

**HIGHWOOD SCHOOL DISTRICT NO. 4**

**CHOUTEAU COUNTY  
HIGHWOOD, MONTANA**

**FINANCIAL AND COMPLIANCE REPORT**

**Fiscal year Ended June 30, 2014**

**Strom & Associates, P. C.**  
PO BOX 1980  
Billings, Montana 59103

Highwood School District No. 4  
 Chouteau County  
 Highwood, MT 59450

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Highwood School District No. 4  
Chouteau County  
Highwood, MT 59450

ORGANIZATION

BOARD OF TRUSTEES

Conn Forder	Chair
Mike McGowan	Vice Chair
Colter Tinsen	Trustee

OFFICIALS

Becky Aaring	Superintendent
Arlene Hartman	District Clerk
Rick Cook	County Superintendent
Steve Gannon	County Attorney

Highwood Public Schools District #4  
Management Discussion and Analysis (MD&A)  
For the Year Ended June 30, 2014

The Superintendent has provided this MD&A to give the reader of these statements an overview of the financial position and activities of the school districts for the fiscal year ended June 30, 2014. Certain comparative information between the current year and the prior is required to be presented in the MD&A.

This management's discussion and analysis provides an overview of the School's financial activities for the fiscal year ended June 30, 2014. Please read it along with the School's financial statements.

**FINANCIAL HIGHLIGHTS**

The School's financial operations in 2014 declined. Total net position decreased by 6.65% compared to a 1.65% decrease in 2013. This decrease can be attributed in part to the long term liabilities such as the retirement fund. In other words, what we would owe if eligible staff members would choose to retire at the same time.

This annual report consists of financial statements for the school as a whole with more detailed information for certain School funds. The Statement of Net Position and the Statement of Activities provide information about the activities of the School as a whole and present a long-term view of the School's finances (they include capital assets and long-term liabilities.)

Fund financial statements present a short-term view of the School's activities (they include only current assets expected to be collected in the very near future and liabilities expected to be paid in the very near future). They present detailed information about the School's general fund, bus depreciation fund, and miscellaneous programs fund. There is also summarized financial information about the student activity and college scholarship funds for which the School acts as trustee.

**THE SCHOOL AS A WHOLE**

One important questions asked about the School's finances is, "Is the School better or worse off as a result of the year's activities?" The information in the government-wide financial statement helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting (and reports depreciation on capital assets), which is similar to the basis of accounting used by most private-sector companies.

The change in net position (the difference between total assets and total liabilities) over time is one indicator of whether the School's financial health is improving or deteriorating. However, you need to consider other nonfinancial factors in making an assessment of the School's health, such as changes in enrollment, changes in the State's funding of educational costs, changes in the economy, changes in the School's tax based, etc. to assess the overall financial health of the School.

Changes in the School's net position were as follows.

**Highwood School District #4  
Condensed Statement of Net Position**

NET POSITION	Governmental Activities			
	2014	2013	CHANGE	% CHANGE
Current Assets	\$ 451,922	\$ 462,221	\$ (10,299)	-2.23%
Capital Assets, net	<u>900,667</u>	<u>973,446</u>	<u>(72,779)</u>	<u>-7.48%</u>
Total Assets	1,352,589	1,435,667	(83,078)	-5.79%
Current Liabilities	16,839	10,983	5,856	53.32%
Long Term Liabilities	<u>46,658</u>	<u>43,916</u>	<u>2,742</u>	<u>6.24%</u>
Total Liabilities	63,497	54,899	8,598	15.66%
Net Position:				
Net Investment in Capital Assets	900,667	973,446	(72,779)	-7.48%
Restricted	286,063	301,506	(15,443)	-5.12%
Unrestricted	<u>102,361</u>	<u>105,817</u>	<u>(3,456)</u>	<u>-3.27%</u>
Total Net Position	1,289,092	1,380,769	(91,677)	-6.64%

The district has no long term debt as in loans or bonds, but liabilities include compensated absences funding should any long term non certified staff member leave or retire in addition to the paper liabilities stated as a result of GASB accounting requirements. Changes in the School's program revenues were as follows:

<b>Revenues</b>	<b><u>2014</u></b>	<b><u>2013</u></b>	<b><u>\$Change</u></b>	<b><u>%Change</u></b>
<b>Program Revenues:</b>				
Charges for Services	31,703	32,751	(1,048)	-3.20%
Operating Grants	270,458	255,402	15,056	5.89%
<b>General Revenues:</b>				
District Levy	534,763	539,178	(4,415)	-0.82%
State Equalization	432,305	400,865	31,440	7.84%
Other State Revenue	283,737	325,311	(41,574)	-12.78%
County	137,112	122,254	14,858	12.15%
Federal				
Investment Earnings	435	707	(272)	-38.53%
Other	<u>4,498</u>	<u>3,741</u>	<u>757</u>	<u>20.23%</u>
<b>Total Revenues</b>	<b>1,695,009</b>	<b>1,680,209</b>	<b>14,800</b>	<b>0.88%</b>

There was a 0.88% increase in revenues between 2013 and 2014. The State of Montana modified and increased the school funding formula, which resulted in the overall increase of revenues, while relying less on District levies as shown in the 4.05 decrease.

Changes in the School's expenses were as follows:

<b>Program Expenses</b>	<b><u>2014</u></b>	<b><u>2013</u></b>	<b><u>\$Change</u></b>	<b><u>%Change</u></b>
Instructional Services	884,289	875,405	8,884	1.01%
Support Services	-	2,400	(2,400)	-100.00%
Educational Media Services	28,519	26,443	2,076	7.85%
General Administrative Services	268,481	257,163	11,318	4.40%
Operation & Maintenance Services	217,237	224,326	(7,089)	-3.16%
Transportation Services	146,303	114,983	31,321	27.24%
School Food Services	104,795	99,002	5,793	5.85%
Extracurricular	105,850	115,874	(10,023)	-8.65%
Unallocated Depreciation Expense *	<u>31,211</u>	<u>31,372</u>	<u>(161)</u>	<u>-0.51%</u>
<b>Total Expenses</b>	<b><u>1,786,686</u></b>	<b><u>1,746,966</u></b>	<b><u>39,720</u></b>	<b><u>2.27%</u></b>
<b>Change in Net Position</b>	<b>(91,677)</b>	<b>(66,757)</b>	<b>(24,919)</b>	

Overall decrease in capital assets is due to the increased in long term liability as it relates to unemployment and compensated absence fund liability. The district has not made any capital purchases such as boilers, buses or major replacement items.

#### **CAPITAL ASSET AND DEBT ADMINISTRATION**

The district purchased with cash and continued to have no capital debt in 2014.

#### **FUND FINANCIAL STATEMENTS**

The fund financial statements provide detailed information about the most significant of the school's funds; the School is required to provide detailed information for its "major funds.

Major funds are defined as the general fund and other funds where the assets, liabilities, revenues, or expenditures exceed 10% of the total governmental fund amounts. In the 2014 fiscal year, the revenues and expenses of the miscellaneous programs fund exceeded the 10% threshold.

The miscellaneous programs fund accounts for the various federal and state programs of the school.

### **THE FUTURE OF THE SCHOOL**

The number of students in the district had seen a steady decline since 2000, with the sharpest decline between spring of 2008 and fall 2008. This decline is representative of many small districts in rural, central and eastern Montana. However, the closeness of the district to Great Falls can be beneficial and offer the opportunity to become a bedroom community. The high school enrollment, while low, has been steady for the past three years. The kindergarten class of 2013 was 3 times the size of the kindergarten class of 2008 with a steady enrollment for the next 4 years afterwards. In the fall, 2014 more students entered as graduated in May, 2014. During the 2013-14 school year, the district lost 10 students during the school year, as of May 2014 the numbers have rebounded. There will be a significant loss of the 2015 seniors, and enrollment should remain quite low for three years and then begin to climb. Three-year averaging should provide a slight funding cushion. It must be noted here that the district has had low enrollment years and high enrollment years throughout its history. It is anticipated that the district will remain viable for the future. The biggest change to the school system in 2013-2014 is the achievement of attaining contiguous boundaries which allows the district to become a K-12 system for the first time in its history. While not making any significant changes in funding, it provides a positive view of the future of the school.

The school and community are stable, with long-term family farms. The district's tax base is low compared to surrounding districts because of the lack of businesses within the community. However the community has continued to support the district levies and has provided many services and donated funds for many improvements. The district's financial picture is sound with cost-savings efforts continuing on a year-to-year basis.

Questions regarding this MD and A may be directed to Becky Aaring, Superintendent of the Highwood Public Schools ([baaring@highwood.k12.mt.us](mailto:baaring@highwood.k12.mt.us)), or Arlene Hartman, Clerk and Business Manager of Highwood Public School ([hwclrk@highwood.k12.mt.us](mailto:hwclrk@highwood.k12.mt.us)). Both can also be reached by telephone: 7332-2081.

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Billings, Montana 59103

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**INDEPENDENT AUDITOR'S REPORT**

Board of Trustees  
Highwood School District No. 4  
Chouteau County  
Highwood, MT 59450

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Highwood School District No. 4 as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Highwood School District No. 4 as of June 30, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 3 - 5) and the schedule of funding for other post-employment benefits other than pensions (page 23) and budgetary comparison information (pages 24 - 27) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Highwood School District No. 4's basic financial statements. The accompanying schedule of reported enrollment (page 28) and schedule of revenues, expenses and balances student activity funds (page 29) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying schedule of reported enrollment and the schedule of revenues, expenses and balances student activity funds are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying schedule of reported enrollment and the schedule of end of year revenues and expenses student activity funds are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2014 on our consideration of Highwood School District No. 4 internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Highwood School District No. 4 internal control over financial reporting and compliance.



STROM & ASSOCIATES, PC  
Billings, Montana  
November 10, 2014

STATEMENT OF NET POSITION  
 as of June 30, 2014

	<u>Governmental</u> <u>Activities</u>
ASSETS:	
Current Assets:	
Cash and Cash Equivalents	\$ 404,172
Taxes Receivable	35,136
Due From Other Governments	<u>12,614</u>
Total Current Assets	<u>451,922</u>
Noncurrent Assets:	
Capital Assets:	
Land	24,900
Net Depreciable Assets	<u>875,767</u>
Total noncurrent assets	<u>900,667</u>
Total Assets	<u>\$ 1,352,589</u>
LIABILITIES:	
Current Liabilities	
Due to Other Governments	\$ 3,230
Current Portions Compensated Absences	<u>11,639</u>
Total Current Liabilities	<u>14,869</u>
Noncurrent Liabilities:	
Long-Term Obligations	13,710
Compensated Absences	<u>34,918</u>
Total noncurrent Liabilities	<u>48,628</u>
Total Liabilities	<u>63,497</u>
NET POSITION:	
Net Investment in Capital Assets	900,667
Restricted	286,063
Unrestricted (deficit)	<u>102,361</u>
Total Net Position	<u>1,289,092</u>
Total Liabilities and Net Position:	<u>\$ 1,352,589</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

STATEMENT OF ACTIVITIES  
 as of June 30, 2014

	Program Revenues			Net (Expenses) Revenues and Changes in Net Position
	Expenses	Charge for Services	Operating Grants and Contributions	Primary Governmental Activities
<b>GOVERNMENT OPERATIONS</b>				
Instructional Services	\$ 884,289	\$ 1,050	\$ 195,842	\$ (687,398)
Educational Media Services	28,519	-	-	(28,519)
General Administrative Services	268,481	-	7,251	(261,230)
Operation & Maintenance Services	217,237	3,300	-	(213,937)
Transportation Services	146,303	-	51,367	(94,936)
School Food Services	104,795	27,353	15,999	(61,443)
Extracurricular	105,850	-	-	(105,850)
Unallocated Depreciation Expense *	31,211	-	-	(31,211)
<b>Total Governmental Activities</b>	<u>1,786,686</u>	<u>31,703</u>	<u>270,458</u>	<u>(1,484,526)</u>
<b>GENERAL REVENUES</b>				
District Levies				534,763
State Equalization				432,305
Other State Revenues				283,737
County				137,112
Interest				435
Other				4,498
<b>Total General Revenues</b>				<u>1,392,849</u>
<b>Change in Net Position</b>				<u>(91,677)</u>
<b>Net Position</b>				
Beginning of the Year				<u>1,380,769</u>
End of the Year				<u>\$ 1,289,092</u>

\* Excludes depreciation included in direct expenses of the various functions

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

BALANCE SHEET  
 GOVERNMENTAL FUNDS  
 as of June 30, 2014

	MAJOR					Total Governmental Funds
	General Fund	Transportation	Bus Depreciation	Building Reserve	Other Governmental Funds	
<b>ASSETS:</b>						
<b>Current Assets:</b>						
Cash and Cash Equivalents	137,586	26,666	45,484	79,482	114,954	404,172
Taxes Receivable	25,043	5,065	829	3,554	645	35,136
Due From Other Governments	-	-	-	-	12,614	12,614
<b>Total Assets</b>	<b>\$ 162,629</b>	<b>\$ 31,731</b>	<b>\$ 46,313</b>	<b>\$ 83,036</b>	<b>\$ 128,213</b>	<b>\$ 451,922</b>
<b>LIABILITIES:</b>						
<b>Current Liabilities</b>						
Due to Other Governments	-	-	-	-	3,230	3,230
<b>Total Liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,230</b>	<b>3,230</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Unavailable Property Taxes Receivable	25,043	5,065	829	3,554	645	35,136
<b>Total Deferred Inflows of resources</b>	<b>25,043</b>	<b>5,065</b>	<b>829</b>	<b>3,554</b>	<b>645</b>	<b>35,136</b>
<b>FUND BALANCE:</b>						
<b>Fund Balances:</b>						
Restricted	-	26,666	45,484	79,482	124,338	275,970
Assigned	1,637	-	-	-	-	1,637
Unassigned:	135,949	-	-	-	-	135,949
<b>Total Fund Balance</b>	<b>137,586</b>	<b>26,666</b>	<b>45,484</b>	<b>79,482</b>	<b>124,338</b>	<b>413,556</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balance</b>	<b>\$ 162,629</b>	<b>\$ 31,731</b>	<b>\$ 46,313</b>	<b>\$ 83,036</b>	<b>\$ 128,212</b>	<b>\$ 451,922</b>

RECONCILIATION TO THE STATEMENT OF NET POSITION

Total fund balance reported above	\$ 413,556
Governmental Capital Assets	900,667
Long-term Liabilities	
Long-Term Obligations	(13,710)
Compensated Absences	(46,557)
Unavailable Property Taxes Receivable	<u>35,136</u>
<b>Net Position of Governmental Activities</b>	<b><u>\$ 1,289,092</u></b>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

STATEMENT OF REVENUES, EXPENDITURES, AND  
 CHANGES IN FUND BALANCES  
 GOVERNMENTAL FUNDS  
 as of June 30, 2014

	MAJOR				Other Governmental Funds	Total Governmental Funds
	General Fund	Transportation	Bus Depreciation	Building Reserve		
<b>REVENUES:</b>						
District Levies	\$ 374,509	\$ 80,663	\$ 10,095	\$ 55,055	\$ 10,008	\$ 530,330
Interest	93	34	84	101	123	435
Charges for Services	-	-	-	-	31,703	31,703
Other	-	-	-	-	4,498	4,498
County	-	25,734	-	-	137,112	162,847
State	776,944	29,685	-	-	2,676	809,305
Federal	-	-	-	-	151,460	151,460
<b>Total Revenues</b>	<b>1,151,545</b>	<b>136,116</b>	<b>10,179</b>	<b>55,156</b>	<b>337,580</b>	<b>1,690,577</b>
<b>EXPENDITURES:</b>						
Current	-	-	-	-	-	-
Instructional Services	635,778	-	-	13,050	223,661	872,488
Educational Media Services	23,289	-	-	-	2,830	26,120
General Administrative Services	185,617	43,490	-	-	38,753	267,860
Operation & Maintenance Services	139,693	8,790	-	50,319	16,145	214,947
Transportation Services	21,156	92,795	-	-	8,456	122,407
School Food Services	60,854	-	-	-	42,088	102,942
Extracurricular	79,359	-	-	-	7,817	87,176
<b>Total Current Outlays</b>	<b>1,145,746</b>	<b>145,074</b>	<b>-</b>	<b>63,369</b>	<b>339,750</b>	<b>1,693,939</b>
Capital Outlay	-	-	-	-	14,600	14,600
<b>Total Expenditures</b>	<b>1,145,746</b>	<b>145,074</b>	<b>-</b>	<b>63,369</b>	<b>354,350</b>	<b>1,708,539</b>
<b>NET CHANGES IN FUND BALANCES</b>	<b>5,799</b>	<b>(8,958)</b>	<b>10,179</b>	<b>(8,213)</b>	<b>(16,770)</b>	<b>(17,962)</b>
<b>FUND BALANCE:</b>						
Beginning of the Year	125,231	35,624	35,305	87,695	147,664	431,519
	6,556	-	-	-	(6,556)	-
<b>End of the Year</b>	<b>\$ 137,586</b>	<b>\$ 26,666</b>	<b>\$ 45,484</b>	<b>\$ 79,482</b>	<b>\$ 124,338</b>	<b>\$ 413,556</b>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

Highwood School District No. 4  
Chouteau County  
Highwood, MT 59450

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
as of June 30, 2014

Net Changes in Fund Balance		\$	(17,962)
Revenues on the Statement of Activity not included in governmental funds statement:			
Increase (decrease) in taxes receivable			4,433
Expenses on the Statement of Activity not included in the governmental funds statement:			
Depreciation Expense	(87,379)		
(Increase) decrease in Other Post Employment Benefits	(2,742)		
(Increase) decrease in compensated absence liability	<u>(2,626)</u>	(92,747)	
Expenditures reported in the governmental funds statement not included in the Statement of Activity			
Capital outlays		<u>14,600</u>	
Change in net position reported on the Statement of Activity		\$	<u>(91,677)</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

Highwood School District No. 4  
 Chouteau County  
 Highwood, MT 59450

STATEMENT OF FIDUCIARY NET POSITION  
 FIDUCIARY FUNDS  
 as of June 30, 2014

	Private Purpose	
	Trust Funds	Agency Funds
<b>ASSETS:</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 66,733	\$ 63,239
<b>Total Assets</b>	<b>66,733</b>	<b>63,239</b>
<b>LIABILITIES:</b>		
Current Liabilities		
Warrants Payable	-	63,239
<b>Total Liabilities</b>	<b>-</b>	<b>63,239</b>
<b>NET POSITION:</b>		
Restricted for Endowment	46	
Restricted for Student Activities	66,687	
<b>Total Net Position</b>	<b>\$ 66,733</b>	

STATEMENT OF CHANGES IN FIDUCIARY NET  
 FIDUCIARY FUNDS  
 as of June 30, 2014

	Private Purpose
	Trust Funds
<b>ADDITIONS:</b>	
Revenues from Student Activities	\$ 130,765
Contributions to Endowment	1,700
<b>Total Additions</b>	<b>132,465</b>
<b>DEDUCTIONS:</b>	
Expenses of Student Activities	131,544
Student Scholarships	1,700
<b>Total Deductions</b>	<b>133,244</b>
<b>CHANGE IN NET POSITION</b>	<b>(779)</b>
<b>NET POSITION:</b>	
Beginning of the Year	67,512
<b>End of the Year</b>	<b>\$ 66,733</b>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

HIGHWOOD SCHOOL DISTRICT NO. 4

NOTES TO THE FINANCIAL STATEMENTS  
Fiscal Year-Ended June 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. a. REPORTING ENTITY

The basic financial statements of School District No. 4 have been prepared on a prescribed basis of accounting that demonstrates compliance with the accounting and budget laws of the State of Montana, which conforms to generally accepted accounting principles (GAAP). The District applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

- GASB Statement No. 67 – Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25. The amendment revised existing guidance for financial report of pension systems for state and local government. The statement is applicable for fiscal year 2014. This statement affects the applicable retirement plan administration at the State level and did not have any effect on the district.
- GASB Statement No. 70 – Accounting and Financial Reporting for Nonexchange Financial Guarantees. The statement is applicable for fiscal year 2014. This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The district has not extend any financial guarantees to other parties. This statement has no effect on the financial statements.

The following are a listing of GASB statements which have been issued and the District assessment of effects to the financial statements.

- GASB Statement No. 68 – Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27. This statement revises and establishes new financial reporting requirement that provide employees with pension benefits. The statement is effective for fiscal year 2015. This statement will require the District to expand its pension foot note disclosures. The District plans to implement this in fiscal year 2015 after the State of Montana provides the required information for reporting and disclosure.
- GASB Statement No. 69 – Government Combinations and Disposals of Government Operations. The statement is applicable for fiscal year 2014. The statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The district is not merging with another district or ceasing to exist. This statement has no effect on the financial statements.
- GASB Statement No. 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68. This statement amends paragraph 137 of statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The District plans to implement this in fiscal year 2015 after the State of Montana provides the required information for reporting and disclosure.

School District No. 4 provides education for kindergarten through twelfth grade. The board of trustees is elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations.

The criteria for including organizations as component units within the District's reporting entity is set forth in Section 2100 of the Governmental Accounting Standards Board's (GASB) "Codification of Government Accounting and Financial Reporting Standards." The basic criteria include appointing a voting majority of an organization's governing body, as well as the District's ability to impose its will on that organization, or the potential for the organization to provide specific financial benefit to, or impose specific financial burdens on, the District. Based on those criteria this district has no component units.

1. b. BASIS OF PRESENTATION AND ACCOUNTING

1. b. 1 GOVERNMENT-WIDE STATEMENTS

The government-wide financial statements include the statement of net position and the statement of activities. These statements report financial information for the District as a whole except for the fiduciary funds. The fiduciary funds are reported as a private purpose trust fund in the fund financial statements.

The government-wide financial statements and fiduciary fund statements report using the economic resource measurement focus and the accrual basis of accounting generally including the elimination of internal activity between or within funds. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

## HIGHWOOD SCHOOL DISTRICT NO. 4

### NOTES TO THE FINANCIAL STATEMENTS (continued) Fiscal Year-Ended June 30, 2014

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. Expenses which are not directly related to a function, indirect expenses, are not charges to a function. Program revenues include:

- Charges for services such as school lunch fees and facility rental fees and
- Operating grants that are restricted to a particular functional program.

Property taxes, investment earnings, state equalization payments, and other revenue sources not properly included with program revenue are reported as general revenues.

#### 1. b. 2 FUND ACCOUNTING

Fund financial statements provide information on the districts major governmental funds and a combined column for all other non-major funds. The student activity fund and endowment fund are displayed as fiduciary funds. Since the resources in the fiduciary funds cannot be used for District operations, they are not included in the entity-wide statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities, and fund balance are included on the balance sheet. Operating statement of these funds present net increases and decreases in current assets. Revenues are recorded when they are both measurable and available. Available means collectible within the current period anything collected after June 30 are generally not material. Unavailable income are recorded in governmental funds for delinquent taxes. Expenditures are recorded when the related fund liability is incurred except for compensated absence payments which are recognized when due. Capital assets are functional expenditures in governmental funds.

Revenues from local sources consist primarily of property taxes. Property tax revenue and revenues received from the State of Montana are recognized when susceptible to accrual. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned since they are measurable and available. Cost reimbursement grant funds are considered to be both measurable and available to the extent of expenditures made under the provisions of the grant and, accordingly, when such funds are received and the expenditure has not been incurred they are recorded as unearned grant revenues because the revenues are available.

GASB Statement No. 34 requires the general fund be reported as a major fund. Other individual governmental funds should be reported in separate columns as major funds based on these criteria:

Total assets, liabilities, revenues, or expenditures of that individual governmental are at least 10 percent of the corresponding total (assets, liabilities, and so forth) for all funds of that category or type (that is, total governmental funds),

In addition to funds that meet the major fund criteria, any other governmental funds that government officials believe is particularly important to financial statement users may be reported as a major fund.

The following funds are major funds of School District No. 4:

- **General Fund** – The General Fund is the general operating fund of the District and accounts for all revenues and expenditures of the District not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund. On the GASB 34 financial statements the general fund also includes the activities of the flexibility fund since the restrictions on that fund is similar to the general fund.
- **Transportation Fund** – This fund is used to account for financing the maintenance and operation of district owned school buses, contracts with private carriers for school bus service, individual transportation contracts, and any amount necessary for the purchase, rental, or insurance of yellow school buses or operation of the transportation program. County wide levies to this fund are to be based upon projected transportation costs for the fiscal year.
- **Bus Depreciation Fund** – This fund is used to account for financing the replacement of yellow school buses and two-way radio equipment owned by a school. Deposits made to the fund are limited by depreciation percentages of current busses and two-way radio equipment owned by the district.
- **Building Reserve Fund** – This fund is used to account for financing voter approved building or construction projects funded with district mill levies. This includes raising money for the future construction, equipping, or enlarging of school buildings and for the purpose of purchasing land needed for school purposes in the district.

HIGHWOOD SCHOOL DISTRICT NO. 4

NOTES TO THE FINANCIAL STATEMENTS (continued)  
Fiscal Year-Ended June 30, 2014

1. b. 3 OTHER FUND TYPES

Trust Funds – The Trust Fund accounts for the receipt and disbursement of monies from student activity organizations, as well as any donated scholarship funds. These organizations exist with the explicit approval of and are subject to revocation by the District's Board of Trustees. This accounting reflects the District's trust relationship with the student activity organizations and any scholarship commitments.

Agency Funds – The Agency Funds generally are used to account for assets that the School District holds on behalf of others as their agent in the payroll and claims clearing funds. Cash is held for warrants which were written but have not been paid by the County Treasurer.

1. c. ASSETS, LIABILITIES AND NET POSITION (FUND BALANCE)

1. c. 1 CASH AND INVESTMENTS

Cash includes amounts in demand deposits, as well as short-term investments as authorized by State statutes. Montana Code Annotated (MCA) allows Montana local governments to invest public money not necessary for immediate use in United States government treasury bills, notes, bonds; certain United States treasury obligations; United States government security money market fund if investments consist of those listed above; time or savings deposits with a bank, savings and loan association, or credit union which is FDIC, FSLIC, or NCUA insured and are located in the state; or in repurchase agreements as authorized by MCA, or Montana Board of Investments Short Term Investment Pool (STIP). Interest earned on the pooled investments is distributed to each contributing entity and fund on a pro rata basis. Investments are recorded at fair market value.

Information regarding the collateral and security for cash is not available to the District. However, State statute requires that United State government securities or agencies be held as collateral to secure deposits of public funds in excess of Federal Deposit Insurance Corporation (FDIC) insurance. The external investment pool is audited as part of Chouteau County's financial statements. This investment pool is not registered with or monitored by the Securities and Exchange Commission (SEC).

1. c. 2 TAXES

Property taxes are collected by the County Treasurer who credits to the School District funds their respective share of the collections. The tax levies are collectible in two installments, which become delinquent after November 30 and May 31. Property taxes are liens upon the property being taxed. After a period of three years, the County may begin foreclosure proceedings and sell the property at auction. The School District receives its share of the sale proceeds of any such auction.

1. c. 3 INVENTORIES

Materials, supplies and food inventory at year end was not material so all inventory was included as expenditures at the time of purchase.

1. c. 4 CAPITAL ASSETS

The District's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. Historical cost was established at the initial booking of the capital assets by determining actual costs or estimating using standard costing procedures. The District considers capital assets to be items in excess of \$5,000 with a useful life in excess of one year. The costs of normal maintenance and repair are not capitalized. Depreciation on capital assets is provided over their estimated useful lives on the straight-line method. The useful lives of these assets have been estimated as follows:

Buildings	10 – 50 years
Improvements other than buildings	50 years
Machinery and Equipment	5 – 20 years

1. c. 5 VACATION AND SICK LEAVE

School District employees accumulate vacation and sick leave for later use or for payment upon termination, death, or retirement. School District employees earn vacation leave at the rate of 15 days per year during the first 10 years of employment, and at increasing rates thereafter to a maximum of 24 days per year after 20 years of employment. There is no requirement that vacation leave be taken, but the maximum permissible accumulation is the amount earned in the most recent two-year period. At termination, employees are paid for any accumulated vacation leave at the current rate of pay. School District employees earn sick leave at the

HIGHWOOD SCHOOL DISTRICT NO. 4

NOTES TO THE FINANCIAL STATEMENTS (continued)  
Fiscal Year-Ended June 30, 2014

rate of one day per month. There is no limit on the accumulation of unused sick leave for classified staff. However, upon termination, only 25% of accumulated sick leave is paid. Certified staff may accumulate up to a maximum of 90 days and must have worked for the District at least 10 years before receiving a payout.

Liabilities incurred because of unused vacation and sick leave accumulated by employees are reflected in the financial statements. Expenditures for unused leave are recorded when paid in governmental funds and when accrued on the statement of activities. The amount expected to be paid within one year is \$11,639 and it is generally paid out of the general fund.

1.c.6 NET POSITION AND FUND BALANCE

Statement of Net Position include the following:

- Net Investment in Capital Assets – The component of net position that reports the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt that is directly attributable to the acquisition, construction, or improvement of these capital assets.
- Restricted – The component of net position that is either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.
- Unrestricted – The difference between the assets and liabilities that is not reported in the other element of net position.

Governmental fund financial statements include the following fund balances:

- Restricted - Includes amounts that can be spent only for the specific purposes stipulated by the constitution, external resource providers, or through enabling legislation.
- Assigned – the executing a purchase order for a specific purpose such as an encumbrance.
- Unassigned - Amounts that are available for any purpose; these amounts are reported only in the general fund.

As of June 30, 2014, fund balance components other than unassigned fund balance consist of the following:

<u>Purpose</u>	<u>Restricted</u>	<u>Assigned</u>
Instructional - Regular	\$ 2,565	\$ 1,637
Operations and Maintenance	1,577	0
Student Transportation	72,150	0
School Food	8,798	0
Third Party Grantor Restrictions	40,320	0
Employer Retirement Benefits	42,849	0
Future Technology	28,229	0
Future Capital Costs	<u>79,482</u>	<u>0</u>
Total	<u>\$ 275,970</u>	<u>\$ 1,637</u>

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for assigned or unassigned fund balances are available, the District considers amounts to have been spent first out of assigned and then unassigned funds as needed, unless the board of trustees has provided otherwise.

1. d. OTHER

1. d. 1 USE OF ESTIMATES

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

At June 30, 2014, the summary of cash, cash equivalents for governmental and fiduciary funds is as follows:

<u>Account Type</u>	<u>Governmental</u>	<u>Fiduciary</u>	<u>Total</u>
	<u>Activities</u>	<u>Funds</u>	
Cash and Cash Equivalents	<u>\$ 404,172</u>	<u>\$ 129,972</u>	<u>\$ 534,144</u>

HIGHWOOD SCHOOL DISTRICT NO. 4

NOTES TO THE FINANCIAL STATEMENTS (continued)  
Fiscal Year-Ended June 30, 2014

The carrying amount of cash on hand, deposits and investments at June 30, 2014, is as follows:

	<u>Amount</u>
Cash on Hand	\$ 500
Demand Accounts	66,687
County Investment Pool	<u>466,957</u>
Total	<u>\$ 534,144</u>

Cash resources of the District are held and managed by the Chouteau County treasurer. They are combined with cash resources of other governmental entities within Chouteau County to form a pool of cash and cash equivalents. Investments of pooled cash consist primarily of certificates of deposit, repurchase agreements, and STIP and are carried at fair value.

The cash of the extracurricular funds is held separately by the school district, not at the county, and is covered by FDIC.

NOTE 3. TAXES RECEIVABLE

The assessed value of the roll as of January 1, 2013, upon which the levy for the 2014 fiscal year was based, was \$1,367,532. The tax rates assessed for the year ended June 30, 2014 to finance District operations and applicable taxes receivable for the district follows:

<u>Elementary Fund</u>	<u>Mill Levies</u>	<u>Taxes Receivable</u>
General*	272.62	\$ 25,042
Transportation*	59.44	5,065
Bus Depreciation*	7.02	829
Technology	7.31	645
Flexibility	0.00	<u>1</u>
Building Reserve*	<u>40.22</u>	<u>3,554</u>
Total	<u>386.61</u>	<u>\$ 35,136</u>

\* Denotes Major Funds

NOTE 4. DUE FROM OTHER GOVERNMENTS

<u>Elementary Fund</u>	<u>Amount</u>	<u>Due From</u>	<u>Reason</u>
Miscellaneous	<u>\$ 12,614</u>	State of MT	Title IV

NOTE 5. CAPITAL ASSETS, DEPRECIATION AND NET CAPITAL ASSETS

5. a. At June 30, 2014, the schedule of changes in general capital assets follows:

<u>Governmental Activities:</u>	<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2014</u>
<u>Non-Depreciable:</u>				
Land	\$ 24,900	\$ 0	\$ 0	\$ 24,900
<u>Depreciable:</u>				
Land Improvements	\$ 104,581	\$ 0	\$ 0	\$ 104,581
Buildings	1,371,008	0	0	1,371,008
Major Equipment	724,649	14,600	0	739,249
Total Depreciable	<u>\$ 2,200,238</u>	<u>\$ 14,600</u>	<u>\$ 0</u>	<u>\$ 2,214,838</u>
<u>Accumulated Depreciation:</u>				
Land Improvements	\$ (7,327)	\$ (2,092)	\$ 0	\$ (9,419)
Buildings	(788,501)	(23,035)	0	(811,536)
Major Equipment	(455,864)	(62,252)	0	(518,116)
Total Depreciation	<u>\$ (1,251,692)</u>	<u>\$ (87,379)</u>	<u>\$ 0</u>	<u>\$ (1,339,071)</u>
Net Depreciable Assets	<u>948,546</u>	<u>(72,779)</u>	<u>0</u>	<u>875,767</u>
Net Governmental Capital Assets	<u>\$ 973,446</u>	<u>\$ (72,779)</u>	<u>\$ 0</u>	<u>\$ 900,667</u>

HIGHWOOD SCHOOL DISTRICT NO. 4

NOTES TO THE FINANCIAL STATEMENTS (continued)  
Fiscal Year-Ended June 30, 2014

5. b. General capital asset depreciation expense was charged to governmental functions as follows:

<u>Function</u>	<u>Amount</u>
Instructional	\$ 8,104
Support	2,400
Operation & Maintenance	1,445
Transportation	24,210
School Food	1,335
Extracurricular	18,674
Unallocated	31,211
Total Depreciation Expense	<u>\$ 87,379</u>

NOTE 6. RISK MANAGEMENT

The School District is exposed to various types of risk of loss, including: a) damage to and loss of property and contents; b) employee torts; c) professional liability, i.e. errors and omissions; d) environmental damage; e) workers' compensation, i.e. employee injuries and f) medical insurance costs of employees. Several methods are used to provide insurance for these risks. Commercial policies, transferring all risks of loss, except for relatively small deductible amounts, are purchased for property and contents damage, employee torts, professional liabilities, and employee medical insurance. The district has joined with other districts throughout the state into an interlocal common risk pool to insure workers compensation for all participating districts in a self-insurance pool. The Workers Compensation Risk Retention Program is managed by a board of directors elected annually. Members are responsible for fully funding the Workers Compensation Risk Retention Program through the payment of annual premiums accessed. There is no other liability to the district other than timely payments of premiums. The district can withdraw from the Workers Compensation Risk Retention Program with 60 days' notice at any time. The District has no coverage for potential losses from environmental damages.

Levels of insurance have not changed materially from the prior year and settlements have not exceeded insurance coverage limits during the current or each of the two previous years.

NOTE 7. EMPLOYEE RETIREMENT SYSTEM

The School District participates in two state-wide, cost-sharing multiple employer defined benefit retirement plans which cover all School District employees, except certain substitute teachers and part-time, non-teaching employees. The Teachers' Retirement System (TRS) covers teaching employees, including administrators and aides. The Public Employee Retirement System (PERS) covers nonteaching employees. The plans are established under State law and are administered by the State of Montana.

Both plans issue publicly available annual reports that include financial statements and required supplemental in-formation for the plans. Those reports may be obtained from the following:

Teachers Retirement System  
P.O. Box 200139  
1500 Sixth Avenue  
Helena, MT 59620-0139  
Phone: 406-444-3134  
www.trs.doa.state.mt.us

Public Employees Retirement System  
P.O. Box 200131  
1712 Ninth Avenue  
Helena, MT 59620-0131  
Phone: 406-444-3154  
www.state.mt.us/doa/perb/prb.htm

The PERS defined benefit contribution rates for employees was 7.9%. The PERS rate for the State was set at .37%. For the defined contribution plan the rates are the same except only 4.19% of the employer amount is added to the employee account. Employees who elect the defined contribution plan are in control of their investments and the retirement is based upon the cash in their fund. The PERS rate for employers was 7.8%. The TRS rates for employees was 8.15% and the State was set at 2.49%. The TRS rate for employers was 8.47%. The State's contribution to the retirement system qualifies as an on-behalf payment and has not been reported in the District's financial statements.

Contribution rates for both plans are required and determined by State law. The amounts contributed to the plans during the years ended June 30, 2012, 2013 and 2014 were equal to the required contribution for each year. The amounts contributed by the State, District and its employees (including additional voluntary contributions by employees as permitted by State law) were as follows:

HIGHWOOD SCHOOL DISTRICT NO. 4

NOTES TO THE FINANCIAL STATEMENTS (continued)  
Fiscal Year-Ended June 30, 2014

	<u>2012</u>	<u>2013</u>	<u>2014</u>
TRS	\$ 106,525	\$ 110,736	\$ 122,652
PERS	<u>23,103</u>	<u>21,865</u>	<u>27,490</u>
Total	<u>\$ 129,928</u>	<u>\$ 132,601</u>	<u>\$ 150,142</u>

NOTE 8. CURRENT LIABILITIES

8. a. DUE TO OTHER GOVERNMENTS

<u>Elementary Fund</u>	<u>Amount</u>	<u>Due To</u>	<u>Reason</u>
Miscellaneous	<u>\$ 3,230</u>	Fort Benton SD	21st Century grant administered by Highwood

NOTE 9. CHANGES IN LONG-TERM DEBT

9. a. At June 30, 2014, the schedule of changes in general Long-Term debt follows:

<u>Governmental Activities</u>	<u>Balance</u> <u>July 1, 2013</u>	<u>New Debt</u> <u>and Other</u> <u>Additions</u>	<u>Principal</u> <u>Payments</u> <u>and Other</u> <u>Reductions</u>	<u>Balance</u> <u>June 30, 2014</u>	<u>Due within</u> <u>One Year</u>
<u>Other Liabilities:</u>					
Compensated Absences	\$ 43,931	\$ 2,626	\$ 0	\$ 46,557	\$ 11,639
Other Post-Employment Benefits (OPEB)	<u>10,968</u>	<u>2,742</u>	<u>0</u>	<u>13,710</u>	<u>0</u>
Total Other Liabilities	<u>\$ 54,899</u>	<u>\$ 5,368</u>	<u>\$ 0</u>	<u>\$ 60,267</u>	<u>\$ 11,639</u>
Total Governmental Activities - Long-Term Debt:	<u>\$ 54,899</u>	<u>\$ 5,368</u>	<u>\$ 0</u>	<u>\$ 60,267</u>	<u>\$ 11,639</u>

NOTE 10. DEFERRED INFLOWS OF RESOURCES

10. a. PROPERTY TAXES

<u>Elementary Fund</u>	<u>Amount</u>	<u>Reason</u>
General*	\$ 25,042	Taxes Receivable
Transportation*	5,065	Taxes Receivable
Bus Depreciation*	829	Taxes Receivable
Technology	645	Taxes Receivable
Flexibility	1	Taxes Receivable
Building Reserve*	<u>3,554</u>	Taxes Receivable
Total	<u>\$ 35,136</u>	

\* Denotes Major Funds

NOTE 11. OTHER POST EMPLOYMENT BENEFITS

Plan Description - The District provides the same health care plan to all of its members. The implicit subsidy is \$8,716 per member. The District had fewer than 100 plan participants and thus qualified to use an Alternative Measurement Method instead of an actuarial valuation to determine the OPEB liability. Valuations involve estimates of the reported amounts and assumptions about the probability of events far into the future and estimated amounts are subject to continued revision as actual results are compared with past expectations and new estimates are made about the future. Projections of benefits for the plan are based on types of benefits provided under the current plan. The valuation assumed that 5% of plan participants would elect to continue coverage after retirement.

Funding Policy - The government pays OPEB liabilities on a pay as you go basis. The trust fund for future liabilities has not been established.

Funding status and progress as of June 30, 2014 was as follows:

HIGHWOOD SCHOOL DISTRICT NO. 4

NOTES TO THE FINANCIAL STATEMENTS (continued)  
Fiscal Year-Ended June 30, 2014

Actuarial Accrued Liability (AAL)	\$ 32,767
Actuarial value of plan assets	<u>0</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u>32,767</u>
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	\$ 964,830
UAAL as a percentage of covered payroll	3.4%

Annual OPEB Cost and Net OPEB Obligations - The government's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount determined in accordance with the parameter of GASB statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed (30) years. The following table shows the components of the government's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the government's net OPEB obligation for the valuation performed at July 1, 2012.

Annual Required Contribution (ARC)	\$ 2,742
Interest on net OPEB obligation	0
Adjustment to ARC	<u>0</u>
Annual OPEB cost (expense)	2,742
Contribution made	<u>0</u>
Increase in net OPEB obligation	2,742
Net OPEB obligation - beginning of year	<u>10,968</u>
Net OPEB obligation - end of year	<u>\$ 13,710</u>

Actuarial Methods and Assumptions - The following actuarial methods and assumptions were used:

Actuarial Cost Method	Unit Credit Cost Method
Average age of retirement (based on historical data)	62
Discount rate (average anticipated rate)	5.5%
Average Salary Increase	2.4%
Health care cost rate trend	
Year	% Increase
2015 and after	3.0%

NOTE 12. OTHER COMMITMENTS

12. a. 1 ENCUMBRANCES

The District's encumbrance policy is for fiscal year end encumbrances exceeding \$1,000 to be considered significant encumbrances. All encumbrances are classified as committed in the funds noted below:

<u>Elementary Fund</u>	<u>Amount</u>
General*	\$ 1,637
Miscellaneous	<u>16,765</u>
Total	<u>\$ 18,402</u>

\* Denotes Major Funds

NOTE 13. COOPERATIVE

13. a. SPECIAL EDUCATION

The Highwood School District No. 4 is a member of the Chouteau County Special Education Cooperative, a Special Education Cooperative. The financial records of the Cooperative are prepared and maintained by the Cooperative Clerk. The financial records of the Cooperative are separate from those of Highwood School District No. 4, and the financial statements of the Cooperative are not included in the School Districts' financial statements. The Cooperative's financial statements are audited separately from those of the District. All revenue received, including Federal, State, or other types of grant payments, and the financial support provided by each of the Cooperative's members are deposited into the Cooperative's funds, which are maintained in the custody of the Chouteau County Treasurer. The Superintendent of Public Instruction may directly deposit to the Cooperative the State and Federal portion of any participating member District's budgeted costs for contracted special education services. All capital assets of the Cooperative are included in the Cooperative's financial statements.

HIGHWOOD SCHOOL DISTRICT NO. 4

NOTES TO THE FINANCIAL STATEMENTS (continued)  
Fiscal Year-Ended June 30, 2014

A Joint Board of Directors governs the Cooperative. The Joint Board has the power to set policies, enter into contracts, review the performance of the Cooperative annually, review the financial management of the Cooperative annually, and set and approve the annual fiscal budget of the Cooperative.

NOTE 14. PRIOR PERIOD ADJUSTMENTS

<u>Fund</u>	<u>Amount</u>	<u>REASON</u>
General*	\$ 6,556	To include the Flexibility fund in the general fund due to similar spending limitations.
Flexibility	(6,539)	As noted above.
Inter-local Agreement	<u>(17)</u>	As noted above.
Total	<u>\$ 0</u>	

HIGHWOOD SCHOOL DISTRICT NO. 4

SCHEDULE OF FUNDING PROGRESS  
 Other Post-Employment Benefits Other Than Pensions (OPEB)  
 Fiscal Year-Ended June 30, 2014

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a / b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll [(b-a) / c]</u>
<u>7/1/2009</u>	<u>\$ 0</u>	<u>\$ 139,565</u>	<u>\$ 139,565</u>	<u>\$ 0</u>	<u>\$ 859,761</u>	<u>16%</u>
Re-evaluation was done to lower participation rate from 100% to 5% which is the trend for the District						
<u>7/1/2012</u>	<u>\$ 0</u>	<u>\$ 32,767</u>	<u>\$ 32,767</u>	<u>\$ 0</u>	<u>\$ 964,830</u>	<u>3.4%</u>

Highwood School District No. 4  
 Chouteau County  
 Highwood, MT 59450

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
 (Budget and Actual)  
 ALL BUDGETED MAJOR GOVERNMENTAL FUNDS  
 as of June 30, 2014

	General Fund			Transportation		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
<b>REVENUES:</b>						
District Levies	\$ 372,808	\$ 372,808	\$ 374,509	\$ 81,289	\$ 81,289	\$ 80,663
Interest	164	164	75	-	-	34
County	-	-	-	26,479	26,479	25,734
State	771,704	771,704	771,696	26,479	26,479	29,685
<b>Total Revenues</b>	<b>1,144,676</b>	<b>1,144,676</b>	<b>1,146,279</b>	<b>134,247</b>	<b>134,247</b>	<b>136,116</b>
<b>EXPENDITURES:</b>						
<b>Current</b>						
Instructional Services			634,705	-	-	-
Educational Media Services			23,289	-	-	-
General Administrative Services			185,617	43,490	43,490	43,490
Operation & Maintenance Services			139,693	8,790	8,790	8,790
Transportation Services			21,156	94,204	94,204	92,795
School Food Services			60,854	-	-	-
Extracurricular			79,359	-	-	-
<b>Total Current Outlays</b>			<b>1,144,673</b>	<b>146,484</b>	<b>146,484</b>	<b>145,074</b>
Capital Outlay			-	-	-	-
<b>Total Expenditures</b>	<b>1,144,676</b>	<b>1,144,676</b>	<b>1,144,673</b>	<b>146,484</b>	<b>146,484</b>	<b>145,074</b>
<b>NET CHANGES IN FUND BALANCES</b>	<b>-</b>	<b>-</b>	<b>1,606</b>	<b>(12,237)</b>	<b>(12,237)</b>	<b>(8,958)</b>
<b>FUND BALANCE:</b>						
Beginning of the Year			122,521			35,624
End of the Year			<b>\$ 124,127</b>			<b>\$ 26,666</b>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

Highwood School District No. 4  
 Chouteau County  
 Highwood, MT 59450

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
 (Budget and Actual)  
 ALL BUDGETED MAJOR GOVERNMENTAL FUNDS  
 as of June 30, 2014

	Bus Depreciation			Flexibility Fund		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
<b>REVENUES:</b>						
District Levies	\$ 9,599	\$ 9,599	\$ 10,095	\$ -	\$ -	\$ -
Interest	-	-	84	-	-	17
County	-	-	-	-	-	-
State	-	-	-	5,248	5,248	5,248
<b>Total Revenues</b>	<u>9,599</u>	<u>9,599</u>	<u>10,179</u>	<u>5,248</u>	<u>5,248</u>	<u>5,265</u>
<b>EXPENDITURES:</b>						
<b>Current</b>						
Instructional Services			-			-
Educational Media Services			-			-
General Administrative Services			-			-
Operation & Maintenance Services			-			-
Transportation Services			-			-
School Food Services			-			-
Extracurricular			-			-
<b>Total Current Outlays</b>			-			-
Capital Outlay	44,904	44,904	-			-
<b>Total Expenditures</b>	<u>44,904</u>	<u>44,904</u>	<u>-</u>	<u>11,787</u>	<u>11,787</u>	<u>-</u>
<b>NET CHANGES IN FUND BALANCES</b>	(35,305)	(35,305)	10,179	(6,539)	(6,539)	5,265
<b>FUND BALANCE:</b>						
Beginning of the Year			35,305			6,539
End of the Year			<u>\$ 45,484</u>			<u>\$ 11,804</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

HIGHWOOD SCHOOL DISTRICT NO. 4

NOTES TO THE BUDGET VS ACTUAL SCHEDULE  
Fiscal Year-Ended June 30, 2014

NOTE 1. BUDGETS

1. a. BUDGETS

Budgets are adopted on a basis consistent with the State of Montana budget laws which are consistent with generally accepted accounting principles (GAAP). Annual appropriated budgets are adopted for the general fund, budgeted special revenue funds including (Transportation, Bus Depreciation, Retirement, Technology, Flexibility), and budgeted capital project funds (Building Reserve). All annual appropriations lapse at fiscal year-end, unless the School District elects to encumber supplies and personal property ordered but not received at year end.

1. a. 1 General Budget Policies:

The School District's funds are either budgeted or non-budgeted in accordance with State statutes. Budgeted funds are those of which a legal budget must be adopted to have expenditures from such funds and are noted above. All other funds are non-budgeted, meaning a legal budget is not required in order to spend the cash balance of such a fund. The Schedule of Revenues, Expenditures, and Changes in Fund Balances, Budget vs. Actual, has been prepared on the modified accrual basis of accounting and contains financial information for only the major general and special revenue fund budgeted funds. The major fund building reserve is not included in the schedule because it is not a special revenue fund.

1. a. 2 Budget Operation:

The School District operates within the budget requirements for School Districts as specified by State law. The financial report reflects the following budgetary standards:

- By the second Monday in July, the County Assessor transmits a statement of the assessed valuation and taxable valuation of all property in the School District's borders.
- Before the fourth Monday in July, the County Superintendent estimates the revenue required for each fund.
- Before the fourth Monday in August, the Board of Trustees must meet to legally adopt the final budget. The final budget for the general fund is fund total only.
- Once adopted, the budget can be amended by subsequent Board action. An increase of the total budget of a given fund requires the adoption of an amended budget in accordance with State statutes.
- According to State statutes, the expenditures of a budgeted fund may not legally exceed the adopted budget.
- At the end of a fiscal year, unencumbered appropriations lapse unless specifically obligated by the School District.

NOTE 2. FUND BALANCE RECONCILIATION

The fund balances of the general fund displayed on the Statement of Revenue, Expenditures, and Changes in Fund Balances is differently displayed on the Schedule of Revenues, Expenditures, and Changes in Fund Balance (Budget and Actual) by \$1,637. This is due to the reserve for encumbrances. Encumbrances are not included as expenditures on the first statement as they do not meet the GAAP definition of expenditures. The District reports encumbrances at year end as budgeted expenditures and displays these amounts as assigned or reserve of fund balances, as applicable.

HIGHWOOD SCHOOL DISTRICT NO. 4

NOTES TO THE BUDGET VS ACTUAL SCHEDULE (continued)  
Fiscal Year-Ended June 30, 2014

NOTE 3. COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE ALL SUB-FUNDS OF THE GENERAL FUND

	<u>Sub-fund</u> <u>General</u> <u>Fund</u>	<u>Sub-fund</u> <u>Flexibility</u> <u>Fund</u>	<u>Sub-fund</u> <u>Inter-local</u> <u>Fund</u>	<u>Total</u> <u>General</u> <u>Fund</u>
<b>REVENUES:</b>				
District Levies	\$ 374,509	\$ 0	\$ 0	\$ 374,509
Interest Earnings	75	18	0	93
State Sources	<u>771,696</u>	<u>5,248</u>	<u>0</u>	<u>776,944</u>
Total Revenues	<u>\$ 1,146,280</u>	<u>\$ 5,265</u>	<u>\$ 0</u>	<u>\$ 1,151,545</u>
<b>EXPENDITURES:</b>				
Instructional Services	635,778	0	0	635,778
Educational Media	23,289	0	0	23,289
General Administrative	185,617	0	0	185,617
Operation & Maintenance	139,693	0	0	139,693
Transportation	21,156	0	0	21,156
Extracurricular	79,359	0	0	79,359
School Food	<u>60,854</u>	<u>0</u>	<u>0</u>	<u>60,854</u>
Total Expenditures	<u>\$ 1,145,746</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,145,746</u>
Net Changes In Fund Balance	534	5,265	0	5,799
<b>FUND BALANCE:</b>				
Beginning of the Year	125,231	0	0	125,231
Prior Period Adjustment	<u>0</u>	<u>6,539</u>	<u>17</u>	<u>6,556</u>
Ending of the Year	<u>125,765</u>	<u>11,804</u>	<u>17</u>	<u>137,586</u>

In the reconciliation the general fund, flexibility fund, and inter-local agreement fund are added together to get to the aggregate general fund shown as a major fund on the Statement of Revenues, Expenditures, and Changes in Fund Balance Governmental Funds. The flexibility fund, and inter-local agreement fund are maintained as special revenue funds for accounting purposes, however, for external financial reporting they are added to the general fund because they have unassigned fund balance like the general fund.

On the Statement of Revenues, Expenditures, and Changes in Fund Balance (Budget and Actual) All Budgeted Major Governmental Funds the general fund and flexibility fund are shown because they are reported as major funds and have legally adopted budgets. The inter-local agreement fund is a non-budgeted fund.

HIGHWOOD SCHOOL DISTRICT NO. 4

SCHEDULE OF REPORTED ENROLLMENT  
Fiscal Year-Ended June 30, 2014

FALL ENROLLMENT - OCTOBER, 2013

Elementary			
	<u>Reported</u>	<u>Audited</u>	<u>Variance</u>
Kindergarten Full	5	5	0
Grade 1 - 6	49	49	0
Grade 7 - 8	9	9	0
Total	<u>63</u>	<u>63</u>	<u>0</u>

High School			
	<u>Reported</u>	<u>Audited</u>	<u>Variance</u>
Grade 9 - 12	<u>26</u>	<u>26</u>	<u>0</u>

Part-time Students			
Less than 181 hours	0	0	0
Less than 359 hours	0	0	0
Less than 539 hours	0	0	0
Less than 719 hours	<u>2 Kinder</u>	<u>2 Kinder</u>	<u>0</u>
Total Part-time	<u>2</u>	<u>2</u>	<u>0</u>
19 year olds	<u>0</u>	<u>0</u>	<u>0</u>

WINTER ENROLLMENT - DECEMBER, 2013

Elementary			
	<u>Reported</u>	<u>Audited</u>	<u>Variance</u>
Kindergarten Full	5	5	0
Grade 1 - 6	45	45	0
Grade 7 - 8	7	7	0
Total	<u>57</u>	<u>57</u>	<u>0</u>

High School			
	<u>Reported</u>	<u>Audited</u>	<u>Variance</u>
Grade 9 - 12	<u>26</u>	<u>26</u>	<u>0</u>

Part-time Students			
Less than 181 hours	0	0	0
Less than 359 hours	0	0	0
Less than 539 hours	0	0	0
Less than 719 hours	<u>2 Kinder</u>	<u>2 Kinder</u>	<u>0</u>
Total Part-time	<u>2</u>	<u>2</u>	<u>0</u>
19 year olds	<u>0</u>	<u>0</u>	<u>0</u>

SPRING ENROLLMENT - FEBRUARY, 2014

Elementary			
	<u>Reported</u>	<u>Audited</u>	<u>Variance</u>
Kindergarten Full	5	5	0
Grade 1 - 6	45	45	0
Grade 7 - 8	7	7	0
Total	<u>57</u>	<u>57</u>	<u>0</u>

High School			
	<u>Reported</u>	<u>Audited</u>	<u>Variance</u>
Grade 9 - 12	<u>27</u>	<u>27</u>	<u>0</u>

Part-time Students			
Less than 181 hours	0	0	0
Less than 359 hours	0	0	0
Less than 539 hours	<u>2 Kinder</u>	<u>2 Kinder</u>	<u>0</u>
Less than 719 hours	<u>2</u>	<u>2</u>	<u>0</u>
Total Part-time	<u>0</u>	<u>0</u>	<u>0</u>
19 year olds	<u>0</u>	<u>0</u>	<u>0</u>

HIGHWOOD SCHOOL DISTRICT NO. 4

SCHEDULE OF REVENUES, EXPENSES AND BALANCES EXPENDABLE TRUST – STUDENT ACTIVITY FUNDS  
Fiscal Year-Ended June 30, 2014

<u>Activity Account Name</u>	<u>Beginning Balance 7/1/2013</u>	<u>Revenues</u>	<u>Expenses</u>	<u>Transfers</u>	<u>Ending Balance 6/30/2014</u>
ATHLETIC	16,692	30,196	24,985	(1,760)	20,143
SPEECH & DRAMA	318	-	90	-	228
TOWEL FUND	989	360	245	95	1,199
6 MAN FOOTBALL	-	12,081	12,081	-	-
CLASS OF 2014	2,366	592	2,350	(608)	-
CLASS OF 2015	3,600	855	1,907	-	2,548
CLASS OF 2016	3,000	-	-	-	3,000
CLASS OF 2017	-	-	-	3,500	3,500
SENIOR POP A SHOT	678	245	38	-	885
CONCESSIONS	3,570	15,595	8,069	(6,981)	4,116
BOX TOP EDUCATION	1,064	362	-	-	1,426
ELEMENTARY K-5	659	1,327	1,415	-	572
5TH GRADE CLASS	311	-	-	-	311
MIDDLE SCHOOL	1,707	4,065	4,873	(300)	599
CLOSE UP	5,413	17,733	17,956	6	5,197
DRILL TEAM	40	-	-	-	40
NHS	462	-	-	-	462
STUDENT COUNCIL	6,245	16,702	15,239	(2,038)	5,670
YEARBOOK	2,848	2,383	2,740	-	2,491
DRAMA	60	-	-	-	60
MUSIC ACTIVITIES	680	53	232	-	501
SCOREBOARDS	-	-	1,760	1,760	-
INCENTIVES FUND	138	20	50	-	108
RECYCLING CENTER	2,578	67	116	-	2,530
HAAA	95	-	-	(95)	-
MUSIC-MCT	552	-	-	-	552
MASC	<u>13,399</u>	<u>28,128</u>	<u>37,397</u>	<u>6,420</u>	<u>10,549</u>
Total	<u>\$ 67,465</u>	<u>\$ 130,765</u>	<u>\$ 131,544</u>	<u>\$ -</u>	<u>\$ 66,686</u>

STROM & ASSOCIATES, PC  
Certified Public Accountants  
P.O. Box 1980  
Billings, Montana 59103

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

INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Highwood School District No. 4  
Chouteau County  
Highwood, MT 59450

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Highwood School District No. 4 as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Highwood School District No. 4's basic financial statements and have issued our report thereon dated November 10, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Highwood School District No. 4's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

*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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Highwood School District No. 4's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Strom & Associates, P.C.*

STROM & ASSOCIATES, PC  
Billings, Montana  
November 10, 2014

STROM & ASSOCIATES, PC  
Certified Public Accountants  
P.O. Box 1980  
Billings, Montana 59103

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SCHEDULE OF FINDINGS AND RESPONSES

There were no findings or recommendations in the prior audit report or in the current audit report.