

**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, 2007 to June 30, 2009



**FILED**  
01/28/2010



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 Investment Basis – Governmental Funds .....	9-10
Proprietary Fund:	
Statement of Assets and Fund Balances and Receipts, Disbursements, and Changes in Fund Balances – Cash and Investment Basis – Proprietary Fund .....	11-12
Fiduciary Fund:	
Statement of Additions, Deductions, and Changes in Cash and Investment Balances – Fiduciary Fund .....	13-14
Notes to Financial Statements .....	15-29
Required Supplementary Information:	
Schedule of Funding Progress .....	30
Supplementary Information:	
Combining Schedule of Assets and Fund Balances and Receipts, Disbursements, and Changes in Fund Balances – Cash and Investment Basis – Other Governmental Funds .....	31-39
Combining Schedule of Additions, Deductions, and Changes in Cash and Investment Balances - Agency Fund .....	40
Schedule of Capital Assets .....	41
Schedule of Long-Term Debt .....	42
Audit Results and Comments:	
Bank Reconciliation .....	43-44
Academic Honors Diploma .....	44
Capital Asset Records .....	44
Negative Cash Balances .....	44-45
Change Orders .....	45
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 .....	48-49
Schedule of Expenditures of Federal Awards .....	50
Notes to Schedule of Expenditures of Federal Awards .....	51
Schedule of Findings and Questioned Costs .....	52-53
Auditee Prepared Schedules:	
Summary Schedule of Prior Audit Findings .....	54
Corrective Action Plan .....	55
Exit Conference .....	56
Official Response .....	57-58

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Michael Boskovich Lynn Kwilasz	07-01-07 to 10-01-07 10-02-07 to 06-30-10
Superintendent of Schools	Michael Boskovich	07-01-07 to 06-30-10
President of the School Board	Carol Green-Fraley Lawrence Vassar Luanne Jurczak	07-01-07 to 06-30-08 07-01-08 to 06-30-09 07-01-09 to 06-30-10



**STATE OF INDIANA**  
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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, 2008 and 2009, 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, 2008 and 2009, 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 November 24, 2009, 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, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

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 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.

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, 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

November 24, 2009



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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, 2008 and 2009, which collectively comprise the School Corporation's basic financial statements and have issued our report thereon dated November 24, 2009. 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.

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.

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.

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. We did not identify any deficiencies in internal control over financial reporting that we consider to be significant deficiencies or material weaknesses, as defined above.

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)

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 no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to management in a separate letter dated November 24, 2009.

The School Corporation's response to the findings identified in our audit is described in the accompanying section 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

November 24, 2009

SCHOOL TOWN OF HIGHLAND  
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS  
For the Year Ended June 30, 2008

<u>Functions/Programs</u>	<u>Disbursements</u>	Program Receipts		<u>Totals</u>	Net (Disbursement) Receipts and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions		
Governmental activities:					
Instruction	\$ 10,200,084	\$ -	\$ 215,481	\$ (9,984,603)	
Support services	8,945,985	1,014,119	391,803	(7,540,063)	
Noninstructional services	1,524,315	-	-	(1,524,315)	
Facilities acquisition and construction	1,694,545	-	-	(1,694,545)	
Debt service	9,285,359	-	-	(9,285,359)	
Nonprogrammed charges	4,172,543	-	-	(4,172,543)	
Total governmental activities	\$ 35,822,831	\$ 1,014,119	\$ 607,284	(34,201,428)	
General receipts:					
Property taxes				13,690,680	
Other local sources				2,615,747	
State aid				9,552,784	
Bonds and loans				17,745,060	
Grants and contributions not restricted to specific programs				313,831	
Investment earnings				437,904	
Other				17,495	
Total general receipts				44,373,501	
Change in net assets				10,172,073	
Net assets - beginning				10,420,734	
Net assets - ending				\$ 20,592,807	
<u>Assets</u>					
Cash and investments				\$ 15,241,181	
Restricted assets:					
Cash and investments				5,351,626	
Total assets				\$ 20,592,807	
<u>Net Assets</u>					
Restricted for:					
Debt service				\$ 585,883	
Other purposes				4,765,743	
Unrestricted				15,241,181	
Total net assets				\$ 20,592,807	

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, 2009

<u>Functions/Programs</u>	<u>Disbursements</u>	<u>Program Receipts</u>		<u>Totals</u>	<u>Net (Disbursement) Receipts and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>		
Governmental activities:					
Instruction	\$ 11,213,258	\$ -	\$ 228,733	\$ (10,984,525)	
Support services	9,759,581	953,366	475,578	(8,330,637)	
Noninstructional services	1,776,999	-	-	(1,776,999)	
Facilities acquisition and construction	4,647,176	-	-	(4,647,176)	
Debt service	14,200,443	-	-	(14,200,443)	
Nonprogrammed charges	4,473,043	-	-	(4,473,043)	
<b>Total governmental activities</b>	<b><u>\$ 46,070,500</u></b>	<b><u>\$ 953,366</u></b>	<b><u>\$ 704,311</u></b>	<b><u>(44,412,823)</u></b>	
General receipts:					
Property taxes				15,890,858	
Other local sources				2,827,959	
State aid				12,542,063	
Bonds and loans				6,647,000	
Grants and contributions not restricted to specific programs				2,301,124	
Investment earnings				279,401	
Other				23,284	
<b>Total general receipts</b>				<b><u>40,511,689</u></b>	
Change in net assets				(3,901,134)	
Net assets - beginning				<u>20,592,807</u>	
Net assets - ending				<b><u>\$ 16,691,673</u></b>	
<u>Assets</u>					
Cash and investments				\$ 11,673,195	
Restricted assets:					
Cash and investments				<u>5,018,478</u>	
<b>Total assets</b>				<b><u>\$ 16,691,673</u></b>	
<u>Net Assets</u>					
Restricted for:					
Debt service				\$ 262,291	
Other purposes				4,756,187	
Unrestricted				<u>11,673,195</u>	
<b>Total net assets</b>				<b><u>\$ 16,691,673</u></b>	

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, 2008

	General	Debt Service	Capital Projects	Construction	Other	Totals
Receipts:						
Local sources	\$ 9,567,338	\$ 2,365,571	\$ 2,481,288	\$ -	\$ 2,678,515	\$ 17,092,712
Intermediate sources	261,381	-	-	-	-	261,381
State sources	9,703,783	-	-	-	233,832	9,937,615
Federal sources	4,574	-	-	-	531,710	536,284
Temporary loans	7,422,000	1,163,060	1,200,000	-	400,000	10,185,060
Other	1,129	-	15,366	-	1,000	17,495
	<u>26,960,205</u>	<u>3,528,631</u>	<u>3,696,654</u>	<u>-</u>	<u>3,845,057</u>	<u>38,030,547</u>
Disbursements:						
Current:						
Instruction	12,460,828	-	-	-	232,856	12,693,684
Support services	6,938,784	50,000	1,259,370	-	1,560,511	9,808,665
Noninstructional services	372,272	-	-	-	1,161,705	1,533,977
Facilities acquisition and construction	-	-	1,604,545	-	90,000	1,694,545
Debt services	4,360,000	3,416,203	960,000	-	549,156	9,285,359
Nonprogrammed charges	1,395,078	-	-	-	-	1,395,078
	<u>25,526,962</u>	<u>3,466,203</u>	<u>3,823,915</u>	<u>-</u>	<u>3,594,228</u>	<u>36,411,308</u>
Excess (deficiency) of receipts over disbursements	<u>1,433,243</u>	<u>62,428</u>	<u>(127,261)</u>	<u>-</u>	<u>250,829</u>	<u>1,619,239</u>
Other financing sources (uses):						
Proceeds of long-term debt	-	-	-	7,560,000	-	7,560,000
Transfers in	-	-	-	-	56,418	56,418
Transfers out	-	(26,549)	-	-	(29,869)	(56,418)
	<u>-</u>	<u>(26,549)</u>	<u>-</u>	<u>7,560,000</u>	<u>26,549</u>	<u>7,560,000</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	<u>1,433,243</u>	<u>35,879</u>	<u>(127,261)</u>	<u>7,560,000</u>	<u>277,378</u>	<u>9,179,239</u>
Cash and investments - beginning	<u>4,243,683</u>	<u>550,004</u>	<u>617,345</u>	<u>-</u>	<u>1,236,793</u>	<u>6,647,825</u>
Cash and investments - ending	<u>\$ 5,676,926</u>	<u>\$ 585,883</u>	<u>\$ 490,084</u>	<u>\$ 7,560,000</u>	<u>\$ 1,514,171</u>	<u>15,827,064</u>
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>4,765,743</u>
Net assets of governmental activities						<u>\$ 20,592,807</u>
<u>Cash and Investment Assets - Ending</u>						
Cash and investments	\$ 5,676,926	\$ -	\$ 490,084	\$ 7,560,000	\$ 1,514,171	\$ 15,241,181
Restricted assets:						
Cash and investments	<u>-</u>	<u>585,883</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>585,883</u>
Total cash and investment assets - ending	<u>\$ 5,676,926</u>	<u>\$ 585,883</u>	<u>\$ 490,084</u>	<u>\$ 7,560,000</u>	<u>\$ 1,514,171</u>	<u>\$ 15,827,064</u>
<u>Cash and Investment Fund Balance - Ending</u>						
Restricted for:						
Debt service	\$ -	\$ 585,883	\$ -	\$ -	\$ -	\$ 585,883
Unrestricted	<u>5,676,926</u>	<u>-</u>	<u>490,084</u>	<u>7,560,000</u>	<u>1,514,171</u>	<u>15,241,181</u>
Total cash and investment fund balance - ending	<u>\$ 5,676,926</u>	<u>\$ 585,883</u>	<u>\$ 490,084</u>	<u>\$ 7,560,000</u>	<u>\$ 1,514,171</u>	<u>\$ 15,827,064</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, 2009

	General	Education Stimulus	Debt Service	Capital Projects	Construction	Other	Totals
<b>Receipts:</b>							
Local sources	\$ 10,724,171	\$ -	\$ 2,942,770	\$ 2,783,995	\$ 110,885	\$ 2,643,546	\$ 19,205,367
Intermediate sources	352,740	-	-	-	-	-	352,740
State sources	12,706,931	-	-	-	-	313,789	13,020,720
Federal sources	-	1,617,476	-	-	-	909,302	2,526,778
Temporary loans	1,100,000	-	1,723,000	3,024,000	-	800,000	6,647,000
Other	19,078	-	-	240	-	3,966	23,284
<b>Total receipts</b>	<b>24,902,920</b>	<b>1,617,476</b>	<b>4,665,770</b>	<b>5,808,235</b>	<b>110,885</b>	<b>4,670,603</b>	<b>41,775,889</b>
<b>Disbursements:</b>							
<b>Current:</b>							
Instruction	12,203,161	-	-	-	-	434,173	12,637,334
Support services	8,193,585	16,135	-	1,113,416	-	1,921,475	11,244,611
Noninstructional services	399,111	-	-	-	-	1,393,494	1,792,605
Facilities acquisition and construction	-	-	-	1,725,461	2,921,715	-	4,647,176
Debt services	7,422,000	-	4,989,362	1,200,000	-	589,081	14,200,443
Nonprogrammed charges	1,145,090	-	-	-	-	207	1,145,297
<b>Total disbursements</b>	<b>29,362,947</b>	<b>16,135</b>	<b>4,989,362</b>	<b>4,038,877</b>	<b>2,921,715</b>	<b>4,338,430</b>	<b>45,667,466</b>
Excess (deficiency) of receipts over disbursements	(4,460,027)	1,601,341	(323,592)	1,769,358	(2,810,830)	332,173	(3,891,577)
<b>Other financing sources (uses):</b>							
Transfers in	-	-	-	-	-	207	207
Transfers out	-	-	-	-	-	(207)	(207)
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(4,460,027)	1,601,341	(323,592)	1,769,358	(2,810,830)	332,173	(3,891,577)
Cash and investments - beginning	5,676,925	-	585,883	490,084	7,560,000	1,514,171	15,827,063
Cash and investments - ending	\$ 1,216,898	\$ 1,601,341	\$ 262,291	\$ 2,259,442	\$ 4,749,170	\$ 1,846,344	11,935,486
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.							
							4,756,187
Net assets of governmental activities							\$ 16,691,673
<b>Cash and Investment Assets - Ending</b>							
Cash and investments	\$ 1,216,898	\$ 1,601,341	\$ -	\$ 2,259,442	\$ 4,749,170	\$ 1,846,344	\$ 11,673,195
Restricted assets:							
Cash and investments	-	-	262,291	-	-	-	262,291
<b>Total cash and investment assets - ending</b>	<b>\$ 1,216,898</b>	<b>\$ 1,601,341</b>	<b>\$ 262,291</b>	<b>\$ 2,259,442</b>	<b>\$ 4,749,170</b>	<b>\$ 1,846,344</b>	<b>\$ 11,935,486</b>
<b>Cash and Investment Fund Balance - Ending</b>							
Restricted for:							
Debt service	\$ -	\$ -	\$ 262,291	\$ -	\$ -	\$ -	\$ 262,291
Unrestricted	1,216,898	1,601,341	-	2,259,442	4,749,170	1,846,344	11,673,195
<b>Total cash and investment fund balance - ending</b>	<b>\$ 1,216,898</b>	<b>\$ 1,601,341</b>	<b>\$ 262,291</b>	<b>\$ 2,259,442</b>	<b>\$ 4,749,170</b>	<b>\$ 1,846,344</b>	<b>\$ 11,935,486</b>

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  
PROPRIETARY FUND  
For the Year Ended June 30, 2008

	<u>Internal Service Fund</u>
Operating receipts:	
Employer contributions	\$ 3,365,942
Employee contributions	138,990
Other	<u>265,367</u>
Total operating receipts	<u>3,770,299</u>
Operating disbursements:	
Insurance Claims and Premiums	<u>2,777,465</u>
Excess of operating receipts over operating disbursements	992,834
Cash and investment fund balance - beginning	<u>3,772,909</u>
Cash and investment fund balance - ending	<u>\$ 4,765,743</u>
<u>Cash and Investment Assets - Ending</u>	
Restricted assets:	
Cash and investments	<u>\$ 4,765,743</u>
<u>Cash and Investment Fund Balance - Ending</u>	
Restricted for:	
Other purposes	<u>\$ 4,765,743</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  
PROPRIETARY FUND  
For the Year Ended June 30, 2009

	<u>Internal Service Fund</u>
Operating receipts:	
Employer contributions	\$ 2,924,712
Employee contributions	257,683
Other	<u>135,795</u>
Total operating receipts	<u>3,318,190</u>
Operating disbursements:	
Insurance Claims and Premiums	<u>3,327,746</u>
Deficiency of operating receipts over operating disbursements	(9,556)
Cash and investment fund balance - beginning	<u>4,765,743</u>
Cash and investment fund balance - ending	<u>\$ 4,756,187</u>
<u>Cash and Investment Assets - Ending</u>	
Restricted assets:	
Cash and investments	<u>\$ 4,756,187</u>
<u>Cash and Investment Fund Balance - Ending</u>	
Restricted for:	
Other purposes	<u>\$ 4,756,187</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 FUND  
For the Year Ended June 30, 2008

	Pension Trust Fund
Additions:	
Investment earnings:	
Interest	\$ 9,255
Deductions:	
Benefits	422,905
Deficiency of total additions over total deductions	(413,650)
Cash and investment fund balance - beginning	413,650
Cash and investment fund balance - ending	\$ -
Net assets:	
Cash and investment basis held in trust	\$ -

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 FUND  
For the Year Ended June 30, 2009

	<u>Agency Fund</u>
Net assets:	
Cash and investment basis held in trust	<u>\$ 55,467</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.

The School Corporation's financial reporting entity is composed of the following:

Primary Government: School Town of Highland

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 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 body 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 97<sup>th</sup> Avenue, Crown Point, IN 46307.

The School Corporation is a participant with 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 \$1,000 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 other school corporations and 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 41<sup>st</sup> Avenue, Highland, IN 46322.

SCHOOL TOWN OF HIGHLAND  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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 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 41<sup>st</sup> Avenue, Highland, IN 46322. The School Corporation is no longer a member of the Northwest Indiana Natural Gas Cooperative beginning July 1, 2009.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Activities and Net Assets – Cash and Investment Basis displays 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, 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 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 construction fund accounts for the receipts from the sale of general obligation bonds to be used for capital outlay.

The education stimulus fund accounts for the fiscal stabilization funds from the American Recovery and Reinvestment Act of 2009 from the federal government.

SCHOOL TOWN OF HIGHLAND  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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 corporation in a trustee capacity.

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 interfund 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.

SCHOOL TOWN OF HIGHLAND  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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.

3. Capital Assets

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

4. Long-Term Debt

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

5. 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.
- 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.

SCHOOL TOWN OF HIGHLAND  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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 – Cash and Investment Basis, 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 – Cash and Investment Basis. The effects of interfund services between funds, if any, are not eliminated in the government-wide Statement of Activities and Net Assets – Cash and Investment Basis.

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 January 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 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.

SCHOOL TOWN OF HIGHLAND  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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. Cash and Investment Balance Deficits

At June 30, 2008 and 2009, the following funds reported deficits in cash and investments, which are violations of the Uniform Compliance Guidelines and state statute:

Fund	2008	2009
Workforce Development 07/08	\$ 5,069	\$ -
Title I Improvement	11,480	-
Pension Bond Debt Service	80,100	95,353
Workforce Development 08/09	-	2,269

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.

III. Detailed Notes on All Funds

A. Deposits and Investments

1. 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.

2. Investments

Statutory Authorization for Investments

Indiana Code 5-13-9 authorizes the School Corporation to invest in securities backed by the full faith and credit of the United States Treasury or fully guaranteed by the United States of America and issued by the United States Treasury, a federal agency, a federal instrumentality, or a federal government sponsored enterprise. Indiana Code also authorizes the School Corporation to invest in securities fully guaranteed and issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise. These investments are required by statute to have a stated final maturity of not more than two years.

SCHOOL TOWN OF HIGHLAND  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Indiana Code also provides for investment in money market mutual funds that are in the form of securities of, or interest in, an open-end, no-load, management-type investment company or investment trust registered under the provision of the federal Investment Company Act of 1940, as amended. Investments in money market mutual funds may not exceed 50% of the funds held by the School Corporation and available for investment. The portfolio of an investment company or investment trust used must be limited to direct obligations of the United States of America, obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise or repurchase agreements fully collateralized by direct obligations of the United States of America or obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise. The form of securities of, or interest in, an investment company or investment trust must be rated as AAA, or its equivalent by Standard and Poor's Corporation or its successor or Aaa, or its equivalent, by Moody's Investors Service, Inc., or its successor. The form of securities in an investment company or investment trust should have a stated final maturity of one day.

Additionally, the School Corporation may enter into repurchase agreements with depositories designated by the State Board of Finance as depositories for state deposits involving the School Corporation's purchase and guaranteed resale of any interest-bearing obligations issued or fully insured or guaranteed by the United States of America, a United States of America government agency, an instrumentality of the United States of America, or a federal government sponsored enterprise. The repurchase agreement is considered to have a stated final maturity of one day. This agreement must be fully collateralized by interest-bearing obligations as determined by their current market value.

Investment Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The School Corporation does not have a formal investment policy for custodial credit risk for investments.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The School Corporation must follow state statute and limit the stated final maturities of the investments to no more than two years. The School Corporation does not have a formal investment policy for interest rate risk for investments.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The distribution of securities with credit ratings is summarized below. The School Corporation does not have a formal investment policy for credit risk for investments.

B. Interfund Transfers

Interfund transfers for the years ended June 30, 2008 and 2009, were as follows:

SCHOOL TOWN OF HIGHLAND  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

<u>Transfer From</u>	<u>Transfer To</u>	<u>2008</u>	<u>2009</u>
Debt Service Fund	Other governmental funds	\$ 26,549	\$ -
Other governmental funds	Other governmental funds	<u>29,869</u>	<u>207</u>
Totals		<u>\$ 56,418</u>	<u>\$ 207</u>

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

C. Tax Anticipation Warrants

Tax anticipation warrant outstanding balances as of June 30, 2008 and 2009, are detailed in the following schedule:

<u>Fund</u>	<u>Warrants Outstanding 06-30-08</u>	<u>Warrants Outstanding 06-30-09</u>
General	\$ 7,422,000	\$ 1,100,000
Debt Service	1,100,000	1,723,000
Capital Projects	1,200,000	3,024,000
Transportation Operating	<u>400,000</u>	<u>800,000</u>
Totals	<u>\$ 10,122,000</u>	<u>\$ 6,647,000</u>

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

SCHOOL TOWN OF HIGHLAND  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

risk did not exceed commercial insurance coverage in the past three years. Interfund premiums 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 Corporations

The School Corporation has entered into capital leases with the Highland School and Highland Multi-School Building Corporations (the lessors). The lessors were organized as not-for-profit corporations pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the School Corporation. The lessors have been determined to be a related party of the School Corporation. Lease payments during the year totaled \$2,956,500.

C. Subsequent Events

Reassessment and Property Taxes

In accordance with state statutes, all counties were required to trend property values prior to billing taxes in 2009. Taxes are normally billed in two installments, the first is due in May, and the second in November. Significant delays in the trending process have resulted in delays in billing taxes for 2009. Lake County 2008 pay 2009 tax rates were approved on July 31, 2009. The School Corporation received a partial payment on November 3, 2009.

General Obligation Bonds

On November 17, 2009, the School Corporation approved issuing \$5,000,000 in general obligation bonds for equipment and improvements to all buildings of the school corporation.

D. Other Postemployment Benefits

Administrators

Administrators who serve a minimum of ten (10) years as an administrator in the School Corporation, are a minimum of fifty-five (55) years of age, and who qualify for one (1) of the Indiana Teachers' Retirement Fund eligibility requirements for unreduced retirement benefits upon their retirement from the School Corporation shall receive a one-time supplemental early retirement/severance benefit payment. Administrators who are not eligible for Indiana Teachers' Retirement Fund benefits must serve a minimum of ten (10) consecutive years as an administrator of the School Corporation and be a minimum of fifty-five (55) years of age to receive early retirement/severance benefits. For the 2008-2009 fiscal year, \$8,237.50 was paid in severance benefits for one administrator.

One (1) year of administrative credit will be granted for two (2) years of School Corporation teaching experience to a maximum of five (5) years of service credit. In addition, an administrator will receive one (1) year of service credit for each one (1) year of previous administrative or related experience outside the School Corporation to a maximum of five (5) years service credit for such previous experience. Service credit earned from previous School Corporation teaching experience and/or outside administrative or related experience will count for vesting purposes only and will not be calculated as part of the dollar equation for early retirement/severance benefit payments.

SCHOOL TOWN OF HIGHLAND  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Administrators who meet the eligibility criteria and become vested shall qualify for the following early retirement/severance benefits: \$1,000 for each year of credited service, \$100 for each accumulated absence day (capped at a maximum of three hundred days), and a \$5,000 one-time supplemental early retirement/severance benefit payment. Funds will be deposited into a 401(a) account on or about July 1 each year.

Administrators who qualified for the School Corporation's early retirement/severance plan in effect on June 30, 2003, shall be paid their allotted money over a five (5) year period beginning on or about July 1, 2004, and on or about each successive July 1 thereafter, based on the formula in effect on June 30, 2003. The formula amount will be calculated using the contract salary in effect on June 30, 2003.

The amount the school corporation contributes to group health, vision, dental, and/or life insurance premiums in effect on the date of early retirement/severance will be provided only on a continuous basis for a maximum of seven (7) years or until the age of Medicare eligibility, whichever comes first, provided the administrator has met minimum vesting requirements, is not eligible for such insurance benefits elsewhere, and has participated in a School Town of Highland health insurance plan a minimum of one (1) year immediately prior to retirement. The retired administrator will be responsible for all premium cost increases after the effective date of early retirement/severance. This benefit will be cancelled if the retired administrator allows any insurance plan to lapse for any reason. The annuity option in lieu of health insurance benefits terminates on the effective date of retirement. For the 2008-2009 fiscal year, \$65,848.64 was paid in benefits for five administrators.

Teachers

Teachers who have been employed in the School Corporation for ten (10) or more consecutive school years prior to the 2002-2003 school year shall receive severance pay based upon a formula which takes into account the teacher's accumulated absence days and the number of years that the teacher has taught in the School Corporation. The severance pay will be deposited into the teacher's post-separation 403(b) account. For the 2008-2009 fiscal year, \$176,775.30 was paid in severance benefits to 26 retired teachers.

Teachers employed for one (1) or more, but less than ten (10) consecutive school years prior to the 2002-2003 school year, shall have placed into a 401(A) individual retirement account a sum equal to 1% for each consecutive year of service in the School Corporation times the BS+0 salary in October 2002; thereafter, annually each October 1 an amount equal to 1% of the BS+0 salary and a ratio of all absence days in excess of one hundred (100) based on an established formula.

Teachers first hired with the beginning of the 2002-2003 school year and thereafter, shall have contributed annually into a 401(A) individual retirement account after completion of the school year the following October 1 a sum equal to 1% of the current BS+0 salary annually and a ratio of all absence days in excess of one hundred (100) based on an established formula.

For teachers retiring before July 1, 2005, the retiring teacher shall be allowed to continue in the group health plan until the teacher or his/her spouse becomes eligible for coverage under another employer health insurance plan, until the teacher becomes eligible for coverage for Medicare or dies, whichever occurs first. The School Town of Highland will make annual contributions toward the retiring teacher's total premium cost of a sum equal to the cost of the single plan health,

SCHOOL TOWN OF HIGHLAND  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

dental and vision insurance premium in effect at the effective date of the teacher's retirement, less one dollar (\$1.00). In the event that the annual premium cost for a single plan increases after the effective date of the teacher's retirement, the retiring teacher shall be responsible for all increases. For the 2008-2009 fiscal year, \$165,588.91 was paid in benefits for 24 retirees.

For teachers retiring on or after July 1, 2005, the school corporation shall contribute to a voluntary employees' beneficiary association ("VEBA") as described in section 501 (9) of the Code, that amount representing the present value of the group health insurance benefits as calculated for all employees pursuant to "Attachment A." The organization administering the VEBA account shall be made by mutual agreement. The terms and conditions for the administration and operations of the VEBA shall be as follows:

The amount calculated for each employee will be invested in a separate VEBA account. There will be no commingling of accounts and each employee may determine how his or her account shall be invested among the investment options made available by the vendor for the VEBA.

Until such time that an employee has retired and satisfied the eligibility requirements set forth of this Article, the employee shall have no access to the assets held in his or her separate VEBA account. At no time may a participant borrow from his VEBA account.

Following retirement and the satisfaction of the requirements set forth, a retired employee may elect to commence distributions from his VEBA account to pay health insurance premiums, term life insurance premiums, and to be reimbursed for unreimbursed medical expenses of the employee, spouse, and dependents. If an employee dies after having satisfied the requirements of this article, the deceased employee's VEBA plan account shall be distributable to the decedent's designated beneficiary or to his/her estate if no beneficiary designation has been made.

If an employee retires or otherwise terminates employment before satisfaction of the requirements set forth in this article, the terminated employee's VEBA account shall be forfeited.

The forfeited amounts shall be reallocated at the end of each plan year only among then remaining separate VEBA accounts in a manner similar to that used in initially determining the present value calculations.

Furthermore, VEBA accounts of employees who have attained the age of fifty-eight (58), but have not terminated employment may share in the reallocated forfeiture, but on a reduced basis.

The School Corporation shall not be paid any compensation for its services performed on behalf of the VEBA. All costs incurred in the administration of the VEBA and investment fees shall be paid from the VEBA assets.

Classified Employees

For 260 day employees, 190-259 day employees, and group I transportation drivers, an annual contribution toward the premium cost of the single health insurance plan in effect on the date of early retirement/severance for employees who have completed a minimum of twenty-five (25) consecutive years of full-time employment, are at least fifty-five (55) years of age, are eligible for retirement with the Indiana Public Employees' Retirement Fund, are not eligible for such insurance benefits elsewhere, and has participated in a School Corporation health insurance plan a

SCHOOL TOWN OF HIGHLAND  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

minimum of one (1) year immediately prior to retirement. Such a contribution will be provided only on a continuous basis for a maximum of seven (7) years or until the age of Medicare eligibility, whichever comes first. Such retired employees shall be responsible for all premium cost increases for the single health insurance plan after the effective date of early retirement/severance. This benefit will be cancelled if the retired employee allows the health insurance plan to lapse for any reason.

For 260 day employees, 190-259 day employees, and group I transportation drivers, an annual contribution in an amount equal to sixty percent (60%) of the premium cost of the single health insurance plan in effect on the date of early retirement/severance for employees who have completed a minimum of fifteen (15) consecutive years of full-time employment, are at least sixty (60) years of age, are eligible for retirement with the Indiana Public Employees' Retirement Fund, are not eligible for such insurance benefits elsewhere, and has participated in a School Corporation health insurance plan a minimum of one (1) year immediately prior to retirement. Such a contribution will be provided only on a continuous basis for a maximum of seven (7) years or until the age of Medicare eligibility, whichever comes first. The additional forty percent (40%) contribution, along with annual premium cost increases for the single health insurance plan, shall be the responsibility of the retired employee. This benefit will be cancelled if the retired employee allows the health insurance plan to lapse for any reason.

For the 2008-2009 fiscal year, \$13,104 was paid for insurance benefits for two retirees.

For 260 day employees, 190-259 day employees, and group I transportation drivers, an annual contribution toward the premium cost of group term life insurance in the amount of \$50,000 for employees who have completed a minimum of fifteen (15) consecutive years of full-time employment, are at least sixty (60) years of age, and are eligible for retirement with the Indiana Public Employees' Retirement Fund. Such term group life insurance is subject to the decreasing benefit structure as defined in the benefit plan and will continue to the age of seventy (70), at which time the retired employee may pay the premium cost to continue group term life insurance.

For 260 day employees, early retirement/severance payments of \$35 for each accumulated absence day and a \$7,500 one-time supplemental pay benefit after ten (10) consecutive years of service. Employees who are eligible for the existing early retirement/severance plan as of June 30, 2004, shall automatically become eligible for such early retirement/severance payments and shall receive a credit of \$750 for each year of consecutive service up to a maximum of \$7,500 in supplemental pay benefits. For the 2008-2009 fiscal year \$9,899.12 was paid in severance benefits for one retiree.

For 190-259 day employees, group I and II transportation drivers, and head cooks/1<sup>st</sup> helpers, early retirement/severance payments of \$25 for each accumulated absence day and a \$5,000 one-time supplemental pay benefit after ten (10) consecutive years of service. Employees who are eligible for the existing early retirement/severance plan as of June 30, 2004, shall automatically become eligible for such early retirement/severance payments and shall receive a credit of \$500 for each year of consecutive service up to a maximum of \$5,000 in supplemental pay benefits.

For 260 day employees, and 190-259 day employees, who have been employed in the School Corporation for six (6) consecutive years prior to June 30, 2004, shall receive severance pay based upon a formula which takes into account the employee's accumulated sick days and the

SCHOOL TOWN OF HIGHLAND  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

number of years that the employee has worked in the system. If an employee notifies the Superintendent and the Board in writing of his/her resignation subsequent to July 1 preceding the last school year but before June 1 of the last school year, said employee will receive severance benefits on or before January 31 of the following year. For the 2008-2009 fiscal year \$6,291.80 was paid in severance benefits for one retiree.

For less than 190 day employees, a \$2,500 one-time early retirement/severance pay benefit after ten (10) consecutive years of service.

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 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.

SCHOOL TOWN OF HIGHLAND  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 166,391
Interest on net pension obligation	(438)
Adjustment to annual required contribution	499
Annual pension cost	166,452
Contributions made	184,606
Increase (decrease) in net pension obligation	(18,154)
Net pension obligation, beginning of year	(6,036)
Net pension obligation, end of year	\$ (24,190)

	PERF
Contribution rates:	
School Corporation	6.75%
Plan members	3%
Actuarial valuation date	07-01-08
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
Amortization period	30 years
Amortization period (from date)	07-01-97
Asset valuation method	75% of expected actuarial value plus 25% of market value

<u>Actuarial Assumptions</u>	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	06-30-06	\$ 182,467	78%	\$ (39,526)
	06-30-07	190,996	82%	(6,036)
	06-30-08	166,452	111%	(24,190)

SCHOOL TOWN OF HIGHLAND  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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 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, 2009, 2008, and 2007, were \$456,761, \$416,893, and \$359,629, 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)	Excess of Assets Over (Unfunded) AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess (Unfunded) AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-06	\$ 3,509,871	\$ 3,677,649	\$ (167,778)	95%	\$ 2,788,504	(6%)
07-01-07	3,763,849	3,740,795	23,054	101%	2,574,948	1%
07-01-08	3,955,886	3,999,661	(43,775)	99%	2,865,318	(2%)

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, 2008

	Employee Recognition	Project Case	Resist	Kindergarten Textbook Rental	Transportation Operating	Special Education Preschool	School Lunch
<b>Receipts:</b>							
Local sources	\$ 3,377	\$ 3,463	\$ 403	\$ -	\$ 885,895	\$ 6,937	\$ 853,552
State sources	-	-	-	-	-	63,847	21,639
Federal sources	-	-	-	-	-	-	298,479
Temporary loans	-	-	-	-	400,000	-	-
Other	-	-	-	-	1,000	-	-
<b>Total receipts</b>	<b>3,377</b>	<b>3,463</b>	<b>403</b>	<b>-</b>	<b>1,286,895</b>	<b>70,784</b>	<b>1,173,670</b>
<b>Disbursements:</b>							
<b>Current:</b>							
Instruction	-	-	-	-	-	-	-
Support services	4,468	-	-	-	967,024	2,059	1,975
Noninstructional services	-	-	-	-	-	-	994,903
Facilities acquisition and construction	-	-	-	-	-	90,000	-
Debt services	-	-	-	-	355,000	-	-
<b>Total disbursements</b>	<b>4,468</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,322,024</b>	<b>92,059</b>	<b>996,878</b>
<b>Excess (deficiency) of receipts over disbursements</b>	<b>(1,091)</b>	<b>3,463</b>	<b>403</b>	<b>-</b>	<b>(35,129)</b>	<b>(21,275)</b>	<b>176,792</b>
<b>Other financing sources (uses):</b>							
Transfers in	-	-	-	-	-	-	-
Transfers out	-	-	-	(7,358)	-	-	-
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(7,358)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses</b>	<b>(1,091)</b>	<b>3,463</b>	<b>403</b>	<b>(7,358)</b>	<b>(35,129)</b>	<b>(21,275)</b>	<b>176,792</b>
Cash and investments - beginning	2,727	-	-	7,358	175,382	26,322	805,242
<b>Cash and investments - ending</b>	<b>\$ 1,636</b>	<b>\$ 3,463</b>	<b>\$ 403</b>	<b>\$ -</b>	<b>\$ 140,253</b>	<b>\$ 5,047</b>	<b>\$ 982,034</b>
<b>Cash and Investment Assets - Ending</b>							
Cash and investments	\$ 1,636	\$ 3,463	\$ 403	\$ -	\$ 140,253	\$ 5,047	\$ 982,034
<b>Cash and Investment Fund Balance - Ending</b>							
Unrestricted	\$ 1,636	\$ 3,463	\$ 403	\$ -	\$ 140,253	\$ 5,047	\$ 982,034

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, 2008  
 (Continued)

	Textbook Rental	Dependent Care	Safe School Haven	Gifted & Talented FY 05/06	Gifted & Talented FY 04/05	Language Minority 08/09	Workforce Development 07/08
<b>Receipts:</b>							
Local sources	\$ 336,932	\$ 93,995	\$ -	\$ -	\$ -	\$ -	\$ -
State sources	71,685	-	-	40,480	-	24,004	12,177
Federal sources	-	-	15,367	-	-	-	-
Temporary loans	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
<b>Total receipts</b>	<b>408,617</b>	<b>93,995</b>	<b>15,367</b>	<b>40,480</b>	<b>-</b>	<b>24,004</b>	<b>12,177</b>
<b>Disbursements:</b>							
<b>Current:</b>							
Instruction	-	-	6,888	33,388	7,357	19,923	-
Support services	233,325	8,367	8,479	-	-	-	17,246
Noninstructional services	-	83,661	-	-	-	-	-
Facilities acquisition and construction	-	-	-	-	-	-	-
Debt services	-	-	-	-	-	-	-
<b>Total disbursements</b>	<b>233,325</b>	<b>92,028</b>	<b>15,367</b>	<b>33,388</b>	<b>7,357</b>	<b>19,923</b>	<b>17,246</b>
<b>Excess (deficiency) of receipts over disbursements</b>	<b>175,292</b>	<b>1,967</b>	<b>-</b>	<b>7,092</b>	<b>(7,357)</b>	<b>4,081</b>	<b>(5,069)</b>
<b>Other financing sources (uses):</b>							
Transfers in	33,907	18,860	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>33,907</b>	<b>18,860</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses</b>	<b>209,199</b>	<b>20,827</b>	<b>-</b>	<b>7,092</b>	<b>(7,357)</b>	<b>4,081</b>	<b>(5,069)</b>
Cash and investments - beginning	122,865	-	-	-	7,357	-	-
<b>Cash and investments - ending</b>	<b>\$ 332,064</b>	<b>\$ 20,827</b>	<b>\$ -</b>	<b>\$ 7,092</b>	<b>\$ -</b>	<b>\$ 4,081</b>	<b>\$ (5,069)</b>
<b>Cash and Investment Assets - Ending</b>							
Cash and investments	\$ 332,064	\$ 20,827	\$ -	\$ 7,092	\$ -	\$ 4,081	\$ (5,069)
<b>Cash and Investment Fund Balance - Ending</b>							
Unrestricted	\$ 332,064	\$ 20,827	\$ -	\$ 7,092	\$ -	\$ 4,081	\$ (5,069)

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, 2008  
 (Continued)

	Title I FY 04/05	Title I FY 05/06	Title I Improvement	Title V	Safe and Drug-Free Schools 08/10	Dependent Care 590
<b>Receipts:</b>						
Local sources	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 57,038
State sources	-	-	-	-	-	-
Federal sources	-	118,413	16,478	4,937	6,000	-
Temporary loans	-	-	-	-	-	-
Other	-	-	-	-	-	-
<b>Total receipts</b>	<b>-</b>	<b>118,413</b>	<b>16,478</b>	<b>4,937</b>	<b>6,000</b>	<b>57,038</b>
<b>Disbursements:</b>						
<b>Current:</b>						
Instruction	1,420	102,901	32,684	4,945	-	5,020
Support services	-	8,092	6,472	-	2,043	3,409
Noninstructional services	490	324	278	-	-	82,049
Facilities acquisition and construction	-	-	-	-	-	-
Debt services	-	-	-	-	-	-
<b>Total disbursements</b>	<b>1,910</b>	<b>111,317</b>	<b>39,434</b>	<b>4,945</b>	<b>2,043</b>	<b>90,478</b>
<b>Excess (deficiency) of receipts over disbursements</b>	<b>(1,910)</b>	<b>7,096</b>	<b>(22,956)</b>	<b>(8)</b>	<b>3,957</b>	<b>(33,440)</b>
<b>Other financing sources (uses):</b>						
Transfers in	-	3,651	-	-	-	-
Transfers out	(3,651)	-	-	-	-	(18,860)
<b>Total other financing sources (uses)</b>	<b>(3,651)</b>	<b>3,651</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(18,860)</b>
<b>Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses</b>	<b>(5,561)</b>	<b>10,747</b>	<b>(22,956)</b>	<b>(8)</b>	<b>3,957</b>	<b>(52,300)</b>
<b>Cash and investments - beginning</b>	<b>5,561</b>	<b>-</b>	<b>11,476</b>	<b>8</b>	<b>510</b>	<b>52,300</b>
<b>Cash and investments - ending</b>	<b>\$ -</b>	<b>\$ 10,747</b>	<b>\$ (11,480)</b>	<b>\$ -</b>	<b>\$ 4,467</b>	<b>\$ -</b>
<b><u>Cash and Investment Assets - Ending</u></b>						
<b>Cash and investments</b>	<b>\$ -</b>	<b>\$ 10,747</b>	<b>\$ (11,480)</b>	<b>\$ -</b>	<b>\$ 4,467</b>	<b>\$ -</b>
<b><u>Cash and Investment Fund Balance - Ending</u></b>						
<b>Unrestricted</b>	<b>\$ -</b>	<b>\$ 10,747</b>	<b>\$ (11,480)</b>	<b>\$ -</b>	<b>\$ 4,467</b>	<b>\$ -</b>

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, 2008  
 (Continued)

	Title II A	Title II D	Title III ESL	Pension Bond Debt Service	Bus Replacement	Totals
<b>Receipts:</b>						
Local sources	\$ -	\$ -	\$ -	\$ 208,861	\$ 228,062	\$ 2,678,515
State sources	-	-	-	-	-	233,832
Federal sources	54,000	-	18,036	-	-	531,710
Temporary loans	-	-	-	-	-	400,000
Other	-	-	-	-	-	1,000
<b>Total receipts</b>	<u>54,000</u>	<u>-</u>	<u>18,036</u>	<u>208,861</u>	<u>228,062</u>	<u>3,845,057</u>
<b>Disbursements:</b>						
<b>Current:</b>						
Instruction	2,300	-	16,030	-	-	232,856
Support services	77,330	1,462	-	-	218,760	1,560,511
Noninstructional services	-	-	-	-	-	1,161,705
Facilities acquisition and construction	-	-	-	-	-	90,000
Debt services	-	-	-	194,156	-	549,156
<b>Total disbursements</b>	<u>79,630</u>	<u>1,462</u>	<u>16,030</u>	<u>194,156</u>	<u>218,760</u>	<u>3,594,228</u>
<b>Excess (deficiency) of receipts over disbursements</b>	<u>(25,630)</u>	<u>(1,462)</u>	<u>2,006</u>	<u>14,705</u>	<u>9,302</u>	<u>250,829</u>
<b>Other financing sources (uses):</b>						
Transfers in	-	-	-	-	-	56,418
Transfers out	-	-	-	-	-	(29,869)
<b>Total other financing sources (uses)</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>26,549</u>
<b>Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses</b>	<u>(25,630)</u>	<u>(1,462)</u>	<u>2,006</u>	<u>14,705</u>	<u>9,302</u>	<u>277,378</u>
<b>Cash and investments - beginning</b>	<u>70,343</u>	<u>1,462</u>	<u>430</u>	<u>(94,805)</u>	<u>42,255</u>	<u>1,236,793</u>
<b>Cash and investments - ending</b>	<u>\$ 44,713</u>	<u>\$ -</u>	<u>\$ 2,436</u>	<u>\$ (80,100)</u>	<u>\$ 51,557</u>	<u>\$ 1,514,171</u>
<b><u>Cash and Investment Assets - Ending</u></b>						
Cash and investments	<u>\$ 44,713</u>	<u>\$ -</u>	<u>\$ 2,436</u>	<u>\$ (80,100)</u>	<u>\$ 51,557</u>	<u>\$ 1,514,171</u>
<b><u>Cash and Investment Fund Balance - Ending</u></b>						
Unrestricted	<u>\$ 44,713</u>	<u>\$ -</u>	<u>\$ 2,436</u>	<u>\$ (80,100)</u>	<u>\$ 51,557</u>	<u>\$ 1,514,171</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, 2009

	Employee Recognition	Project Case	Resist	Transportation Operating	Special Education Preschool	School Lunch	Textbook Rental
<b>Receipts:</b>							
Local sources	\$ 2,845	\$ -	\$ -	\$ 957,485	\$ 13,371	\$ 835,889	\$ 308,763
State sources	-	-	-	-	86,841	21,673	97,491
Federal sources	-	-	-	-	-	356,414	-
Temporary loans	-	-	-	800,000	-	-	-
Other	-	-	-	3,966	-	-	-
<b>Total receipts</b>	<b>2,845</b>	<b>-</b>	<b>-</b>	<b>1,761,451</b>	<b>100,212</b>	<b>1,213,976</b>	<b>406,254</b>
<b>Disbursements:</b>							
<b>Current:</b>							
Instruction	-	-	-	-	-	-	-
Support services	3,143	-	-	959,502	-	2,115	568,676
Noninstructional services	-	-	-	-	-	1,245,233	-
Debt services	-	-	-	400,000	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-
<b>Total disbursements</b>	<b>3,143</b>	<b>-</b>	<b>-</b>	<b>1,359,502</b>	<b>-</b>	<b>1,247,348</b>	<b>568,676</b>
Excess (deficiency) of receipts over disbursements	(298)	-	-	401,949	100,212	(33,372)	(162,422)
<b>Other financing sources (uses):</b>							
Transfers in	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(298)	-	-	401,949	100,212	(33,372)	(162,422)
Cash and investments - beginning	1,636	3,463	403	140,253	5,047	982,034	332,064
Cash and investments - ending	\$ 1,338	\$ 3,463	\$ 403	\$ 542,202	\$ 105,259	\$ 948,662	\$ 169,642
<b>Cash and Investment Assets - Ending</b>							
Cash and investments	\$ 1,338	\$ 3,463	\$ 403	\$ 542,202	\$ 105,259	\$ 948,662	\$ 169,642
<b>Cash and Investment Fund Balance - Ending</b>							
Unrestricted	\$ 1,338	\$ 3,463	\$ 403	\$ 542,202	\$ 105,259	\$ 948,662	\$ 169,642

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, 2009  
 (Continued)

	Dependent Care	Safe School Haven 08/09	Gifted & Talented FY 05/06	High Ability	Special Drug Free 07/08	Special Drug Free 09/10	Language Minority 08/09
<b>Receipts:</b>							
Local sources	\$ 153,515	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
State sources	-	-	-	40,480	2,000	3,000	-
Federal sources	-	5,100	-	-	-	-	-
Temporary loans	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
<b>Total receipts</b>	<b>153,515</b>	<b>5,100</b>	<b>-</b>	<b>40,480</b>	<b>2,000</b>	<b>3,000</b>	<b>-</b>
<b>Disbursements:</b>							
<b>Current:</b>							
Instruction	-	5,100	7,092	35,373	-	-	4,081
Support services	-	-	-	-	2,000	-	-
Noninstructional services	146,225	-	-	-	-	-	-
Debt services	-	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-
<b>Total disbursements</b>	<b>146,225</b>	<b>5,100</b>	<b>7,092</b>	<b>35,373</b>	<b>2,000</b>	<b>-</b>	<b>4,081</b>
<b>Excess (deficiency) of receipts over disbursements</b>	<b>7,290</b>	<b>-</b>	<b>(7,092)</b>	<b>5,107</b>	<b>-</b>	<b>3,000</b>	<b>(4,081)</b>
<b>Other financing sources (uses):</b>							
Transfers in	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses</b>	<b>7,290</b>	<b>-</b>	<b>(7,092)</b>	<b>5,107</b>	<b>-</b>	<b>3,000</b>	<b>(4,081)</b>
Cash and investments - beginning	20,827	-	7,092	-	-	-	4,081
Cash and investments - ending	\$ 28,117	\$ -	\$ -	\$ 5,107	\$ -	\$ 3,000	\$ -
<b>Cash and Investment Assets - Ending</b>							
Cash and investments	\$ 28,117	\$ -	\$ -	\$ 5,107	\$ -	\$ 3,000	\$ -
<b>Cash and Investment Fund Balance - Ending</b>							
Unrestricted	\$ 28,117	\$ -	\$ -	\$ 5,107	\$ -	\$ 3,000	\$ -

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, 2009  
 (Continued)

	Language Minority 09/10	School Tech	Workforce Development 07/08	Workforce Development 08/09	Laptop Project	Title I FY 05/06
<b>Receipts:</b>						
Local sources	\$ -	\$ 251	\$ -	\$ -	\$ -	\$ -
State sources	23,385	-	7,823	12,616	18,480	-
Federal sources	-	-	-	-	-	-
Temporary loans	-	-	-	-	-	-
Other	-	-	-	-	-	-
<b>Total receipts</b>	<b>23,385</b>	<b>251</b>	<b>7,823</b>	<b>12,616</b>	<b>18,480</b>	<b>-</b>
<b>Disbursements:</b>						
<b>Current:</b>						
Instruction	21,666	-	-	-	18,480	9,403
Support services	-	-	2,754	14,885	-	1,137
Noninstructional services	-	-	-	-	-	-
Debt services	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-
<b>Total disbursements</b>	<b>21,666</b>	<b>-</b>	<b>2,754</b>	<b>14,885</b>	<b>18,480</b>	<b>10,540</b>
<b>Excess (deficiency) of receipts over disbursements</b>	<b>1,719</b>	<b>251</b>	<b>5,069</b>	<b>(2,269)</b>	<b>-</b>	<b>(10,540)</b>
<b>Other financing sources (uses):</b>						
Transfers in	-	-	-	-	-	-
Transfers out	-	-	-	-	-	(207)
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(207)</b>
<b>Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses</b>	<b>1,719</b>	<b>251</b>	<b>5,069</b>	<b>(2,269)</b>	<b>-</b>	<b>(10,747)</b>
<b>Cash and investments - beginning</b>	<b>-</b>	<b>-</b>	<b>(5,069)</b>	<b>-</b>	<b>-</b>	<b>10,747</b>
<b>Cash and investments - ending</b>	<b>\$ 1,719</b>	<b>\$ 251</b>	<b>\$ -</b>	<b>\$ (2,269)</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Cash and Investment Assets - Ending</b>						
<b>Cash and investments</b>	<b>\$ 1,719</b>	<b>\$ 251</b>	<b>\$ -</b>	<b>\$ (2,269)</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Cash and Investment Fund Balance - Ending</b>						
<b>Unrestricted</b>	<b>\$ 1,719</b>	<b>\$ 251</b>	<b>\$ -</b>	<b>\$ (2,269)</b>	<b>\$ -</b>	<b>\$ -</b>

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, 2009  
 (Continued)

	Title I FY 08/09	Title I Improvement	Safe and Drug-Free Schools 08/10	Safe and Drug-Free Schools 09/11	Title II A	Title II A 08/10
<b>Receipts:</b>						
Local sources	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
State sources	-	-	-	-	-	-
Federal sources	358,095	12,000	1,530	3,421	41,844	77,947
Temporary loans	-	-	-	-	-	-
Other	-	-	-	-	-	-
<b>Total receipts</b>	<b>358,095</b>	<b>12,000</b>	<b>1,530</b>	<b>3,421</b>	<b>41,844</b>	<b>77,947</b>
<b>Disbursements:</b>						
<b>Current:</b>						
Instruction	249,370	520	-	-	-	61,182
Support services	41,302	-	5,079	99	78,750	9,341
Noninstructional services	2,036	-	-	-	-	-
Debt services	-	-	-	-	-	-
Nonprogrammed charges	207	-	-	-	-	-
<b>Total disbursements</b>	<b>292,915</b>	<b>520</b>	<b>5,079</b>	<b>99</b>	<b>78,750</b>	<b>70,523</b>
<b>Excess (deficiency) of receipts over disbursements</b>	<b>65,180</b>	<b>11,480</b>	<b>(3,549)</b>	<b>3,322</b>	<b>(36,906)</b>	<b>7,424</b>
<b>Other financing sources (uses):</b>						
Transfers in	207	-	-	-	-	-
Transfers out	-	-	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>207</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses</b>	<b>65,387</b>	<b>11,480</b>	<b>(3,549)</b>	<b>3,322</b>	<b>(36,906)</b>	<b>7,424</b>
Cash and investments - beginning	-	(11,480)	4,467	-	44,713	-
<b>Cash and investments - ending</b>	<b>\$ 65,387</b>	<b>\$ -</b>	<b>\$ 918</b>	<b>\$ 3,322</b>	<b>\$ 7,807</b>	<b>\$ 7,424</b>
<b>Cash and Investment Assets - Ending</b>						
Cash and investments	\$ 65,387	\$ -	\$ 918	\$ 3,322	\$ 7,807	\$ 7,424
<b>Cash and Investment Fund Balance - Ending</b>						
Unrestricted	\$ 65,387	\$ -	\$ 918	\$ 3,322	\$ 7,807	\$ 7,424

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, 2009  
 (Continued)

	Title III ESL	Title III ESL 08/09	Stimulus Title I	Pension Bond Debt Service	Bus Replacement	Totals
<b>Receipts:</b>						
Local sources	\$ -	\$ -	\$ -	\$ 173,828	\$ 197,599	\$ 2,643,546
State sources	-	-	-	-	-	313,789
Federal sources	-	22,650	30,301	-	-	909,302
Temporary loans	-	-	-	-	-	800,000
Other	-	-	-	-	-	3,966
<b>Total receipts</b>	<b>-</b>	<b>22,650</b>	<b>30,301</b>	<b>173,828</b>	<b>197,599</b>	<b>4,670,603</b>
<b>Disbursements:</b>						
<b>Current:</b>						
Instruction	2,436	19,470	-	-	-	434,173
Support services	-	-	-	-	232,692	1,921,475
Noninstructional services	-	-	-	-	-	1,393,494
Debt services	-	-	-	189,081	-	589,081
Nonprogrammed charges	-	-	-	-	-	207
<b>Total disbursements</b>	<b>2,436</b>	<b>19,470</b>	<b>-</b>	<b>189,081</b>	<b>232,692</b>	<b>4,338,430</b>
<b>Excess (deficiency) of receipts over disbursements</b>	<b>(2,436)</b>	<b>3,180</b>	<b>30,301</b>	<b>(15,253)</b>	<b>(35,093)</b>	<b>332,173</b>
<b>Other financing sources (uses):</b>						
Transfers in	-	-	-	-	-	207
Transfers out	-	-	-	-	-	(207)
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses</b>	<b>(2,436)</b>	<b>3,180</b>	<b>30,301</b>	<b>(15,253)</b>	<b>(35,093)</b>	<b>332,173</b>
Cash and investments - beginning	2,436	-	-	(80,100)	51,557	1,514,171
Cash and investments - ending	\$ -	\$ 3,180	\$ 30,301	\$ (95,353)	\$ 16,464	\$ 1,846,344
<b>Cash and Investment Assets - Ending</b>						
Cash and investments	\$ -	\$ 3,180	\$ 30,301	\$ (95,353)	\$ 16,464	\$ 1,846,344
<b>Cash and Investment Fund Balance - Ending</b>						
Unrestricted	\$ -	\$ 3,180	\$ 30,301	\$ (95,353)	\$ 16,464	\$ 1,846,344

SCHOOL TOWN OF HIGHLAND  
 COMBINING SCHEDULE OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES  
 AGENCY FUND  
 For the Year Ended June 30, 2009

	Clearing Fund
Additions:	
Agency fund additions	\$ 5,219,666
Deductions:	
Agency fund deductions	5,164,199
Excess (deficiency) of total additions over total deductions	55,467
Cash and investment fund balance - beginning	-
Cash and investment fund balance - ending	\$ 55,467

SCHOOL TOWN OF HIGHLAND  
 SUPPLEMENTARY INFORMATION  
 SCHEDULE OF CAPITAL ASSETS  
 For The Year Ended June 30, 2009

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	\$ 742,990
Buildings and improvements	70,459,719
Machinery and equipment	<u>7,164,507</u>
 Total governmental activities, capital assets not being depreciated	 \$ <u><u>78,367,216</u></u>

SCHOOL TOWN OF HIGHLAND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF LONG-TERM DEBT  
June 30, 2009

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:		
Highland High and Middle School Buildings	\$ 25,385,000	\$ 2,602,000
Highland Multi-School Building - roofing 2008	9,535,000	706,000
Master equipment lease	1,087,185	243,638
Common school loans:		
#A0299 Merkley/Warren Elementaries	193,750	81,250
#A1086 Data processing instructional equipment	69,680	69,680
#A1180 Data processing instructional equipment	160,598	67,348
Bonds payable:		
2002 pension bonds	<u>1,590,000</u>	<u>193,825</u>
Total governmental activities debt	<u>\$ 38,021,213</u>	<u>\$ 3,963,741</u>

SCHOOL TOWN OF HIGHLAND  
AUDIT RESULTS AND COMMENTS

BANK RECONCILEMENT

The following items were noted on the bank reconciliation as of June 30, 2009.

1. The interest earned on the bank accounts for the period of February 2009 through June 2009 totaling \$9,749.31 was not recorded in the School Corporation's records.
2. The ending cash balance of the Payroll Clearing Fund increased by \$55,467 from July 1, 2008 to June 30, 2009. Based on review of the receipts and disbursements of the payroll clearing fund, we determined that \$19,071 was from the remittance of the quarterly retirement payments not recorded in the records until July 2009. However, \$36,642 were receipts posted from the Northwest Indiana Educational Service Center (NWIESC) for federal and state taxes and annuity payments for which the School Corporation did not record a corresponding disbursement to the appropriate agencies. The remaining (\$246) were differences noted in the School Corporation's federal tax, FICA, Medicare, and state taxes categories. Not until the audit were these items identified as reconciling items as of June 30, 2009.
3. The School Lunch Fund collections and disbursements are in a separate bank account maintained by the Food Service Director. The Food Service Director maintains a manual ledger to posts the receipts and disbursements and determines the monthly cash balance to reconcile to the bank statement. The School Corporation also maintains a School Lunch Fund on the computerized ledger. The school lunch receipts and disbursements for the separate bank account are posted to the computerized ledger. The School Corporation, through the School Corporation's main checking account, processes the school lunch payroll and related benefits. Thus, once a month the Food Service Director must reimburse the School Corporation's main checking account for payroll and related benefits from the school lunch bank account.

We determined that the manual ledger and School Corporation computerized ledger balance differed by \$1,724.08 as of June 30, 2009. A review of both ledgers noted that nonsufficient fund (NSF) checks returned by the bank are recorded as disbursements in the manual ledger; however, they are not recorded in the computerized ledger. For 2008-2009, the School Lunch Fund had \$674 of NSF checks not recorded in the computerized ledger. The remaining difference of \$1,050.08 was the balance that was in School Corporation's main checking account at the time the School Corporation made an adjusting entry on July 1, 2008, to bring the manual and computerized ledger into 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)

SCHOOL TOWN OF HIGHLAND  
AUDIT RESULTS AND COMMENTS  
(Continued)

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9) (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

ACADEMIC HONORS DIPLOMA

The School Corporation's supporting documentation reflected a count of 92 students that graduated with academic honors for the Class of 2007. The School Corporation reported 94 students to the Department of Education resulting in an overstatement of two students as academic honors diploma recipients.

School Officials should contact the Indiana Department of Education, Division of School Finance, to determine possible steps to be taken to correct any overpayment/underpayment applicable to the School Corporation because of incorrect reporting. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 8)

CAPITAL ASSET RECORDS

The School Corporation's capital asset capitalization policy for buildings states: "The School Town of Highland will capitalize buildings at full cost with no subcategories for tracking the cost of attachments. Examples of attachments are roofs, heating, cooling, plumbing, lighting, sprinkler systems, or any part of the basic building." The policy for improvement other than buildings states: "The definition of this group is improvements to land for better enjoyment, attached or not easily removed, and will have a life dependency of greater than two years. Examples are walks, parking areas and drives, fencing, retaining walls, underground sprinkler systems, and other similar items. The School Town of Highland will not capitalize new improvements other than buildings."

A review of the capital asset detail ledger noted additions for roof replacements (\$2,286,969), parking lot repaving (\$710,485), carpeting (\$185,132) and boiler (\$32,753).

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (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, 2008, and June 30, 2009.

Fund	2008	2009
Workforce Development 07/08	\$ 5,069	\$ -
Title I Improvement	11,480	-
Pension Bond Debt Service	80,100	95,353
Workforce Development 08/09	-	2,269

SCHOOL TOWN OF HIGHLAND  
 AUDIT RESULTS AND COMMENTS  
 (Continued)

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)

CHANGE ORDERS

The School Board awarded several contracts for improvements and purchases of equipment. A review of the payments made on the approved contracts indicated that change orders were made to the original contract amounts. However, the School Board minutes did not reflect the School Board's approval of the change orders. The following details the project, vendor, board approved contract, actual payments, and the change order additions or reductions:

<u>Project</u>	<u>Vendor</u>	<u>Board Approved Contract</u>	<u>Actual Payments</u>	<u>Change Order</u>
Asphalt repairs and resurfacing	Walsh & Kelly	\$ 673,965	\$ 710,485	\$ 36,520
Football field	R Harker Construction	323,000	341,496	18,496
Tennis courts	Hasse Construction	221,988	227,457	5,469
2008 roofing	Korellis Roofing	469,342	467,413	(1,929)
Carpet/tile at high/middle schools	Custom-Aire Floor Covering	340,603	382,745	42,142
Baseball bleachers	Lee Company	109,440	99,440	(10,000)

If, in the course of construction, reconstruction or repair of a public work project, it becomes necessary to change or alter the original specifications, a change order may be issued to add, delete, or change an item or items in the original contract. All change orders must be directly related to the original public work project.

**Addendum.** The change order becomes an addendum to the contract and must be approved and signed by the board and the contractor.

(Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 16)

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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, 2008 and 2009. 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 each of its major federal programs for the years ended June 30, 2008 and 2009. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2009-1.

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. 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

November 24, 2009

SCHOOL TOWN OF HIGHLAND  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For The Years Ended June 30, 2008 and 2009

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 06-30-08	Total Federal Awards Expended 06-30-09
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
Pass-Through Indiana Department of Education Child Nutrition Cluster School Breakfast Program	10.553		\$ 13,321	\$ 18,458
National School Lunch Program	10.555		<u>348,023</u>	<u>415,717</u>
Total for federal grantor agency			<u>361,344</u>	<u>434,175</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>				
Pass-Through Indiana Department of Education Title I, Part A Cluster Title I Grants to Local Educational Agencies Allocation	84.010		1,910	-
		07-4720	111,317	10,540
		08-4720	-	296,873
		09-4720	-	-
School Improvement		07-4720	10,845	-
		08-4720	<u>27,958</u>	<u>520</u>
Total for program			<u>152,030</u>	<u>307,933</u>
Pass-Through Indiana Department of Education State Fiscal Stabilization Fund Cluster ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	4720	-	<u>661,427</u>
Pass-Through Indiana Department of Education Safe and Drug-Free Schools and Communities - State Grants	84.186	4720-06	485	-
		4720-07	1,533	5,079
		08-4720	-	<u>493</u>
Total for program			<u>2,018</u>	<u>5,572</u>
Pass-Through Indiana Department of Workforce Development Tech-Prep Education	84.243	C1-8-PLTW-7-527	17,246	2,754
		C1-9-PLTW-8-527	-	<u>14,885</u>
Total for program			<u>17,246</u>	<u>17,639</u>
Pass-Through Indiana Department of Education State Grants for Innovative Programs	84.298	07-4720	<u>4,937</u>	-
Pass-Through Indiana Department of Education Education Technology State Grants	84.318	FY 2005/2007	<u>1,462</u>	-
Pass-Through Indiana Department of Education English Language Acquisition Grants	84.365	FY 2007/2008	16,030	2,436
		FY 2008/2009	-	<u>19,470</u>
Total for program			<u>16,030</u>	<u>21,906</u>
Pass-Through Indiana Department of Education Improving Teacher Quality State Grants	84.367	06-4720	65,017	9,957
		07-4720	1,243	74,930
		08-4720	-	<u>80,347</u>
Total for program			<u>66,260</u>	<u>165,234</u>
Total for federal grantor agency			<u>259,983</u>	<u>1,179,711</u>
Total federal awards expended			<u>\$ 621,327</u>	<u>\$ 1,613,886</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, 2008 and 2009. This noncash assistance is also included in the federal expenditures presented in the schedule.

Program Title	Federal CFDA Number	2008	2009
National School Lunch Program	10.555	\$ 61,571	\$ 70,071

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
Significant deficiencies identified that are not considered to be material weaknesses?	none reported
Noncompliance material to financial statements noted?	no

Federal Awards:

Internal control over major programs:

Material weaknesses identified?	no
Significant deficiencies identified that are not considered to be material weaknesses?	no

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?	yes
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Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
84.010	Title I Grants to Local Educational Agencies
84.394	ARRA - State Fiscal Stabilization Fund (SFSF) – Educational State Grants, Recovery Act

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

Auditee qualified as low-risk auditee?	no
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Section II – Financial Statement Findings

No matters are reportable.

SCHOOL TOWN OF HIGHLAND  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section III – Federal Award Findings and Questioned Costs

FINDING 2009-1, CASH MANAGEMENT

Federal Agency: U.S. Department of Education  
Pass-Through Entity: Indiana Department of Education  
Federal Program: Title I Grants to Local Educational Agencies  
CFDA Number: 84.010  
Award Number: 09-4720

The School Corporation determines cash needs for the grant during the application process with the State of Indiana. A cash request schedule is determined and submitted to the State of Indiana at the beginning of the grant period based on anticipated monthly needs. School Corporation Officials are to ensure minimal time elapses between the receipt of funds requested and their subsequent disbursement. However, when actual grant activity does not occur as timely as expected, School Corporation Officials do not have procedures in place to ensure any month end grant balances plus the next scheduled grant drawdown does not exceed the monthly need.

A review of the Title I Grant (Fund 411-8), from October 1, 2008 to September 30, 2009, indicated that 10 of 12 months during the 2008-2009 grant year had an excessive cash balance at month end which ranged from \$30,302 to \$91,352. Furthermore, the pass-through entity required quarterly report states: "Please reduce our next available distribution by." However, none of the three quarterly reports reviewed indicated a reduction of the next available distribution. Additionally, the quarterly report states: "Your cash balance at the end of each quarter should be zero (0) or as near zero (0) as possible." The ending cash balances for the second, third, and fourth quarter were \$30,302, \$66,005, and \$65,387, respectively.

EDGAR 80.20:

"(b) The financial management systems of other grantees and subgrantees must meet the following standards:

(7) Cash management. Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. . . . Grantees must monitor cash drawdowns by their subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees."

We recommended the School Corporation implement procedures to match their drawdown requests to the budgeted monthly expenditures, with the goal to minimize the amount of cash on hand at the end of the month.

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*  
Sherri Mitchell, *Director*  
Lynn Kwilasz, *Director*  
Robert McDermott, *Director*

## **Board of Trustees**

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

## Section III – Federal Award Findings and Questioned Costs

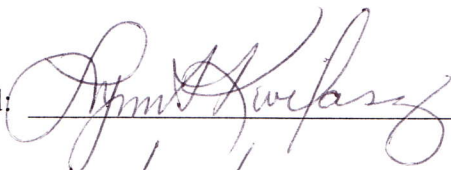
### FINDING 2009-1, CASH MANAGEMENT

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 more closely monitor and actively re-align its TITLE I cash draw downs each quarter to meet the expected cash management guidelines as defined by EDGAR 80.20. In order to achieve more thorough monitoring, the treasurer will review anticipated TITLE I grant activities and changes to the timing of those activities with the TITLE I Director. That information will be used to make cash draw down adjustments, when necessary, to minimize the amount of cash on hand at the end of each quarter.

Signed: \_\_\_\_\_



Date: \_\_\_\_\_

11/24/09

SCHOOL TOWN OF HIGHLAND  
EXIT CONFERENCE

The contents of this report were discussed on December 7, 2009, with Luanne Jurczak, President of the School Board; Michael Boskovich, Superintendent of Schools; Lynn Kwilasz, Treasurer; Robert McDermott, Director of Personnel; Louise Diederich, Deputy Treasurer; Lucy Lobodzinski, Administrative Assistant/Payroll; and Madeline Conn, Accounts Payable. The official response has been made a part of this report and may be found on pages 57 and 58.

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December 15, 2009

Mr. Bruce A. Hartman, CPA, State Examiner  
Indiana State Board of Accounts  
C/O Porter County Government Center  
155 Indiana Avenue, Room 305  
Valparaiso, IN 46383

Dear Mr. Hartman:

The School Town of Highland (STOH) offers the following responses to the 'Audit Results and Comments' noted with the completion of the 7/1/07 through 6/30/09 audit of our school corporation.

### **BANK RECONCILEMENT**

Unposted interest items for the period from February 2009 – June 2009 have been posted in the corporation records and cleared from the outstanding reconciling item listing on the bank statements.

The payroll clearing account items have been reviewed and appropriately posted to the corporation records. These items, as noted, had not been properly identified as reconciling items at June 30, 2009 since the treasurer was still training the new (2/09) deputy treasurer regarding the internal workings of the clearing account system. Such training is complete and the clearing accounts are now reviewed and balanced each month, reconciling items are identified and are subsequently cleared in a timely manner.

Correcting entries will be made to the computerized food service fund account record to (1) appropriately include the NSF check items in the computerized records; and (2) re-adjust the initial 7/1/08 balance adjustment to include the amount held by the school corporation's general checking account on behalf of the food service fund. Such balance had inadvertently been overlooked when the manual and computerized records were adjusted as a result of the prior audit period finding.

In general, in order to strengthen the level of internal control over the funds, the treasurer will review and acknowledge the monthly bank reconciliation upon completion.

### **ACADEMIC HONORS DIPLOMA**

Appropriate high school personnel have reviewed the reporting data related to the academic honors diplomas. They will post and reconcile that data to the student management information system more thoroughly prior to reporting this information to the Indiana Department of Education (IDOE). Appropriate steps will be taken with the IDOE to determine the required corrective action.

### **CAPITAL ASSET RECORDS**

The school corporation will adjust its capital assets records to reflect the written policy. The new improvements that were made during the audit period will be removed from the records since they reflect attachments to the buildings and, by policy, attachments are not capitalized. Such attachments or improvements will not be included in the capital asset records in the future as stated in the school corporation policy.

**NEGATIVE CASH BALANCES**

Negative cash balances occurred in the Pension Bond Debt Service fund due to the untimely distribution of property taxes in Lake County. Pension Bond Debt Service payments were due at both 6/30/08 and 6/30/09 and those payments were made on time as required by the debt repayment schedule. Neither the 2007-pay-2008 tax revenue nor the 2008-pay-2009 tax revenue was collected or distributed on time throughout the whole of both calendar years. Thus, the fund was "short" cash revenue at each respective June 30. However, the school corporation had adequate overall cash on hand to make timely payments.

The 2007-2008 and the 2008-2009 Workforce Development Grants were reimbursable grants that required the school corporation to first expend the funds and seek reimbursement for those funds previously expended. At both respective June 30s such reimbursement had not been received leaving the grants in a negative cash balance position until the cash was received and receipted.

The 2007-2008 Title I Improvement grant funding was approved to pay for summer elementary programs at Johnston school. The funding was received from the state after the programs were completed rather than before which caused the fund balance to be negative until the cash was received and receipted.

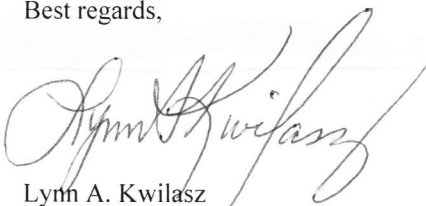
Because this is the nature of these reimbursable grants, negative cash balances are likely to occur since expenditure and reimbursement may not occur within the same accounting period. In general, every effort will be made by the STOH to minimize situations that could result in negative cash balances.

**CHANGE ORDERS**

Change orders on several project contracts had not been presented to the board of school trustees at the time of the audit. Change orders have generally been brought to the board for approval at the conclusion of the projects but, as noted, even that had not yet occurred. All non-board approved change orders will be brought to the board for formal approval. Beginning in January 2010, change orders will be brought to the board for approval upon receipt from the architect/engineers rather than waiting until the end of the project.

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

Best regards,



Lynn A. Kwilas  
Corporation Treasurer

/lak