

SCHOOL DISTRICT

OF

HIGHLANDS

**Highlands Board of Education
Highlands, New Jersey**

**Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2012**

HIGHLANDS SCHOOL DISTRICT

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INTRODUCTORY SECTION

FINANCIAL SECTION

HIGHLAND BOARD OF EDUCATION

HIGHLANDS ELEMENTARY SCHOOL

360 NAVESINK AVENUE

HIGHLANDS, NEW JERSEY

07732-1323

Christopher J. Mullins, CPA
School Business Administrator/
Board Secretary

(732) 872-9228
Fax (732) 872-0432

November 24, 2012

Honorable President and
Members of the Board of Education
Highlands School District
Monmouth County, New Jersey

Dear Board Members:

The Comprehensive Annual Financial Report (CAFR) of the Highlands School District (District) for the fiscal year ended June 30, 2012, is hereby submitted. Responsibility for both the accuracy of the data and completeness and fairness of the presentation, including all disclosures, rests with the management of the Board of Education (Board). To the best of our knowledge and belief, the data presented in this report is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the various funds and account groups of the District. All disclosures necessary to enable the reader to gain an understanding of the District's financial activities have been included.

The Comprehensive Annual Financial Report is presented in four sections: introductory, financial, statistical and single audit. The introductory section includes this transmittal letter, the District's organizational chart and a list of principal officials. The financial section begins with the Independent Auditors' Report and includes the Management's Discussion and Analysis, the Basic Financial Statements and Notes providing an overview of the School District's financial position and operating results, and other schedules providing detailed budgetary information. The statistical section includes selected financial and demographic information, generally presented on a multi-year basis. The Audit Act of 1984 and the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and New Jersey OMB's Circular 04-04, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*. Information related to this single audit, including the auditor's report on the internal control structure and compliance with applicable laws and regulations and findings and questioned costs are included in the single audit section of this report.

1) REPORTING ENTITY AND ITS SERVICES:

Highlands School District is an independent reporting entity within the criteria adopted by the Governmental Accounting Standards Board (GASB) as established by GASB Statement No. 14. All funds and account groups of the District are included in this report. The Highlands Board of Education and its elementary school constitute the District's reporting entity.

The District completed the 2011-2012 fiscal year with an average enrollment of 194 students (both regular and special education), which is a increase over the previous year's enrollment.

2) ECONOMIC CONDITION:

The Borough of Highlands is located in Monmouth County on the Shrewsbury River at the easterly tip of Central New Jersey encompassing .67 square miles. Highlands offers magnificent views of the Atlantic Ocean, Sandy Hook, New York City, New York Harbor, and the Verrazano Narrows Bridge. The borough is situated along the waterfront and is comprised mainly of marinas, restaurants, residences and seasonal homes. The mountainous areas contain mostly residences, condominiums and hotels. Highlands most historic site is the Twin Lights, built in 1862.

3) INTERNAL ACCOUNTING CONTROLS:

Management of the District is responsible for establishing and maintaining an internal control system design to ensure that the assets of the District are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with Generally Accepted Accounting Principles (GAAP). The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

As a recipient of federal awards and state financial assistance, the District also is responsible for ensuring that an adequate internal controls are in place to ensure compliance with applicable laws and regulations related to those programs. Internal control is also subject to periodic evaluation by the District management.

As part of the District's single audit, described earlier, tests are made to determine the adequacy of the internal control structure, including that portion related to federal awards and state financial assistance programs, as well as to determine that the District has complied with applicable laws and regulations.

4) BUDGETARY CONTROLS:

In addition to internal accounting controls, the District maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the voters of the municipality. Annual appropriated budgets are adopted for the general fund, the special revenue fund, and the debt service fund. Project-length budgets are approved for the capital improvements accounted for in the capital projects fund. The final budget amount as amended for the fiscal year is reflected in the financial section.

An encumbrances accounting system is used to record outstanding purchase commitments on a line item basis. Open encumbrances at year-end are either canceled or are included as reappropriations of fund balance in the subsequent year. Those amounts to be reappropriated are reported as reservations of fund balance at June 30, 2012.

5) ACCOUNTING SYSTEM AND REPORTS:

The District's accounting records reflect generally accepted accounting principles, as promulgated by the Governmental Accounting Standards Board (GASB). The accounting system of the District is organized on the basis of funds and account groups. These funds and account groups are explained in "Notes to the Financial Statements", Note 1.

6) CASH MANAGEMENT:

The investment policy of the District is guided in large part by state statute as detailed in "Notes to the Financial Statements", Note 2. The District has adopted a cash management plan which requires it to deposit public funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act ("GUDPA"). GUDPA was enacted in 1970 to protect Governmental Units from a loss of funds on deposit with a failed banking institution in New Jersey. The law requires governmental units to deposit public funds only in public depositories located in New Jersey, where the funds are secured in accordance with the Act.

7) RISK MANAGEMENT:

The Board carries various forms of insurance, including general liability, school board legal liability, excess umbrella liability, hazard and theft insurance on property and contents, workers compensation insurance, and fidelity bonds. Student accident insurance during school hours only and secondary to parents' primary insurance is also carried.

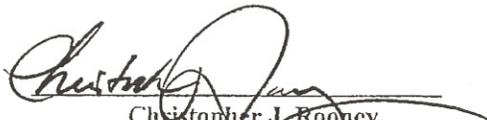
8) OTHER INFORMATION:

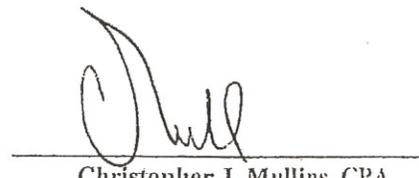
Independent Audit - State statutes require an annual audit by independent certified public accountants or registered municipal accountants. The accounting firm of Alvino & Shechter L.L.C., CPA's, was selected by the Board's audit committee. In addition to meeting the requirements set forth in state statutes, the audit also was designed to meet the requirements of the Single Audit Act of 1984, as amended by the Single Audit Act Amendments of 1996, and the related OMB Circular A-133 and New Jersey OMB's Circular 04-04. The auditor's report on the general purpose financial statements and combining and individual fund statements and schedules is included in the financial section of this report. The auditor's reports related specifically to the single audit are included in the single audit section of this report.

9) ACKNOWLEDGMENTS:

We would like to express our appreciation to the members of the Highlands School Board for their concern in providing fiscal accountability to the citizens and taxpayers of the school district and thereby contributing their full support to the development and maintenance of our financial operation. The preparation of this report could not have been accomplished without the efficient and dedicated services of our financial and accounting staff.

Respectfully submitted,

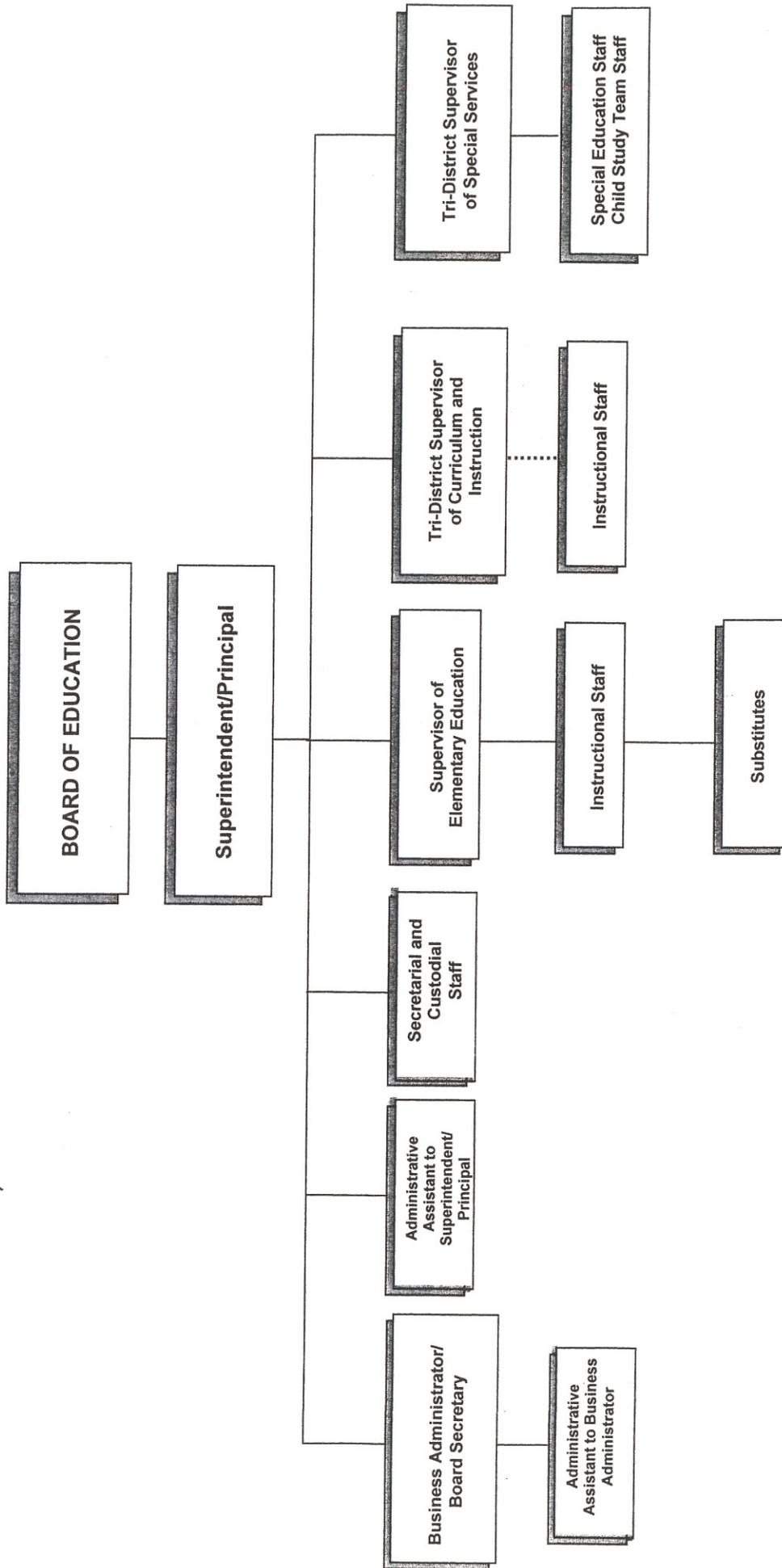

Christopher J. Rooney
Superintendent Services


Christopher J. Mullins, CPA
School Business
Administrator/Board Secretary



HIGHLANDS ELEMENTARY SCHOOL

ORGANIZATIONAL CHART



HIGHLANDS SCHOOL DISTRICT
Highlands, New Jersey

ROSTER OF OFFICIALS
JUNE 30, 2012

<u>Members of the Board of Education</u>	<u>Term Expires</u>
Karen D. Horner, President	2014
Mary-Kay Moore, Vice President	2013
Irene Campbell	2012
Nina Flannery	2012
Danielle Dowds	2013
Tara Ryan	2014
Jac Smith	2013
<u>Other Officials</u>	
Christopher J. Rooney - Superintendent (Tri District Shared Service Agreement - Henry Hudson Regional/Atlantic Highlands)	
Christopher J. Mullins, CPA - School Business Administrator/Board Secretary (Shared Service Agreement - Hazlet)	
Lorraine Gallagher - Treasurer of School Moneys	
Michael J. Gross, Esq. - Solicitor	

HIGHLANDS SCHOOL DISTRICT

CONSULTANTS AND ADVISORS

AUDIT FIRM

Allen B. Shechter, CPA, RMA, PSA
Alvino & Shechter, L.L.C.
110 Fortunato Place
Neptune, NJ 07753

ATTORNEY

Kenney, Gross, Kovats and Parton
P.O. Box 8610
Red Bank, NJ 07710

OFFICIAL DEPOSITORIES

Bank of America
950 Highway 36
Leonardo, NJ 07737

Two Rivers Community Bank
2347 Route 36
Atlantic Highlands, NJ 07716

Valley National Bank
301 Shore Drive
Highlands, NJ 07732

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CERTIFIED PUBLIC ACCOUNTANTS

110 Fortunato Place

Neptune, New Jersey 07753-3767

VINCENT J. ALVINO, CPA, PSA
ALLEN B. SHECHTER, CPA, RMA, PSA

Phone: (732) 922-4222
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Member

American Institute of Certified Public Accountants
New Jersey Society of Certified Public Accountants
PCPS of the AICPA Division of CPA Firms

INDEPENDENT AUDITOR'S REPORT

Honorable President and
Members of the Board of Education
Highlands School District
County of Monmouth, New Jersey

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 Highlands School District, County of Monmouth, State of New Jersey (the "District"), as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion 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; and audit requirements as prescribed by the Office of School Finance, Department of Education, State of New Jersey. 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, and each major fund, of the District, as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 23, 2012 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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 integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management Discussion and Analysis and Budgetary Comparison Information on pages 9 through 14 and 41 through 49 are not a required part of the basic financial statements but are 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying introductory section, and other supplementary information such as the combining and individual fund financial statements, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements 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 introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

The accompanying schedules of expenditures of federal awards and state financial assistance are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and New Jersey OMB's Circular 04-04, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid* respectively, and are 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.



Licensed Public School Accountant

No. 2183

Alvino & Shechter, L.L.C.

November 23, 2012

REQUIRED SUPPLEMENTARY INFORMATION - PART I

**HIGHLANDS SCHOOL DISTRICT
HIGHLANDS, NEW JERSEY**

**MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

(Unaudited)

The discussion and analysis of the Highlands School District's financial performance provides an overall review of the school district's financial activities for the fiscal year ended June 30, 2012. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

The Management's Discussion and Analysis (MD&A) is a new element of Required Supplementary Information specified in the Governmental Accounting Standards Board (GASB) Statement No. 34 - *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* issued in June 1999. Certain comparative information between the current year (2011-2012) and the prior year (2010-2011) is required to be presented in the MD&A.

Financial Highlights

Key financial highlights for the 2011-2012 fiscal year are as follows:

In total, net assets increased \$358,143 which represents a 8.37% increase from 2011.

General revenue were \$3,747,305 which represent 86.04% of revenues for the year. Program specific revenues in the form of charges for services, operating and capital grants and contributions accounted for \$608,064 or 13.96% of total revenues of \$4,355,369.

The School District had \$3,997,226 in expenses, only \$608,064 were offset by program specific charges for services, grants or contributions. General revenues (primarily taxes and State Formula Aid) of \$3,747,305 were adequate to provide for these programs.

The General Fund has \$3,824,674 in revenues and \$3,534,471 in expenditures. The General Fund's balance increased \$290,203 over 2011. This increase was caused mainly by the increase in State Aid.

Using this Comprehensive Annual Financial Report (CAFR)

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Highlands School District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at the specific financial activities.

The Statement of Net Assets and Statement of Activities provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other non-major funds presented in total in one column. In the case of Highlands School District, the General Fund is by far the most significant fund.

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, “How did we do financially during the 2011-2012 fiscal year?” The *Statement of Net Assets and the Statement of Activities* helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account, all of the current year’s revenues and expenses regardless of when cash is received or paid.

These two statements report the School District’s net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the school district as a whole, the financial positions of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, and some not. Non-financial factors include the School District’s property tax base, current laws in New Jersey restricting revenue growth, facility condition, required educational programs and other factors.

In the *Statement of Net Assets and the Statement of Activities*, the School District is divided into two distinct kinds of activities:

Governmental Activities - All of the School District’s programs and services are reported here including, but not limited to, instruction, support services, operation and maintenance of plant facilities, pupil transportation and extracurricular activities.

Business-Type Activities - This service is provided on a charge for goods or services basis to recover all the expense of the goods or services provided. The Food Service Enterprise Fund is reported as a business activity.

Reporting the School District’s Most Significant Funds

Fund Financial Statements

The analysis of the School District’s major funds begins on page 17. Fund financial reports provide detailed information about the School District’s funds. The School District uses many funds to account for a multitude of financial transactions. The School District’s governmental funds are the General Fund, Special Revenue Fund, Capital Projects Fund and Debt Service Fund.

Governmental Funds

The School District’s activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in the future years. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District’s general government operations and the basic services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs, the relationship (or differences) between governmental activities (reported in the *Statement of Net Assets and the Statement of Activities*) and the governmental funds is reconciled in the financial statements.

Enterprise Fund

The Enterprise Fund uses the same basis of accounting as business-type activities; therefore, those statements are essentially the same.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the District-Wide and fund financial statements. The notes to the financial statements can be found on pages 24 to 40 of this report.

The School District as a Whole

Recall that the *Statement of Net Assets* provides the perspective of the School District as a whole. Net Assets may serve over time as a useful indicator of a government's financial position.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Table 1 provides a summary of the School District's net assets for 2012 and 2011.

Table 1
Net Assets

	<u>2012</u>	<u>2011</u>
Assets		
Current and Other Assets	1,618,046	1,352,402
Capital Assets, Net	<u>1,801,141</u>	<u>1,884,096</u>
Total Assets	<u>\$3,419,187</u>	<u>\$3,236,498</u>
Liabilities		
Current Liabilities	181,108	203,359
Long-Term Liabilities	<u>619,227</u>	<u>772,429</u>
Total Liabilities	<u>\$ 800,335</u>	<u>\$ 975,788</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	1,029,138	968,462
Restricted	1,314,825	955,444
Unrestricted	<u>274,889</u>	<u>336,804</u>
Total Assets	<u>\$2,618,852</u>	<u>\$2,260,710</u>

Table 2 shows the changes in net assets for fiscal year 2012 and 2011.

Table 2
Changes in Net Assets

	<u>2012</u>	<u>2011</u>
Revenues		
Program Revenues:		
Charge for Services	32,394	38,965
Operating Grants and Contributions	575,670	490,990
Capital Grants and Contributions	0	14,977
General Revenues:		
Property Taxes	3,035,282	3,046,514
State Formula Aid	702,696	637,993
Other	<u>9,327</u>	<u>214</u>
Total Revenues	<u>\$4,355,369</u>	<u>\$4,229,653</u>
 Program Expenses		
Instruction	2,197,904	1,985,356
Student Support Services	1,657,572	1,768,692
Food Service	91,820	87,438
Other	<u>49,930</u>	<u>57,628</u>
Total Expenses	<u>\$3,997,226</u>	<u>\$3,899,114</u>
Increase (Decrease) in Net Assets	<u>\$ 358,143</u>	<u>\$ 330,539</u>

Governmental Activities

The unique nature of property taxes in New Jersey creates the need to annually seek voter approval for the School District operations. Effective January 17, 2012, P.L. 2011 c.202 eliminated the annual voter referendum on budgets which meet the statutory tax levy cap limitations. Property taxes made up 71.15% of revenues for governmental activities for the Highlands School District for the fiscal year 2012. Federal and state grants accounted for another 28.63% of revenues.

Program expenses include instruction that comprise 48.11% of the total expenses. Support services comprise 47.12 % of total expenses.

The *Statement of Activities* shows the cost of program services and the charges for services and grants offsetting those services for the year ended June 30, 2012. Table 3 shows the total cost of services and the net cost of services. The net cost shows the financial burden that was placed on the District's taxpayers by each of these functions.

Table 3

	<u>Total Cost of of Services 2012</u>	<u>Net Cost of Services 2012</u>	<u>Total Cost of Services 2011</u>	<u>Net Cost of Services 2011</u>
Instruction	2,197,905	1,772,377	1,985,356	1,636,700
Support Services:				
Pupil and Instructional Staff	931,847	846,706	971,128	894,404
Administration	241,212	233,210	272,451	256,928
Operation & Maintenance of Facilities	343,705	343,705	369,866	369,866
Pupil Transportation	140,807	140,807	155,246	155,246
Interest on Long-Term Debt	<u>49,930</u>	<u>49,930</u>	<u>57,628</u>	<u>57,628</u>
Total Expenses	<u>\$3,905,406</u>	<u>\$3,386,735</u>	<u>\$3,811,675</u>	<u>\$3,370,772</u>

Instruction expenses include activities directly dealing with the teaching of pupils and the interaction between teacher and student.

Pupil and instructional staff include the activities involved with assisting staff with the content and process of teaching to students, including curriculum and staff development.

Administration includes expenses associated with administrative and financial supervision of the district.

Operation & Maintenance of facilities activities involve keeping the school grounds, buildings and equipment in an effective working condition.

Pupil transportation includes activities involved with the conveyance of students to and from school, as well as to and from school activities, as provided by state law.

Interest on debt involves the transactions associated with the payment of interest and other related charges to debt of the School District.

The School District's Fund

Information about the School District's governmental funds start on page 17. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$3,824,674 and expenditures of \$3,534,471.

At the end of the current fiscal year, the Board's governmental funds reported combined ending fund balances of \$1,597,260. Of this fund balance, \$282,435 is unassigned which is available for spending at the Board's discretion. The remainder of fund balance is restricted or assigned to indicate that it is not available for spending because it has already been committed (1) for capital reserve \$122,128, (2) for maintenance reserve \$106,546, (3) for excess surplus \$460,410, (4) for excess surplus designated for subsequent year's expenditures \$439,785, (5) for payment of debt \$2,486, (6) for capital projects \$183,470, (7) designated by the BOE for subsequent year's expenditures \$0. Unassigned general fund balance represents 7.99% of total general fund expenditures.

General Fund Budgeting Highlights

The School District's budget is prepared according to the law of the State of New Jersey, and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrance. The most significant budgeted fund is the General Fund.

During the course of the fiscal 2012 year, the School District amended its General Fund budget as needed. The School District uses program based budgeting and the budgeting systems designed to tightly control total program budgets but provide flexibility for program management. Revisions in the budget were made to recognize revenues and expenditures that were not anticipated and to prevent over expenditures in specific expense accounts.

Capital Assets

At the end of the fiscal 2012 year, the School District has \$3,169,251 invested in buildings, furniture and equipment. Table 4 shows fiscal 2012 and 2011 balances.

Table 4
Capital Assets (Net Depreciation) at June 30

	<u>2012</u>	<u>2011</u>
Land	174,413	174,413
Site Improvements	19,220	21,618
Buildings and Improvements	1,528,182	1,591,699
Machinery and Equipment	<u>67,096</u>	<u>82,138</u>
Totals	<u>\$1,788,911</u>	<u>\$1,869,868</u>

Debt Administration

At June 30, 2012, the School District had \$770,170 as outstanding debt. This amount consisted of compensated absences(\$14,137), loans payable (\$21,391), certificates of participation (\$700,000) and capital leases (\$34,642).

For the Future

The Highlands School District is in good financial condition presently. The School District is proud of its community support of the public schools. A major concern is future enrollment growth of the District with the increased reliance on local property taxes. However, future finances are not without challenges as the community continues to grow and State funding is decreased.

In conclusion, the Highlands School District has committed itself to financial excellence for many years. In addition, the School District's system for financial planning, budgeting, and internal financial controls are well regarded. The School District plans to continue its sound fiscal management to meet the challenge of the future.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional information, contact Christopher J. Mullins, CPA at Highlands Board of Education, Highlands Elementary School, 360 Navesink Avenue, Highlands, NJ 07732.

BASIC FINANCIAL STATEMENTS

DISTRICT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities display information about the District. These statements include the financial activities of the overall District, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the governmental and business-type activities of the District.

HIGHLANDS SCHOOL DISTRICT
Statement of Net Assets
June 30, 2012

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS:			
Cash and Cash Equivalents	1,118,977.68	1,316.17	1,120,293.85
Receivables, Net	183,393.61	3,415.83	186,809.44
Inventory	.00	1,859.24	1,859.24
Restricted Assets:			
Cash and Cash Equivalents	2,449.10	.00	2,449.10
Investments	183,506.91	.00	183,506.91
Capital Reserve Account - Cash	122,128.00	.00	122,128.00
Capital Assets, Net (Note 5):	<u>1,788,911.00</u>	<u>13,229.52</u>	<u>1,802,140.52</u>
Total Assets	<u>3,399,366.30</u>	<u>19,820.76</u>	<u>3,419,187.06</u>
LIABILITIES:			
Accounts Payable	.00	.00	.00
Other Payable	635.94	.00	635.94
Deferred Revenue	12,559.06	.00	12,559.06
Accrued Interest Payable	16,969.62	.00	16,969.62
Noncurrent Liabilities (Note 6):			
Due Within One Year	150,942.68	.00	150,942.68
Due Beyond One Year	<u>619,227.27</u>	<u>.00</u>	<u>619,227.27</u>
Total Liabilities	<u>800,334.57</u>	<u>.00</u>	<u>800,334.57</u>
NET ASSETS:			
Invested in Capital Assets, Net of Related Debt	1,015,908.45	13,229.52	1,029,137.97
Restricted for:			
Debt Service	2,485.80	.00	2,485.80
Capital Projects	183,470.21	.00	183,470.21
Other Purposes	1,128,869.29	.00	1,128,869.29
Unrestricted	<u>268,297.98</u>	<u>6,591.24</u>	<u>274,889.22</u>
Total Net Assets	<u>\$2,599,031.73</u>	<u>19,820.76</u>	<u>2,618,852.49</u>

The accompanying Notes to Basic Financial Statements are an integral part of this statement.

HIGHLANDS SCHOOL DISTRICT
Statement of Activities
For the Fiscal Year Ended June 30, 2012

	Program Revenues				Net (Expense) Revenue and Changes In Net Assets		
	Expenses	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-Type Activities	Total
Functions/Programs							
GOVERNMENTAL ACTIVITIES:							
Instruction:							
Regular Instruction	1,440,585.88	.00	349,082.10	.00	(1,091,503.78)	.00	(1,091,503.78)
Special Education Instruction	656,407.69	.00	63,561.43	.00	(592,846.26)	.00	(592,846.26)
Other Instruction	100,910.97	.00	12,883.92	.00	(88,027.05)	.00	(88,027.05)
Support Services:							
Tuition	49,895.47	.00	.00	.00	(49,895.47)	.00	(49,895.47)
Student & Instruction Related Services	881,952.19	.00	85,141.52	.00	(796,810.67)	.00	(796,810.67)
General Administrative Services	120,345.76	.00	790.54	.00	(119,555.22)	.00	(119,555.22)
School Administration Services	53,236.34	.00	6,798.66	.00	(46,437.68)	.00	(46,437.68)
Central Services	67,630.25	.00	413.25	.00	(67,217.00)	.00	(67,217.00)
Plant Operations and Maintenance	343,704.91	.00	.00	.00	(343,704.91)	.00	(343,704.91)
Pupil Transportation	140,807.10	.00	.00	.00	(140,807.10)	.00	(140,807.10)
Interest on Long-Term Debt	49,929.66	.00	.00	.00	(49,929.66)	.00	(49,929.66)
Total Governmental Activities	<u>\$3,905,406.22</u>	<u>.00</u>	<u>518,671.42</u>	<u>.00</u>	<u>(3,386,734.80)</u>	<u>.00</u>	<u>(3,386,734.80)</u>
BUSINESS-TYPE ACTIVITIES:							
Food Service	91,819.70	32,393.52	56,999.01	.00	.00	(2,427.17)	(2,427.17)
Total Business-Type Activities	<u>91,819.70</u>	<u>32,393.52</u>	<u>56,999.01</u>	<u>.00</u>	<u>.00</u>	<u>(2,427.17)</u>	<u>(2,427.17)</u>
Total Primary Government	<u>\$3,997,225.92</u>	<u>32,393.52</u>	<u>575,670.43</u>	<u>.00</u>	<u>(3,386,734.80)</u>	<u>(2,427.17)</u>	<u>(3,389,161.97)</u>
GENERAL REVENUES:							
Taxes:							
Property Taxes Levied for General Purposes, Net					2,849,388.00	.00	2,849,388.00
Taxes Levied for Debt Service					185,894.00	.00	185,894.00
Federal and State Aid Not Restricted					702,696.00	.00	702,696.00
Investment Earnings					.00	.00	.00
Miscellaneous Income					9,326.68	.00	9,326.68
Other Financing Sources					.00	.00	.00
Total General Revenues, Special Items, Extraordinary Items and Transfers					<u>3,747,304.68</u>	<u>.00</u>	<u>3,747,304.68</u>
Change in Net Assets					360,569.88	(2,427.17)	358,142.71
Net Assets - Beginning of Fiscal Year					<u>2,238,461.85</u>	<u>22,247.93</u>	<u>2,260,709.78</u>
Net Assets - Ending of Fiscal Year					<u>\$2,599,031.73</u>	<u>19,820.76</u>	<u>2,618,852.49</u>

The accompanying Notes to Basic Financial Statements are an integral part of this statement.

FUND FINANCIAL STATEMENTS

The Individual Fund statements and schedules present more detailed information for the individual fund in a format that segregates information fund type.

HIGHLANDS SCHOOL DISTRICT**Balance Sheet****Governmental Funds****June 30, 2012**

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Fund</u>
ASSETS:					
Cash and Cash Equivalents	1,118,977.68	.00	.00	2,449.10	1,121,426.78
Investments	.00	.00	183,470.21	36.70	183,506.91
Receivables from Other Governments	125,330.00	36,673.00	.00	.00	162,003.00
Interfund Receivable	56,028.55	.00	.00	.00	56,028.55
Restricted Cash and Cash Equivalents	<u>122,128.00</u>	<u>.00</u>	<u>.00</u>	<u>.00</u>	<u>122,128.00</u>
Total Assets	<u>\$1,422,464.23</u>	<u>36,673.00</u>	<u>183,470.21</u>	<u>2,485.80</u>	<u>1,645,093.24</u>
LIABILITIES AND FUND BALANCES:					
Liabilities:					
Accounts Payable	.00	.00	.00	.00	.00
Other Payable	.04	.00	.00	.00	.04
Interfunds Payable	635.90	34,637.94	.00	.00	35,273.84
Deferred Revenue	<u>.00</u>	<u>12,559.06</u>	<u>.00</u>	<u>.00</u>	<u>12,559.06</u>
Total Liabilities	<u>635.94</u>	<u>47,197.00</u>	<u>.00</u>	<u>.00</u>	<u>47,832.94</u>
Fund Balances:					
Restricted for:					
Capital Reserve Account	122,128.00	.00	.00	.00	122,128.00
Maintenance Reserve	106,546.00	.00	.00	.00	106,546.00
Excess Surplus - Designated for Subsequent Year's Expenditures	439,785.34	.00	.00	.00	439,785.34
Excess Surplus - Current Year	460,409.95	.00	.00	.00	460,409.95
Debt Service	.00	.00	.00	2,485.80	2,485.80
Capital Projects	.00	.00	183,470.21	.00	183,470.21
Assigned:					
Designated by BOE for Subsequent Year's Expenditures	.00	.00	.00	.00	.00
Unassigned:					
General Fund	292,959.00	.00	.00	.00	292,959.00
Special Revenue Fund	<u>.00</u>	<u>(10,524.00)</u>	<u>.00</u>	<u>.00</u>	<u>(10,524.00)</u>
Total Fund Balances	<u>1,421,828.29</u>	<u>(10,524.00)</u>	<u>183,470.21</u>	<u>2,485.80</u>	<u>1,597,260.30</u>
Total Liabilities and Fund Balances	<u>\$1,422,464.23</u>	<u>36,673.00</u>	<u>183,470.21</u>	<u>2,485.80</u>	

Amounts reported for *governmental activities* in the statement of net assets (A-1) are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds. The cost of the assets is \$3,169,251.00 and the accumulated depreciation is \$1,380,340.00 (See Note 5).

1,788,911.00

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. (See Note 6)

(770,169.95)

Interest is accrued on outstanding debt in the government-wide financial statements, whereas in the governmental fund financial statements, an interest expenditure is reported when due.

(16,969.62)

Net Assets of Government Funds

\$2,599,031.73

The accompanying Notes to Basic Financial Statements are an integral part of this statement.

HIGHLANDS SCHOOL DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds
For the Fiscal Year Ended June 30, 2012

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Fund</u>
REVENUES:					
Local Sources:					
Local Tax Levy	2,849,388.00	.00	.00	185,894.00	3,035,282.00
Interest Earned on Capital Reserve Funds	.00	.00	.00	.00	.00
Interest Earned on Investments	.00	.00	.00	.00	.00
Miscellaneous	<u>9,326.68</u>	<u>.00</u>	<u>.00</u>	<u>.00</u>	<u>9,326.68</u>
Total - Local Sources	2,858,714.68	.00	.00	185,894.00	3,044,608.68
State Sources	942,031.29	95,129.28	.00	.00	1,037,160.57
Federal Sources	<u>23,928.00</u>	<u>160,278.85</u>	<u>.00</u>	<u>.00</u>	<u>184,206.85</u>
Total Revenues	<u>3,824,673.97</u>	<u>255,408.13</u>	<u>.00</u>	<u>185,894.00</u>	<u>4,265,976.10</u>
EXPENDITURES:					
Current:					
Regular Instruction	1,025,607.04	238,395.28	.00	.00	1,264,002.32
Special Education Instruction	565,218.06	.00	.00	.00	565,218.06
Other Instruction	83,879.58	.00	.00	.00	83,879.58
Support Services:					
Tuition	49,895.47	.00	.00	.00	49,895.47
Student & Instruction Related Services	780,188.67	20,520.85	.00	.00	800,709.52
General Administration Services	116,041.50	.00	.00	.00	116,041.50
School Administrative Services	43,032.84	.00	.00	.00	43,032.84
Central Services	63,257.48	.00	.00	.00	63,257.48
Plant Operations and Maintenance	334,859.02	.00	.00	.00	334,859.02
Pupil Transportation	139,628.89	.00	.00	.00	139,628.89
Unallocated Benefits	326,269.11	.00	.00	.00	326,269.11
Debt Service:					
Principal	.00	.00	.00	130,534.67	130,534.67
Interest and Other Charges	.00	.00	.00	52,912.04	52,912.04
Capital Outlay	<u>6,592.96</u>	<u>.00</u>	<u>.00</u>	<u>.00</u>	<u>6,592.96</u>
Total Expenditures	<u>3,534,470.62</u>	<u>258,916.13</u>	<u>.00</u>	<u>183,446.71</u>	<u>3,976,833.46</u>
Excess (Deficiency) of Revenues					
Over (Under) Expenditures	<u>290,203.35</u>	<u>(3,508.00)</u>	<u>.00</u>	<u>2,447.29</u>	<u>289,142.64</u>
OTHER FINANCING SOURCES (USES):					
Transfers In	.00	.00	.00	.00	.00
Transfers Out	.00	.00	.00	.00	.00
Capital Leases (Non-Budgeted)	<u>.00</u>	<u>.00</u>	<u>.00</u>	<u>.00</u>	<u>.00</u>
Total Other Financing Sources and Uses	<u>.00</u>	<u>.00</u>	<u>.00</u>	<u>.00</u>	<u>.00</u>
Net Change in Fund Balances	290,203.35	(3,508.00)	.00	2,447.29	289,142.64
Fund Balance - July 1	<u>1,131,624.94</u>	<u>(7,016.00)</u>	<u>183,470.21</u>	<u>38.51</u>	<u>1,308,117.66</u>
Fund Balance - June 30	<u>\$1,421,828.29</u>	<u>(10,524.00)</u>	<u>183,470.21</u>	<u>2,485.80</u>	<u>1,597,260.30</u>

The accompanying Notes to Basic Financial Statements are an integral part of this statement.

HIGHLANDS SCHOOL DISTRICT
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
Governmental Funds
For the Fiscal Year Ended June 30, 2012

Total net change in fund balances - governmental funds (from B-2)		289,142.64
<p>Amounts reported for governmental activities in the statement of activities (A-2) are different because:</p> <p>Capital outlays are reported in governmental funds as expenditures. However, on the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current fiscal year.</p>		
Depreciation Expense	(86,903.00)	
Capital Outlay	<u>5,946.00</u>	(80,957.00)
<p>Repayment of bond principal, capital lease principal and early retirement funds are an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets and is not reported in the statement of activities.</p>		
		139,648.78
<p>In the statement of activities, certain operating expenses, e.g., compensated absences (vacation and sick pay) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are reported in the amount of financial resources used (paid). When the earned amount exceeds the paid amount, the difference is a reduction in the reconciliation; when the paid amount exceeds the earned amount, the difference is an addition to the reconciliation.</p>		
		9,753.08
<p>Interest is accrued on outstanding debt in the government-wide financial statements, whereas in the fund financial statements an interest expenditure is reported when due.</p>		
		<u>2,982.38</u>
Change in net assets of governmental activities		<u>\$360,569.88</u>

The accompanying Notes to Basic Financial Statements are an integral part of this statement.

HIGHLANDS SCHOOL DISTRICT
Statement of Net Assets
Proprietary Funds
June 30, 2012

**Business-Type Activities-
Enterprise Funds**

Food Service Fund

ASSETS:

Current Assets:

Cash and Cash Equivalents	1,316.17
Accounts Receivable:	
State	62.48
Federal	2,717.45
Interfunds	635.90
Inventories	<u>1,859.24</u>

Total Current Assets	<u>6,591.24</u>
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Noncurrent Assets:

Equipment	14,976.83
Less Accumulated Depreciation	<u>(1,747.31)</u>

Total Noncurrent Assets	<u>13,229.52</u>
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Total Assets	<u>\$19,820.76</u>
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LIABILITIES:

Current Liabilities:

Accounts Payable	<u>.00</u>
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Total Current Liabilities	<u>.00</u>
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NET ASSETS:

Invested in Capital Assets, Net of Related Debt	13,229.52
Unrestricted	<u>6,591.24</u>

Total Net Assets	<u>\$19,820.76</u>
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The accompanying Notes to Basic Financial Statements are an integral part of this statement.

HIGHLANDS SCHOOL DISTRICT
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2012

	Business-Type Activities- Enterprise Funds
	Food Service Fund
OPERATING REVENUES:	
Local Sources:	
Daily Sales - Reimbursable Programs	16,452.76
Daily Sales - Non-Reimbursable Programs	<u>15,940.76</u>
Total Operating Revenues	<u>32,393.52</u>
OPERATING EXPENSES:	
Food Service Costs:	
Cost of Food	46,906.77
Wages	24,785.61
Payroll Taxes and Benefits	3,718.02
Insurance	2,516.63
Supplies	3,775.66
Miscellaneous	2,003.55
Management Fee	<u>7,064.00</u>
	90,770.24
Other Expenses:	
Depreciation	998.46
Check Printing	<u>51.00</u>
Total Operating Expenses	<u>91,819.70</u>
Operating Loss	<u>(59,426.18)</u>
NON-OPERATING REVENUES:	
State Sources:	
State School Lunch Program	1,108.54
Federal Sources:	
National School Lunch Program	42,400.44
School Breakfast Program	6,321.84
Food Distribution Program	<u>7,168.19</u>
Total Non-Operating Revenues	<u>56,999.01</u>
Income (Loss) Before Contributions and Transfers	(2,427.17)
Operating Transfer In: Board Contribution	<u>.00</u>
Change in Net Assets	(2,427.17)
Total Net Assets - July 1	<u>22,247.93</u>
Total Net Assets - June 30	<u>\$ 19,820.76</u>

The accompanying Notes to Basic Financial Statements are an integral part of this statement.

HIGHLANDS SCHOOL DISTRICT
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2012

Business-Type Activities-
Enterprise Funds

Food Service Fund

CASH FLOWS FROM OPERATING ACTIVITIES:

Receipts from Customers	32,393.52
Payments to Food Service Vendor	(97,547.19)
Payments for Other Expenses	<u>(51.00)</u>
Net Cash Used for Operating Activities	<u>(65,204.67)</u>

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:

State Sources	1,192.55
Federal Sources	49,358.11
Transfers from Other Funds - Board Contribution	.00
Interfunds	<u>10,732.96</u>
Net Cash Provided by Non-Capital Financing Activities	<u>61,283.62</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Federal Sources	.00
Purchase of Equipment	<u>(.00)</u>
Net Cash Used for Capital and Related Financing Activities	<u>.00</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(3,921.05)
Cash and Cash Equivalents - July 1	<u>5,237.22</u>
Cash and Cash Equivalents - June 30	<u>\$ 1,316.17</u>

Reconciliation of Operating Loss to Net Cash Used by Operating Activities:

Operating Loss	<u>(59,426.18)</u>
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:	
Food Distribution Program	7,168.19
(Increase) Decrease in Inventories	62.25
Increase (Decrease) in Accounts Payable	(14,007.39)
Depreciation	<u>998.46</u>
Total Adjustments	<u>(5,778.49)</u>
Net Cash Used for Operating Activities	<u>\$(65,204.67)</u>

The accompanying Notes to Basic Financial Statements are an integral part of this statement.

HIGHLANDS SCHOOL DISTRICT
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2012

	<u>Agency Fund</u>
ASSETS:	
Cash and Cash Equivalents	<u>29,457.19</u>
Total Assets	<u>29,457.19</u>
LIABILITIES:	
Accounts Payable	.00
Interfunds Payable	21,390.61
Payable to Student Groups	8,066.58
Payroll Deductions and Withholdings	<u>.00</u>
Total Liabilities	<u>\$29,457.19</u>

The accompanying Notes to Basic Financial Statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

HIGHLANDS SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Board of Education (Board) of the Highlands School District (District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Board's accounting policies are described below.

A. Description of the District and Reporting Entity:

The Highlands School District is a Type II district located in the County of Monmouth, State of New Jersey. As a Type II District, the School District functions independently through a Board of Education. The board is comprised of seven members elected to three year-terms. The purpose of the District is to educate students in grades K-6. The Highlands School District had an approximate enrollment at June 30, 2012 of 194 students.

In evaluating how to define the governmental reporting entity, the District follows the provisions of GASB Statement No. 14, *The Financial Reporting Entity*, under which the financial statements include all organizations, activities, functions, and component units for which the District is financially accountable. Financial accountability is defined as the appointment of a voting majority of the component unit's board and either (1) the District's ability to impose its will over the component unit, or (2) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the District. On this basis, the District's financial reporting entity has no component units.

GASB Statement No. 34 established a new financial reporting model for state and local governments that included the addition of management's discussion and analysis, district-wide financial statements, required supplementary information and the elimination of the effects of internal service activities and the use of account groups to the already required fund financial statements and notes.

The GASB determined that fund accounting has and will continue to be essential in helping governments to achieve fiscal accountability and should, therefore, be retained. The GASB also determined that District-Wide financial statements are needed to allow users of financial reports to assess a government's operational accountability. The new GASB model integrates fund-based financial reporting and district-wide financial reporting as complementary components of a single comprehensive financial reporting model.

B. Basis of Presentation, Basis of Accounting:

The School District's basic financial statements consist of District-Wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Basis of Presentation

District-Wide Statements: The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the overall District, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the governmental and business-type activity of the District. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

HIGHLANDS SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

B. Basis of Presentation, Basis of Accounting (Cont'd):

The statement of net assets presents the financial condition of the governmental and business-type activity of the School District at fiscal year end. The statement of activities presents a comparison between direct expenses and program revenues for the business-type activity of the District and for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues. The comparison of direct expenses with program revenues identifies the extent to which each governmental function or business segment is self-financing or draws from the general revenues of the School District.

Fund Financial Statements: During the fiscal year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. The fund financial statements provide information about the District's funds, including its fiduciary funds. Separate statements for each fund category - *governmental, proprietary, and fiduciary* - are presented. The New Jersey Department of Education (NJDOE) has elected to require New Jersey districts to treat each governmental fund as a major fund in accordance with the option noted in GASB No. 34, paragraph 76. The NJDOE believes that the presentation of all funds as major is important for public interest and to promote consistency among district financial reporting models.

The District reports the following governmental funds:

General Fund: The general fund is the general operating fund of the District and is used to account for all expendable financial resources except those required to be accounted for in another fund. Included are certain expenditures for vehicles and movable instructional or non-instructional equipment which are classified in the capital outlay subfund. As required by the NJDOE, the District includes budgeted capital outlay in this fund. GAAP as it pertains to governmental entities states that general fund resources may be used to directly finance capital outlays for long-lived improvements as long as the resources in such cases are derived exclusively from unrestricted revenues. Resources for budgeted capital outlay purposes are normally derived from State of New Jersey Aid, district taxes, and appropriated fund balance. Expenditures are those that result in the acquisition of or additions to fixed assets for land, existing buildings, improvements of grounds, construction of buildings, additions to or remodeling of buildings and the purchase of built-in equipment. These resources can be transferred from and to Current Expense by Board resolution.

Special Revenue Fund: The special revenue fund is used to account for the proceeds of specific revenue from State and Federal Government, (other than major capital projects, debt service or the enterprise funds) and local appropriations that are legally restricted to expenditures for specified purposes.

Capital Projects Fund: The capital projects fund is used to account for all financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds). The financial resources are derived from temporary notes or serial bonds that are specifically authorized by the voters as a separate question on the ballot either during the annual election or at a special election.

Debt Service Fund: The debt service fund is used to account for the accumulation of resources for and the payment of principal and interest on bonds issued to finance major property acquisition, construction and improvement programs.

HIGHLANDS SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

B. Basis of Presentation, Basis of Accounting (Cont'd):

The District reports the following proprietary fund:

Enterprise (Food Service) Fund: The enterprise fund accounts for all revenues and expenses pertaining to the Board's cafeteria operations. The food service fund is utilized to account for operations that are financed and operated in a manner similar to private business enterprises. The stated intent is that the cost (ie. expenses including depreciation and indirect costs) of providing goods or services to the students on a continuing basis are financed or recovered primarily through user charges.

Additionally, the District reports the following fund type:

Fiduciary Funds: The Fiduciary Funds are used to account for assets held by the District on behalf of others and includes the Student Activities Fund and Payroll Agency Fund.

Basic of Accounting:

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements.

District-Wide, Proprietary, and Fiduciary Fund Financial Statements: The District-Wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting; the enterprise fund and fiduciary funds use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures. Ad Valorem (Property) Taxes are susceptible to accrual as under New Jersey State Statute a municipality is required to remit to its school district the entire balance of taxes in the amount voted upon or certified, prior to the end of the school year. The District records the entire approved tax levy as revenue (accrued) at the start of the fiscal year, since the revenue is both measurable and available. The District is entitled to receive monies under the established payment schedule and the unpaid amount is considered to be an "accounts receivable". Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

All governmental and business-type activities and enterprise funds of the District follow FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

C. Budgets/Budgetary Control:

Annual appropriated budgets are prepared in the spring of each year for the general, special revenue, and debt service funds. The budgets are submitted to the county office for approval and are voted upon at the annual school election on the third Tuesday in April. The Board voted to adopt P.L. 2011 c.202, effective January 17, 2012, which eliminated the annual voter referendum on budgets which meet the statutory tax levy cap limitations and the board of education members are elected at the November general election. Budgets are prepared using the modified accrual basis of accounting except for the special revenue fund as described later. The legal level of budgetary control is established at line item accounts within each fund. Line item accounts are defined as the lowest (most specific) level of detail as established pursuant to the minimum chart of accounts referenced in N.J.A.C. 6:20-2A.2(m)1.

HIGHLANDS SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

C. Budgets/Budgetary Control (Cont'd):

All budget amendments/transfers must be approved by School Board resolution. All budget amounts presented in the accompanying supplementary information reflect the original budget and the amended budget (which have been adjusted for legally authorized revisions of the annual budgets during the year).

Formal budgetary integration into the accounting system is employed as a management control device during the year. For governmental funds, there are no substantial differences between the budgetary basis of accounting and GAAP with the exception of the legally mandated revenue recognition of the last state aid payment for budgetary purposes only and the special revenue fund as presented in the Notes to Required Supplementary Information. Encumbrance accounting is also employed as an extension of formal budgetary integration in the governmental fund types. Unencumbered appropriations lapse at year end.

The accounting records of the special revenue fund are maintained on the grant accounting budgetary basis. The grant accounting budgetary basis differs from GAAP in that the grant accounting budgetary basis recognizes encumbrances as expenditures and also recognizes the related revenues, whereas the GAAP basis does not. Sufficient supplemental records are maintained to allow for the presentation of GAAP basis financial reports.

D. Assets, Liabilities, and Equity:

Cash, Cash Equivalents, and Investments:

Cash and cash equivalents include cash in banks and all highly liquid investments with a maturity of three months or less at the time of purchase and are stated at cost plus accrued interest. The Board classifies U.S. Treasury and agency obligations and certificates of deposit which have maturity dates of less than twelve months from date of purchase as investments and are stated at cost.

New Jersey school districts are limited as to the types of investments and types of financial institutions they may invest in. New Jersey Statute 18A:20-37 provides a list of permissible investments that may be purchased by New Jersey school districts. Additionally, the District has adopted a cash management plan that requires it to deposit public funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act (GUDPA). GUDPA was enacted in 1970 to protect Governmental Units from a loss of funds on deposit with a failed banking institution in New Jersey.

N.J.S.A. 17:9-41 et. seq. establishes the requirements for the security of deposits of governmental units. The statute requires that no governmental unit shall deposit public funds in a depository unless such funds are secured in accordance with the Act. Public depositories include Savings and Loan institutions, banks (both state and national banks) and savings banks the deposits of which are federally insured. All public depositories must pledge collateral, having a market value of at least equal to five percent of the average daily balance of collected public funds, to secure the deposits of Governmental Units. If a public depository fails, the collateral it has pledged, plus the collateral of all other public depositories, is available to pay the full amount of their deposits to the Governmental Units.

Interfund Transactions:

Transfers between governmental and business-type activities on the District-Wide statements are reported in the same manner as general revenues. Flows of cash or goods from one fund to another without a requirement for repayment are reported as Interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and as non-operating revenues/expenses in the enterprise fund. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

On fund financial statements, short-term interfund loans are classified as interfund receivables/payables. These amounts are eliminated in the statement of net assets, except for amounts due between governmental and business-type activities or governmental and agency funds, which are presented as internal balances.

HIGHLANDS SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

D. Assets, Liabilities, and Equity (Cont'd):

Allowance for Uncollectible Accounts:

No allowance for uncollectible accounts has been recorded as all amounts are considered collectible.

Inventories:

Inventory purchases, other than those recorded in the enterprise fund, are recorded as expenditures during the year of purchase. Enterprise fund inventories are valued at cost, which approximates market, using the first-in/first-out (FIFO) method.

Capital Assets:

Capital assets, which include land, buildings and improvements, and furniture and equipment, are reported in the government-wide financial statements. The District defines capital assets as assets with an initial, individual cost of more than \$2,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extended assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction is not capitalized.

Buildings and improvements and furniture and equipment of the District are depreciated using the straight-line method over the following estimated lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Site Improvements	15-20
Building Improvements	20-40
Administrative - EDP Equipment	5
Telephone Systems	10
Office Machines - Administration	8
Food Service Equipment	15
Athletic Equipment	10
Music and Band Equipment	10
EDP Equipment	5
General Plant/Grounds Equipment	15
Textbooks and Library Books	7

Deferred Revenue:

Deferred revenue in the special revenue fund represents cash that has been received but not yet earned.

Accrued Liabilities and Long-Term Obligations:

All payables, accrued liabilities, and long-term obligations are reported on the District-Wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. Bonds are recognized as a liability on the fund financial statements when due.

HIGHLANDS SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

D. Assets, Liabilities, and Equity (Cont'd):

Net Assets:

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

Fund Balance:

Beginning with the fiscal year 2011, the District implemented GASB Statement 54 "Fund Balance Reporting and Governmental Fund Type Definition". The School District reports fund balance in classifications that comprise a hierarchy based primarily on the extent to which the School District is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The School District's classifications, and policies for determining such classifications, are as follows:

Nonspendable - The nonspendable fund balance classification includes amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, such as inventories and prepaid amounts.

Restricted - The restricted fund balance classification includes amounts that are restricted to specific purposes. Such restrictions, or constraints, are placed on the use of resources either by being (1) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (2) imposed by law through constitutional provisions or enabling legislation.

Committed - The committed fund balance classification includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the School District's highest level of decision-making authority, which, for the School District, is the Board of Education. Such formal action consists of an affirmative vote by the Board of Education, memorialized by the adoption of a resolution. Once committed, amounts cannot be used for any other purposes unless the Board of Education removes, or changes, the specified use by taking the same type of action (resolution) it employed to previously commit these amounts.

Assigned - The assigned fund balance classification includes amounts that are constrained by the School District's intent to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by either the Board of Education or by the business administrator, to which the Board of Education has delegated the authority to assign amounts to be used for specific purposes. Such authority of the business administrator is established by way of a formal job description for the position, approved by the Board of Education.

Unassigned - The unassigned fund balance classification is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The general fund is the only fund that reports a positive unassigned fund balance amount. In other governmental funds, if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available, it is the policy of the School District to spend restricted fund balance first. Moreover, when an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications can be used, it is the policy of the School District to spend fund balances, if appropriate, in the following order: committed, assigned, then unassigned.

HIGHLANDS SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

D. Assets, Liabilities, and Equity (Cont'd):

Revenues - Exchange and Nonexchange Transactions:

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means within sixty days of the fiscal year-end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, income taxes, grants, entitlements and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from income taxes is recognized in the period in which the income is earned. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available as an advance, interest and tuition.

Operating Revenue and Expenses:

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise fund. For the School District, these revenues are sales for food service. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the enterprise fund.

Management Estimates:

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS

The District's deposits are insured through either the Federal Deposit Insurance Corporation (FDIC) or New Jersey's Governmental Unit Deposit Protection Act (GUDPA). GUDPA requires all banks doing business in the State of New Jersey to maintain additional collateral in the amount of 5% of the average public deposits and to deposit these amounts with the Federal Reserve Bank for all deposits not covered by FDIC.

Bank balances are insured up to \$250,000.00 in the aggregate by the FDIC for each bank. At June 30, 2012, the book value of the District's deposits was \$1,244,870.95 and the bank balance of the District's deposits was \$1,405,277.78. Of the bank balances \$250,000.00 was covered by FDIC and \$1,155,277.78 was covered by GUDPA.

The District is permitted to invest public funds in accordance with the types of securities authorized by N.J.S.A. 18A:20-37. Examples of the allowable investments are bonds or other obligations of the United States or obligations guaranteed by the United States of America, Government Money Market Mutual Funds, bonds or other obligations of the school district or bonds or other obligations of the local unit or units within which the school district is located, Local Government investment pools, and agreements or the repurchase of fully collateralized securities, if transacted in accordance with the above statute.

HIGHLANDS SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

NOTE 2. CASH AND CASH EQUIVALENTS AND INVESTMENTS (CONT'D)

As of June 30, 2012, the District had the following investments:

U.S. Treasury Obligations	\$183,506.91
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The District has implemented the disclosure requirements of Governmental Accounting Standards Board Statement No. 40 "Deposit and Investment Risk Disclosures" (GASB 40") and accordingly the District has assessed the Custodial Risk, the Concentration of Credit Risk, Credit Risk and Interest Rate Risk of its cash and investments.

- (a) Custodial Credit Risk - The District's deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are: uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-government's name. The deposit risk is that, in the event of the failure of a depository financial institution, the District will not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. The District's investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the District and are held by either: the counterparty or the counterparty's trust department or agent but not in the District's name. The investment risk is that, in the event of the failure of the counterparty to a transaction, the District will not be able to recover the value of the investment or collateral securities that are in possession of an outside party.

As of June 30, 2012, the District's bank balance was not exposed to custodial credit risk since the full amount was covered by either FDIC insurance or GUDPA. The District does not have a formal policy for deposit custodial credit risk other than to maintain sufficient funds in the checking account to cover checks that have not cleared the account as of a specific date.

As of June 30, 2012, the District's investments were comprised of U.S. Treasuries in the amount of \$183,506.91. Since the investments are not registered in the District's name and were not held by the counterparty they are exposed to custodial credit risk. The District does not have a formal policy for investment securities custodial credit risk other than to maintain a safekeeping account for the securities at a financial institution.

- (b) Concentration of Credit Risk - This is the risk associated with the amount of investments the District has with any one issuer that exceeds 5 percent or more of its total investments. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement.
- (c) Credit Risk - GASB 40 requires that disclosure be made as to the credit rating of all debt security investments except for obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government. This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In general, the District does not have an investment policy regarding Credit Risk except to the extent previously outlined under the District's investment policy.
- (d) Interest Rate Risk - This is the risk that changes in interest rates will adversely affect the fair value of an investment. The District does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from interest rate fluctuations. As of June 30, 2012, the U.S. Treasury obligations all had short term maturities.

HIGHLANDS SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

NOTE 3. CAPITAL RESERVE ACCOUNT

Funds placed in the capital reserve account are restricted to capital projects in the district's approved Long Range Facilities Plan (LRFP). Upon submission of the LRFP to the department, a district may increase the balance in the capital reserve by appropriating funds in the annual general fund budget certified for taxes or by transfer by board resolution at year end of any unanticipated revenue or unexpended line-item appropriation amounts, or both.. A district may also appropriate additional amounts when the express approval of the voters has been obtained either by a separate proposal at budget time or by a special question at one of the four special elections authorized pursuant to *N.J.S.A. 19:60-2*. Pursuant to *N.J.A.C. 6:23A-5.1(d) 7*, the balance in the account cannot at any time exceed the local support costs of uncompleted capital projects in its approved LRFP.

The activity of the capital reserve for the July 1, 2011 to June 30, 2012 fiscal year is as follows:

Beginning balance, July 1, 2011	\$122,128.00
Interest earnings	.00
Deposits	
Approved at April 2011 election	.00
Withdrawals	
Board resolution	(.00)
Ending balance, June 30, 2012	<u>\$122,128.00</u>

NOTE 4. RECEIVABLES

Receivables at June 30, 2012, consisted of interfund and intergovernmental accounts. All receivables are considered collectible in full. A summary of the principal items of receivables follows:

	<u>Governmental Fund Financial Statements</u>	<u>District-Wide Financial Statements</u>
State Aid	101,402.00	101,464.48
Federal Aid	60,601.00	63,954.35
Interfunds	56,028.55	21,390.61
Other	<u>.00</u>	<u>.00</u>
Gross Receivables	218,031.55	186,809.44
Less: Allowance for Uncollectibles	<u>.00</u>	<u>.00</u>
Total Receivables, Net	<u>\$218,031.55</u>	<u>186,809.44</u>

NOTE 5. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Adjustments/ Deletions</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets not being depreciated:				
Land	<u>174,413.00</u>	<u>.00</u>	<u>.00</u>	<u>174,413.00</u>
Total capital assets not being depreciated	<u>174,413.00</u>	<u>.00</u>	<u>.00</u>	<u>174,413.00</u>
Capital assets being depreciated:				
Site improvements	128,152.00	.00	.00	128,152.00
Building and building improvements	2,539,990.00	.00	.00	2,539,990.00
Machinery and equipment	<u>324,678.00</u>	<u>5,946.00</u>	<u>(3,928.00)</u>	<u>326,696.00</u>
Total capital assets being depreciated	<u>2,992,820.00</u>	<u>5,946.00</u>	<u>(3,928.00)</u>	<u>2,994,838.00</u>
Total at historical cost	<u>3,167,233.00</u>	<u>5,946.00</u>	<u>(3,928.00)</u>	<u>3,169,251.00</u>
Less accumulated depreciation for:				
Site improvements	(106,534.00)	(2,398.00)	.00	(108,932.00)
Building and improvements	(948,291.00)	(63,517.00)	.00	(1,011,808.00)
Machinery and equipment	<u>(242,540.00)</u>	<u>(20,988.00)</u>	<u>3,928.00</u>	<u>(259,600.00)</u>
Total accumulated depreciation	<u>(1,297,365.00)</u>	<u>(86,903.00)</u>	<u>3,928.00</u>	<u>(1,380,340.00)</u>
Governmental activity capital assets, net	<u>\$1,869,868.00</u>	<u>(80,957.00)</u>	<u>.00</u>	<u>1,788,911.00</u>

HIGHLANDS SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

NOTE 5. CAPITAL ASSETS (CONT'D)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Adjustments/ Deletions</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets being depreciated:				
Equipment	14,976.83	.00	.00	14,976.83
Less accumulated depreciation	<u>(748.85)</u>	<u>(998.46)</u>	<u>(.00)</u>	<u>(1,747.31)</u>
Enterprise fund capital assets, net	<u>\$ 14,227.98</u>	<u>(998.46)</u>	<u>.00</u>	<u>13,229.52</u>

Depreciation expense was charged to the following governmental programs:

Instruction:		
Regular		40,114.42
Special Education		13,426.51
Other Instruction		1,268.78
Support Services:		
Student and Instruction Related Services		17,163.34
School Administrative Services		1,885.80
General Administrative Services		3,337.08
Central Services		3,867.18
Plant Operation and Maintenance		5,066.44
Student Services		<u>773.45</u>
Total Depreciation Expense, Governmental Activities		<u>\$86,903.00</u>

NOTE 6. GENERAL LONG-TERM DEBT

Long-Term Liability Activity for the year ended June 30, 2012, is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Loans Payable	31,925.74	.00	10,534.67	21,391.07	10,640.13
Obligations Under Capital Leases	43,755.97	.00	9,114.11	34,641.86	9,018.03
Compensated Absences Payable	23,890.10	742.50	10,495.58	14,137.02	6,284.52
Certificates of Participation	<u>820,000.00</u>	<u>.00</u>	<u>120,000.00</u>	<u>700,000.00</u>	<u>125,000.00</u>
	<u>\$919,571.81</u>	<u>742.50</u>	<u>150,144.36</u>	<u>770,169.95</u>	<u>150,942.68</u>

A. Loans Payable - The District obtained two loans from the "Safe Schools Loan Fund" approved by the New Jersey Economic Development Authority (NJEDA) for the purpose of various capital projects that are necessary to meet State health and safety code requirements. Terms of these loans include repayment of principal annually and semiannual payments of interest at a stated rate per each loan agreement. The original amount issued and interest rate were as follows:

<u>Date</u>	<u>Original Amount</u>	<u>Interest Rate</u>	<u>Balance June 30, 2012</u>
08/12/93	155,000.00	1.500%	16,315.87
12/07/93	35,000.00	5.288%	5,075.20
			<u>\$21,391.07</u>

Principal and interest due on loans outstanding is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30,			
2013	10,640.13	386.30	11,026.43
2014	<u>10,750.94</u>	<u>129.74</u>	<u>10,880.68</u>
	<u>\$21,391.07</u>	<u>516.04</u>	<u>21,907.11</u>

HIGHLANDS SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

NOTE 6. GENERAL LONG-TERM DEBT (CONT'D)

B. Bonds Authorized But Not Issued - As of June 30, 2012, the District had no authorized but not issued bonds.

C. Capital Leases - The District is leasing four copiers under capital leases. The following is a schedule of the future minimum lease payments under these capital leases and the net minimum lease payments at June 30, 2012.

Year ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	9,018.03	1,704.41	10,722.44
2014	10,248.90	1,255.14	11,504.04
2015	9,258.91	651.50	9,910.41
2016	<u>6,116.02</u>	<u>136.78</u>	<u>6,252.80</u>
	<u>\$34,641.86</u>	<u>3,747.83</u>	<u>38,389.69</u>

D. Lease Purchase Agreement (COPS):

On January 9, 1997, pursuant to N.J.S.A. 18A:20-4.2(f), the Board of Education (the Lessee) entered into a school building lease purchase agreement with FFL Services Corporation, Inc., (the Lessor) to finance the construction of additions to and renovations of the existing Highlands Elementary School Building. The approval was obtained from the Commissioner of Education of the State of New Jersey and the New Jersey Local Finance Board in the Department of Community Affairs on December 11, 1996. The building is located on land owned by the Board of Education that has been leased to FFL Services Corporation, pursuant to a ground lease agreement dated December 15, 1996. Certificates of Participation (the Certificates) in the par amount of \$1,995,000.00 were issued and the proceeds budgeted as follows:

Project Construction Fund	1,717,530.00
Reserve Fund	183,470.00
Cost of Issuance	<u>94,000.00</u>
	<u>\$1,995,000.00</u>

Proceeds from the sale of the Certificates were used to finance the construction and acquisition of an addition, renovations and other improvements to the Highlands Elementary School.

Under the lease, the Board is required to pay Basic Rent to the agent on each August 1 and February 1, commencing August 1, 1997. Basic Rent is composed of an interest component and a principal component. The Certificates carry interest rates in the range of 4.60% to 6.375%; and the Certificates mature on February 1, 2017. Distributions of the applicable portions of Basic Rent by the Agent to the registered owners are payable initially on August 15, 1997 and on each February 15 and August 15 thereafter through and including February 15, 2017, unless paid earlier upon redemption. The Bank of New York has been appointed to serve as trustee in the agreement.

Future Minimum Lease Program:

Future minimum lease payments for the fiscal year under the lease purchase agreement along with the present value of the minimum lease payments as of June 30, 2012 are:

<u>Year</u>	<u>Amount</u>
2013	169,625.00
2014	171,656.26
2015	168,050.00
2016	164,125.00
2017	<u>164,881.26</u>
Total Minimum Lease Payments	838,337.52
Less Amount Representing Interest	<u>138,337.52</u>
Present Value of Lease Payments	<u>\$700,000.00</u>

HIGHLANDS SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

NOTE 6. GENERAL LONG-TERM DEBT (CONT'D)

D. Lease Purchase Agreement (COPS) (Cont'd):

Optional Redemption:

The Certificates maturing on or prior to February 15, 2007 were not subject to redemption prior to their stated maturities. The Certificates maturing on or after February 15, 2008 are redeemable at the option of the School District in whole on any date or in part on any Interest Payment Date on or after February 15, 2007 upon notice as required below at the respective prices (expressed as percentages of the principal amount to be redeemed) set forth below ("Redemption Price") plus accrued interest to the date fixed for redemption.

<u>Redemption Period</u> <u>(both dates inclusive)</u>	<u>Redemption</u> <u>Price</u>
February 15, 2008 and thereafter	100%

Mandatory Sinking Fund Redemption:

The Certificates maturing on February 15, 2017, shall be subject to mandatory sinking fund redemption, at a price equal to the Principal Amount thereof plus the interest thereon accrued to the date fixed for redemption, by deposits of Basic Rent which are required to be made into the Principal Account of the Certificate Fund in amounts sufficient to redeem the Certificates specified on each of the dates shown below:

<u>Date</u>	<u>Sinking Fund</u> <u>Installment</u>
February 15, 2013	\$125,000.00
February 15, 2014	135,000.00
February 15, 2015	140,000.00
February 15, 2016	145,000.00
February 15, 2017 (final maturity)	155,000.00

Mandatory Redemption:

The Certificates are subject to mandatory redemption at a redemption price equal to their principal amount plus accrued interest to the redemption date: (i) on any Interest Payment Date, in whole or in part (and if in part, in inverse order to maturities and within a maturity by lot) from the net proceeds of insurance or condemnation proceedings exceeding \$100,000.00, and if the School District determines not to repair, restore or reconstruct all or a part of the Project affected by such loss or taking, together with any Available Revenues permitted to be applied, or (ii) in whole or in part at any time, from moneys received by the Agent on the exercise of its rights under the Agent Agreement with respect to an Event of Default or an Event of Nonappropriation. This provision is not intended to be applicable if the School District itself should attempt to exercise eminent domain over the Land, the Project, or any interest therein.

NOTE 7. DEFICIT FUND BALANCES

The District has a deficit fund balance of \$10,524.00 in the Special Revenue Fund as of June 30, 2012 as reported in the fund statements (modified accrual basis). N.J.S.A. 18A:22-44.2 provides that in the event a state school aid payment is not made until the following school budget year, districts must record the delayed one or more June state aid payments as revenue, for budget purposes only, in the current school budget year. The bill provides legal authority for school districts to recognize this revenue in the current budget year. For intergovernmental transactions, GASB Statement No. 33 requires that recognition (revenue, expenditure, asset, liability) should be in symmetry, i.e., if one government recognizes an asset, the other government recognizes a liability. Since the State is recording the last two state aid payments in the subsequent fiscal year, the school district can not recognize the last two state aid payments on the GAAP financial statements until the year the State records the payable. Due to the timing difference of recording the last state aid payment, the Special Revenue Fund Balance deficit does not alone indicate that the district is facing financial difficulties.

HIGHLANDS SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

NOTE 7. DEFICIT FUND BALANCES (CONT'D)

Pursuant to N.J.S.A. 18A:44.2 any negative unrestricted, undesignated general or special revenue fund balance that is reported as a direct result from a delay in the payment of state aid until the following fiscal year, is not considered in violation of New Jersey statute and regulation nor in need of corrective action. The District deficit in the GAAP funds statements of \$10,524.00 is equal to the last two state aid payments.

NOTE 8. FUND BALANCE APPROPRIATED

General Fund - Of the \$1,421,828.29 General Fund fund balance at June 30, 2012, \$460,409.95 is restricted as excess surplus in accordance with N.J.S.A. 18A:7F-7; \$439,785.34 was restricted as excess surplus at June 30, 2011 and has been appropriated and included as anticipated revenue for the year ending June 30, 2013; \$122,128.00 has been restricted in the Capital Reserve Account; \$106,546.00 has been restricted in the Maintenance Reserve Account; \$.00 has been assigned to be designated for subsequent year's expenditures and included as anticipated revenue for the year ending June 30, 2013; and \$292,959.00 is unassigned.

NOTE 9. CALCULATION OF EXCESS SURPLUS

In accordance with N.J.S.A. 18A:7F-7, as amended by P.L. 2004, c.73 (S1701), the designation for Restricted Fund Balance -Excess Surplus is a required calculation pursuant to the New Jersey Comprehensive Educational Improvement and Financing Act of 1997 (CEIFA). New Jersey school districts are required to reserve General Fund fund balance at the fiscal year end of June 30, if they did not appropriate a required minimum amount as budgeted fund balance in their subsequent years' budget. The excess fund balance at June 30, 2011 is \$460,409.95.

NOTE 10. CONTINGENT LIABILITIES

Grant Programs:

The School District participates in federal awards and state financial assistance grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The School District is potentially liable for expenditures which may be disallowed pursuant to the terms of these grant programs. Management is not aware of any material items of noncompliance which would result in the disallowance of program expenditures.

NOTE 11. PENSION PLANS

Description of Plans - All required employees of the District are covered by either the Public Employees' Retirement System or the Teachers' Pension and Annuity Fund which have been established by state statute and are administered by the New Jersey Division of Pension and Benefits (Division). According to the State of New Jersey Administrative Code, all obligations of both Systems will be assumed by the State of New Jersey should the Systems terminate. The Division issues a publicly available financial report that includes the financial statements and required supplementary information for the Public Employees' Retirement System and the Teachers' Pension and Annuity Fund. These reports may be obtained by writing to the Division of Pensions and Benefits, PO Box 295, Trenton, New Jersey, 08625.

Teachers' Pension and Annuity Fund (TPAF) - The Teachers' Pension and Annuity Fund (TPAF) was established as of January 1, 1955, under the provisions of N.J.S.A. 18A:66 to provide retirement benefits, death, disability and medical benefits to certain qualified members. The Teachers' Pension and Annuity Fund is considered a cost-sharing multiple-employer plan with a special funding situation, as under current statute, all employer contributions are made by the State of New Jersey on behalf of the District and the system's other related non-contributing employers. Membership is mandatory for substantially all teachers or members of the professional staff certified by the State Board of Examiners, and employees of the Department of Education who have titles that are unclassified, professional and certified.

HIGHLANDS SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

NOTE 11. PENSION PLANS (CONT'D)

Public Employees' Retirement System (PERS) - The Public Employees' Retirement System (PERS) was established as of January 1, 1955, under the provisions of N.J.S.A. 43:15A to provide retirement, death, disability and medical benefits to certain qualified members. The Public Employees' Retirement System is a cost-sharing multiple-employer plan. Membership is mandatory for substantially all full-time employees of the State of New Jersey or any county, municipality, school district, or public agency, provided the employee is not required to be a member of another state-administered retirement system or other state or local jurisdiction.

Vesting and Benefit Provisions - The vesting and benefit provisions for PERS are set by N.J.S.A. 43:15A and 43.3B, and N.J.S.A. 18A:6C for TPAF. All benefits vest after eight to ten years of service, except for medical benefits that vest after 25 years of service. Retirement benefits for age and service are available at age 55 and are generally determined to be 1/55 of the final average salary for each year of service credit, as defined. Final average salary equals the average salary for the final three years of service prior to retirement (or highest three years' compensation if other than the final three years). Members may seek early retirement after achieving 25 years of service credit or they may elect deferred retirement after achieving eight to ten years of service in which case benefits would begin the first day of the month after the member attains normal retirement age. The TPAF and PERS provides for specified medical benefits for members who retire after achieving 25 years of qualified service, as defined, or under the disability provisions of the System.

Members are always fully vested for their own contributions and, after three years of service credit, become vested for 2% of related interest earned on the contributions. In the case of death before retirement, members' beneficiaries are entitled to full interest credited to the members' accounts.

Significant Legislation - During the year ended June 30, 1997, legislation was enacted (Chapter 114, P.L. 1997) authorizing the New Jersey Economic Development Authority to issue bonds, notes or other obligations for the purpose of financing, in full or in part, the State of New Jersey's portion of the unfunded accrued liability under the State of New Jersey retirement systems. Additional legislation enacted during the year ended June 30, 1998 (Chapter 115, P.L. 1997) changed the asset valuation method from market related value to full-market value. This legislation also contained a provision to reduce the employee contribution rate by 1/2 of 1% to 4.5% for calendar years 1998 and 1999, and to allow for a reduction in the employee's rate after calendar year 1999, providing excess valuation assets are available. The legislation also provided that the Districts' normal contributions to the fund may be reduced based on the revaluation of assets. Due to recognition of the bond proceeds and the change in asset valuation method as a result of enactment of Chapters 114 and 115, all unfunded accrued liabilities were eliminated, except for the unfunded liability for local early retirement incentive benefits, accordingly, the pension costs for TPAF and PERS were reduced.

P.L. 2010, c. 1, effective May 21, 2010, made a number of changes to the State-administered retirement systems concerning eligibility, the retirement allowance formula, the definition of compensation, the positions eligible for services credit, the non-forfeitable right to a pension, the prosecutor's part of the PERS, and employer contributions to the retirement system.

This new legislation changed the membership eligibility criteria for new members of TPAF and PERS from the amount of annual compensation to the number of hours worked weekly. Also, it returned the benefit multiplier for new members of TPAF and PERS to 1/60 from 1/55, and it provided that new members of TPAF and PERS have the retirement allowance calculated using the average annual compensation for the last five years of service instead of the last three years of service. New members of TPAF and PERS will no longer receive pension service credit from more than one employer. Pension service credit will be earned for the highest paid position only. The law also requires the State to make its full pension contribution, defined as 1/7th of the required amount, beginning in Fiscal Year 2012.

P.L. 2010, c. 2, effective May 21, 2010, also requires contributions toward health care benefits coverage by public employees and certain retirees.

P.L. 2010, c. 3, effective May 21, 2010, replaced the accidental and ordinary disability retirement for new members of the TPAF and PERS with disability insurance coverage similar to that provided by the State to individuals enrolled in the State's Defined Contribution Retirement Program.

Effective June 28, 2011, Chapter 78, P.L. 2011 reformed various pension and health benefit provisions. Employees hired after June 28, 2011 and enrolled in PERS will be enrolled in a new tier, Tier 5. Full retirement for Tier 5 PERS members will be age 65 and 30 years of service.

HIGHLANDS SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

NOTE 11. PENSION PLANS (CONT'D)

Contribution Requirements:

The contribution policy is set by N.J.S.A. 43:15A, Chapter 62, P.L. of 1994, Chapter 115, P.L. of 1997 and N.J.S.A. 18:66, and requires contributions by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. TPAF and PERS provide for employee contributions of 6.5% of employees' annual compensation, as defined. Employers are required to contribute at an actuarially determined rate in both TPAF and PERS.

The actuarially determined contribution includes funding for cost-of-living adjustments, noncontributory death benefits, and post-retirement medical premiums. Under current statute the District is a non-contributing employer of the TPAF.

<u>Three-Year Trend Information for PERS</u>			
<u>Year</u>	<u>Annual</u>	<u>Percentage</u>	<u>Net</u>
<u>Funding</u>	<u>Pension</u>	<u>of APC</u>	<u>Pension</u>
	<u>Cost (APC)</u>	<u>Contributed</u>	<u>Obligation</u>
6/30/12	5,637.00	100%	5,637.00
6/30/11	44,621.00	100%	44,621.00
6/30/10	9,223.00	100%	9,223.00

<u>Three-Year Trend Information for TPAF (Paid on-behalf of the District)</u>			
<u>Year</u>	<u>Annual</u>	<u>Percentage</u>	<u>Net</u>
<u>Funding</u>	<u>Pension</u>	<u>of APC</u>	<u>Pension</u>
	<u>Cost (APC)</u>	<u>Contributed</u>	<u>Obligation</u>
6/30/12	150,035.00	100%	.00
6/30/11	99,303.00	100%	.00
6/30/10	105,512.00	100%	.00

During the fiscal year ended June 30, 2012, the State of New Jersey contributed \$155,672.00 to the TPAF for normal and post-retirement benefits on behalf of the District. Also, in accordance with N.J.S.A. 18A:66-66 the State of New Jersey reimbursed the District \$113,228.29 during the year ended June 30, 2012 for the employer's share of social security contributions for TPAF members, as calculated on their base salaries. This amount has been included in the general-purpose financial statements, and the combining and individual fund and account group statements and schedules as a revenue and expenditure in accordance with GASB 27.

NOTE 12. POST-RETIREMENT BENEFITS

P.L. 1987, c. 384 and P.L. 1990, c.6 required Teachers' Pension and Annuity Fund (TPAF) and the Public Employees' Retirement System (PERS), respectively, to fund post-retirement medical benefits for those State employees who retire after accumulating 25 years of credited service or on a disability retirement. P.L. 2007, c.103 amended the law to eliminate the funding of post-retirement medical benefits through the TPAF and PERS. It created separate funds outside of the pension plans for the funding and payment of post-retirement medical benefits for retired State employees and retired educational employees. As of June 30, 2011, there were 93,323 retirees eligible for post-retirement medical benefits. The cost of these benefits is funded through contributions by the State in accordance with P.L. 1994, c.62. Funding of post-retirement medical premiums changed from a pre-funding basis to a pay-as-you-go basis beginning in Fiscal Year 1994.

The State is also responsible for the cost attributable to P.L. 1992 c.126, which provides free health benefits to members of PERS and the Alternate Benefit Program who retired from a board of education or county college with 25 years of service. The State paid \$144 million toward Chapter 126 benefits for 15,709 eligible retired members in Fiscal Year 2011.

GASB Statement #45 requires certain disclosures relating to governmental entities obligations for other post-employment benefits (OPEB), which are post-employment benefits other than pensions. The District does not provide post-employment benefits other than pension. Healthcare provided to eligible TPAF and PERS board of education retirees through the NJ State Health Benefits Program are paid by the State of New Jersey and as such, no district OPEB liability exists.

HIGHLANDS SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

NOTE 13. COMPENSATED ABSENCES

The District accounts for compensated absences (sick leave) as directed by Governmental Accounting Standards Board Statement No. 16 (GASB 16), "Accounting for Compensated Absences". A liability for compensated absences attributable to services already rendered and not contingent on a specific event that is outside the control of the employer and employee is accrued as employees earn the rights to the benefits.

District employees are granted varying amounts of vacation and sick leave in accordance with the District's personnel policy. Upon termination, employees are paid for accrued vacation. The District's policy permits employees to accumulate unused sick leave and carry forward the full amount to subsequent years. Upon retirement employees shall be paid by the District for the unused sick leave in accordance with the District's agreements with the various employee unions.

The entire liability for compensated absences is reported in the District-Wide Statements of Net Assets.

NOTE 14. DEFERRED COMPENSATION

The Board offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 403(b). The plan which is administered by the entity listed below, permits participants to defer a portion of their salary until future years. Amounts deferred under the plan are not available to employees until termination, retirement, death or unforeseeable emergency. The plan administrator is as follows:

Axa Equitable

NOTE 15. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

Property and Liability Insurance - The District maintains commercial insurance coverage for property, liability and surety bonds. A complete schedule of insurance coverage can be found in the Statistical Section of this Comprehensive Annual Financial Report.

NOTE 16. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund balances at June 30, 2012 consisted of the following individual fund receivable and payables:

	<u>Due From</u> <u>Other Funds</u>	<u>Due To</u> <u>Other Funds</u>
General Fund:		
Special Revenue Fund	34,637.94	.00
Agency Fund	21,390.61*	.00
Food Service Fund	.00	635.90**
Special Revenue Fund:		
General Fund	.00	34,637.94
Agency Fund:		
General Fund	.00	21,390.61
Food Service Fund		
General Fund	635.90*	.00

All of the above interfunds represent short-term loans.

*Reported as receivable on the District-Wide statement of net assets.

**Reported as payable on the District-Wide statement of net assets.

The District had no operating transfers during the fiscal year ended June 30, 2012.

HIGHLANDS SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

NOTE 17. INVENTORY

Inventory in the Food Service Fund at June 30, 2012 consisted of the following:

Food	1,383.88
Supplies	<u>475.36</u>
	<u>\$1,859.24</u>

The value of Federal donated commodities as reflected on Schedule A (required by the Single Audit Law of 1984) is the difference between market value and cost of the commodities at the date of purchase and has been included as an item of nonoperating revenue in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION - PART II

BUDGETARY COMPARISON SCHEDULES

HIGHLANDS SCHOOL DISTRICT**Budgetary Comparison Schedule****General Fund****Fiscal Year Ended June 30, 2012**

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final to Actual Favorable (Unfavorable)
REVENUES:					
Local Sources:					
Local Tax Levy	2,849,388.00	0.00	2,849,388.00	2,849,388.00	0.00
Interest Earned on Maintenance Reserve	15.00	0.00	15.00	0.00	(15.00)
Interest Earned on Capital Reserve Funds	20.00	0.00	20.00	0.00	(20.00)
Miscellaneous	1,165.00	0.00	1,165.00	9,326.68	8,161.68
Total - Local Sources	2,850,588.00	0.00	2,850,588.00	2,858,714.68	8,126.68
State Sources:					
Special Education Categorical Aid	83,992.00	0.00	83,992.00	83,992.00	0.00
Security Aid	44,301.00	0.00	44,301.00	44,301.00	0.00
Adjustment Aid	375,858.00	0.00	375,858.00	414,258.00	38,400.00
Transportation Aid	42,541.00	0.00	42,541.00	42,541.00	0.00
Extraordinary Special Education Costs Aid	0.00	0.00	0.00	99,314.00	99,314.00
Reimbursement of Nonpublic School Transportation Costs	0.00	0.00	0.00	2,088.00	2,088.00
TPAF - Post Retirement Medical (On-Behalf - Non-Budgeted)	0.00	0.00	0.00	100,194.00	100,194.00
Teacher's Pension & Annuity Fund (On-Behalf-Non-Budgeted)	0.00	0.00	0.00	49,841.00	49,841.00
Reimbursed TPAF Social Security Contributions (Non-Budgeted)	0.00	0.00	0.00	113,228.29	113,228.29
Total State Sources	546,692.00	0.00	546,692.00	949,757.29	403,065.29
Federal Sources:					
Education Jobs Fund	23,201.00	727.00	23,928.00	23,928.00	0.00
Total Federal Funds	23,201.00	727.00	23,928.00	23,928.00	0.00
Total Revenues	3,420,481.00	727.00	3,421,208.00	3,832,399.97	411,191.97
EXPENDITURES:					
Current Expense:					
Regular Programs - Instruction:					
Preschool - Salaries of Teachers	750.00	1,615.40	2,365.40	2,326.00	39.40
Kindergarten - Salaries of Teachers	61,215.00	58,270.00	119,485.00	116,315.00	3,170.00
Grades 1-5 - Salaries of Teachers	554,000.00	(45,593.62)	508,406.38	499,349.73	9,056.65
Grades 6-8 - Salaries of Teachers	82,000.00	(5,341.60)	76,658.40	75,373.40	1,285.00
Regular Programs - Home Instruction:					
Salaries of Teachers	2,000.00	0.00	2,000.00	0.00	2,000.00
Purchased Professional-Educational Services	800.00	0.00	800.00	0.00	800.00
Regular Programs - Undistributed Instruction:					
Other Salaries for Instruction	1,200.00	3,000.00	4,200.00	3,985.50	214.50
Purchased Professional-Educational Services	24,000.00	(215.00)	23,785.00	22,662.00	1,123.00
Purchased Technical Services	4,500.00	1,100.68	5,600.68	5,600.68	0.00
Other Purchased Services (400-500 series)	26,090.00	240.00	26,330.00	13,331.08	12,998.92
General Supplies	40,000.00	40,359.55	80,359.55	79,948.64	410.91
Textbooks	20,000.00	7,536.13	27,536.13	27,536.13	0.00
Other Objects	6,700.00	0.00	6,700.00	2,913.52	3,786.48
TOTAL REGULAR PROGRAMS - INSTRUCTION	823,255.00	60,971.54	884,226.54	849,341.68	34,884.86
SPECIAL EDUCATION - INSTRUCTION					
Learning and/or Language Disabilities:					
Salaries of Teachers	109,420.00	65,916.49	175,336.49	166,745.06	8,591.43
Other Salaries for Instruction	17,820.00	540.00	18,360.00	18,360.00	0.00
Total Learning and/or Language Disabilities	127,240.00	66,456.49	193,696.49	185,105.06	8,591.43
Resource Room/Resource Center:					
Salaries of Teachers	208,830.00	10,355.00	219,185.00	219,185.00	0.00
Total Resource Room/Resource Center	208,830.00	10,355.00	219,185.00	219,185.00	0.00
Home Instruction:					
Salaries of Teachers	8,500.00	(8,500.00)	0.00	0.00	0.00
Purchased Professional-Educational Services	1,500.00	0.00	1,500.00	0.00	1,500.00
Total Home Instruction	10,000.00	(8,500.00)	1,500.00	0.00	1,500.00
TOTAL SPECIAL EDUCATION - INSTRUCTION	346,070.00	68,311.49	414,381.49	404,290.06	10,091.43
Basic Skills/Remedial - Instruction					
Salaries of Teachers	72,290.00	(29,949.62)	42,340.38	35,027.78	7,312.60
Total Basic Skills/Remedial - Instruction	72,290.00	(29,949.62)	42,340.38	35,027.78	7,312.60

See Management's Discussion and Analysis section of this report for explanation of significant budget variances, original and final.

HIGHLANDS SCHOOL DISTRICT
Budgetary Comparison Schedule
General Fund
Fiscal Year Ended June 30, 2012

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final to Actual Favorable (Unfavorable)
EXPENDITURES (Continued):					
Current Expense (Continued):					
Bilingual Education - Instruction					
General Supplies	1,000.00	0.00	1,000.00	275.65	724.35
Total Bilingual Education - Instruction	<u>1,000.00</u>	<u>0.00</u>	<u>1,000.00</u>	<u>275.65</u>	<u>724.35</u>
School-Spon. Cocurricular Actvts. - Inst.					
Salaries	7,034.00	0.00	7,034.00	7,016.00	18.00
Purchased Professional-Educational Services	0.00	238.00	238.00	238.00	0.00
Other Objects	4,510.00	(238.00)	4,272.00	3,267.00	1,005.00
Total School-Spon. Cocurricular Actvts. - Inst.	<u>11,544.00</u>	<u>0.00</u>	<u>11,544.00</u>	<u>10,521.00</u>	<u>1,023.00</u>
Other Instructional Programs - Instruction					
Salaries	41,500.00	(16,851.25)	24,648.75	21,898.75	2,750.00
Purchased Services (300-500 series)	12,000.00	(10,910.00)	1,090.00	1,090.00	0.00
Supplies and Materials	1,528.00	(1,528.00)	0.00	0.00	0.00
Total Other Instructional Programs - Instruction	<u>55,028.00</u>	<u>(29,289.25)</u>	<u>25,738.75</u>	<u>22,988.75</u>	<u>2,750.00</u>
Other Instructional Programs - Instruction					
Before/After School Programs - Instruction					
Salaries	25,000.00	0.00	25,000.00	14,285.61	10,714.39
Other Salaries for Instruction	3,582.00	0.00	3,582.00	780.79	2,801.21
Total Before/After School Programs - Instruction	<u>28,582.00</u>	<u>0.00</u>	<u>28,582.00</u>	<u>15,066.40</u>	<u>13,515.60</u>
TOTAL INSTRUCTION AND AT-RISK PROGRAMS	<u>1,337,769.00</u>	<u>70,044.16</u>	<u>1,407,813.16</u>	<u>1,337,511.32</u>	<u>70,301.84</u>
Undistributed Expenditures - Instruction:					
Tuition to Other LEAs Within the State - Special	58,500.00	(38,864.53)	19,635.47	19,635.47	0.00
Tuition to Private Schools for the Disabled W/ State	0.00	30,260.00	30,260.00	30,260.00	0.00
Total Undistributed Expenditures - Instruction:	<u>58,500.00</u>	<u>(8,604.53)</u>	<u>49,895.47</u>	<u>49,895.47</u>	<u>0.00</u>
Undistributed Expend. - Attend. & Social Work					
Salaries	40,285.00	952.25	41,237.25	41,236.25	1.00
Purchased Professional and Technical Services	16,831.00	150.00	16,981.00	16,840.00	141.00
Other Purchased Services (400-500 series)	13,000.00	(2,878.53)	10,121.47	10,121.47	0.00
Supplies and Materials	5,500.00	921.25	6,421.25	6,357.84	63.41
Total Undistributed Expend. - Attend. & Social Work	<u>75,616.00</u>	<u>(855.03)</u>	<u>74,760.97</u>	<u>74,555.56</u>	<u>205.41</u>
Undist. Expend. - Health Services					
Salaries	55,000.00	(16,527.00)	38,473.00	38,473.00	0.00
Purchased Professional and Technical Services	2,000.00	8,860.00	10,860.00	10,860.00	0.00
Supplies and Materials	2,000.00	0.00	2,000.00	1,399.32	600.68
Other Objects	400.00	0.00	400.00	199.50	200.50
Total Undistributed Expenditures - Health Services	<u>59,400.00</u>	<u>(7,667.00)</u>	<u>51,733.00</u>	<u>50,931.82</u>	<u>801.18</u>
Undist. Expend. - Speech/Occupational Therapy, Physical Therapy & Related Serv.					
Salaries	65,325.00	(48,234.56)	17,090.44	17,090.44	0.00
Purchased Professional - Educational Services	62,000.00	86,663.75	148,663.75	145,548.75	3,115.00
Total Undist. Expend. - Speech/Occ Therapy, PT & Related Serv.	<u>127,325.00</u>	<u>38,429.19</u>	<u>165,754.19</u>	<u>162,639.19</u>	<u>3,115.00</u>
Other Support Services - Students - Extraordinary					
Salaries	106,281.00	(27,981.00)	78,300.00	78,300.00	0.00
Total Support Services - Students - Extraordinary	<u>106,281.00</u>	<u>(27,981.00)</u>	<u>78,300.00</u>	<u>78,300.00</u>	<u>0.00</u>
Undist. Expend. - Guidance					
Salaries of Secretarial and Clerical Assistants	25,000.00	0.00	25,000.00	24,166.74	833.26
Other Purchased Prof. and Tech. Services	3,400.00	0.00	3,400.00	0.00	3,400.00
Total Undist. Expend. - Guidance	<u>28,400.00</u>	<u>0.00</u>	<u>28,400.00</u>	<u>24,166.74</u>	<u>4,233.26</u>

See Management's Discussion and Analysis section of this report for explanation of significant budget variances, original and final.

HIGHLANDS SCHOOL DISTRICT
Budgetary Comparison Schedule
General Fund
Fiscal Year Ended June 30, 2012

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final to Actual Favorable (Unfavorable)
EXPENDITURES (Continued):					
Current Expense (Continued):					
Undist. Expend. - Child Study Teams					
Salaries of Other Professional Staff	92,929.00	1,938.29	94,867.29	83,124.18	11,743.11
Salaries of Secretarial and Clerical Assistants	40,500.00	0.16	40,500.16	38,333.64	2,166.52
Other Salaries	1,000.00	0.00	1,000.00	0.00	1,000.00
Purchased Professional - Educational Services	35,360.00	0.00	35,360.00	35,187.53	172.47
Other Purchased Prof. and Tech. Services	5,500.00	0.00	5,500.00	4,200.22	1,299.78
Miscellaneous Purchased Services (400-500 series)	10,400.00	0.00	10,400.00	5,694.77	4,705.23
Supplies and Materials	4,500.00	150.00	4,650.00	4,514.70	135.30
Other Objects	6,000.00	(150.00)	5,850.00	975.00	4,875.00
Total Undist. Expend. - Child Study Teams	196,189.00	1,938.45	198,127.45	172,030.04	26,097.41
Undist. Expend. - Improvement of Instructional Services					
Salaries of Other Professional Staff	35,000.00	0.00	35,000.00	34,720.08	279.92
Salaries of Secretarial and Clerical Assistants	1,000.00	0.00	1,000.00	0.00	1,000.00
Purchased Professional - Educational Services	45,500.00	0.00	45,500.00	33,381.95	12,118.05
Other Purchased Services (400-500 series)	500.00	(271.25)	228.75	0.00	228.75
Other Objects	500.00	(500.00)	0.00	0.00	0.00
Total Undist. Expend. - Improvement of Instructional Services	82,500.00	(771.25)	81,728.75	68,102.03	13,626.72
Undist. Expend. - Edu. Media Serv./Sch. Library					
Salaries	22,100.00	0.00	22,100.00	22,100.00	0.00
Purchased Professional and Technical Services	7,500.00	0.00	7,500.00	4,931.00	2,569.00
Other Purchased Services (400-500 series)	12,400.00	0.00	12,400.00	9,535.00	2,865.00
Supplies and Materials	2,000.00	0.00	2,000.00	290.78	1,709.22
Other Objects	2,000.00	(2,000.00)	0.00	0.00	0.00
Total Undist. Expend. - Edu. Media Serv./Sch. Library	46,000.00	(2,000.00)	44,000.00	36,856.78	7,143.22
Undist. Expend. - Instructional Staff Training Services					
Salaries of Supervisors of Instruction	10,000.00	183.58	10,183.58	10,183.58	0.00
Salaries of Secretarial and Clerical Assistants	6,000.00	0.00	6,000.00	4,633.64	1,366.36
Purchased Professional-Educational Services	5,200.00	0.00	5,200.00	714.26	4,485.74
Other Purchased Services (400-500 series)	500.00	0.00	500.00	0.00	500.00
Other Objects	250.00	0.00	250.00	0.00	250.00
Total Undist. Expend. - Instructional Staff Training Services	21,950.00	183.58	22,133.58	15,531.48	6,602.10
Undist. Expend. - Supp. Serv. - General Admin.					
Salaries	4,400.00	400.00	4,800.00	4,800.00	0.00
Legal Services	12,500.00	2,937.50	15,437.50	15,437.50	0.00
Audit Fees	10,000.00	0.00	10,000.00	10,000.00	0.00
Other Purchased Professional Services	5,000.00	(5,000.00)	0.00	0.00	0.00
Purchased Technical Services	72,000.00	(3,880.40)	68,119.60	68,119.60	0.00
Communications/Telephone	6,800.00	(3,329.04)	3,470.96	2,468.68	1,002.28
BOE Other Purchased Services	1,670.00	0.00	1,670.00	757.66	912.34
Miscellaneous Purchased Services (400-500 series other than 530/585)	12,700.00	(2,000.00)	10,700.00	7,061.96	3,638.04
General Supplies	750.00	0.00	750.00	145.00	605.00
BOE In-House Training/Meeting Supplies	250.00	0.00	250.00	108.27	141.73
Miscellaneous Expenditures	3,200.00	1,501.48	4,701.48	4,701.48	0.00
BOE Membership Dues and Fees	3,700.00	(1,258.65)	2,441.35	2,441.35	0.00
Total Undist. Expend. - Supp. Serv. - General Admin.	132,970.00	(10,629.11)	122,340.89	116,041.50	6,299.39
Undist. Expend. - Support Serv. - School Admin.					
Salaries of Principal/Asst. Principals/Program Directors	50,000.00	(8,720.16)	41,279.84	41,279.84	0.00
Salaries of Secretarial and Clerical Assistants	4,000.00	(4,000.00)	0.00	0.00	0.00
Other Purchased Services (400-500 series)	1,000.00	0.00	1,000.00	0.00	1,000.00
Supplies and Materials	1,500.00	0.00	1,500.00	1,500.00	0.00
Other Objects	100.00	0.00	100.00	0.00	100.00
Total Undist. Expend. - Support Serv. - School Admin.	56,600.00	(12,720.16)	43,879.84	42,779.84	1,100.00
Undistributed Expenditures - Central Services					
Salaries	6,468.00	0.00	6,468.00	2,509.20	3,958.80
Purchased Professional Services	60,000.00	0.00	60,000.00	60,000.00	0.00
Supplies and Materials	1,000.00	0.00	1,000.00	748.28	251.72
Total Undistributed Expenditures - Central Services	67,468.00	0.00	67,468.00	63,257.48	4,210.52

See Management's Discussion and Analysis section of this report for explanation of significant budget variances, original and final.

HIGHLANDS SCHOOL DISTRICT
Budgetary Comparison Schedule
General Fund
Fiscal Year Ended June 30, 2012

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final to Actual Favorable (Unfavorable)
EXPENDITURES (Continued):					
Current Expense (Continued):					
Undist. Expend. -Required Maintenance for School Facilities					
Cleaning, Repair, and Maintenance Services	47,860.00	0.00	47,860.00	42,969.92	4,890.08
General Supplies	2,500.00	0.00	2,500.00	1,968.12	531.88
Other Objects	1,500.00	0.00	1,500.00	410.00	1,090.00
Total Undist. Expend. -Required Maintenance for School Facilities	51,860.00	0.00	51,860.00	45,348.04	6,511.96
Undist. Expend. - Other Operation & Maintenance of Plant Services					
Salaries	119,307.00	(9,189.81)	110,117.19	102,706.26	7,410.93
Purchased Professional and Technical Services	20,618.00	(9,349.00)	11,269.00	3,151.00	8,118.00
Cleaning, Repair and Maintenance Services	41,200.00	(485.00)	40,715.00	31,731.29	8,983.71
Other Purchased Property Services	6,500.00	0.00	6,500.00	4,748.13	1,751.87
Insurance	28,000.00	(400.00)	27,600.00	20,224.00	7,376.00
Miscellaneous Purchased Services	3,100.00	5,000.00	8,100.00	7,046.64	1,053.36
General Supplies	14,000.00	3,702.30	17,702.30	17,702.30	0.00
Energy - Electricity	40,000.00	0.00	40,000.00	34,604.87	5,395.13
Energy - Natural Gas	42,000.00	(2,652.65)	39,347.35	23,618.17	15,729.18
Total Undist. Expend. - Other Operation & Maintenance of Plant Serv.	314,725.00	(13,374.16)	301,350.84	245,532.66	55,818.18
Undist. Expend. - Care & Upkeep of Grounds					
Cleaning, Repair and Maintenance Services	7,223.00	0.00	7,223.00	4,220.00	3,003.00
General Supplies	0.00	365.00	365.00	365.00	0.00
Total Undist. Expend. - Care & Upkeep of Grounds	7,223.00	365.00	7,588.00	4,585.00	3,003.00
Undist. Expend. - Security					
Purchased Professional and Technical Services	6,900.00	0.00	6,900.00	5,212.95	1,687.05
Total Undist. Expend. - Security	6,900.00	0.00	6,900.00	5,212.95	1,687.05
Total Undist. Expend. - Oper. & Maint. Of Plant Services	380,708.00	(13,009.16)	367,698.84	300,678.65	67,020.19
Undist. Expend. - Student Transportation Serv.					
Salaries for Pupil Trans. (Bet. Home & Sch) - Special Ed	11,000.00	0.00	11,000.00	10,999.64	0.36
Management Fee - ESC & CTSA Trans. Program	5,500.00	(3,500.00)	2,000.00	0.00	2,000.00
Contract Services (Other than Between Home & School)-Vendors	6,500.00	0.00	6,500.00	4,498.00	2,002.00
Contract Services - (Between Home and Sch) - Joint Agrmts	6,500.00	(6,500.00)	0.00	0.00	0.00
Contr Serv (Spl. Ed. Students) - Vendors	4,300.00	(2,528.83)	1,771.17	0.00	1,771.17
Contr Serv (Spl. Ed. Students) - ESCs & CTAs	95,000.00	6,900.25	101,900.25	101,900.25	0.00
Contr Serv - Aid in Lieu Pymts - NonPublic Students	25,000.00	(7,500.00)	17,500.00	16,796.00	704.00
Total Undist. Expend. - Student Transportation Serv.	153,800.00	(13,128.58)	140,671.42	134,193.89	6,477.53
Regular Programs - Instruction - Employee Benefits					
Social Security Contributions	12,000.00	0.00	12,000.00	10,051.72	1,948.28
Other Retirement Contributions - PERS	5,637.00	0.00	5,637.00	5,637.00	0.00
Health Benefits	250,000.00	(23,123.40)	226,876.60	160,576.64	66,299.96
Tuition Reimbursement	1,000.00	0.00	1,000.00	0.00	1,000.00
Total Regular Programs - Instruction	268,637.00	(23,123.40)	245,513.60	176,265.36	69,248.24
Special Programs - Instruction - Employee Benefits					
Social Security Contributions	11,712.00	0.00	11,712.00	7,946.59	3,765.41
Other Retirement Contributions - PERS	7,427.00	7,929.00	15,356.00	15,356.00	0.00
Health Benefits	150,000.00	(11,000.00)	139,000.00	137,625.41	1,374.59
Tuition Reimbursement	1,000.00	0.00	1,000.00	0.00	1,000.00
Total Special Programs - Instruction	170,139.00	(3,071.00)	167,068.00	160,928.00	6,140.00
Other Instructional Programs - Instruction - Employee Benefits					
Health Benefits	8,570.00	(8,570.00)	0.00	0.00	0.00
Total Other Instructional Programs - Instruction	8,570.00	(8,570.00)	0.00	0.00	0.00
Attendance and Social Work Services - Employee Benefits					
Social Security Contributions	2,965.00	0.00	2,965.00	2,965.00	0.00
Other Retirement Contributions - PERS	1,321.00	0.00	1,321.00	1,321.00	0.00
Health Benefits	18,700.00	0.00	18,700.00	18,700.00	0.00
Total Attendance and Social Work Services	22,986.00	0.00	22,986.00	22,986.00	0.00

See Management's Discussion and Analysis section of this report for explanation of significant budget variances, original and final.

HIGHLANDS SCHOOL DISTRICT
Budgetary Comparison Schedule
General Fund
Fiscal Year Ended June 30, 2012

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final to Actual Favorable (Unfavorable)
EXPENDITURES (Continued):					
Current Expense (Continued):					
Health Services - Employee Benefits					
Health Benefits	16,900.00	0.00	16,900.00	16,900.00	0.00
Total Health Services	16,900.00	0.00	16,900.00	16,900.00	0.00
Other Support Serv. - Speech, OT, PT, & Rel. Svc. - Employee Benefits					
Health Benefits	7,500.00	0.00	7,500.00	7,500.00	0.00
Total Other Support Serv. - Speech, OT, PT, & Rel. Svc.	7,500.00	0.00	7,500.00	7,500.00	0.00
Other Support Services - Students - Extraordinary Services -Employee Benefits					
Social Security Contributions	8,000.00	0.00	8,000.00	7,076.03	923.97
Other Retirement Contributions - PERS	2,500.00	0.00	2,500.00	2,500.00	0.00
Health Benefits	15,110.00	0.00	15,110.00	15,110.00	0.00
Total Support Services - Students - Extraordinary Services	25,610.00	0.00	25,610.00	24,686.03	923.97
Other Support Services - Guidance - Employee Benefits					
Social Security Contributions	1,900.00	0.00	1,900.00	1,900.00	0.00
Other Retirement Contributions - PERS	1,500.00	0.00	1,500.00	1,500.00	0.00
Health Benefits	5,000.00	0.00	5,000.00	5,000.00	0.00
Total Other Support Services - Guidance	8,400.00	0.00	8,400.00	8,400.00	0.00
Other Support Services - Child Study Team - Employee Benefits					
Social Security Contributions	3,000.00	0.00	3,000.00	3,000.00	0.00
Other Retirement Contributions - PERS	1,500.00	0.00	1,500.00	1,500.00	0.00
Health Benefits	5,000.00	0.00	5,000.00	5,000.00	0.00
Other Support Services - Child Study Team	9,500.00	0.00	9,500.00	9,500.00	0.00
Improvement of Instruction Services - Employee Benefits					
Health Benefits	5,082.00	0.00	5,082.00	5,082.00	0.00
Total Improvement of Instruction Services	5,082.00	0.00	5,082.00	5,082.00	0.00
Instructional Staff Training Services - Employee Benefits					
Social Security Contributions	450.00	0.00	450.00	450.00	0.00
Other Retirement Contributions - PERS	500.00	0.00	500.00	500.00	0.00
Health Benefits	1,071.00	0.00	1,071.00	1,071.00	0.00
Total Instructional Staff Training Services	2,021.00	0.00	2,021.00	2,021.00	0.00
Support Services - School Administration - Employee Benefits					
Social Security Contributions	500.00	0.00	500.00	0.00	500.00
Other Retirement Contributions - PERS	253.00	0.00	253.00	253.00	0.00
Support Services - School Administration	753.00	0.00	753.00	253.00	500.00
Operation and Maintenance of Plant Services - Employee Benefits					
Social Security Contributions	10,000.00	0.00	10,000.00	4,880.37	5,119.63
Other Retirement Contributions - PERS	6,500.00	0.00	6,500.00	6,500.00	0.00
Health Benefits	22,800.00	0.00	22,800.00	22,800.00	0.00
Total Operation and Maintenance of Plant Services	39,300.00	0.00	39,300.00	34,180.37	5,119.63
Student Transportation Services - Employee Benefits					
Social Security Contributions	850.00	0.00	850.00	850.00	0.00
Other Retirement Contributions - PERS	900.00	0.00	900.00	900.00	0.00
Health Benefits	3,685.00	0.00	3,685.00	3,685.00	0.00
Total Student Transportation Services	5,435.00	0.00	5,435.00	5,435.00	0.00
Total Allocated Benefits	590,833.00	(34,764.40)	556,068.60	474,136.76	81,931.84
UNALLOCATED BENEFITS					
Other Retirement Contributions - PERS	6,500.00	0.00	6,500.00	6,500.00	0.00
Unemployment Compensation	7,000.00	4,922.30	11,922.30	8,839.24	3,083.06
Workmen's Compensation	32,000.00	(7,464.00)	24,536.00	24,536.00	0.00
Other Benefits	5,000.00	18,130.58	23,130.58	23,130.58	0.00
TOTAL UNALLOCATED BENEFITS	50,500.00	15,588.88	66,088.88	63,005.82	3,083.06
On-behalf TPAF pension Contributions (non-budgeted)	0.00	0.00	0.00	49,841.00	(49,841.00)
On-behalf TPAF OPEB (Post Retire. Medical) Contrib.(non-budgeted)	0.00	0.00	0.00	100,194.00	(100,194.00)
Reimbursed TPAF Social Security Contributions (non-budgeted)	0.00	0.00	0.00	113,228.29	(113,228.29)
TOTAL ON-BEHALF CONTRIBUTIONS	0.00	0.00	0.00	263,263.29	(263,263.29)

See Management's Discussion and Analysis section of this report for explanation of significant budget variances, original and final.

HIGHLANDS SCHOOL DISTRICT
Budgetary Comparison Schedule
General Fund
Fiscal Year Ended June 30, 2012

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final to Actual Favorable (Unfavorable)
EXPENDITURES (Continued):					
Current Expense (Continued):					
TOTAL PERSONAL SERVICES - EMPLOYEE BENEFITS	641,333.00	(19,175.52)	622,157.48	800,405.87	(178,248.39)
TOTAL UNDISTRIBUTED EXPENDITURES	2,235,040.00	(75,990.12)	2,159,049.88	2,190,366.34	(31,316.46)
TOTAL GENERAL CURRENT EXPENSE	3,572,809.00	(5,945.96)	3,566,863.04	3,527,877.66	38,985.38
CAPITAL OUTLAY					
Facilities Acquisition and Construction Services					
Operation /Plant Equipment	0.00	5,945.96	5,945.96	5,945.96	0.00
Other Objects	1,112.00	0.00	1,112.00	647.00	465.00
Total Facilities Acquisition and Construction Services	1,112.00	5,945.96	7,057.96	6,592.96	465.00
Assets Acquired Under Capital Leases (Non-Budgeted)					
Equipment/Instruction	0.00	0.00	0.00	0.00	0.00
Equipment/ Support Services	0.00	0.00	0.00	0.00	0.00
Total Assets Acquired Under Capital Leases (Non-Budgeted)	0.00	0.00	0.00	0.00	0.00
TOTAL CAPITAL OUTLAY	1,112.00	5,945.96	7,057.96	6,592.96	465.00
TOTAL EXPENDITURES	3,573,921.00	0.00	3,573,921.00	3,534,470.62	39,450.38
Excess (Deficiency) of Revenues Over (Under) Expenditures	(153,440.00)	727.00	(152,713.00)	297,929.35	450,642.35
Other Financing Sources (Uses):					
Operating Transfer In/(Out):					
Capital Leases (Non-Budgeted)	0.00	0.00	0.00	0.00	0.00
Transfer to Food Service Fund - Board Contribution	0.00	0.00	0.00	0.00	0.00
Total Other Financing Sources (Uses):	0.00	0.00	0.00	0.00	0.00
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(153,440.00)	727.00	(152,713.00)	297,929.35	450,642.35
Fund Balance, July 1	1,182,341.94	0.00	1,182,341.94	1,182,341.94	0.00
Fund Balance, June 30	\$1,028,901.94	727.00	1,029,628.94	1,480,271.29	450,642.35
Recapitulation:					
Restricted Fund Balance:					
Capital Reserve				122,128.00	
Maintenance Reserve				106,546.00	
Excess Surplus - Designated for Subsequent Year's Expenditures				439,785.34	
Excess Surplus - Current Year				460,409.95	
Assigned Fund Balance:					
Designated for Subsequent Year's Expenditures				0.00	
Unassigned Fund Balance				351,402.00	
Reconciliation to Governmental Funds Statements (GAAP):				1,480,271.29	
Last Two State Aid Payments not recognized on GAAP basis				(58,443.00)	
Fund Balance per Governmental Funds (GAAP)				\$1,421,828.29	

See Management's Discussion and Analysis section of this report for explanation of significant budget variances, original and final.

HIGHLANDS SCHOOL DISTRICT
Budgetary Comparison Schedule
Education Jobs Fund Program
General Fund
For the Fiscal Year Ended June 30, 2012

	<u>Original Budget</u>	<u>Budget Transfers</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Final to Actual</u>
REVENUES:					
Federal Sources:					
Education Jobs Fund	23,201.00	727.00	23,928.00	23,928.00	.00
Total Revenues	<u>23,201.00</u>	<u>727.00</u>	<u>23,928.00</u>	<u>23,928.00</u>	<u>.00</u>
EXPENDITURES:					
Current Expense:					
Regular Programs - Instruction - Grades 1-5 Salaries of Teachers	23,201.00	727.00	23,928.00	23,928.00	.00
Total Regular Programs - Instruction	<u>23,201.00</u>	<u>727.00</u>	<u>23,928.00</u>	<u>23,928.00</u>	<u>.00</u>
Excess (Deficiency) of Revenues and Other Financing Sources					
Over (Under) Expenditures and Other Financing Uses	<u>.00</u>	<u>.00</u>	<u>.00</u>	<u>.00</u>	<u>.00</u>

See Management's Discussion and Analysis section of this report for explanation of significant budget variances, original and final.

HIGHLANDS SCHOOL DISTRICT
Budgetary Comparison Schedule
Special Revenue Fund
For the Fiscal Year Ended June 30, 2012

	<u>Original Budget</u>	<u>Transfers</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Final to Actual</u>
REVENUES:					
Local Sources	.00	.00	.00	.00	.00
State Sources	105,240.00	.00	105,240.00	98,637.28	6,602.72
Federal Sources	<u>159,500.00</u>	<u>(4,153.00)</u>	<u>155,347.00</u>	<u>155,347.00</u>	<u>.00</u>
Total Revenues	<u>264,740.00</u>	<u>(4,153.00)</u>	<u>260,587.00</u>	<u>253,984.28</u>	<u>6,602.72</u>
EXPENDITURES:					
Instruction					
Salaries of Teachers	170,285.00	(26,630.00)	143,655.00	143,655.00	.00
Other Salaries	18,955.00	.00	18,955.00	14,262.65	4,692.35
Purchased Professional - Educational Services	.00	10,138.00	10,138.00	10,138.00	.00
Other Purchased Services	70,000.00	(5,445.00)	64,555.00	64,555.00	.00
General Supplies	<u>5,500.00</u>	<u>2,195.00</u>	<u>7,695.00</u>	<u>5,784.63</u>	<u>1,910.37</u>
Total Instruction	<u>264,740.00</u>	<u>(19,742.00)</u>	<u>244,998.00</u>	<u>238,395.28</u>	<u>6,602.72</u>
Support Services					
Other Salaries	.00	.00	.00	.00	.00
Personal Services - Employee Benefits	.00	12,474.00	12,474.00	12,474.00	.00
Purchased Professional - Educational Services	<u>.00</u>	<u>3,115.00</u>	<u>3,115.00</u>	<u>3,115.00</u>	<u>.00</u>
Total Support Services	<u>.00</u>	<u>15,589.00</u>	<u>15,589.00</u>	<u>15,589.00</u>	<u>.00</u>
Facilities Acquisition & Construction Services:					
Instructional Equipment	<u>.00</u>	<u>.00</u>	<u>.00</u>	<u>.00</u>	<u>.00</u>
Total Facilities Acquisition & Construction Services	<u>.00</u>	<u>.00</u>	<u>.00</u>	<u>.00</u>	<u>.00</u>
Total Expenditures	<u>264,740.00</u>	<u>(4,153.00)</u>	<u>260,587.00</u>	<u>253,984.28</u>	<u>6,602.72</u>
Other Financing Sources (Uses):					
Transfer in from General Fund	<u>.00</u>	<u>.00</u>	<u>.00</u>	<u>.00</u>	<u>.00</u>
Total Other Financing Sources (Uses)	<u>.00</u>	<u>.00</u>	<u>.00</u>	<u>.00</u>	<u>.00</u>
Total Outflows	<u>264,740.00</u>	<u>(4,153.00)</u>	<u>260,587.00</u>	<u>253,984.28</u>	<u>6,602.72</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures & Other Financing Sources (Uses)	<u>\$.00</u>	<u>.00</u>	<u>.00</u>	<u>.00</u>	<u>.00</u>

See Management's Discussion and Analysis section of this report for explanation of significant budget variances, original and final.

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

HIGHLANDS SCHOOL DISTRICT
Notes To The Required Supplementary Information
Budget-to-GAAP Reconciliation
For the Fiscal Year Ended June 30, 2012

Note A - Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

	<u>General Fund</u>	<u>Special Revenue Fund</u>
Sources/inflows of resources		
Actual amounts (budgetary) "revenues" from the budgetary comparison schedules	3,832,399.97	253,984.28
Difference - budget to GAAP:		
Grant accounting budgetary basis differs from GAAP in that encumbrances are recognized as expenditures, and the related revenue is recognized.		
Encumbrances, June 30, 2011	.00	10,888.19
Encumbrances, June 30, 2012	.00	(5,956.34)
State aid payment recognized for GAAP statements in the current year, previously recognized for budgetary purposes.	50,717.00	7,016.00
State aid payment recognized for budgetary purposes, not recognized for GAAP statements until the subsequent year.	<u>(58,443.00)</u>	<u>(10,524.00)</u>
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds.	<u>3,824,673.97</u>	<u>255,408.13</u>
Uses/outflows of resources		
Actual amounts (budgetary basis) "total outflows" from the budgetary comparison schedule	3,534,470.62	253,984.28
Differences - budget to GAAP:		
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes, but in the year the supplies are received for financial reporting purposes.		
Encumbrances, June 30, 2011	.00	10,888.19
Encumbrances, June 30, 2012	.00	(5,956.34)
Transfers to and from other funds are presented as outflows of budgetary resources but are not expenditures for financial reporting purposes.		
Net transfers (outflows) to general fund.	<u>.00</u>	<u>.00</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds.	<u>\$3,534,470.62</u>	<u>258,916.13</u>

OTHER SUPPLEMENTARY INFORMATION

**SPECIAL REVENUE FUND
DETAIL STATEMENTS**

The Special Revenue Fund is used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specific purposes.

HIGHLANDS SCHOOL DISTRICT
Special Revenue Fund
Combining Schedule of Revenues and Expenditures
Budgetary Basis
For the Fiscal Year Ended June 30, 2012

	<u>Preschool Education Aid 2011-12</u>	<u>Title I Part A 2011-12</u>	<u>IDEA Part B- Basic 2011-12</u>	<u>IDEA Part B- Preschool 2011-12</u>	<u>Title II Part A Improving Teacher Quality 2011-12</u>	<u>Totals 2012</u>
REVENUES:						
Local Sources	.00	.00	.00	.00	.00	.00
State Sources	98,637.28	.00	.00	.00	.00	98,637.28
Federal Sources	<u>.00</u>	<u>69,111.00</u>	<u>64,555.00</u>	<u>4,115.00</u>	<u>17,566.00</u>	<u>155,347.00</u>
Total Revenues	<u>98,637.28</u>	<u>69,111.00</u>	<u>64,555.00</u>	<u>4,115.00</u>	<u>17,566.00</u>	<u>253,984.28</u>
EXPENDITURES:						
Instruction:						
Salaries of Teachers	81,285.00	56,180.00	.00	.00	6,190.00	143,655.00
Other Salaries	14,262.65	.00	.00	.00	.00	14,262.65
Purchased Professional - Educational Services	.00	.00	.00	.00	10,138.00	10,138.00
Other Purchased Services	.00	.00	64,555.00	.00	.00	64,555.00
General Supplies	<u>3,089.63</u>	<u>1,695.00</u>	<u>.00</u>	<u>1,000.00</u>	<u>.00</u>	<u>5,784.63</u>
Total Instruction	<u>98,637.28</u>	<u>57,875.00</u>	<u>64,555.00</u>	<u>1,000.00</u>	<u>16,328.00</u>	<u>238,395.28</u>
Support Services:						
Other Salaries	.00	.00	.00	.00	.00	.00
Personal Services - Employee Benefits	.00	11,236.00	.00	.00	1,238.00	12,474.00
Purchased Professional - Educational Services	<u>.00</u>	<u>.00</u>	<u>.00</u>	<u>3,115.00</u>	<u>.00</u>	<u>3,115.00</u>
Total Support Services	<u>.00</u>	<u>11,236.00</u>	<u>.00</u>	<u>3,115.00</u>	<u>1,238.00</u>	<u>15,589.00</u>
Facilities Acquisition & Const. Serv:						
Instructional Equipment	<u>.00</u>	<u>.00</u>	<u>.00</u>	<u>.00</u>	<u>.00</u>	<u>.00</u>
Total Facilities Acquisition & Const. Services	<u>.00</u>	<u>.00</u>	<u>.00</u>	<u>.00</u>	<u>.00</u>	<u>.00</u>
Total Expenditures	<u>98,637.28</u>	<u>69,111.00</u>	<u>64,555.00</u>	<u>4,115.00</u>	<u>17,566.00</u>	<u>253,984.28</u>
Other Financing Sources (Uses):						
Transfer from Other Funds	<u>.00</u>	<u>.00</u>	<u>.00</u>	<u>.00</u>	<u>.00</u>	<u>.00</u>
Total Outflows	<u>98,637.28</u>	<u>69,111.00</u>	<u>64,555.00</u>	<u>4,115.00</u>	<u>17,566.00</u>	<u>253,984.28</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>.00</u>	<u>.00</u>	<u>.00</u>	<u>.00</u>	<u>.00</u>	<u>.00</u>

HIGHLANDS SCHOOL DISTRICT
Special Revenue Fund
Schedule of Preschool Education Aid Expenditures
Budgetary Basis
For the Fiscal Year Ended June 30, 2012

	<u>Original Budget</u>	<u>Budget Transfers</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
EXPENDITURES:					
Instruction:					
Salaries of Teachers	81,285.00	.00	81,285.00	81,285.00	.00
Other Salaries	18,955.00	.00	18,955.00	14,262.65	4,692.35
General Supplies	<u>5,000.00</u>	<u>.00</u>	<u>5,000.00</u>	<u>3,089.63</u>	<u>1,910.37</u>
Total Instruction	<u>\$105,240.00</u>	<u>.00</u>	<u>105,240.00</u>	<u>98,637.28</u>	<u>6,602.72</u>
Total Expenditures	<u>\$105,240.00</u>	<u>.00</u>	<u>105,240.00</u>	<u>98,637.28</u>	<u>6,602.72</u>

CALCULATION OF BUDGET & CARRYOVER

Total 2011-12 PreK Aid Allocation	\$105,240.00
Add: Actual PreK/ECPA Aid Carryover June 30, 2011	.00
Add: Budgeted Transfer from General Fund	<u>.00</u>
Total Funds Available for 2011-12 Budget	105,240.00
Less: 2011-12 Budgeted PreK/ECPA (Including prior year budgeted carryover)	<u>105,240.00</u>
Available & Unbudgeted Funds as of June 30, 2012	.00
Add: June 30, 2012 Unexpended PreK Aid	<u>6,602.72</u>
2012 Actual Carryover - PreK Aid	<u>6,602.72</u>
2011-12 PreK Aid Carryover Budgeted in 2012-13	<u>\$.00</u>

**CAPITAL PROJECTS FUND
DETAIL STATEMENT**

The Capital Projects Fund is used to account for the acquisition and construction of major capital facilities and equipment purchases other than those financed by proprietary funds.

HIGHLANDS SCHOOL DISTRICT
Capital Projects Fund
Summary Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budgetary Basis
For the Fiscal Year Ended June 30, 2012

Revenue and Other Financing Sources:

State Sources - SCC Grant	.00
BAN Proceeds and Transfers	.00
Contribution from Private Source	.00
Transfer from Capital Reserve	.00
Transfer from Capital Outlay	.00
Interest Earned	<u>.00</u>
 Total Revenues	 <u>.00</u>

Expenditures:

Purchased Professional and Technical Services	.00
Construction Services	.00
General Supplies	.00
Other Objects	<u>.00</u>
 Total Expenditures	 <u>.00</u>

Excess (Deficiency) of Revenue Over (Under) Expenditures	<u>.00</u>
--	------------

Other Financing Uses:

Transfer Out - Debt Service Fund	<u>(.00)</u>
 Excess (Deficiency) of Revenue and Other Financing Uses Over Expenditures	 .00
 Fund Balance - July 1	 <u>183,470.21</u>
 Fund Balance - June 30	 <u>\$183,470.21</u>

Analysis of Fund Balance

Reserve Fund - 1997 Project (Required by Agreement to be Held for Final COP Payment)	183,470.21
 Bond Anticipation Notes Outstanding	 <u>.00</u>
 Fund Balance - June 30, 2012	 <u>\$183,470.21</u>

FIDUCIARY FUNDS DETAIL STATEMENTS

Fiduciary Funds are used to account for funds received by the school district for a specific purpose.

Agency Funds are used to account for assets held by the school district as an agent for individuals, private organizations, other governments and/or other funds.

Student Activity Fund - This agency fund is used to account for student funds held at the schools.

Payroll Fund - This agency fund is used to account for payroll transactions of the school district.

HIGHLANDS SCHOOL DISTRICT
Combining Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2012

	<u>Agency</u>		<u>Totals</u>
	<u>Student Activity</u>	<u>Payroll</u>	
ASSETS:			
Cash and Cash Equivalents	<u>8,066.58</u>	<u>21,390.61</u>	<u>29,457.19</u>
Total Assets	<u>8,066.58</u>	<u>21,390.61</u>	<u>29,457.19</u>
LIABILITIES:			
Accounts Payable	.00	.00	.00
Interfunds Payable	.00	21,390.61	21,390.61
Payroll Deductions and Withholdings	.00	.00	.00
Payable to Student Groups	<u>8,066.58</u>	<u>.00</u>	<u>8,066.58</u>
Total Liabilities	<u>\$8,066.58</u>	<u>21,390.61</u>	<u>29,457.19</u>

HIGHLANDS SCHOOL DISTRICT
Schedule of Receipts and Disbursements
Student Activity Agency Fund
For the Fiscal Year Ended June 30, 2012

	<u>Balance</u> <u>July 1, 2011</u>	<u>Cash</u> <u>Receipts</u>	<u>Cash</u> <u>Disbursements</u>	<u>Balance</u> <u>June 30, 2012</u>
Elementary Schools:				
Highlands Elementary	7,644.94	14,992.18	14,570.54	8,066.58
Total Elementary Schools	<u>\$7,644.94</u>	<u>14,992.18</u>	<u>14,570.54</u>	<u>8,066.58</u>

HIGHLANDS SCHOOL DISTRICT
Schedule of Receipts and Disbursements
Payroll Agency Fund
For the Fiscal Year Ended June 30, 2012

	<u>Balance</u> <u>July 1, 2011</u>	<u>Cash</u> <u>Receipts</u>	<u>Cash</u> <u>Disbursements</u>	<u>Balance</u> <u>June 30, 2012</u>
Payroll Deductions and Withholdings	5,219.72	863,066.64	868,286.36	.00
Interfunds	<u>9,201.30</u>	<u>14,061.79</u>	<u>1,872.48</u>	<u>21,390.61</u>
Total	<u>\$14,421.02</u>	<u>877,128.43</u>	<u>870,158.84</u>	<u>21,390.61</u>

LONG-TERM DEBT SCHEDULES

The Long-Term Debt schedules are used to reflect the outstanding principal balances of the general long-term liabilities of the school district. This includes serial bonds outstanding.

HIGHLANDS SCHOOL DISTRICT
Long-Term Debt
Schedule of Loans Payable
Year Ended June 30, 2012

<u>Issue</u>	<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Annual Maturities Date</u>	<u>Annual Maturities Amount</u>	<u>Interest Rate</u>	<u>Balance July 1, 2011</u>	<u>Retired</u>	<u>Balance June 30, 2012</u>
EDA Loan 219-93	8-12-93	\$155,000.00	7/1/12-13	8,157.89	1.50%	24,473.76	8,157.89	16,315.87
EDA Loan 219(a)-93	8-12-93	35,000.00	7/1/12 7/1/13	2,482.24 2,592.96	5.29%	7,451.98	2,376.78	5,075.20
						<u>\$31,925.74</u>	<u>10,534.67</u>	<u>21,391.07</u>

HIGHLANDS SCHOOL DISTRICT
Long-Term Debt
Schedule of Obligations Under Capital Leases
For the Fiscal Year Ended June 30, 2012

<u>Series</u>	<u>Date of Lease</u>	<u>Term of Lease</u>	<u>Interest Rate Payable</u>	<u>Amount of Original Lease</u>	<u>Amount Outstanding June 30, 2011</u>	<u>Issued Current Year</u>	<u>Retired Current Year</u>	<u>Amount Outstanding June 30, 2012</u>
Savin Copier	9/22/09	5 Years	6.62%	9,024.00	6,198.15	.00	1,767.54	4,430.61
(3) Savin Copiers	2/02/11	5 Years	5.93%	40,494.14	<u>37,557.82</u>	<u>.00</u>	<u>7,346.57</u>	<u>30,211.25</u>
					<u>\$43,755.97</u>	<u>.00</u>	<u>9,114.11</u>	<u>34,641.86</u>

HIGHLANDS SCHOOL DISTRICT
Long-Term Debt
Schedule of Obligations Under Capital Leases (COPS)
For the Fiscal Year Ended June 30, 2012

<u>Issue</u>	<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Annual Date</u>	<u>Maturities Amount</u>	<u>Interest Rate</u>	<u>Amount Outstanding July 1, 2011</u>	<u>Retired Current Year</u>	<u>Amount Outstanding June 30, 2012</u>
Certificates of Participation	12-15-96	\$1,995,000.00	2-15-2013	125,000.00	6.38%	\$820,000.00	120,000.00	700,000.00
			2-15-2014	135,000.00	6.38%			
			2-15-2015	140,000.00	6.38%			
			2-15-2016	145,000.00	6.38%			
			2-15-2017	155,000.00	6.38%			

HIGHLANDS SCHOOL DISTRICT
Budgetary Comparison Schedule
Debt Service Fund
For the Fiscal Year Ended June 30, 2012

	<u>Original Budget</u>	<u>Budget Transfers</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative) Final to Actual</u>
REVENUES:					
Local Sources:					
Local Tax Levy	185,894.00	.00	185,894.00	185,894.00	.00
Total Revenues	185,894.00	.00	185,894.00	185,894.00	.00
EXPENDITURES:					
Regular Debt Service:					
Principal - Commissioner Approved Lease Purchase Agreements	115,000.00	5,000.00	120,000.00	120,000.00	.00
Interest - Commissioner Approved Lease Agreements	59,607.00	(5,097.67)	54,509.33	52,274.90	2,234.43
Interest on Bonds	882.00	.00	882.00	637.14	244.86
Redemption of Principal	10,437.00	97.67	10,534.67	10,534.67	.00
Total Regular Debt Service - Expenditures	185,926.00	.00	185,926.00	183,446.71	2,479.29
Excess (Deficiency) of Revenues Over (Under) Expenditures	(32.00)	.00	(32.00)	2,447.29	2,479.29
Other Financing Sources (Uses)					
Transfer In:					
Interest Earned in Capital Projects Fund	.00	.00	.00	.00	.00
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures	(32.00)	.00	(32.00)	2,447.29	2,479.29
Fund Balance - July 1	38.51	.00	38.51	38.51	.00
Fund Balance - June 30	<u>\$ 6.51</u>	<u>.00</u>	<u>6.51</u>	<u>2,485.80</u>	<u>2,479.29</u>

STATISTICAL SECTION (Unaudited)

**Highlands School District
Net Assets by Component,
Last Nine Fiscal Years**
(accrual basis of accounting)

	Fiscal Year Ending June 30,								
	2004	2005	2006	2007	2008	2009	2010	2011	2012
Governmental activities									
Invested in capital assets, net of related debt	\$ 538,972	\$ 575,521	\$ 619,331	\$ 603,760	\$ 688,270	\$ 797,493	\$ 900,471	\$ 954,234	\$ 1,015,908
Restricted	90,947	88,486	210,416	380,373	482,123	763,067	853,017	955,444	1,314,825
Unrestricted	133,835	(44,631)	109,569	201,431	272,577	272,460	171,025	328,784	268,298
Total governmental activities net assets	<u>\$ 763,754</u>	<u>\$ 619,376</u>	<u>\$ 939,316</u>	<u>\$ 1,185,564</u>	<u>\$ 1,442,970</u>	<u>\$ 1,833,020</u>	<u>\$ 1,924,513</u>	<u>\$ 2,238,462</u>	<u>\$ 2,599,031</u>
Business-type activities									
Invested in capital assets, net of related debt	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 14,228	\$ 13,230
Restricted	-	-	-	-	-	-	-	-	-
Unrestricted	12,821	8,567	6,188	2,828	2,127	6,470	5,658	8,020	6,591
Total business-type activities net assets	<u>\$ 12,821</u>	<u>\$ 8,567</u>	<u>\$ 6,188</u>	<u>\$ 2,828</u>	<u>\$ 2,127</u>	<u>\$ 6,470</u>	<u>\$ 5,658</u>	<u>\$ 22,248</u>	<u>\$ 19,821</u>
District-wide									
Invested in capital assets, net of related debt	\$ 538,972	\$ 575,521	\$ 619,331	\$ 603,760	\$ 688,270	\$ 797,493	\$ 900,471	\$ 968,462	\$ 1,029,138
Restricted	90,947	88,486	210,416	380,373	482,123	763,067	853,017	955,444	1,314,825
Unrestricted	146,556	(36,064)	115,757	204,259	274,704	278,930	176,683	336,804	274,889
Total district net assets	<u>\$ 776,575</u>	<u>\$ 627,943</u>	<u>\$ 945,504</u>	<u>\$ 1,188,392</u>	<u>\$ 1,445,097</u>	<u>\$ 1,839,490</u>	<u>\$ 1,930,171</u>	<u>\$ 2,260,710</u>	<u>\$ 2,618,852</u>

**Highlands School District
Changes in Net Assets
Last Nine Fiscal Year**
(accrual basis of accounting)

	Fiscal Year Ending June 30,								
	2004	2005	2006	2007	2008	2009	2010	2011	2012
Expenses									
Governmental activities:									
Instruction:									
Regular	1,652,588	1,662,983	1,541,379	1,670,898	1,624,230	1,456,930	1,352,372	1,302,167	1,440,586
Special education	268,299	389,147	348,372	465,345	435,065	528,461	527,450	562,173	656,408
Other instruction	15,618	53,860	54,625	87,132	188,262	112,598	149,931	121,016	100,911
Support Services:									
Tuition	96,080	195,960	140,882	77,138	20,162	74,759	60,407	66,287	49,895
Student & instruction related services	665,053	759,321	799,091	787,310	850,577	871,215	850,405	904,841	881,952
School Administrative Services	119,718	100,629	108,172	112,487	71,352	89,314	86,102	51,388	53,236
General administration	-	212,568	155,357	164,799	198,635	146,963	158,266	132,470	120,346
Central Services	-	130,585	133,491	134,048	153,847	109,123	93,771	88,593	67,630
Other administrative services	351,460	-	-	-	396,267	431,090	409,491	369,866	343,705
Plant operations and maintenance	362,056	167,395	141,380	162,028	139,939	128,371	150,215	155,246	140,807
Pupil transportation	87,836	98,811	94,001	115,451	72,987	69,965	65,003	57,628	49,930
Interest on long-term debt	111,931	-	-	-	-	-	-	-	-
Total governmental activities expenses	3,731,649	4,117,965	3,854,377	4,098,689	4,131,333	4,018,769	3,903,413	3,811,675	3,905,406
Business-type activities:									
Food service	103,809	101,420	92,041	78,387	77,572	74,638	81,130	87,438	91,820
Total business-type activities expense	103,809	101,420	92,041	78,387	77,572	74,638	81,130	87,438	91,820
Total district expenses	\$ 3,835,458	\$ 4,219,385	\$ 3,946,418	\$ 4,177,076	\$ 4,208,905	\$ 4,093,427	\$ 3,984,543	\$ 3,899,113	\$ 3,997,226
Program Revenues									
Governmental activities:									
Charges for services:									
Operating grants and contributions	700,901	700,817	683,150	755,639	720,281	494,464	445,077	440,903	518,671
Total governmental activities program revenues	700,901	700,817	683,150	755,639	720,281	494,464	445,077	440,903	518,671
Program Revenues (Continued)									
Business-type activities:									
Charges for services:									
Food service	52,552	49,921	42,988	36,944	40,407	39,690	36,054	38,964	32,394
Operating grants and contributions	47,554	45,795	44,674	34,534	36,464	37,293	44,264	65,064	56,999
Total business type activities program revenues	100,106	95,716	87,662	71,478	76,871	76,983	80,318	104,028	89,393
Total district program revenues	\$ 801,007	\$ 796,533	\$ 770,812	\$ 827,117	\$ 797,152	\$ 571,447	\$ 525,395	\$ 544,931	\$ 608,064

**Highlands School District
Changes in Net Assets
Last Nine Fiscal Year**
(accrual basis of accounting)

	Fiscal Year Ending June 30,								
	2004	2005	2006	2007	2008	2009	2010	2011	2012
Net (Expense)/Revenue									
Governmental activities	\$ (3,030,748.00)	\$ (3,417,148.00)	\$ (3,171,227.00)	\$ (3,343,050.00)	\$ (3,411,052.00)	\$ (3,524,325.00)	\$ (3,458,336.00)	\$ (3,370,772.00)	\$ (3,386,735.00)
Business-type activities	(3,703)	(5,704)	(4,379)	(6,909)	(701)	2,345	(812)	16,590	(2,427)
Total district-wide net expense	\$ (3,034,451)	\$ (3,422,852)	\$ (3,175,606)	\$ (3,349,959)	\$ (3,411,753)	\$ (3,521,980)	\$ (3,459,148)	\$ (3,354,182)	\$ (3,389,162)
General Revenues and Other Changes in Net Assets									
Governmental activities:									
Property taxes levied for general purposes, net	\$ 2,440,684.00	\$ 2,484,614.00	\$ 2,691,492.00	\$ 2,788,389.00	\$ 2,860,142.00	\$ 2,969,546.00	\$ 2,914,576.00	\$ 2,860,588.00	\$ 2,849,388.00
Taxes levied for debt service	271,744	245,129	273,774	253,770	257,355	248,725	178,691	185,926	185,694
Unrestricted grants and contributions	473,098	493,297	474,607	463,020	510,860	657,886	453,391	637,992	702,696
Investment earnings	2,779	5,135	8,294	11,383	10,366	1,665	76	6	-
Miscellaneous income	88,298	796	-	-	4,735	38,553	3,094	209	9,327
EDA	15,000	-	43,000	72,736	25,000	(2,000)	-	-	-
Other financing sources	3,291,603.00	3,272,770.00	3,491,167.00	3,589,298.00	3,668,458.00	3,914,377.00	3,549,828.00	3,684,721.00	3,747,305.00
Total governmental activities	\$ -	\$ -	\$ -	\$ 2,049.00	\$ -	\$ -	\$ -	\$ -	\$ -
Business-type activities:									
Miscellaneous income	(458)	1,450	2,000	1,500	-	2,000	-	-	-
Prior year adjustment	5,000	1,450.00	2,000.00	3,549.00	-	2,000.00	-	-	-
Transfers	4,542.00	1,450.00	2,000.00	3,549.00	-	2,000.00	-	-	-
Total business-type activities	\$ 3,296,145	\$ 3,274,220	\$ 3,493,167	\$ 3,592,847	\$ 3,668,458	\$ 3,916,377	\$ 3,549,828	\$ 3,684,721	\$ 3,747,305
Total district-wide	\$ 260,855.00	\$ (144,378.00)	\$ 319,940.00	\$ 246,248.00	\$ 257,406.00	\$ 390,052.00	\$ 91,492.00	\$ 313,949.00	\$ 360,570.00
Governmental activities	839	(4,254)	(2,379)	(3,360)	(701)	4,345	(812)	16,590	(2,427)
Business-type activities	261,694	(148,632)	317,561	242,888	256,705	394,397	90,680	330,539	358,143
Total district	\$ 261,694	\$ (148,632)	\$ 317,561	\$ 242,888	\$ 256,705	\$ 394,397	\$ 90,680	\$ 330,539	\$ 358,143

Highlands School District
Fund Balances, Governmental Funds,
Last Nine Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year Ending June 30,								
	2004	2005	2006	2007	2008	2009	2010	2011	2012
General Fund									
Reserved	\$ 2,839	\$ 2,854	\$ 107,841	\$ 249,742	\$ 320,193	\$ 570,202	\$ 669,514	\$ -	\$ -
Unreserved	212,531	106,194	129,044	217,288	286,809	297,773	194,330	-	-
Restricted	-	-	-	-	-	-	-	771,934	1,128,869
Committed	-	-	-	-	-	-	-	50,000	-
Assigned	-	-	-	-	-	-	-	309,691	292,959
Unassigned	-	-	-	-	-	-	-	1,131,625	1,421,828
Total general fund	\$ 215,370	\$ 109,048	\$ 236,885	\$ 467,030	\$ 607,002	\$ 867,975	\$ 863,844	\$ 1,131,625	\$ 1,421,828
All Other Governmental Funds									
Restricted	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 183,509	\$ 185,956
Unassigned - special revenue fund (deficit)	-	-	-	-	-	-	-	(7,016)	(10,524)
Unreserved, reported in:									
Special revenue fund	(10,406)	(10,406)	(10,406)	(10,406)	(11,981)	(4,668)	(4,668)	-	-
Capital projects fund	31,615	63,470	108,470	133,470	158,470	183,470	183,470	-	-
Debt service fund	23,157	4,461	4,241	7,566	15,441	9,396	33	-	-
Total all other governmental funds	\$ 44,366	\$ 57,525	\$ 102,305	\$ 130,630	\$ 161,930	\$ 188,198	\$ 178,835	\$ 176,493	\$ 175,432

Note: GASB 54 was implemented in the 2011 fiscal year, which required the presentation of fund balances to be reported in different classifications from those presented in prior years (See footnote 1 in the basic financial statements). Prior years have not been restated above and are not required to be.

Highlands School District
Changes in Fund Balances, Governmental Funds,
Last Ten Fiscal Years
(modified accrual basis of accounting)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Revenues										
Tax levy	\$ 2,648,937	\$ 2,712,428	\$ 2,729,743	\$ 2,965,266	\$ 3,042,159	\$ 3,117,497	\$ 3,218,273	\$ 3,093,267	\$ 3,046,514	\$ 3,035,282
Tuition charges	-	-	-	-	-	-	-	-	-	-
Interest earnings	3,234	2,731	5,135	8,294	11,383	10,366	1,665	76	5	-
Miscellaneous	667	1,798	1,598	-	-	4,735	38,553	3,094	209	9,327
State sources	863,038	1,039,287	977,718	963,756	1,045,160	1,090,446	977,244	702,251	914,369	1,037,160
Federal sources	200,397	221,260	215,596	194,001	173,499	140,695	175,106	196,217	164,527	184,207
Total revenue	3,716,273	3,977,504	3,929,790	4,131,317	4,272,201	4,363,739	4,410,841	3,994,905	4,125,624	4,265,976
Expenditures										
Instruction										
Regular instruction	1,269,280	1,350,157	1,266,314	1,173,431	1,147,093	1,367,878	1,289,760	1,218,108	1,168,521	1,264,002
Special education instruction	192,656	211,686	258,706	256,052	317,974	349,262	465,188	474,880	496,404	565,218
Other special instruction	816	3,488	8,094	1,843	5,740	-	-	-	-	-
School sponsored/other instructional	25,781	9,407	30,789	38,989	53,955	160,154	95,642	131,497	105,285	83,880
Support Services:										
Tuition	168,084	98,080	195,960	140,882	77,138	20,162	74,759	60,407	66,287	49,895
Student & inst. related services	490,679	563,344	594,747	651,971	606,577	740,893	804,467	812,031	802,992	800,710
General administration	157,801	150,063	137,016	134,594	135,387	177,310	131,463	142,491	125,911	116,041
School administrative services	84,863	96,405	71,932	80,662	76,944	59,300	72,667	73,235	47,479	43,033
Central services	-	-	130,595	101,458	92,995	129,133	89,942	79,623	78,736	63,257
Plant operations and maintenance	293,012	334,771	320,929	297,585	274,973	363,889	423,213	404,568	361,050	334,859
Pupil transportation	99,434	87,836	167,395	141,380	155,168	134,996	127,426	149,719	154,204	139,629
Other support services	129,395	147,224	-	706,284	840,545	465,011	288,009	273,754	266,278	326,269
Employee benefits	475,192	550,010	604,471	2,575	51,532	-	29,295	-	41,606	6,593
Capital outlay	126,633	248,511	15,977	-	-	-	-	-	-	-
Debt service:										
Principal	134,883	141,570	165,014	179,993	166,930	173,917	180,987	120,344	125,437	130,535
Interest and other charges	117,598	111,931	98,811	94,001	83,515	75,563	73,783	67,742	60,489	52,912
Total expenditures	3,766,107	4,104,483	4,066,750	4,001,700	4,086,466	4,217,468	4,146,601	4,008,399	3,900,679	3,976,833
Excess (Deficiency) of revenues over (under) expenditures	(49,834)	(126,979)	(136,960)	129,617	185,735	146,271	264,240	(13,494)	224,945	289,143

Highlands School District
Changes in Fund Balances, Governmental Funds,
Last Ten Fiscal Years
(modified accrual basis of accounting)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Other Financing sources (uses)										
Proceeds from borrowing	-	-	-	-	-	-	-	-	-	-
Capital leases (non-budgeted)	71,673	-	-	-	49,236	-	-	-	-	-
BAN payment	20,000	20,000	45,247	45,000	25,000	25,000	25,000	-	40,494	-
Adjustment	-	-	-	-	-	-	-	-	-	-
Transfers in	40,710	7,200	-	-	-	-	30,827	31	5	-
Transfers out	(45,710)	(12,200)	(1,450)	(2,000)	(1,500)	-	(32,827)	(31)	(5)	-
Total other financing sources (uses)	86,673	15,000	43,797	43,000	72,736	25,000	23,000	(13,494)	40,494	-
Net change in fund balances	\$ 36,839	\$ (111,979)	\$ (93,163)	\$ 172,617	\$ 258,471	\$ 171,271	\$ 287,240	\$ (13,494)	\$ 265,439	\$ 289,143
Debt service as a percentage of noncapital expenditures	6.94%	6.57%	6.51%	6.85%	6.21%	5.92%	6.40%	4.75%	4.82%	4.62%

Source: District records

Note: Noncapital expenditures are total expenditures less capital outlay.
Central Service and Administrative Information Technology account classifications were added beginning with year end June 30, 2007.
Prior to June 30, 2007, Central Service and Administrative Information Technology were combined in Other Support Services as Business and Other Support Services.

Highlands School District
General Fund - Other Local Revenue by Source
Last Ten Fiscal Years
(modified accrual basis of accounting)

Fiscal Year Ending June 30,	Sale of Capital Assets	Donations	Rentals	Prior Year Refunds	Sale and Leaseback of Textbooks	Miscellaneous	Annual Totals
2003	-	-	-	-	-	667	667
2004	-	-	-	-	-	1,798	1,798
2005	-	-	-	-	-	1,598	1,598
2006	-	-	-	-	-	-	-
2007	-	-	-	-	-	-	-
2008	-	-	-	-	-	4,735	4,735
2009	-	-	-	-	-	38,553	38,553
2010	-	-	-	-	-	3,094	3,094
2011	-	-	-	-	-	209	209
2012	-	-	-	-	-	9,327	9,327

Source: District records

Highlands School District
Assessed Value and Actual Value of Taxable Property,
Last Ten Fiscal Years

Fiscal Year Ended June 30,	Vacant Land	Residential	Farm Reg.	Ofarm	Commercial	Industrial	Apartment	Total Assessed Value	Public Utilities	Net Valuation Taxable	Estimated Actual (County Equalized) Value	Total Direct School Tax Rate ^b
2003	\$ 4,658,600	\$ 199,806,850	\$ -	\$ -	\$ 23,831,200	\$ -	\$ 1,577,100	\$ 229,873,750	\$ 283,929	\$ 230,157,679	\$ 373,485,652	1.178
2004	6,956,600	471,823,200	-	-	49,475,500	-	4,908,600	532,857,600	437,763	532,295,363	533,295,363	0.512
2005	6,848,500	470,561,400	-	-	49,373,000	-	4,869,200	531,652,100	416,748	532,066,848	544,451,888	0.557
2006	6,458,500	473,432,800	-	-	49,156,500	-	4,790,500	533,838,400	334,072	534,172,472	636,440,315	0.517
2007	6,532,800	477,468,900	-	-	47,140,200	-	4,760,900	535,903,800	303,109	535,206,909	738,155,437	0.581
2008	5,921,900	484,293,700	-	-	46,798,200	-	4,782,300	541,796,100	287,546	542,083,646	796,253,973	0.569
2009	6,137,100	486,093,700	-	-	45,560,300	-	5,451,300	543,242,400	312,133	543,354,533	811,686,264	0.562
2010	6,508,500	484,247,200	-	-	45,943,500	-	5,451,300	542,150,500	312,133	542,462,633	811,686,264	0.562
2011	8,537,000	531,161,900	-	-	60,490,500	-	7,191,200	606,219,600	329,468	607,755,927	686,922,552	0.500
2012	8,216,700	530,670,500	-	-	59,537,900	-	7,191,200	606,019,300	329,468	606,348,709	686,922,552	0.506

Source: Municipal Tax Assessor

Note: Real property is required to be assessed at some percentage of true value (fair or market value) established by each county board of taxation.

Reassessment occurs when the County Board of Taxation requests Treasury to order a reassessment.

a Taxable Value of Machinery, Implements and Equipment of Telephones, Telegraph and Messenger System Companies

b Tax rates are per \$100

RV Property Revaluation

Highlands School District
Direct and Overlapping Property Tax Rates
Last Ten Fiscal Years
(rate per \$100 of assessed value)

Fiscal Year Ended June 30,	Highlands School District Direct Rate			Overlapping Rates			Total Direct and Overlapping Tax Rate
	Basic Rate ^a	General Obligation Debt Service ^b	(From J-6) Total Direct School Tax Rate	Regional School Rate	Municipality of Highlands	Monmouth County	
2003	1.069	0.109	1.178	1.303	2.025	0.674	5.180
RV 2004	0.461	0.051	0.512	0.617	0.800	0.316	2.245
2005	0.511	0.046	0.557	0.622	0.863	0.340	2.382
2006	0.517	0.053	0.570	0.685	0.907	0.355	2.517
2007	0.532	0.049	0.581	0.736	0.912	0.372	2.601
2008	0.545	0.049	0.594	0.756	0.974	0.379	2.703
2009	0.525	0.044	0.569	0.789	1.052	0.387	2.797
2010	0.527	0.035	0.562	0.785	1.073	0.403	2.823
RV 2011	0.470	0.030	0.500	0.678	0.921	0.337	2.436
2012	0.476	0.030	0.506	0.679	1.031	0.329	2.545

Source: Municipal Tax Collector

a The district's basic tax rate is calculated from the A4F form which is submitted with the budget and the Net valuation taxable.
b Rates for debt service are based on each year's requirements.
RV Property Revaluation

**Highlands School District
Principal Property Taxpayers,
Current Year and Nine Years Ago**

	2012			2003		
	Taxable Assessed Value	Rank (Optional)	% of Total District Net Assessed Value	Taxable Assessed Value	Rank (Optional)	% of Total District Net Assessed Value
Highlands Landing Corporation	\$ 3,622,200	1	0.67%	\$ 1,568,700	1	0.71%
Sandy Hook Developers	2,976,300	2	0.55%	-	-	-
Highlander Development Group, LLC	2,859,200	3	0.53%	-	-	-
Bahr's Restaurant Incorporated	1,976,600	4	0.36%	833,000	5	0.37%
Shore Landing, LLC	1,892,900	5	0.35%	-	-	0.52%
407 Bayside Partners, LLC	1,850,000	6	0.34%	-	-	-
Baker's Marina on the Bay LLC	1,797,000	7	0.33%	-	-	-
Dan-Rob Property Assoc., LLC	1,707,400	8	0.31%	660,000	6	0.30%
Individual Taxpayer #1	1,690,300	10	0.31%	1,142,800	3	-
Navesink Capital Partners, LLC	1,627,500	10	0.30%	-	-	0.24%
Highlander Assoc.	-	-	-	1,491,700	2	0.67%
Black Brothers Construction	-	-	-	948,900	4	0.43%
B & C Bayshore Development Co. Inc.	-	-	-	651,400	7	0.29%
Oakland Service Co.	-	-	-	590,500	8	0.27%
Marina On The Bay Assoc.	-	-	-	556,800	9	0.25%
CMB LLC	-	-	-	525,100	10	-
Total	<u>\$ 21,999,400</u>		<u>4.06%</u>	<u>\$ 8,968,900</u>		<u>4.05%</u>

Source: Municipal Tax Assessor

**Highlands School District
Property Tax Levies and Collections,
Last Ten Fiscal Years**

Fiscal Year Ended June 30,	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy ^a		Collections in Subsequent Years
		Amount	Percentage of Levy	
2003	\$ 2,648,937	\$ 2,648,937	100.00%	-
2004	2,712,428	2,712,428	100.00%	-
2005	2,729,743	2,729,743	100.00%	-
2006	2,965,266	2,965,266	100.00%	-
2007	3,042,159	3,042,159	100.00%	-
2008	3,117,497	3,117,497	100.00%	-
2009	3,218,273	3,218,273	100.00%	-
2010	3,093,267	3,093,267	100.00%	-
2011	3,046,514	3,046,514	100.00%	-
2012	3,035,282	3,035,282	100.00%	-

Source: District records including the Certificate and Report of School Taxes (A4F form)

^a School taxes collected by the Municipal Tax Collector. Under New Jersey State Statue, a municipality is required to remit to the school district the entire property tax balance, in the amount voted upon or certified prior to the end of the school year.

Highlands School District Ratios of Outstanding Debt by Type Last Ten Fiscal Years

Governmental Activities

Fiscal Year Ended June 30,	Certificates of Participation		Capital Leases	Loans	Compensated Absences Payable	Bond Anticipation Notes (BANs)	Total District	Percentage of Personal Income ^a	Per Capita ^a
	\$		\$	\$	\$	\$	\$		\$
2003	1,600,000	64,643	329,336	50,115	60,000	2,104,094	0.91%	390	
2004	1,520,000	45,908	287,766	34,954	165,247	2,053,875	0.88%	378	
2005	1,435,000	28,289	244,531	122,718	120,000	1,950,538	0.78%	359	
2006	1,345,000	9,680	199,538	19,205	75,000	1,648,423	0.64%	306	
2007	1,250,000	42,253	152,608	15,857	50,000	1,510,718	0.55%	282	
2008	1,150,000	33,279	103,691	14,232	25,000	1,326,202	0.49%	250	
2009	1,045,000	26,521	52,706	20,645	-	1,144,872	0.48%	217	
2010	935,000	22,532	42,362	18,637	-	1,018,531	0.55%	193	
2011	820,000	43,756	31,926	23,890	-	919,572	0.60%	184	
2012	700,000	34,642	21,391	14,137	-	770,170	0.74%	154	

Note: Details regarding the district's outstanding debt can be found in notes to the financial statements.

a These ratios are calculated using personal income and population for the prior calendar year.

Highlands School District
Ratios of Net General Bonded Debt Outstanding
Last Ten Fiscal Years

<u>General Bonded Debt Outstanding</u>					
Fiscal Year Ended June 30,	EDA Loans	Deductions	Net General Bonded Debt Outstanding	Percentage of Actual Taxable Value ^a of Property	Per Capita ^b
2003	\$ 329,336	-	\$ 329,336	0.14%	\$ 61
2004	287,766	-	287,766	0.05%	53
2005	244,531	-	244,531	0.05%	45
2006	199,538	-	199,538	0.04%	37
2007	152,608	-	152,608	0.03%	29
2008	103,691	-	103,691	0.02%	20
2009	52,706	-	52,706	0.01%	10
2010	42,362	-	42,362	0.01%	7
2011	31,926	-	31,926	0.01%	6
2012	21,391	-	21,391	0.01%	6

Note: Details regarding the district's outstanding debt can be found in the notes to the financial statements.

a See Exhibit NJ J-6 for property tax data.

b Population data can be found in Exhibit NJ J-14.

**Highlands School District
Direct and Overlapping Governmental Activities Debt
As of June 30, 2012**

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable ^a</u>	<u>Estimated Share of Overlapping Debt</u>
Debt repaid with property taxes			
Borough of Highlands	\$ 6,062,363	100.000%	\$ 6,062,363
Monmouth County General Obligation Debt	456,874,186	0.637%	<u>2,910,289</u>
Subtotal, overlapping debt			8,972,652
Highlands School District Direct Debt			<u>21,391</u>
Total direct and overlapping debt			<u>\$ 8,994,043</u>

Sources Assessed value data used to estimate applicable percentages provided by the Monmouth County Board of Taxation.
Debt outstanding data provided by each governmental unit.

Note: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the District. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of Anytown. This process recognizes that, when considering the District's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping payment.

a For debt repaid with property taxes, the percentage of overlapping debt applicable is estimated using taxable assessed property values. Applicable percentages were estimated by determining the portion of another governmental unit's taxable value that is within the district's boundaries and dividing it by each unit's total taxable value.

Highlands School District
 Legal Debt Margin Information,
 Last Ten Fiscal Years

Legal Debt Margin Calculation for Fiscal Year 2012

Equalized valuation basis	
2011	\$ 686,771,370
2010	734,123,900
2009	811,536,301
[A]	\$ 2,232,431,571

[A/3]	\$ 744,143,857
[B]	18,603,596
[C]	21,391
[B-C]	\$ 18,582,205

Average equalized valuation of taxable property **[A/3]**
 Debt limit (2.5 % of average equalization value) **[B]**
 Total Net Debt Applicable to Limit **[C]**
 Legal debt margin **[B-C]**

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Debt limit as a percentage of debt limit										
Total net debt applicable to limit	\$ 7,840,798	\$ 9,321,312	\$ 11,320,770	\$ 13,573,806	\$ 15,973,565	\$ 18,090,414	\$ 19,569,473	\$ 20,150,280	\$ 19,719,651	\$ 18,603,596
Legal debt margin	329,336	287,766	244,531	199,538	152,608	103,691	52,706	42,362	31,926	21,391
Total net debt applicable to the limit as a percentage of debt limit	4.20%	3.09%	2.16%	1.47%	0.96%	0.57%	0.27%	0.21%	0.16%	0.11%

Source: Equalized valuation bases were obtained from the Annual Report of the State of New Jersey, Department of the Treasury, Division of Taxation

**Highlands School District
Demographic and Economic Statistics
Last Ten Fiscal Years**

Year	Population ^a	Personal Income ^b	Per Capita Personal Income ^c	Unemployment Rate ^d
2002	5,396	\$ 236,371,780	\$ 43,805	7.90%
2003	5,431	240,196,837	44,227	7.90%
2004	5,427	257,098,698	47,374	6.70%
2005	5,383	264,676,727	49,169	5.80%
2006	5,348	287,273,168	53,716	5.90%
2007	5,310	306,333,900	57,690	5.40%
2008	5,272	312,808,848	59,334	6.90%
2009	5,251	292,816,764	55,764	11.20%
2010	5,009	285,287,595	56,955	11.40%
2011	5,010	N/A	N/A	11.50%

Source:

- a Population information provided by the NJ Dept of Labor and Workforce Development
- b Personal income has been estimated based upon the municipal population and per capita personal income presented
- c Per capita personal income by municipality estimated based upon the 2000 Census published by the US Bureau of Economic Analysis
- d Unemployment data provided by the NJ Dept of Labor and Workforce Development

**Highlands School District
Principal Employers,
Current Year and Nine Years Ago**

<u>Employer</u>	<u>2012</u>			<u>2003</u>		
	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total Municipal Employment</u>	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total Municipal Employment</u>
			*NOT AVAILABLE			
	-		0.00%	-		0.00%

*Highlands does not have any employers with more than 100 employees.

Highlands School District
Full-time Equivalent District Employees by Function/Program,
Last Ten Fiscal Years

Function/Program	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Instruction	21	19	19	19	21	20	15	15	15	15
Regular	8	9	9	7	7	5	5	5	5	5
Special education	0	0	0	0	0	1	1	1	1	1
Other special education	0	0	0	0	0	0	0	0	0	0
Vocational	0	0	0	0	0	0	0	0	0	0
Other instruction	0	0	0	0	0	0	0	0	0	0
Nonpublic school programs	0	0	0	0	0	0	0	0	0	0
Adult/continuing education programs	0	0	0	0	0	0	0	0	0	0
Support Services:										
Student & instruction related services	7	8	8	10	7	9	8	5	5	5
General administration	1	1	1	1	2	2	2	2	2	2
School administrative services	1	1	1	1	1	1	1	1	1	1
Other administrative services	2	2	2	2	3	2	2	2	2	2
Central services	2	2	2	2	3	2	2	2	2	2
Administrative information technology	0	0	0	0	0	0	0	0	0	0
Plant operations and maintenance	5	5	5	5	5	5	5	5	5	5
Pupil transportation	0	0	0	0	0	0	0	0	0	0
Other support services	4	4	4	4	4	4	5	7	7	7
Special Schools	0	0	0	0	0	0	0	0	0	0
Food Service	0	0	0	0	0	0	0	0	0	0
Child Care	0	0	0	0	0	0	0	0	0	0
Total	51	51	50	50	51	50	45	44	44	44

Source: District Personnel Records

**Highlands School District
Operating Statistics,
Last Ten Fiscal Years**

Fiscal Year	Enrollment	Operating Expenditures ^a	Cost Per Pupil	Percentage Change	Teaching Staff ^b	Pupil/Teach Ratio Elementary	Average Daily Enrollment (ADE) ^c	Average Daily Attendance (ADA) ^c	% Change in Average Daily Enrollment	Student Attendance Percentage
2003	242	\$ 3,386,993	\$ 13,996	#REF!	37	6.5	235.0	226	#REF!	96.00%
2004	259	3,602,471	13,909	-0.62%	35	7.4	254.0	239	8.09%	94.10%
2005	240	3,786,948	15,779	13.44%	35	6.8	236.0	221	-7.09%	93.60%
2006	210	3,725,131	17,739	12.42%	39	5.4	212.0	199	-10.17%	93.87%
2007	198	3,784,489	19,114	7.75%	31	6.4	192.0	181	-9.43%	94.27%
2008	179	3,967,988	22,168	15.98%	30	6.0	178.0	165	-18.64%	92.70%
2009	167	3,891,831	23,304	5.13%	29	5.8	167.0	155	-6.18%	92.81%
2010	176	3,820,314	21,706	-6.86%	28	5.6	176.0	162	5.39%	92.05%
2011	193	3,673,147	19,032	-12.32%	28	5.6	200.0	184	13.64%	92.00%
2012	194	3,786,794	19,520	2.56%	28	5.6	192.0	181	-4.00%	94.27%

Sources: District records

Note: Enrollment based on annual October district count.

- a Operating expenditures equal total expenditures less debt service and capital outlay.
- b Teaching staff includes only full-time equivalents of certificated staff.
- c Average daily enrollment and average daily attendance are obtained from the School Register Summary (SRS).

**Highlands School District
School Building Information
Last Ten Fiscal Years**

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<u>District Building</u>										
<u>Elementary</u>										
Highlands Elementary (1931)	36,677	36,677	36,677	36,677	26,677	36,677	36,677	36,677	36,677	36,677
Square Feet	300	300	300	300	300	300	300	300	300	300
Capacity (students)	242	259	240	209	192	192	167	176	193	194
Enrollment										

Number of Schools at June 30, 2010
Elementary = 1

Source: District Facilities Office

Note: Increases in square footage and capacity are the result of additions.
Enrollment is based on the annual October district count.

**Highlands School District
Schedule of Required Maintenance
Last Ten Fiscal Years**

UNDISTRIBUTED EXPENDITURES - REQUIRED
MAINTENANCE FOR SCHOOL FACILITIES
11-000-261-xxx

	<u>*School Facilities Project # (s)</u>	<u>Highlands Elementary 2160-050-02-1011, 2160-050-02-0955</u>
2003		\$48,772
2004		67,417
2005		56,040
2006		49,540
2007		37,884
2008		58,626
2009		70,167
2010		48,070
2011		34,301
2012		<u>45,348</u>
		<u><u>\$516,165</u></u>
Total School Facilities		

*

School facilities as defined under EFCFA.
(N.J.A.C. 6A:26-1.2 and N.J.A.C. 6A:26A-1.3)

Source: District records

**Highlands School District
Insurance Schedule
June 30, 2012**

	<u>Coverage</u>	<u>Deductible</u>
School Package Policy n- NJSBAIG		
Property - Blanket Building and Contents	\$ 10,490,606,131	\$ 1,000
Electronic Data Processing	101,145	1,000
Boiler and Machinery	100,000,000	-
Crime	25,000	500
Comprehensive General Liability	6,000,000	1,000
Automobile	6,000,000	-
School Leaders Errors and Omissions Liability - NJSBAIG	2,000,000	5,000
Workers' Compensation and Employers' Liability - NJSBAIG	2,000,000	-
Public Officials Bonds - Selective Insurance Co.		
Board Secretary	200,000	-
Treasurer of School Monies	200,000	-

Source: District records

SINGLE AUDIT SECTION

ALVINO & SHECHTER, L.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

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Exhibit K-1

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Honorable President and
Members of the Board of Education
Highlands School District
County of Monmouth, New Jersey

We have audited the financial statements of the Board of Education of the Highlands School District in the County of Monmouth, State of New Jersey (the "District") as of and for the year ended June 30, 2012, and have issued our report thereon dated November 23, 2012. We conducted our audit 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 audit requirements as prescribed by the Office of School Finance, Department of Education, State of New Jersey.

Internal Control Over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal controls over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is reasonable possibility that a material misstatement of entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 reportable instances of noncompliance or other matters that are required to be reported under *Government and State Auditing Standards* and audit requirements as prescribed by the Office of School Finance, Department of Education, State of New Jersey.

This report is intended solely for the information and use of the District's management and Board, the New Jersey State Department of Education and other federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Licensed Public School Accountant
No. 2183
ALVINO & SHECHTER, L.L.C.

November 23, 2012

ALVINO & SHECHTER, L.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

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Exhibit K-2

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133 AND NEW JERSEY OMB CIRCULAR 04-04**

The Honorable President and
Members of the Board of Education
Highlands School District
County of Monmouth, New Jersey

Compliance

We have audited the compliance of the Board of Education of the Highlands School District, in the County of Monmouth, State of New Jersey (the "District"), with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* and the New Jersey State Grant Compliance Supplement that could have a direct and material effect on each of its major state programs for the fiscal year ended June 30, 2012. The District's major state 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 state programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements as prescribed by the Office of School Finance, Department of Education, State of New Jersey; OMB Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations*; and New Jersey OMB's Circular 04-04, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*. Those standards, OMB Circular A-133 and New Jersey OMB's Circular 04-04, 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 state program occurred. An audit includes examining, on a test basis, evidence about the District'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 District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major state programs for the fiscal year ended June 30, 2012.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to major state programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and New Jersey OMB's Circular 04-04, 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 District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of requirement of a state program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, on a timely basis.

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 material weaknesses, as defined above.

This report is intended solely for the information and use of the District's management and Board and other state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Licensed Public School Accountant

No. 2183

ALVINO & SHECHTER, L.L.C.

November 23, 2012

HIGHLANDS SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
for the Fiscal Year ended June 30, 2012

SCHEDULE A
Exhibit K-3

Federal Grantor/Pass-Through Grantor/ Program Title	Federal CFDA Number	Grant or State Project Number	Program or Award Amount	Grant Period From	To	Balance at June 30, 2011			Balance at June 30, 2012				
						Accounts Receivable	Deferred Revenue	Due to Grantor	Adjustments	Repayment of Prior Years' Balances	Accounts Receivable	Deferred Revenue	Due to Grantor
U.S. Department of Education													
Passed-through State Department of Education													
General Fund:													
Education Jobs Fund Program	84.410A	N/A	23,928.00	8/10/10	9/30/12						(23,928.00)		
Total General Fund											(23,928.00)		
Special Revenue Fund:													
Title I, Part A													
NCLB 216012	84.010	NCLB 216012	6,911.00	9/1/11	8/31/12								
NCLB 216011	84.010	NCLB 216011	70,505.00	9/1/10	8/31/11	(42,303.00)							
NCLB 216012	84.367A	NCLB 216012	17,566.00	9/1/11	8/31/12								
NCLB 216011	84.367A	NCLB 216011	19,431.00	9/1/10	8/31/11	(11,659.00)							
NCLB 216011	84.367A	NCLB 216011	19,503.00	9/1/09	8/31/10	(8,088.00)							
NCLB 216011	84.381A	NCLB 216011	156.00	9/1/10	8/31/11	(198.00)							
FT 216012	84.027	FT 216012	64,555.00	9/1/11	8/31/12								
FT 216011	84.027	FT 216011	67,613.00	9/1/10	8/31/11	(10,413.00)							
FT 216012	84.027	FT 216012	4,115.00	9/1/11	8/31/12								
FT 216011	84.027	FT 216011	4,170.00	9/1/10	8/31/11	(4,170.00)							
Total Special Revenue Fund						(76,800.00)					(36,673.00)		
U.S. Department of Agriculture													
Passed-through State Department of Education													
Enterprise Fund:													
Food Distribution Program	10.550	N/A	7,168.19	7/1/11	6/30/12								753.02
Food Distribution Program	10.550	N/A	3,737.35	7/1/10	6/30/11		699.62						
School Breakfast Program	10.555	N/A	6,321.84	7/1/11	6/30/12								(405.30)
School Breakfast Program	10.555	N/A	5,444.04	7/1/10	6/30/11	(427.94)							
National School Lunch Program	10.555	N/A	42,400.44	7/1/11	6/30/12	(2,925.34)							(2,312.15)
National School Lunch Program	10.555	N/A	39,738.24	7/1/10	6/30/11	(3,333.28)							
Total Enterprise Fund						(3,333.28)	699.62				(2,717.45)		753.02
Total Federal Financial Awards						(880,153.28)	\$699.62				\$863,318.45		\$753.02

The accompanying Notes to Schedules of Expenditures of Awards and Financial Assistance are an integral part of this schedule.

HIGHLANDS SCHOOL DISTRICT
Notes to the Schedules of Expenditures of Awards and Financial Assistance
June 30, 2012

NOTE 1. GENERAL

The accompanying schedules of expenditures of federal awards and state financial assistance include federal and state award activity of the Board of Education, Highlands School District. The Board of Education is defined in Note 1 to the Board basic financial statements. All federal and state awards received directly from federal and state agencies, as well as federal awards and state financial assistance passed through other government agencies is included on the schedules of expenditures of federal awards and state financial assistance.

NOTE 2. BASIS OF ACCOUNTING

The accompanying schedules of expenditures of awards and financial assistance are presented on the budgetary basis of accounting with the exception of programs recorded in the food service fund, which is presented using the accrual basis of accounting. These bases of accounting are described in Notes 1 to the Board's basic financial statements. The accompanying schedules of expenditures of awards and financial assistance are presented on the budgetary basis of accounting with the exception of programs recorded in the food service fund, which are presented using the accrual basis of accounting. These bases of accounting are described in Note 1 to the Board's basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE 3. RELATIONSHIP TO GENERAL PURPOSE FINANCIAL STATEMENTS

The basic financial statements present the general fund and special revenue fund on a GAAP basis. Budgetary comparison statements or schedules (RSI) are presented for the general fund and special revenue fund to demonstrate finance-related legal compliance in which certain revenue is permitted by law or grant agreement to be recognized in the audit year, whereas for GAAP reporting, revenue is not recognized until the subsequent year or when expenditures have been made.

The general fund is presented in the accompanying schedules on the modified accrual basis with the exception of the revenue recognition of the last two state aid payments in the current budget year, which is mandated pursuant to *N.J.S.A. 18A:22-44.2*. For GAAP purposes those payments are not recognized until the subsequent budget year due to the state deferral and recording of the last two state aid payments in the subsequent year. The special revenue fund is presented in the accompanying schedules on the grant accounting budgetary basis which recognizes encumbrances as expenditures and also recognizes the related revenues, whereas the GAAP basis does not. The special revenue fund also recognizes the last two state aid payments in the current budget year, consistent with *N.J.S.A. 18A:22-4.2*.

The net adjustment to reconcile from the budgetary basis to the GAAP basis is \$(7,726.00) for the general fund and \$1,423.85 for the special revenue fund. See Note A for a reconciliation of the budgetary basis to the modified accrual basis of accounting for the general and special revenue funds. Awards and financial assistance revenues are reported in the Board's basic financial statements on a GAAP basis as follows:

	<u>Federal</u>	<u>State</u>	<u>Total</u>
General Fund	23,928.00	942,031.29	965,959.29
Special Revenue Fund	160,278.85	95,129.28	255,408.13
Food Service Fund	<u>55,890.47</u>	<u>1,108.54</u>	<u>56,999.01</u>
Total Awards & Financial Assistance	<u>\$240,097.32</u>	<u>1,038,269.11</u>	<u>1,278,366.43</u>

HIGHLANDS SCHOOL DISTRICT
Notes to the Schedules of Expenditures of Awards and Financial Assistance
June 30, 2012

NOTE 4. RELATIONSHIP TO FEDERAL AND STATE FINANCIAL REPORTS

Amounts reported in the accompanying schedules agree with amounts reported in the related federal and state financial reports.

NOTE 5. FEDERAL AND STATE LOANS OUTSTANDING

Highlands School District has the following loan balances outstanding at June 30, 2012:

<u>Loan Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Outstanding</u>
EDA Loan 219-93	N/A	\$16,315.87
EDA Loan 219(A)-93	N/A	\$5,075.20

NOTE 6. OTHER

Revenues and expenditures reported under the Food Distribution Program represent current year value received and current year distributions respectively. The amount reported as TPAF Pension and Post Retirement Contributions represents the amount paid by the state on behalf of the District for the year ended June 30, 2012. TPAF Social Security Contributions represents the amount reimbursed by the state for the employer's share of social security contributions for TPAF members for the year ended June 30, 2012.

HIGHLANDS SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2012

Section I - Summary of Auditor's Report

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

1) Material weakness(es) identified? _____ yes X no

2) Were significant deficiencies identified that are not considered to be material weaknesses? _____ yes X none reported

Noncompliance material to general-purpose financial statements noted? _____ yes X no

State Awards

Dollar threshold used to distinguish between type A and B programs: \$300,000.00

Auditee qualified as low-risk auditee? X yes _____ no

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

Internal Control over major programs:

1) Material weakness(es) identified? _____ yes X no

2) Were significant deficiencies identified that are not considered to be material weaknesses? _____ yes X none reported

Any audit findings disclosed that are required to be reported in accordance with NJOMB Circular Letter 04-04? _____ yes X no

Identification of major programs:

<u>GMIS Number(s)</u>	<u>Name of State Program</u>
<u>12-495-034-5120-085</u>	<u>Adjustment Aid</u>
<u>12-495-034-5095-002</u>	<u>Reimbursed TPAF Social Security Contributions</u>
<u>12-495-034-5120-086</u>	<u>Preschool Education Aid</u>

Section II - Financial Statement Findings

NONE

Section III - State Financial Assistance Findings and Questioned Costs

NONE

HIGHLANDS SCHOOL DISTRICT
Summary Schedule of Prior Year Audit Findings
For the Fiscal Year Ended June 30, 2012

STATUS OF PRIOR YEAR FINDINGS

There were no prior year findings since all areas of State financial assistance for the prior year were found to be in compliance.