may be found on pages 51 and 52.

SCHOOL TOWN OF HIGHLAND

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Dave Turoci, *Member*

March 21, 2008

Mr. Bruce Hartman, CPA
State Examiner
Indiana State Board of Accounts
302 West Washington Street, Room E418
Indianapolis, Indiana 46204

Dear Mr. Hartman:

The School Town of Highland offers the following responses to the 'Audit Results and Comments' noted with the completion of the 7/1/05 through 6/30/07 audit of our school corporation.

SCHOOL LUNCH RECONCILEMENT TO FORM 9 (Annual Report)

The School Town of Highland will make an adjustment to the RDS computerized system beginning balance of Fund 080 – School Lunch Fund for 1/1/08 to reflect the difference between the reconciled bank account/manual ledger balance and the RDS computerized system balance. This adjustment will reflect in the Form 9 balance reported at 6/30/08. The fund balance for the period ended 12/31/07 and the Form 9 balance for the period ended 12/31/07 will be corrected by manual notation to the records since the computerized system accounting ledger is closed and the Form 9 has been closed by the Indiana Department of Education, Division of Fiscal Management & Reporting.

In order to prevent this situation from persisting, the following steps will be or have already been taken:

- Each month, the RDS computerized system balance will be reconciled to the manual ledger and bank statement amount.
- A clearing account has been established in Fund 080 for the payroll expenditures to prevent a double accounting from incorrectly lowering the fund cash balance.

NEGATIVE CASH BALANCES

Negative cash balances occurred in the noted funds due to the untimely distribution of property taxes in Lake County. Debt Service and Pension Bond Debt Service payments were due at both 6/30/06 and 6/30/07 and those payments were made on time as required by the debt repayment schedules. Neither the 2005 pay 2006 nor the 2006 pay 2007 tax revenue was collected or distributed on time throughout the whole of both calendar years. Thus, both funds were "short" cash revenue at each respective June 30. However, other funds of the School Town of Highland had adequate cash available to loan these funds the necessary cash to make the timely payments.

The School Town of Highland does not generally make a practice of over-expending funds and will make every attempt to avoid such practice in the future.

DISBURSEMENTS IN EXCESS OF APPROPRIATIONS

The Pension Bond Debt Service Fund budget was requested at the appropriate amount for the 2006 principal and interest payment. However, the DLGF did not approve the budget for the requested amount due to an error in the level of miscellaneous income projected for 2006. The requested budget amount could not be supported by the corrected revenue amount which resulted in the budget cut. The payments however were correct and made as required causing the School Town of Highland to exceed approved appropriations for 2006.

In the future, the School Town of Highland will strive to insure that its annual budgets are prepared, reviewed, and adopted in such a fashion that adequate appropriations are available to meet the required expenditures.

Where Students Come First

CAPITAL ASSET RECORDS – SCHOOL LUNCH

Capital assets purchased through the school lunch program during FY2005-06, FY2006-07, and to date, that were not recorded in the capital asset ledger have been inventoried, acquisition value verified, and have been added to the ledger as required by capital asset management policy. The manager of the school lunch program will provide appropriate documentation for the timely recording for all future capital asset purchases.

TEXTBOOK RENTAL RECIEPTS CONTROLS

The School Town of Highland will begin providing the currently approved textbook rental receipt forms (TBR-2) to each school. Further, such forms will be numerically sequenced uniquely to each school and distributed in such a fashion as to insure that all forms can be accounted for and identified.

INTERNAL CONTROL OF RECEIPTS (Applies to Johnston, Merkley, Southridge, and Warren Elementary Schools)

The extra-curricular accounting treasurers will print the "Daily Fee Payment" report and/or any other corroborating reports that will correspond to their deposited receipts. Further, the composition of each deposit will be identified so that the form of deposit can be verified to the receipt of funds.

DEPENDENT CARE RECEIPTS (Applies to Johnston Elementary School)

The dependent care employees have been instructed to immediately begin depositing collected funds without unreasonable delay.

Further, employees have been instructed to:

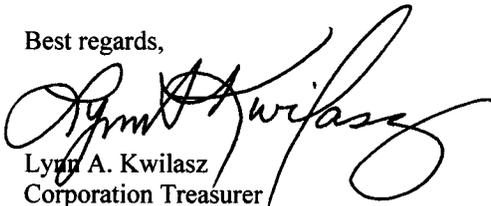
- Indicate the accurate composition of the funds received on receipts.
- Provide the receipt composition information to the extra-curricular accounting treasurer with each deposit.
- Discontinue the practice of writing "credit" receipts.

TIMELY DEPOSITS (Applies to Johnston, Merkley, Southridge, and Warren Elementary Schools)

Each extra-curricular accounting treasurer was instructed to immediately begin making deposits without unreasonable delay. This will be reinforced during the 2008-09 registration period when textbook rental money collection is at its peak and timeliness had not previously been achieved.

The School Town of Highland thanks the State Board of Accounts for its thorough and professional audit of our school corporation.

Best regards,



Lynn A. Kwilas
Corporation Treasurer

/lak