

GALLATIN GATEWAY PUBLIC SCHOOL

GALLATIN COUNTY, MONTANA

Fiscal Year Ended June 30, 2018

AUDIT REPORT

Denning, Downey & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

GALLATIN GATEWAY PUBLIC SCHOOL

GALLATIN COUNTY, MONTANA

Fiscal Year Ended June 30, 2018

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GALLATIN GATEWAY PUBLIC SCHOOL

GALLATIN COUNTY, MONTANA

ORGANIZATION

Fiscal Year Ended June 30, 2018

BOARD OF TRUSTEES

Aaron Schwieterman
Julie Fleury
Carissa Paulson
Lessa Racow
Donna Shockley

Board Chair
Vice Chair
Trustee
Trustee
Trustee

DISTRICT OFFICIALS

Travis Anderson
Carrie Fisher
Marty Lambert
Matthew Henry

District Superintendent
Business Manager
County Attorney
County Superintendent

Gallatin Gateway Public School
Management's Discussion and Analysis
For Fiscal Year Ending June 30, 2018

Introduction

This section of the Gallatin Gateway School District Financial Statements presents the management's discussion and analysis of the financial performance during the fiscal year ending June 30, 2018. This narrative overview and analysis of the financial activities of the Gallatin Gateway District includes a comparison of prior year financial statements as per compliance with Governmental Accounting Standards Board Statement #34. Readers of the management's discussion and analysis are encouraged to consider the information presented in this section as well as other areas of the financial statements.

Financial Highlights

- The Gallatin Gateway School District assets and deferred outflows exceeded liabilities and deferred inflows in FY (fiscal year) 2018 by \$584,525.
- The district net position increased by \$98,054 at the close of FY 2018 mostly due to more revenue than expenses.
- The overall revenues from all sources for the district for the FY 2018 were \$1,888,542 which represented a .3% increase from FY 2017.
- Revenue from district levies collected at the local level increased by 12.8% in FY 2018 and accounts for 41.6% (was 36.7% in FY 2017) of the total district revenue. All sources of state revenue decreased 14.8% in FY 2018 and was 35.4% (was 41.2% in FY 2017) of the total district revenue.
- District expenses increased 10.6% or (\$173,992) for FY 2018 which was largely due to an increase in instructional expenses of \$100,764.
- The Gallatin Gateway District revenues exceeded expenses for FY 2018 by \$78,454.
- The net investment in capital assets of the district increased 9.4% due to a long term capital debt payment of \$100,000 along with the improvements to the building (\$35,949), a Chromebook Lab (\$7,125), and the purchase and installation of video cameras (\$11,512) during FY 2018.
- District expenses for instruction account for 53.4% of the total expenses.
- The district governmental fund balances increased 6.8% in FY 2018 and were \$606,807.
- Total district liabilities decreased 7.6% in FY 2018 mainly due to a debt payment of \$100,000 for improvements to school buildings and grounds.
- The overall financial condition of the Gallatin Gateway School District is good and continued to improve in FY 2018 with a 20% increase in net position.

Overview of the Gallatin Gateway District Financial Statements

The management's discussion and analysis report is intended to serve as an introduction to the basic financial statements of the Gallatin Gateway K-8 School District. The basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. It also, contains other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the Gallatin Gateway District finances in a manner similar to a private-sector business. This broad overview is accomplished using a *statement of net position* and a *statement of activities*. Each statement distinguishes between governmental and business type activities and between the total governmental and business type activities of the school district.

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The *statement of net position* presents information on all of the assets and liabilities of the Gallatin Gateway District, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Gallatin Gateway District is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Gallatin Gateway District principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). Most services normally associated with school government fall into the governmental activity category including instruction, support services, general, school and business administrative services, operation and maintenance, student transportation, community services, and other expenditures. The Gallatin Gateway District does not operate any business-type activities.

Fund-based Financial Statements

Fund-based financial statements, consisting of a series of statements, provide information about government's major and non-major governmental funds. These governmental fund financial statements are prepared using the current financial resources measurement focus and modified accrual basis of accounting. The governmental fund statements consist of the balance sheet and statement of revenues, expenditures, and change in fund balance.

A *fund* is a group of related accounts used to maintain control over resources segregated for specific activities or objectives. The Gallatin Gateway District, like other state and local governments, use fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Gallatin Gateway District can be divided into three categories: governmental, proprietary, and fiduciary funds.

Governmental funds

Governmental funds are used to account for essentially the same function reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term *inflows and outflows of spendable resources*, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the near-term financing decisions of the Board of Trustees of the Gallatin Gateway School District. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Gallatin Gateway District is recognized by state law and consists of the Gallatin Gateway School (grades K-8). Major governmental funds are reported separately and all other funds are combined for this report. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Retirement Fund, Debt Service Fund, Bus Depreciation Fund, and Building Reserve Fund because they were the major funds for the 2018 fiscal year. The other governmental funds are combined into a single aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The Gallatin Gateway District adopts an annual appropriated budget for its general funds, select special revenue, debt service, and building reserve funds as required by state law. A budgetary comparison is provided for all budgeted funds later in this report.

Fiduciary funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. These funds may include pension and employee benefit trust funds where resources are held in trust for employee benefit plans. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the programs of the district. Student activity accounts and scholarship trusts are the most common fiduciary funds in school districts. The Gallatin Gateway District has fiduciary funds in their Private Purpose Trust Fund (Student Activity Account) which has a cash balance of \$24,461 at the end of FY 2018.

Notes to the Financial Statements

The notes to the financial statements provide additional information that can be very helpful to a full understanding of the data provided in the government-wide and fund financial statements and can be found later in this report.

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Management's Discussion and Analysis
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Other information

In addition to the basic financial statements and the accompanying notes, this report also presents certain *required supplementary information* concerning the official student enrollment and federal grant audit reports.

Overall District Financial Position and Analysis

As noted earlier, net position may serve over time as a useful indicator of the financial position of the district. In the case of the Gallatin Gateway School District, assets and deferred outflows exceeded liabilities and deferred inflows by \$584,525 at the close of FY 2018. Net position for the district at the end of FY 2018 increased 20% or \$98,054 mostly due to more revenue than expenses. The overall revenues from all sources for the district for the FY 2018 were \$1,888,542 which represented a .3% increase from FY 2017. Revenue from district levies collected at the local level increased by 12.8% in FY 2018 and accounts for 41.5% (was 36.7% in FY 2017) of the total district revenue. All sources of state revenue decreased 14.8% in FY 2018 and was 35.4% (was 41.2% in FY 2017) of the total district revenue. District expenses increased 9.6% or (\$173,992) for FY 2018 which was largely due to an increase in instructional expenses of \$100,764. The Gallatin Gateway District revenues exceeded expenses for FY 2018 by \$78,454. The district governmental fund balances increased 6.8% in FY 2018 and were \$606,807. The net investment in capital assets of the district increased 9.4% due to a long term capital debt payment of \$100,000 along with the improvements to the building (\$35,949), a Chromebook Lab (\$7,125), and the purchase and installation of video cameras (\$11,512) during FY 2018. The Gallatin Gateway School District has long-term liabilities of \$1,379,571 which includes bonded debt outstanding of \$335,000 for improvements to buildings and grounds. In addition, the district had long-term liabilities of \$105,900 for compensated absences of employees, \$1,110,505 for the TRS and PERS portion of net pension liability, and Other Post-Employment Benefits (OPEB) of \$29,174. Overall the total district liabilities decreased 7.6% in FY 2018 mainly due to a debt payment of \$100,000. Overall in FY 2018 the district had more revenue than expenses, which increased the district's net position and improved the financial condition. The overall financial position of the district is good and continued to improve in FY 2018 (up 20%). In addition, enrollment in recent years has increased in the lower grades as shown by a 15 student increase in grades K-6 from 2016-2017 to the 2017-2018 school year. The increase in enrollment in the district is another positive indicator of the health of the district which should translate into additional funding in the future. The chart on the following page presents information on the district net position for FY 2017 and FY 2018. The right hand column shows the percentage change in each category.

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Net Position of the District

	Governmental Activities		
	<u>FY18</u>	<u>FY17</u>	<u>Change Inc (Dec)</u>
Current and other assets	\$ 780,495	\$ 778,737	\$ 1,758
Capital assets	1,446,143	1,451,053	(4,910)
Total assets	\$ 2,226,638	\$ 2,229,790	\$ (3,152)
Long-term debt outstanding	\$ 470,074	\$ 553,464	\$ (83,390)
Other liabilities	1,172,039	1,189,855	(17,816)
Total liabilities	\$ 1,642,113	\$ 1,743,319	\$ (101,206)
Net investment in capital assets	\$ 1,111,143	\$ 1,016,053	\$ 95,090
Restricted	403,420	336,079	67,341
Unrestricted (deficit)	(930,038)	(865,661)	(64,377)
Total net position	\$ 584,525	\$ 486,471	\$ 98,054

A large portion of the net position (\$1,111,143) of the Gallatin Gateway District at the close of FY 2018 reflects the investment by the school district in capital assets such as land, buildings, machinery, and equipment. The capital assets of the Gallatin Gateway District have related debt. The Gallatin Gateway District uses these capital assets to provide educational and related services to students; and as a result, these assets are not available for future spending. The net investment in capital assets of the district increased 9.4% due to a long term capital debt payment of \$100,000 along with the improvements to the building (\$35,949), a Chromebook Lab (\$7,125), and the purchase and installation of video cameras (\$11,512) during FY 2018.

Another portion of the net position of the Gallatin Gateway District represents *unrestricted funds* which may be used to meet the ongoing obligations of the school district to citizens and creditors. The district has a negative balance of unrestricted funds mostly due to the addition of net pension liability in FY 2015 to the district financial statements. The unrestricted funds decreased \$64,377 from FY 2017 to FY 2018. The *restricted funds* which are subject to external restrictions on their use increased \$67,341 from FY 2017 and FY 2018. The Gallatin Gateway District was able to report a positive balance of net position in FY 2018. The net position of the Gallatin Gateway District increased \$98,054 or 20% during FY 2018 and was \$584,525.

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District Wide - Statement of Activities

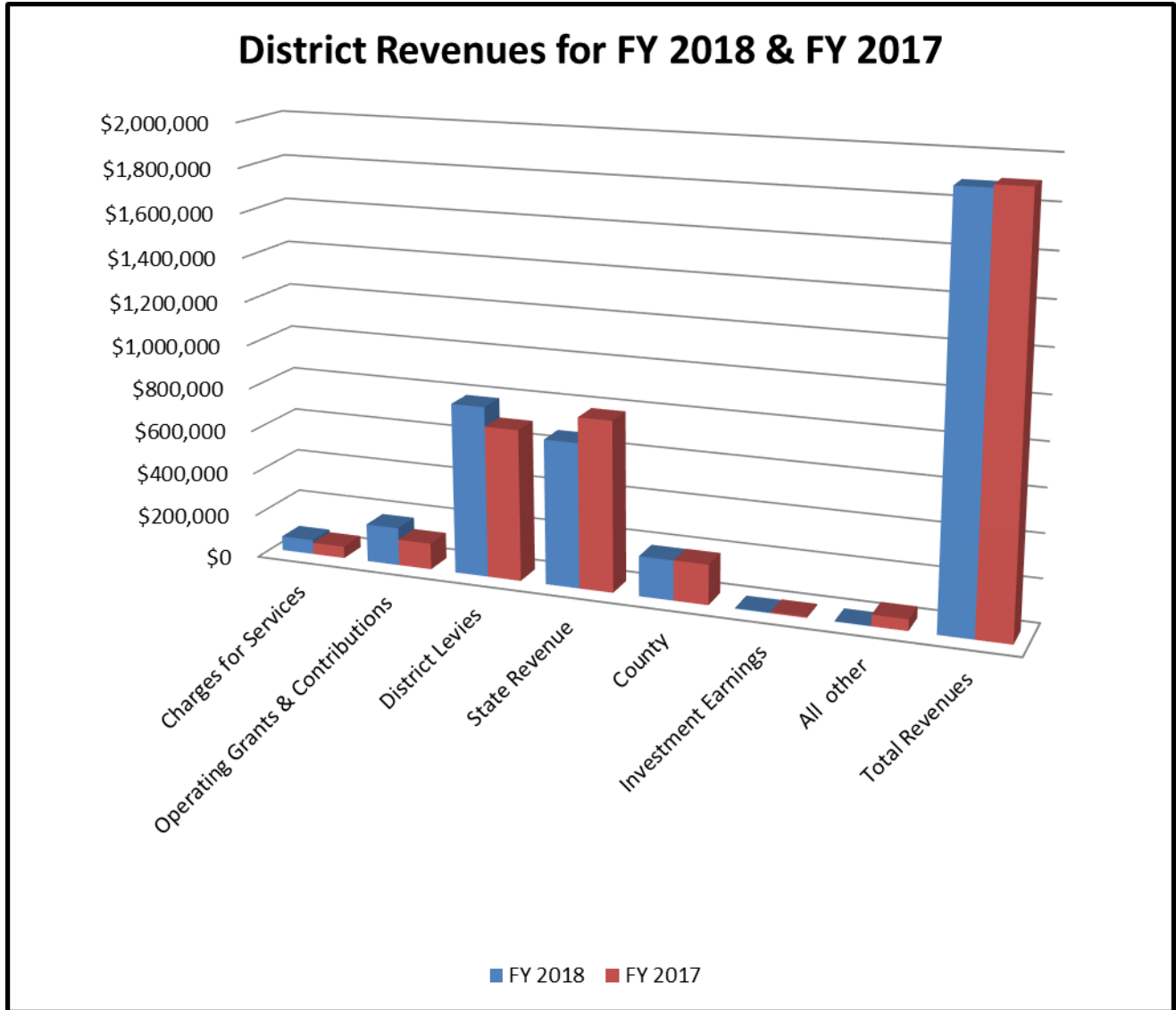
	Governmental Activities		
	<u>FY18</u>	<u>FY17</u>	<u>Change Inc (Dec)</u>
Revenues			
<i>Program revenues (by major source):</i>			
Charges for services	\$ 67,026	\$ 54,464	\$ 12,562
Operating grants and contributions	176,303	121,591	54,712
<i>General revenues (by major source):</i>			
Property taxes for general purposes	787,326	697,826	89,500
Grants and entitlements not restricted to specific programs	644,966	672,817	(27,851)
Other state grants	12,230	31,387	(19,157)
Investment earnings	3,276	6,475	(3,199)
Miscellaneous (other revenue)	1,904	32,586	(30,682)
State entitlement (block grants)	10,842	78,806	(67,964)
State technology	-	1,060	(1,060)
County retirement	184,669	185,198	(529)
Total revenues	<u>\$ 1,888,542</u>	<u>\$ 1,882,210</u>	<u>\$ 6,332</u>
Program expenses			
Instructional - regular	\$ 854,056	\$ 768,501	\$ 85,555
Instructional - special education	109,046	87,407	21,639
Instructional - vocational education	3,567	-	3,567
Instructional - adult education	321	10,318	(9,997)
Supporting services - operations & maintenance	195,674	178,121	17,553
Supporting services - general	41,593	40,872	721
Supporting services - educational media services	38,085	34,216	3,869
Administration - general	39,483	66,197	(26,714)
Administration - school	125,607	71,000	54,607
Administration - business	93,908	99,067	(5,159)
Student transportation	91,316	83,391	7,925
Extracurricular	26,248	37,213	(10,965)
School food	133,334	104,384	28,950
Community services	-	60	(60)
Debt service expense - interest	14,065	16,515	(2,450)
Unallocated depreciation*	43,785	38,834	4,951
Total expenses	<u>\$ 1,810,088</u>	<u>\$ 1,636,096</u>	<u>\$ 173,992</u>
Excess (deficiency) before special items and transfers	78,454	246,114	(167,660)
Increase (decrease) in net position	<u>\$ 78,454</u>	<u>\$ 246,114</u>	<u>\$ (167,660)</u>

Major changes in district wide governmental activities from FY 2017 to FY 2018 include:

- Total expenses for the district were up 9.6% or \$173,992 largely due to an increase of \$100,764 in instructional expenditures.
- Operating grants and contribution revenue was up 44.9% or \$54,712 in FY 2018.
- State revenue was down 14.8% or \$116,032.
- Instruction expenses were up 11.6% or \$100,764 in FY 2018.
- District levy revenue was up 12.8% or \$89,500.
- The district had a \$74,454 more in revenue than expenses in FY 2018.
- Net position for the district increased 20% in FY 2018 and was a positive \$584,525.

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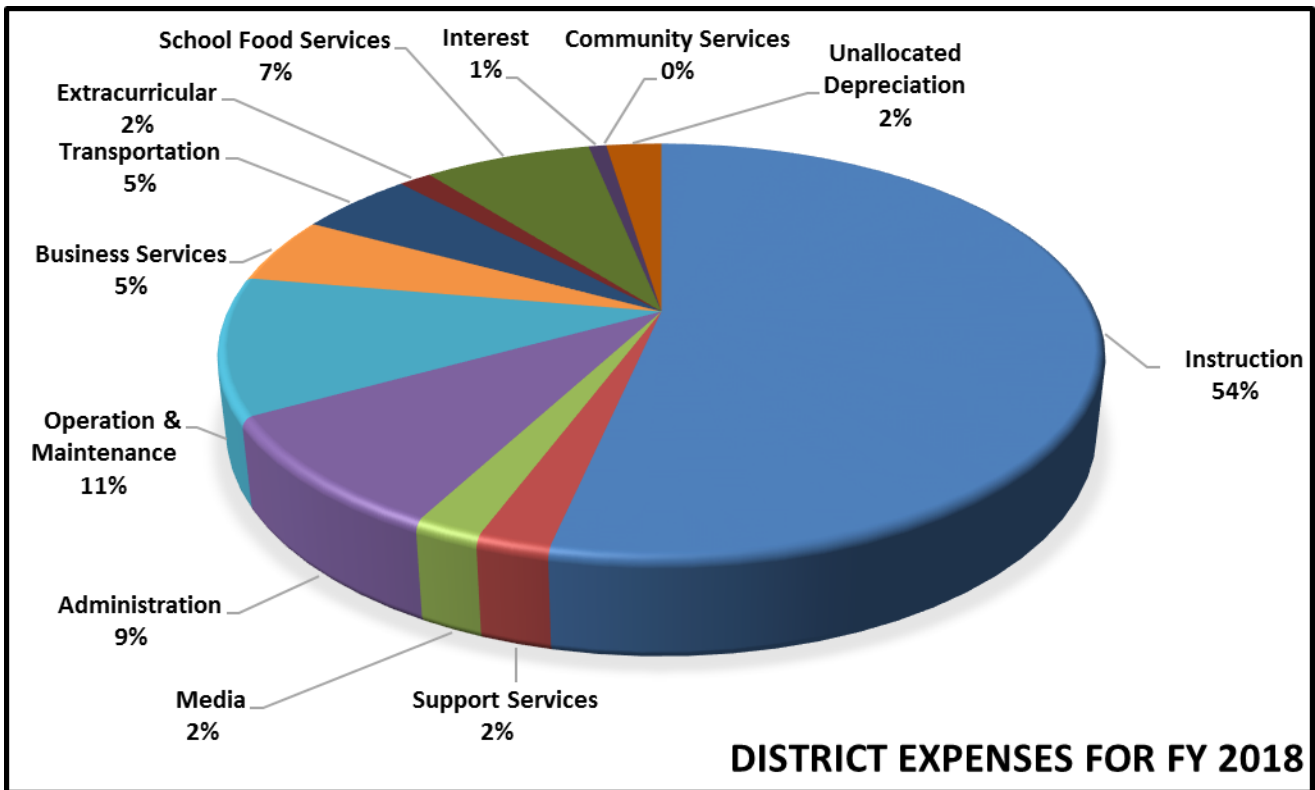
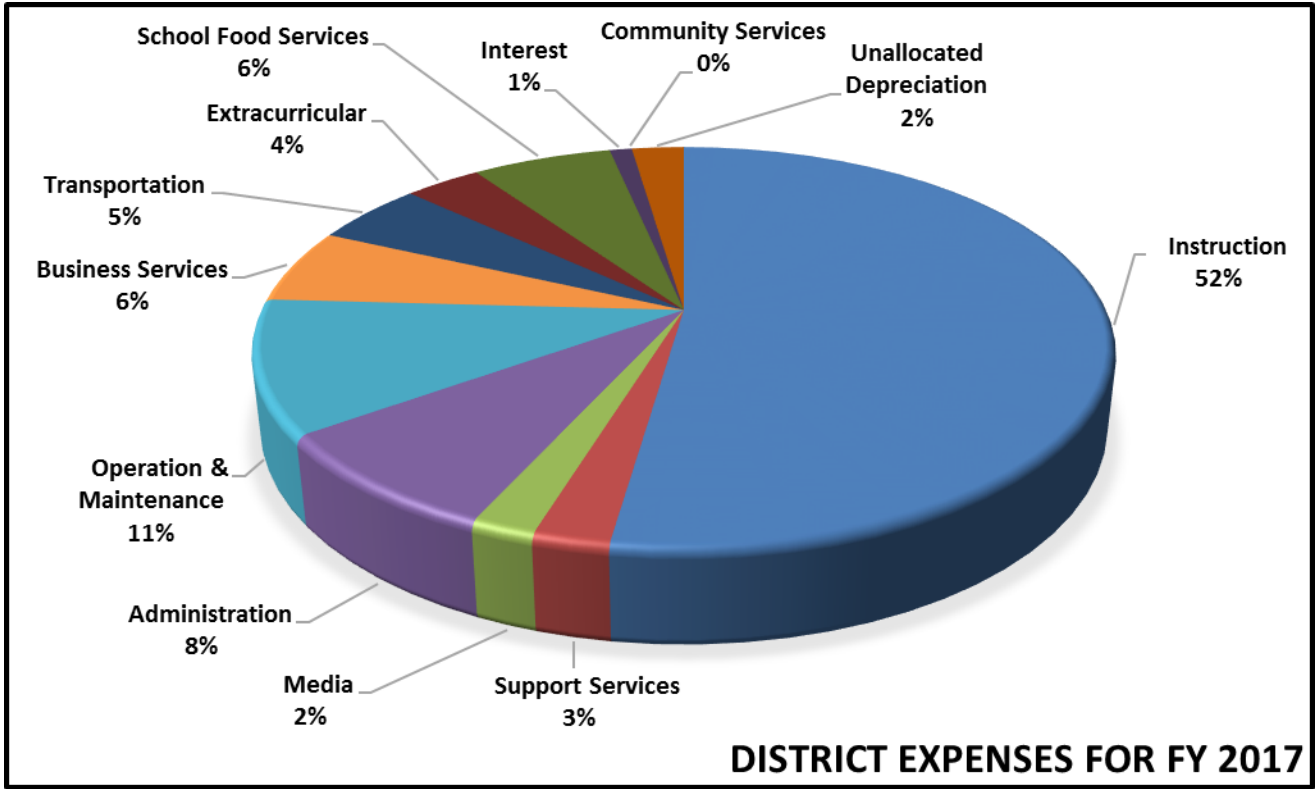
Revenue by Source for FY 2018 and FY 2017



The bar graph presented above shows that revenue from district levies was the largest source for the Gallatin Gateway District in FY 2018 followed by state revenue and county revenue. The major changes from FY 2017 to FY 2018 were increases in revenue from district levies and operating grants/contributions along with decreases in revenue from state sources and all other revenue. Total revenue was down slightly in FY 2018. Generally, since state law requires levied fund budgets to be “balanced,” the changes in expenditures matched the changes in the revenues of these funds.

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District Expenses -The following charts present district expenses by category for FY17 and FY18.



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The graphs shown above illustrate the major expenditure areas, with instruction costs accounting for 52% & 54% of the district expenses in FY 2017 and FY 2018, operation & maintenance accounting for 11% and 11%, administration was 8% and 9%, along with food services at 6% and 7% of the total district expenses. The major changes in FY 2018 were increases in instruction (2%), food services (1%), depreciation (1%), and administration (1%). Decreases occurred in extracurricular (1%), business services (1%), and support services (2%).

Financial Analysis of the Government's Funds

Fund accounting is mandated by Montana State law and is used by the Gallatin Gateway District to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds

The focus of the *governmental funds* of the district is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the financial requirements of the school district. In particular, *unassigned fund balance* may serve as a useful measure of the net resources available for spending at the end of the year. At the end of FY 2017, the governmental funds of the school district reported a combined ending fund balance of \$568,223 and at the end of FY 2018 the fund balance was \$606,807 which represents a 6.8% increase. Approximately 23% or \$137,223 of the total fund balances in FY 2018 constitutes *unassigned fund balance*, which is available for spending at the discretion of the Board of Trustees.

The general fund is the main operating fund of the district. At the end of FY 2017, the general fund had a balance of \$245,311 and at the close of FY 2018 the balance was \$212,045 which was a 13.6% decrease. The general fund unassigned balance was \$137,223 for FY 2018. The total fund balances in the district increased \$38,584 during FY 2018 which was a 6.8% increase.

Governmental Fund Financial Statements

Fund-based financial statements, consisting of a series of statements, provide information about the government's major and non-major funds. Governmental fund financial statements are prepared using the current financial resources measurement focus and modified accrual basis of accounting. The governmental funds balance sheet for the FY 2018 is comprised of major funds and all other funds. The General Fund, Retirement Fund, Debt Service Fund, Miscellaneous Programs Fund, and Building Reserve Fund were the major funds in FY 2018. The Other Funds category includes the remainder of the governmental district funds. The governmental balance sheet for FY 2018 demonstrates that the district is in good financial condition. The district has cash and investments in the general fund which makes up 35% in FY 2018 (43.1% in FY 2017) of the total fund balances. The district fund balances would seem to be strong enough to resolve any reasonable financial situation that might occur.

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Statement of Revenues, Expenditures, and Changes in Fund Balances

The statement of revenues, expenditures, and changes in fund balances presents revenue and expenditures in each of the major fund categories. The major fund categories in FY 2018 were the General Fund, Retirement Fund, Debt Service Fund, Miscellaneous Programs Fund, and the Building Reserve Fund. The other funds category includes all the remaining governmental funds that the district is utilizing. State revenue is the major source for the district general fund category at 56.3% (63.6% in FY 2017) of the total revenue in FY 2018 followed by the district levy revenue at 43.7% (36.4% in FY 2017). The major expenditure in the general fund is instruction. Instruction expenditures make up 60.7% (61.3% in FY 2017) of the general fund total cost for FY 2018. Operation and maintenance followed by administration rank 2 & 3 for general fund expenditures in FY 2018. The total fund balances increased 6.8% in FY 2018.

General Fund Budgetary Highlights

The general fund budgetary highlights in the district for FY 2018 included slightly more revenue than was expected in the original and final budget. The district received \$2,290 more in total revenue in the general fund than was expected in the original/final budget. Most of the increase in revenue in the general fund was from local revenue. Actual expenditures in the general fund were \$9,393 less than what was expected in the original and final budget. Expenditures were under budget in many areas, with the largest in food services which was \$17,941 lower than expected. Operation and maintenance had the largest difference of over budget areas at \$30,589 higher than expected in the final budget. The difference in actual revenue and expenditures in the general fund was a negative \$3,385 which coupled with a transfer of \$9,248 out of the fund resulted in a decrease of \$12,633 in the general fund. The general fund ended FY 2018 with a balance of 126,301.

Capital assets

The net investment by the Gallatin Gateway District in capital assets for governmental activities as of June 30, 2018, was \$1,446,143 after depreciation subtracted. This investment in capital assets included land, building improvements, buildings, furniture, and equipment. The value of the capital assets for the Gallatin Gateway District showed an 0.3% increase in FY 2018. The increase in capital assets was related to improvements to the building (\$35,949), a Chromebook Lab (\$7,125), and the purchase and installation of video cameras (\$11,512) during FY 2018. The district did have \$59,496 of depreciation.

Long-term debt

At the end of FY 2018, the Gallatin Gateway School District had bonded debt outstanding of \$335,000 for capital assets. In addition, the district had long-term liabilities of \$105,900 for compensated absences of employees, \$1,110,505 for the TRS and PERS portion of net pension liability, and Other Post-Employment Benefits (OPEB) of \$29,174.

Economic Factors and Fiscal Year Budgets for FY 2017 & FY 2018

- The population of Gallatin County increased by 20.4% or about 18,297 residents from 2010 to 2017. This compares to the Montana average of a 6.2% increase.
- Residents of Gallatin County under the age of 18 made up 20.2% of the population in 2017 compared to the state at 21.8% and down from 20.9% in 2010.

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- Student enrollment numbers are converted to “Average Number (of students) Belonging” and are used to fund the district. Enrollment numbers increased by 3 students for the Gallatin Gateway District from the fall enrollment of 2016-17 to 2017-18. The decrease was 12 students in grades 7-8 along with an increase of 15 students in the grades K-6. The overall enrollment increase was 2%.
- The unemployment rate for Gallatin County was 2.3% in June of 2018. This compares to Montana rate of 3.8% in June of 2018.
- The poverty rate for Gallatin County was 9.8% from 2013-2017, when Montana was at 12.5%.
- The median household income for Gallatin County from 2013-2017 was \$59,397 while Montana was at \$50,801.
- State funding for many Montana schools decreased in FY 2017 and FY 2018.

All of these and other factors were considered in preparing the FY 2017 & FY 2018 budgets for the Gallatin Gateway District.

Requests for Information

The information and data included in this management's discussion and analysis report is designed to provide a general overview of the finances of Gallatin Gateway School District for all those with an interest in the government's finances. Questions concerning any of the information contained in this report should be addressed to the Gallatin Gateway administration and business office located in Gallatin Gateway, Montana.

Denning, Downey & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

1740 U.S. Hwy 93 South, P.O. Box 1957, Kalispell, MT 59903-1957

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Gallatin Gateway Public School
Gallatin County
Belgrade, Montana

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 Gallatin Gateway Public School, Gallatin County, Montana, as of and for the year ended June 30, 2018, 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 Gallatin Gateway Public School, Gallatin County, Montana, as of and for the year ended June 30, 2018, and the respective changes in financial position 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, budgetary comparison information, schedule of changes in the total OPEB liability and related ratios, schedules of proportionate share of the net pension liability, and schedules of contributions on pages 2 through 12 and 54 through 59, 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 the 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 inquiries 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 the District's basic financial statements. The schedule of revenues and expenditures for the extracurricular fund and the schedule of enrollment are presented for purposes of additional analysis and are not a required part of the financial statements.

The accompanying schedule of revenues and expenditures for the extracurricular fund and the schedule of enrollment are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of revenues and expenditures for the extracurricular fund and the schedule of enrollment are fairly stated in all material respects in relation to the 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 June 19, 2019, on our consideration of the Gallatin Gateway Public School, Gallatin County, Montana's 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 the effectiveness 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 Gallatin Gateway Public School, Gallatin County, Montana's internal control over financial reporting and compliance.

Derring, Downey and Associates, CPA's, P.C.

June 19, 2019

Gallatin Gateway Public School, Gallatin County, Montana
Statement of Net Position
June 30, 2018

		Governmental Activities
ASSETS		
Current assets:		
Cash and investments	\$	570,772
Taxes and assessments receivable, net		23,723
Due from other governments		17,466
Other receivables		25,519
Total current assets	\$	637,480
Noncurrent assets		
Capital assets - land	\$	58,361
Capital assets - depreciable, net		1,387,782
Total noncurrent assets	\$	1,446,143
Total assets	\$	2,083,623
 DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources - pensions	\$	143,015
Total deferred outflows of resources	\$	143,015
TOTAL ASSETS AND DEFERRED OUTFLOWS	\$	2,226,638
 LIABILITIES		
Current liabilities		
Accounts payable	\$	6,950
Current portion of long-term capital liabilities		105,000
Current portion of compensated absences payable		96,008
Total current liabilities	\$	207,958
Noncurrent liabilities		
Noncurrent portion of long-term liabilities	\$	29,174
Noncurrent portion of long-term capital liabilities		230,000
Noncurrent portion of compensated absences		9,892
Net pension liability		1,110,505
Total noncurrent liabilities	\$	1,379,571
Total liabilities	\$	1,587,529
 DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources - pensions	\$	54,584
Total Deferred Inflows of resources	\$	54,584
 NET POSITION		
Net investment in capital assets	\$	1,111,143
Restricted for capital projects		170,765
Restricted for debt service		15,800
Restricted for special projects		216,855
Unrestricted		(930,038)
Total net position	\$	584,525
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	\$	2,226,638

See accompanying Notes to the Financial Statements

Gallatin Gateway Public School, Gallatin County, Montana
Statement of Activities
For the Fiscal Year Ended June 30, 2018

<u>Functions/Programs</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Position</u>
<u>Primary government:</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Primary Government Governmental Activities</u>
Governmental activities:				
Instructional - regular	\$ 854,056	\$ 685	\$ 81,013	\$ (772,358)
Instructional - special education	109,046	-	24,217	(84,829)
Instructional - vocational education	3,567	-	-	(3,567)
Instructional - adult education	321	570	-	249
Supporting services - operations & maintenance	195,674	-	-	(195,674)
Supporting services - general	41,593	-	-	(41,593)
Supporting services - educational media services	38,085	-	3,210	(34,875)
Administration - general	39,483	-	734	(38,749)
Administration - school	125,607	-	-	(125,607)
Administration - business	93,908	-	-	(93,908)
Student transportation	91,316	1,935	17,995	(71,386)
Extracurricular	26,248	-	13,096	(13,152)
School food	133,334	63,836	36,038	(33,460)
Debt service expense - interest	14,065	-	-	(14,065)
Unallocated depreciation*	43,785	-	-	(43,785)
Total primary government	\$ 1,810,088	\$ 67,026	\$ 176,303	\$ (1,566,759)
General Revenues:				
Property taxes for general purposes			\$	787,326
Grants and entitlements not restricted to specific programs				644,966
Other state grants				12,230
Investment earnings				3,276
Miscellaneous (other revenue)				1,904
State entitlement (block grants)				10,842
County retirement				184,669
Total general revenues, special items and transfers			\$	1,645,213
Change in net position			\$	78,454
Net position - beginning			\$	486,471
Restatements				19,600
Net position - beginning - restated			\$	506,071
Net position - end			\$	584,525

* This amount excludes the depreciation that is included in the direct expenses of the various programs
See accompanying Notes to the Financial Statements

Gallatin Gateway Public School, Gallatin County, Montana
Balance Sheet
Governmental Funds
June 30, 2018

	General	Retirement	Miscellaneous Programs	Debt Service	Building Reserve	Other Governmental Funds	Total Governmental Funds
ASSETS							
Current assets:							
Cash and investments	\$ 212,045	\$ 94,944	\$ 21,772	\$ 2,262	\$ 110,673	\$ 129,076	\$ 570,772
Taxes and assessments receivable, net	15,065	-	-	3,445	1,718	3,495	23,723
Due from other governments	-	288	17,178	-	-	-	17,466
Other receivables	-	-	25,519	-	-	-	25,519
TOTAL ASSETS	\$ 227,110	\$ 95,232	\$ 64,469	\$ 5,707	\$ 112,391	\$ 132,571	\$ 637,480
LIABILITIES							
Current liabilities:							
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 6,950	\$ -	\$ 6,950
Total liabilities	\$ -	\$ -	\$ -	\$ -	\$ 6,950	\$ -	\$ 6,950
DEFERRED INFLOWS OF RESOURCES							
Deferred inflows of resources	\$ 15,065	\$ -	\$ -	\$ 3,445	\$ 1,718	\$ 3,495	\$ 23,723
Total deferred inflows of resources	\$ 15,065	\$ -	\$ -	\$ 3,445	\$ 1,718	\$ 3,495	\$ 23,723
FUND BALANCES							
Restricted	\$ -	\$ 95,232	\$ 64,469	\$ 2,262	\$ 103,723	\$ 129,076	\$ 394,762
Assigned	74,822	-	-	-	-	-	74,822
Unassigned fund balance	137,223	-	-	-	-	-	137,223
Total fund balance	\$ 212,045	\$ 95,232	\$ 64,469	\$ 2,262	\$ 103,723	\$ 129,076	\$ 606,807
TOTAL LIABILITIES, DEFERRED INFLOWS AND CHANGES IN FUND BALANCES	\$ 227,110	\$ 95,232	\$ 64,469	\$ 5,707	\$ 112,391	\$ 132,571	\$ 637,480

See accompanying Notes to the Financial Statements

Gallatin Gateway Public School, Gallatin County, Montana
Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Position
June 30, 2018

Total fund balances - governmental funds	\$	606,807
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		1,446,143
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.		23,723
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.		(470,074)
Proportionate share of ending collective net pension liability		(1,110,505)
Deferred outflows related to net pension liability		143,015
Deferred inflows related to net pension liability		(54,584)
Total net position - governmental activities	\$	<u>584,525</u>

See accompanying Notes to the Financial Statements

Gallatin Gateway Public School, Gallatin County, Montana
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2018

	<u>General</u>	<u>Retirement</u>	<u>Miscellaneous Programs</u>	<u>Debt Service</u>	<u>Building Reserve</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES							
Local revenue	\$ 522,224	\$ 811	\$ 24,281	\$ 105,759	\$ 66,848	\$ 175,283	\$ 895,206
County revenue	-	184,669	-	-	-	9,724	194,393
State revenue	671,996	-	5,240	-	-	14,510	691,746
Federal revenue	-	-	69,753	-	-	34,507	104,260
Total revenues	<u>\$ 1,194,220</u>	<u>\$ 185,480</u>	<u>\$ 99,274</u>	<u>\$ 105,759</u>	<u>\$ 66,848</u>	<u>\$ 234,024</u>	<u>\$ 1,885,605</u>
EXPENDITURES							
Instructional - regular	\$ 649,278	\$ 85,550	\$ 80,598	\$ -	\$ -	\$ 827	\$ 816,253
Instructional - special education	92,457	15,401	1,188	-	-	-	109,046
Instructional - vocational education	-	-	-	-	-	3,567	3,567
Instructional - adult education	-	321	-	-	-	-	321
Supporting services - operations & maintenance	153,816	331	4,933	-	24,457	12,137	195,674
Supporting services - general	36,470	4,154	969	-	-	-	41,593
Supporting services - educational media services	31,626	3,550	2,909	-	-	-	38,085
Administration - general	35,361	-	1,973	-	-	2,149	39,483
Administration - school	109,973	15,309	129	-	-	196	125,607
Administration - business	53,864	11,210	162	-	-	28,672	93,908
Student transportation	-	7,546	78	-	-	71,161	78,785
Extracurricular	21,462	1,412	3,374	-	-	-	26,248
School food	9,421	7,392	1,103	-	-	113,663	131,579
Debt service expense - principal	-	-	-	100,000	-	-	100,000
Debt service expense - interest	-	-	-	14,065	-	-	14,065
Capital outlay	27,275	-	7,125	-	20,186	-	54,586
Total expenditures	<u>\$ 1,221,003</u>	<u>\$ 152,176</u>	<u>\$ 104,541</u>	<u>\$ 114,065</u>	<u>\$ 44,643</u>	<u>\$ 232,372</u>	<u>\$ 1,868,800</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (26,783)</u>	<u>\$ 33,304</u>	<u>\$ (5,267)</u>	<u>\$ (8,306)</u>	<u>\$ 22,205</u>	<u>\$ 1,652</u>	<u>\$ 16,805</u>
OTHER FINANCING SOURCES (USES)							
Transfers in	\$ -	\$ -	\$ -	\$ -	\$ 20,186	\$ 9,518	\$ 29,704
Transfers out	(9,248)	-	-	-	(270)	(20,186)	(29,704)
Total other financing sources (uses)	<u>\$ (9,248)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,916</u>	<u>\$ (10,668)</u>	<u>\$ -</u>
Net Change in Fund Balance	<u>\$ (36,031)</u>	<u>\$ 33,304</u>	<u>\$ (5,267)</u>	<u>\$ (8,306)</u>	<u>\$ 42,121</u>	<u>\$ (9,016)</u>	<u>\$ 16,805</u>
Fund balances - beginning	\$ 245,311	\$ 61,928	\$ 50,722	\$ 10,568	\$ 61,602	\$ 138,092	\$ 568,223
Restatements	2,765	-	19,014	-	-	-	21,779
Fund balances - beginning, restated	<u>\$ 248,076</u>	<u>\$ 61,928</u>	<u>\$ 69,736</u>	<u>\$ 10,568</u>	<u>\$ 61,602</u>	<u>\$ 138,092</u>	<u>\$ 590,002</u>
Fund balance - ending	<u>\$ 212,045</u>	<u>\$ 95,232</u>	<u>\$ 64,469</u>	<u>\$ 2,262</u>	<u>\$ 103,723</u>	<u>\$ 129,076</u>	<u>\$ 606,807</u>

See accompanying Notes to the Financial Statements

Gallatin Gateway Public School, Gallatin County, Montana
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Fiscal Year Ended June 30, 2018

Amounts reported for *governmental activities* in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$	16,805
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:		
- Capital assets purchased		54,586
- Depreciation expense		(59,496)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:		
- Long-term receivables (deferred revenue)		(9,293)
The change in compensated absences is shown as an expense in the Statement of Activities		
		(12,420)
Repayment of debt principal is an expenditures in the governmental funds, but the repayment reduces long-term debt in the Statement of Net Position:		
- Long-term debt principal payments		100,000
Termination benefits are shown as an expense in the Statement of Activities and not reported on the Statement of Revenues, Expenditures and Changes in Fund Balance:		
- Post-employment benefits other than retirement liability		(2,053)
Pension expense related to the net pension liability is shown as an expense on the Statement of Activities and not reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance		
		(21,905)
State aid revenue related to the net pension liability is shown as a revenue on the Statement of Activities and not reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance		
		12,230
Change in net position - Statement of Activities	\$	<u>78,454</u>

See accompanying Notes to the Financial Statements

Gallatin Gateway Public School, Gallatin County, Montana
Statement of Net Position
Fiduciary Funds
June 30, 2018

	Private Purpose Trust Funds	Agency Funds
ASSETS		
Cash and short-term investments	\$ 24,461	\$ 64,206
Other receivables	12,802	-
Total assets	\$ 37,263	\$ 64,206
LIABILITIES		
Warrants payable	\$ -	\$ 64,178
Accounts payable	25,519	-
Due to other governments	-	28
Total liabilities	\$ 25,519	\$ 64,206
NET POSITION		
Assets held in trust	\$ 11,744	

See accompanying Notes to the Financial Statements

Gallatin Gateway Public School, Gallatin County, Montana
Statement of Changes in Net Position
Fiduciary Funds
For the Fiscal Year Ended June 30, 2018

		<u>Private Purpose Trust Funds</u>
ADDITIONS		
Contributions:		
Student activities	\$	33,453
Total contributions	\$	<u>33,453</u>
Investment earnings:		
Interest and change in fair value of investments	\$	19
Net investment earnings	\$	<u>19</u>
Total additions	\$	<u>33,472</u>
 DEDUCTIONS		
Student activities	\$	<u>37,230</u>
Total deductions	\$	<u>37,230</u>
Change in net position	\$	<u>(3,758)</u>
 Net Position - Beginning of the year	 \$	 15,502
 Net Position - End of the year	 \$	 <u><u>11,744</u></u>

See accompanying Notes to the Financial Statements

GALLATIN GATEWAY PUBLIC SCHOOL
GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The School District complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements.

Financial Reporting Entity

In determining the financial reporting entity, the District complies with the provisions of GASB statement No. 14, *The Financial Reporting Entity*, as amended by GASB statement No. 61, *The Financial Reporting Entity: Omnibus*, and includes all component units of which the District appointed a voting majority of the component units' board; the District is either able to impose its' will on the unit or a financial benefit or burden relationship exists. In addition, the Entity complies with GASB statement No. 39 *Determining Whether Certain Organizations Are Component Units* which relates to organizations that raise and hold economic resources for the direct benefit of the Entity.

Primary Government

The District was established under Montana law to provide elementary educational services to residents of the District. The District provides education from kindergarten through the eighth grade.

The District is managed by a Board of Trustees, elected in district-wide elections, and by an administration appointed by and responsible to the Board. The financial statements include all of the operations of the District controlled by the Board of Trustees. Based on the criteria for determining the reporting entity (separate legal entity and financial or fiscal dependency on other governments) the District is a primary government as defined by GASB Cod. Sec. 2100.

Basis of Presentation, Measurement Focus and Basis of Accounting

Government-Wide Financial Statements:

Basis of Presentation

The Government-wide Financial Statements (the Statement of Net Position and the Statement of Activities) display information about the reporting government as a whole. They include all funds of the reporting entity except fiduciary funds. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function. The District does not charge indirect expenses to programs or functions.

GALLATIN GATEWAY PUBLIC SCHOOL
GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018

The types of transactions reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or activity and 2) operating grants and contributions, and 3) capital grants and contributions. Revenues that are not classified as program revenues, including all property taxes, are presented as general revenues.

Certain eliminations have been made as prescribed by GASB 34 in regards to inter-fund activities, payables and receivables. All internal balances in the Statement of Net Position have been eliminated.

Measurement Focus and Basis of Accounting

Government-Wide Financial Statements

On the government-wide Statement of Net Position and the Statement of Activities, governmental activities are presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred regardless of the timing of the cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The District generally applies restricted resources to expenses incurred before using unrestricted resources when both restricted and unrestricted net position are available.

Fund Financial Statements:

Basis of Presentation

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. Funds are organized into three categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. Each major fund is displayed in a separate column in the governmental funds statements. All of the remaining funds are aggregated and reported in a single column as non-major funds. A fund is considered major if it is the primary operating fund of the District or meets the following criteria:

- a. Total assets combined with deferred outflows of resources, liabilities combined with deferred inflows of resources, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least ten percent of the corresponding total for all funds of that category or type; and

GALLATIN GATEWAY PUBLIC SCHOOL
GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018

- b. Total assets combined with deferred outflows of resources, liabilities combined with deferred inflows of resources, revenues, or expenditures/expenses of that individual governmental or enterprise funds are at least five percent of the corresponding total for all governmental and enterprise funds combined.

Measurement Focus and Basis of Accounting

Governmental Funds:

Modified Accrual

All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. “Measurable” means the amount of the transaction can be determined. “Available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

The District defined the length of time used for “available” for purposes of revenue recognition in the governmental fund financial statements to be upon receipt. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources. General capital asset acquisitions are reported as expenditures in governmental funds and proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, charges for current services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. All other revenue items are considered to be measurable and available only when cash is received by the District.

Major Funds:

The District reports the following major governmental funds:

General Fund - This is the District’s primary operating fund and it accounts for all financial resources of the District except those required to be accounted for in other funds.

Retirement Fund – Authorized by Section 20-10-501, MCA, for the purpose of financing the employer's contributions to the retirement, federal social security, and unemployment insurance systems of the District’s employees.

GALLATIN GATEWAY PUBLIC SCHOOL
GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018

Miscellaneous Programs Fund - Authorized by Section 20-9-507, MCA, for the purpose of accounting for local, state or federal grants and reimbursements. Donations and expendable trusts for scholarships or other purposes that support district programs are deposited in this fund.

Debt Service Fund – Authorized by Section 20-9-438, MCA, for the purpose of financing money that is necessary to pay the interest and the principal amount becoming due during the ensuing school fiscal year for each series or installment of bonds, according to the terms and conditions of the bonds and the redemption plans of the trustees.

Building Reserve Fund – Authorized by Section 20-9-502, MCA, for the purpose of financing the future construction, equipping, or enlarging of school buildings, for the purpose of purchasing land needed for school purposes in the district, or for the purpose of funding school transition costs.

Fiduciary Funds:

Fiduciary funds presented using the economic resources measurement focus and the accrual basis of accounting (except for the recognition of certain liabilities of defined benefit pension plans and certain postemployment healthcare plans). The required financial statements are a statement of fiduciary net position and a statement of changes in fiduciary net position. The fiduciary funds are:

Private-purpose Trust Funds – To report all other trust arrangements under which the principal and income benefit individuals, private organizations, or other governments. This fund includes the extracurricular activities fund as described further below.

Agency Funds – To report resources held by the reporting government in a purely custodial capacity (assets equal liabilities). This fund primarily consists of assets held by the District as an agent for individuals, private organizations, other local governmental entities and the District's claims and payroll clearing funds.

Student Extracurricular Activities Fund – The Student Extracurricular Activities Fund is authorized by Section 20-9-504, MCA, to account for various student activities, such as athletics, clubs, classes, student government organizations, student publications and other such activities. Separate fund accounts within the Extracurricular Fund are maintained to account for these various activities. Unlike other district funds, the money for these activities may be maintained in bank accounts outside the control of the County Treasurer. The fund is administered by school district administrators, faculty members, and student organizations under the guidelines and policies established by the Board of Trustees and in accordance with the "Student Activity Fund Accounting" guidelines. Required guidelines are available from the Montana Association of School Business Officials (MASBO) or from OPI.

GALLATIN GATEWAY PUBLIC SCHOOL
GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018

NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash Composition

The District’s cash, except for the Student Extracurricular Fund (an expendable trust), is held by the County Treasurer and pooled with other County cash. School District cash which is not necessary for short-term obligations, the District participates in a County-wide investment program whereby all available cash is invested by the County Treasurer in pooled investments. Interest earned on the pooled investments is distributed to each contributing entity and fund on a pro rata basis. The County’s investment portfolio as of June 30, 2018, consisted of certificates of deposit and U.S. government bonds. Interest earned on pooled investments is distributed to each contributing entity and fund on a pro rata basis.

The School District does not own specific identifiable investment securities in the pool; therefore, is not subject to categorization. Information regarding investment risk, collateral, security, and fair values for Gallatin County deposits and investments is available from Gallatin County Treasurer’s office, 311 W Main St #103, Bozeman, MT 59715. Fair value approximates carrying value for investments as of June 30, 2018.

Authorized investments allowed by Section 20-9-213, MCA, include savings or time deposits in a state or national bank, building or loan association, or credit union insured by the FDIC or NCUA located in the state; repurchase agreements; and the State Unified Investment Program. Further, Section 7-6-202, MCA, authorizes investments in U.S. government treasury bills, notes, bonds, U.S. Treasury obligations, treasury receipts, general obligations of certain agencies of the United States, and U.S. government security money market fund if the fund meets certain conditions.

	<u>Primary Government</u>
Cash held at County	\$ 657,145
Cash in banks:	
Demand deposits	22,994
Total	\$ <u>680,139</u>

Deposits

The District’s deposit balance at year end was \$22,994 and the bank balance was \$23,085. The deposits are fully insured by FDIC.

NOTE 3. RECEIVABLES

An allowance for uncollectible accounts was not maintained for real and personal property taxes receivable. The direct write-off method is used for these accounts.

GALLATIN GATEWAY PUBLIC SCHOOL
GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018

Property tax levies are set in August, after the County Assessor delivers the taxable valuation information to the County, in connection with the budget process, and are based on taxable values listed as of January 1 for all property located in the District. Taxable values are established by the Montana Department of Revenue, and a revaluation of all property is required to be completed on a periodic basis. Taxable value is defined by Montana statute as a fixed percentage of market value.

Real property taxes are generally billed in October and are payable 50% by November 30 and 50% by May 31. After these dates, taxes become delinquent and become a lien on the property. Personal property is assessed and personal property taxes are billed throughout the year, with a significant portion generally billed in May, June, and July. Personal property taxes are based on levies set during the prior August. These taxes become delinquent 30 days after billing.

Taxes that become delinquent are charged interest at the rate of 5/6 of 1% a month plus a penalty of 2%. Real property on which taxes remain delinquent and unpaid may be sold at tax sales. In the case of personal property, the property is to be seized and sold after the taxes become delinquent.

NOTE 4. INVENTORIES

The costs of inventories are recorded as an expenditure when purchased.

NOTE 5. CAPITAL ASSETS

The District's assets are capitalized at historical cost or estimated historical cost. District policy has set the capitalization threshold for reporting capital assets at \$5,000. Gifts or contributions of capital assets are recorded at fair market value when received. The costs of normal maintenance and repairs are charged to operations as incurred. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable. Depreciation is recorded on a straight-line basis over the useful lives of the assets as follows:

Buildings	20 – 80 years
Improvements	20 – 80 years
Equipment	6 – 20 years

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34 which requires the inclusion of infrastructure capital assets in local governments' basic financial statements. In accordance with Statement No. 34, the District has not yet included the value of all infrastructure into the 2018 Basic Financial Statements. The government has elected not to retroactively report general infrastructure assets.

GALLATIN GATEWAY PUBLIC SCHOOL
GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018

A summary of changes in governmental capital assets was as follows:

Governmental activities:

	Balance <u>July 1, 2017</u>	<u>Additions</u>	Balance <u>June 30, 2018</u>
Capital assets not being depreciated:			
Land	\$ 58,361	\$ -	\$ 58,361
Total capital assets not being depreciated	<u>\$ 58,361</u>	<u>\$ -</u>	<u>\$ 58,361</u>
Other capital assets:			
Buildings	\$ 1,740,065	\$ 35,949	\$ 1,776,014
Improvements other than buildings	123,537	-	123,537
Machinery and equipment	174,507	18,637	193,144
Total other capital assets at historical cost	<u>\$ 2,038,109</u>	<u>\$ 54,586</u>	<u>\$ 2,092,695</u>
Less: accumulated depreciation	<u>\$ (645,417)</u>	<u>\$ (59,496)</u>	<u>\$ (704,913)</u>
Total	<u>\$ 1,451,053</u>	<u>\$ (4,910)</u>	<u>\$ 1,446,143</u>

Governmental capital assets depreciation expense was charged to functions as follows:

Governmental Activities:

Instructional – regular	\$ 1,425
School food	1,755
Transportation	12,531
Unallocated	<u>43,785</u>
Total governmental activities depreciation expense	<u>\$ 59,496</u>

NOTE 6. LONG TERM DEBT OBLIGATIONS

In the governmental-wide financial statements, outstanding debt is reported as liabilities. Bond issuance costs, bond discounts or premiums, are expensed at the date of sale.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

Changes in Long-Term Debt Liabilities - During the year ended June 30, 2018, the following changes occurred in liabilities reported in long-term debt:

Governmental Activities:

	Balance <u>July 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Restatements</u>	Balance <u>June 30, 2018</u>	Due Within <u>One Year</u>
General obligation bonds	\$ 435,000	\$ -	\$ (100,000)	\$ -	\$ 335,000	\$ 105,000
Compensated absences	93,480	12,420	-	-	105,900	96,008
Net pension liability*	1,156,665	-	(46,160)	-	1,110,505	-
Other post-employment benefits**	24,942	2,053	-	2,179	29,174	-
Total	<u>\$ 1,710,087</u>	<u>\$ 14,473</u>	<u>\$ (146,160)</u>	<u>\$ 2,179</u>	<u>\$ 1,580,579</u>	<u>\$ 201,008</u>

*See Note 8

**See Note 7

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In prior years the general fund and the compensated absences fund was used to liquidate compensated absences and claims and judgments.

General Obligation Bonds - The District issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District. General obligation bonds outstanding as of June 30, 2018 were as follows:

<u>Purpose</u>	<u>Origination Date</u>	<u>Interest Rate</u>	<u>Term</u>	<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Annual Payment</u>	<u>Balance June 30, 2018</u>
2011 Refunding Bond	4/26/11	1.0-3.4%	10 yrs	7/1/21	\$ <u>975,000</u>	Varies	\$ <u>335,000</u>

Annual requirement to amortize debt:

<u>For Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 105,000	\$ 10,965
2020	110,000	7,710
2021	<u>120,000</u>	<u>4,080</u>
Total	\$ <u>335,000</u>	\$ <u>22,755</u>

Compensated Absences

Compensated absences are absences for which employees will be paid for time off earned for time during employment, such as earned vacation and sick leave. Non-teaching District employees earn vacation leave ranging from fifteen to twenty-four days per year depending on the employee's years of service. Vacation leave may be accumulated not to exceed two times the maximum number of days earned annually. Sick leave is accumulated at the rate of twelve working days for each year of service. Part-time teaching employees are entitled to prorated benefits upon fulfillment of the qualifying period of time. Teacher employees are eligible for compensations at one fourth the accumulated sick leave amount on termination. Upon termination, teachers are paid pursuant to the master agreement.

The liability associated with governmental fund-type employees is reported in the governmental-type activities.

NOTE 7. POSTEMPLOYMENT HEALTHCARE PLAN

Plan Description. The healthcare plan provides for, and Montana State Law (2-18-704) requires local governments to allow employees with at least 5 years of service and who are at least age 50 along with surviving spouses and dependents to stay on the government's health care plan as long as they pay the same premium. This creates a defined benefit Other Post-Employment Benefits Plan (OPEB), since retirees are usually older than the average age of the plan participants they receive a benefit of lower

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insurance rates. The OPEB plan is a single-employer defined benefit plan administered by the District. The government has not created a trust to accumulate assets to assist in covering the defined benefit plan costs, and covers these when they come due. The government has less than 100 plan members and thus qualifies to use the “Alternative Measurement Method” for calculating the liability. The above described OPEB plan does not provide a stand-alone financial report.

Benefits Provided. The government provides healthcare insurance benefits for retirees and their dependents upon reaching the age and service years defined in MCA 2-18-704. The benefit terms require that eligible retirees cover 100 percent of the health insurance premiums, but may pay the same premiums as the other members in the group health plan.

Employees covered by benefit terms. At June 30, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries receiving benefit payments	-
Active employees	15
Total employees	15

Total OPEB Liability

The District’s total OPEB liability of \$29,174 at June 30, 2018, and was determined by using the alternative measurement method as of that date.

Actuarial assumptions and other input. The total OPEB liability in the June 30, 2018 alternative measurement method was determined using the following assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Average age of retirement (based on historical data)	62
Discount rate (average anticipated rate)	3.96%
Average salary increase (Consumer Price Index)	3.20%

Health care cost rate trend (Federal Office of the Actuary)

<u>Year</u>	<u>% Increase</u>
2018	5.7%
2019	5.2%
2020	6.1%
2021	5.9%
2022	5.8%

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2023	5.9%
2024	5.9%
2025	5.7%
2026	6.5%
2027	6.5%
2028 and after	6.5%

The discount rate was based on the 20-year General obligation (GO) bond index.

Life expectancy of employees was based on the United States Life Tables, 2011 for Males: Table 2 and Females: Table 3 as published in the National Vital Statistics Reports, Vol. 64, No. 4, August 14, 2017.

The turnover rates were determined from the periodic experience studies of the Montana public retirement systems for the covered groups as documented in the GASB 68 actuarial valuations.

Changes in the Total OPEB Liability

Balance at 6/30/2017	\$ <u>24,942</u>
Changes for the year:	
Service Cost	\$ 2,053
Restatement	<u>2,179</u>
Net Changes	\$ <u>4,232</u>
Balance at 6/30/2018	\$ <u>29,174</u>

Sensitivity of the total OPEB liability to changes in the discount rate. The following summarizes the total OPEB liability reported, and how that liability would change if the discount rate used to calculate the OPEB liability were to decrease or increase 1%:

	1% Decrease (2.96%)	Discount Rate (3.96%)	1% Increase (4.96%)
Total OPEB Liability \$	\$ 34,789	\$ 29,174	\$ 24,666

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates. The following summarizes the total OPEB liability reported, and how that liability would change if the healthcare trend rates used in projecting the benefit payments were to decrease or increase 1%:

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	1%		Healthcare Cost Trends*		1%
	<u>Decrease</u>	\$	<u>23,800</u>	\$	<u>Increase</u>
Total OPEB Liability			29,174		35,981

**Reference the assumptions footnotes to determine the healthcare cost trends used to calculate the OPEB liability.*

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the District recognized an OPEB expense of \$2,053. The District does not report any deferred outflows of resources and deferred inflows of resources related to OPEB as there were no differences between expected and actual experience or changes in assumptions performed in the alternative measurement method. In addition, since District records costs as they come due there are no deferred outflows of resources for contributions to the OPEB plan trust.

NOTE 8. NET PENSION LIABILITY

Plan Descriptions

PERS

The PERS-Defined Benefit Retirement Plan (PERS) administered by the Montana Public Employee Retirement Administration (MPERA), is a multiple-employer, cost-sharing plan established July 1, 1945, and governed by Title 19, chapters 2 & 3, Montana Code Annotated (MCA). This plan provides retirement benefits to covered employees of the State, local governments, certain employees of the Montana University System, and school districts.

All new members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to remain in the PERS-DBRP or join the PERS-DCRP by filing an irrevocable election. Members may not be participants of both the *defined contribution* and *defined benefit* retirement plans. For members that choose to join the PERS-DCRP, a percentage of the employer contributions will be used to pay down the liability of the PERS-DBRP. All new members from the universities also have third option to join the university system’s Montana University System Retirement Program (MUS-RP).

The PERS-DBRP provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are established by state law and can only be amended by the Legislature.

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TRS

Teachers' Retirement System (TRS or the System) is a mandatory-participation multiple-employer cost-sharing defined-benefit public pension plan that provides retirement services to individuals employed as teachers, administrators, and in other professional and skilled positions employed in public education in Montana.

The TRS Board is the governing body of the System and the TRS staff administers the system in conformity with the laws set forth in Title 19, chapter 20 of the Montana Code Annotated, and administrative rules set forth in Title 2, chapter 44 of the Administrative Rules of Montana. Additional information pertaining to membership, benefit structure, and prior years' actuarial valuations, as well as links to applicable statutes and administrative rules, may be obtained by visiting the TRS web site at trs.mt.gov.

Summary of Benefits

PERS

Member's highest average compensation (HAC)

Hired prior to July 1, 2011 - highest average compensation during any consecutive 36 months; Hired on or after July 1, 2011 – highest average compensation during any consecutive 60 months; Hired on or after July 1, 2013 – 110% annual cap on compensation considered as part of a member's highest average compensation.

Eligibility for benefit

Service retirement:

- Hired prior to July 1, 2011:
 - Age 60, 5 years of membership service;
 - Age 65, regardless of membership service; or
 - Any age, 30 years of membership service.
- Hired on or after July 1, 2011:
 - Age 65, 5 years of membership service;
 - Age 70, regardless of membership service.

Early Retirement (actuarially reduced):

- Hired prior to July 1, 2011:
 - Age 50, 5 years of membership service; or
 - Any age, 25 years of membership service.
- Hired on or after July 1, 2011:
 - Age 55, 5 years of membership service.

Second Retirement (requires returning to PERS-covered employer or PERS service):

1) Retire before January 1, 2016 and accumulate less than 2 years additional service credit or retire on or after January 1, 2016 and accumulate less than 5 years additional service credit:

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- a. A refund of member's contributions plus return interest (currently .77% effective July 1, 2017).
 - b. No service credit for second employment;
 - c. Start the same benefit amount the month following termination; and
 - d. Guaranteed Annual Benefit Adjustment (GABA) starts again in the January immediately following the second retirement.
- 2) Retire before January 1, 2016 and accumulate at least 2 years of additional service credit:
- a. A recalculated retirement benefit based on provisions in effect after the initial retirement; and
 - b. GABA starts on the recalculated benefit in the January after receiving the new benefit for 12 months.
- 3) Retire on or after January 1, 2016 and accumulate 5 or more years of service credit:
- a. The same retirement as prior to the return to service;
 - b. A second retirement benefit as prior to the second period of service based on laws in effect upon the rehire date; and
 - c. GABA starts on both benefits in the January after receiving the original and the new benefit for 12 months.

Vesting

5 years of membership service

Member's highest average compensation (HAC)

- Hired prior to July 1, 2011- highest average compensation during any consecutive 36 months;
- Hired on or after July 1, 2011-highest average compensation during any consecutive 60 months;

Compensation Cap

- Hired on or after July 1, 2013-110% annual cap on compensation considered as a part of a member's highest average compensation.

Monthly benefit formula

Members hired prior to July 1, 2011:

- Less than 25 years of membership service: 1.785% of HAC per year of service credit;
- 25 years of membership service or more: 2% of HAC per year of service credit.

Members hired on or after July 1, 2011:

- Less than 10 years of membership service: 1.5% of HAC per year of service credit;

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- 10 years or more, but less than 30 years of membership service: 1.785% of HAC per year of service credit;
- 30 years or more of membership service: 2% of HAC per year of service credit.

Guaranteed Annual Benefit Adjustment (GABA)

After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of other adjustments to the member's benefit.

- 3.0% for members hired prior to July 1, 2007
- 1.5% for members hired between July 1, 2007 and June 30, 2013
- Members hired on or after July 1, 2013:
 - 1.5% for each year PERS is funded at or above 90%;
 - 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and
 - 0% whenever the amortization period for PERS is 40 years or more.

TRS

Through June 30, 2013, all members enrolled in TRS participated in a single-tiered plan ("Tier One"). Employees with a minimum of 25 years of service or who have reached age 60 with 5 years of service are eligible to receive an annual retirement benefit equal to creditable service years divided by 60 times the average final compensation. Final compensation is the average of the highest three consecutive years of earned compensation. Benefits fully vest after 5 years of creditable service. Vested employees may retire at or after age 50 and receive reduced retirement benefits. Beginning July 1, 2013, new members in TRS participate in a second benefit tier ("Tier Two"), which differs from Tier One as follows:

- Tier Two uses a 5-year average final compensation (as opposed to 3-year AFC in Tier One)
- Tier Two provides for unreduced service retirement benefits at age 60 with 5 years of creditable service or at age 55 with at least 30 years of creditable service (rather than at age 60 with 5 years of service or at any age with creditable service in 25 years in Tier One)
- Tier Two provides for early retirement benefits with 5 years of creditable service at age 55 (rather than age 50 in Tier One)
- Tier Two has a one percent higher normal employee contribution rate (though a temporary 1% supplemental employee contribution rate is also now currently in place for Tier One members), and
- Tier Two provides for an enhanced benefit calculation - $1.85\% \times \text{AFC} \times \text{years of creditable service}$ - for members retiring with at least 30 years of creditable service and at least 60 years of age (rather than $1.6667 \times \text{AFC} \times \text{years of creditable service}$)

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A guaranteed annual benefit adjustment (GABA) is payable on January 1st of each calendar year for each retiree who has received at least 36 monthly retirement benefit payments prior to that date.

The GABA is applicable to both Tier One and Tier Two members. The GABA for Tier One members is 1.5% of the benefit payable as of January 1st. For Tier Two members the GABA each year may vary from 0.5% to 1.5% based on the retirement system's funding status and the period required to amortize any unfunded accrued actuarial liability as determined in the prior actuarial valuation.

Overview of Contributions

PERS

1. Rates are specified by state law and are a percentage of the member's compensation.
 - a. Contributions are deducted from each member's salary and remitted by participating employers;
 - b. The State legislature has the authority to establish and amend contribution rates to the plan.
2. Member contributions to the system:
 - a. Plan members are required to contribute 7.90% of member's compensation. Contributions are deducted from each member's salary and remitted by participating employers.
 - b. The 7.90% member contributions is temporary and will be decreased to 6.9% on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional employer and additional member contribution rates.
3. Employer contributions to the system:
 - a. Effective July 1, 2014, following the 2013 Legislative session, PERS-employer contributions increase an additional 0.1% a year and will continue over 10 years through 2024. The additional employer contributions including the 0.27% added in 2007 and 2009, will terminate on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below the 25 years following the reduction of both the additional employer and additional member contributions rates.
 - b. Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required.
4. Non Employer Contributions
 - a. Special Funding
 - i. The State contributes 0.1% of members' compensation on behalf of local government entities.

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- ii. The State contributes 0.37% of members' compensation on behalf of school district entities.
- b. Not Special Funding
 - i. The State contributes a portion of Coal Severance Tax income and earnings from the Coal Severance Tax fund.

TRS

The System receives a portion of the total required statutory contributions directly from the State for all employers. The employers are considered to be in a special funding situation as defined by GASB 68 and the State is treated as a non-employer contributing entity in TRS. The System receives 2.49% of reportable compensation from the State's general fund for School Districts and Other Employers. The System also receives 0.11% of reportable compensation from the State's general fund for all TRS Employers including State Agency and University System Employers. Finally, the State is also required to contribute \$25 million in perpetuity payable July 1st of each year.

MCA 19-20-605 requires each employer to contribute 9.85% of total compensation paid to all re-employed TRS retirees employed in a TRS reportable position. Pursuant to MCA 19-20-609, this amount shall increase by 1.00% for fiscal year 2014 and increase by 0.10% each fiscal year through 2024 until the total employer contribution is equal to 11.85% of re-employed retiree compensation.

Stand-Alone Statements

The PERS's financial statements of the Montana Public Employees Retirement Board (PERB) *Comprehensive Annual Financial Report* (CAFR) and the GASB 68 Report disclose the Plan's fiduciary net position. The reports are available from the PERB at PO Box 200131, Helena MT 59620-0131, (406) 444-3154 or the MPERA website at <http://mpera.mt.gov>.

TRS' stand-alone financial statements, actuarial valuations and experience studies can be found online at <https://trs.mt.gov/TrsInfo/NewsAnnualReports>.

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Net Pension Liability

In accordance with GASB Statement 68, Accounting and Financial Reporting for Pensions, employers are required to recognize and report certain amounts associated with their participation in the Public Employees' Retirement System (PERS and Montana Teachers' Retirement System (TRS) Statement 68 became effective June 30, 2016 and includes requirements to record and report their proportionate share of the collective Net Pension Liability, Pension Expense, Deferred Inflows and Deferred Outflows of resources associated with pensions. In accordance with Statement 68, the System has a special funding situation in which the State of Montana is legally responsible for making contributions directly to PERS, TRS that are used to provide pension benefits to the retired members. Due to the existence of a special funding situation, employers are also required to report the portion of the State of Montana's proportionate share of the collective Net Pension Liability that is associated with the employer.

The State of Montana also has a funding situation that is not Special Funding whereby the State General Fund provides contributions from the Coal Severance Tax and interest to PERS. All employers are required to report the portion of Coal Tax Severance Tax and interest attributable to the employer. The following table displays the amounts and the percentages of Net Pension Liability for the fiscal years ended June 30, 2018 and June 30, 2017 (reporting dates).

	TRS NPL as of 6/30/17	TRS NPL as of 6/30/18	Percent of Collective NPL	PERS NPL as of 6/30/17	PERS NPL as of 6/30/18	Percent of Collective NPL	Total NPL as of 6/30/17	Total NPL as of 6/30/18	Percent of Collective NPL
Employer Proportionate Share	\$ 1,010,369	\$ 900,459	0.0534%	\$ 146,296	\$ 210,046	0.0108%	\$ 1,156,665	\$ 1,110,505	0.0642%
State of Montana Proportionate Share associated with Employer	661,572	571,780	0.0339%	6,837	9,595	0.0489%	668,409	581,375	0.0828%
Total	\$ <u>1,671,941</u>	\$ <u>1,472,239</u>	<u>0.0873%</u>	\$ <u>153,133</u>	\$ <u>219,641</u>	<u>0.0597%</u>	\$ <u>1,825,074</u>	\$ <u>1,691,880</u>	<u>0.1470%</u>

At June 30, 2018, the employer recorded a liability of \$1,110,505 for its proportionate share of the Net Pension Liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2017 for TRS. Therefore, no update procedures were used to roll forward the total pension liability to the measurement date for TRS. The net pension liability of PERS was measured as of June 30, 2016 and applying roll forward procedures. The employer's proportion of the net pension liability was based on the employer's contributions received by PERS and TRS during the measurement period July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERS, TRS, participating employers. At June 30, 2018, the employer's proportion was 0.0642 percent.

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Changes in actuarial assumptions and methods:

PERS

Effective July 1, 2017, the following assumption changes were used:

- Lowered the interest rate from 7.75% to 7.65%.
- Lowered the inflation rate from 3.00% to 2.75%.
- Updated non-disabled mortality to the RP-2000 Combined Employee and Annuitant Mortality Table projected to 2020 using scale BB, males set back 1 year.
- Increased rates of withdrawal.
- Lowered the merit component of the total salary increase.
- Lowered the wage base component of the total salary increase from 4.00% to 3.50%.
- Decreased the administrative expense load from 0.27% to 0.26%.

TRS

There have been no changes in actuarial assumptions and other inputs since the previous measurement date.

Effective July 1, 2017, the following method changes were used:

- Administrative expenses are recognized by an additional amount added to the normal cost contribution rate for the System. This amount varies from year to year based on the prior year's actual administrative expenses.
- To be consistent with the wage base growth change, the payroll growth assumption for amortization as a level percent of pay was reduced from 4.00% to 3.50%.

Changes in benefit terms:

PERS

Effective July 1, 2017, the following benefit changes were:

- The interest rate credited to member accounts increased from 0.25% to 0.77%.
- Lump sum payouts in all systems are limited to the member's accumulated contributions rather than the present value of the member's benefit.

TRS

There have been no changes in benefit terms since the previous measurement date.

Changes in proportionate share: Between the measurement date of the collective NPL and the employer's reporting date there were some changes in proportion that may have an effect on the employer's proportionate share of the collective NPL.

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Pension Expense as of 6/30/18

	TRS	PERS	Total
Employer Proportionate Share	\$ 57,850	\$ 30,697	\$ 88,547
State of Montana Proportionate Share associated with the Employer	8,713	3,517	12,230
Total	\$ 66,563	\$ 34,214	\$ 100,777

At June 30, 2018, the employer recognized a Pension Expense of \$100,777 for its proportionate share of the pension expense. The employer also recognized grant revenue of \$12,230 for the support provided by the State of Montana for its proportionate share of the pension expense that is associated with the employer.

Recognition of Beginning Deferred Outflow

At June 30, 2018, the employer recognized a beginning deferred outflow of resources for the employer's fiscal year 2017 contributions of \$77,682.

Deferred Inflows and Outflows

At June 30, 2018, the employer reported its proportionate share of PERS and TRS deferred outflows of resources and deferred inflows of resources related to PERS and TRS from the following sources:

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	TRS Deferred Outflows of Resources	TRS Deferred Inflows of Resources	PERS Deferred Outflows of Resources	PERS Deferred Inflows of Resources	Total Deferred Outflows of Resources	Total Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 3,312	\$ 1,346	\$ 5,173	\$ 304	\$ 8,485	\$ 1,650
Changes in actuarial assumptions	-	3,765	28,711	-	28,711	3,765
Difference between projected and actual investment earnings	-	3,563	-	1,411	-	4,974
Changes in proportion & Difference between actual and expected contributions	178	44,195	26,699	-	26,877	44,195
*Contributions paid subsequent to the measurement date - FY18 Contributions	67,374	-	11,568	-	78,942	-
Total	\$ <u>70,864</u>	\$ <u>52,869</u>	\$ <u>72,151</u>	\$ <u>1,715</u>	\$ <u>143,015</u>	\$ <u>54,584</u>

*Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

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Deferred Inflows and Outflows

TRS: Year ended June 30:	Deferred Outflows of Resources	Deferred Inflows of Resources	Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2019	\$ 2,123	\$ 34,803	\$ (32,680)
2020	\$ 19,510	\$ 19,514	\$ (4)
2021	\$ 7,263	\$ 8,064	\$ (801)
2022	\$ -	\$ 15,893	\$ (15,893)
2023	\$ -	\$ -	\$ -
Thereafter	\$ -	\$ -	\$ -

PERS: Year ended June 30:	Deferred Outflows of Resources	Deferred Inflows of Resources	Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2019	\$ -	\$ -	\$ 7,440
2020	\$ -	\$ -	\$ 16,425
2021	\$ -	\$ -	\$ 12,775
2022	\$ -	\$ -	\$ (4,471)
2023	\$ -	\$ -	\$ -
Thereafter	\$ -	\$ -	\$ -

Actuarial Assumptions

PERS

The TPL used to calculate the NPL was determined by taking the results of the June 30, 2016, actuarial valuation and applying standard roll forward procedures to update the TPL to June 30, 2017. There were several significant assumptions and other inputs used to measure the TPL. The actuarial assumptions used in the June 30, 2017, valuation were based on the results of the last actuarial experience study, dated May 2017, for the six year period July 1, 2010 to June 30, 2016. Among those assumptions were the following:

- Investment Return (net of admin expense) 7.65%
- Admin Expense as % of Payroll 0.26%
- General Wage Growth* 3.50%
- *includes Inflation at 2.75%
- Merit Increases 0% to 6.3%
- Postretirement Benefit Increases:

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Guaranteed Annual Benefit Adjustment(GABA)

After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, Inclusive of other adjustments to the member's benefit.

- 3% for members hired prior to July 1, 2007
- 1.5% for members hired between July 1, 2007 and June 30, 2014
- Member hired on or after July 1, 2013:
 - 1.5% for each year PERS is funded at or above 90%;
 - 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and
 - 0% whenever the amortization period for PERS is 40 years or more.
- Mortality assumptions among contributing members, service retired members and beneficiaries based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2020 with scale BB, males set back 1 year.
- Mortality assumptions among Disabled members are based on RP 2000 Combined Mortality Tables with no projections.

TRS

The Total Pension Liability as of June 30, 2017, is based on the results of an actuarial valuation date of July 1, 2017. There were several significant assumptions and other inputs used to measure the total pension liability. The actuarial assumptions used in the July 1, 2017 valuation were based on the results of the last actuarial experience study, dated May 1, 2014. Among those assumptions were the following:

- Total Wage Increases* 4% - 8.51% for Non-University Members and 5.00% for University Members
- Investment Return 7.75%
- Price Inflation 3.25%
- Postretirement Benefit Increases
 - Tier One Members: If the retiree has received benefits for at least 3 years, the retirement allowance will be increased by 1.5% on January 1st.
 - Tier Two Members, the retirement allowance will be increased by an amount equal to or greater than 0.5% but no more than 1.5% if the most recent actuarial valuation shows the System to be at least 90% funded and the provisions of the increase is not projected to cause the funded ratio to be less than 85%.
- Mortality among contributing members, service retired members, and beneficiaries
 - For Males: 1992 Base Rates from the RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and 1992 Base Rates from the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back four years, with mortality improvements projected by Scale BB to 2018.
 - For Females: 1992 Base Rates from the RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and 1992 Base Rates from the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back two years, with mortality improvements projected by Scale BB to 2018.

GALLATIN GATEWAY PUBLIC SCHOOL
GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018

- Mortality among disabled members
 - For Males: RP 2000 Disabled Mortality Table for Males, set forward one year, with mortality improvements projected by Scale BB to 2018.
 - For Females: RP 2000 Disabled Mortality Table for Females, set forward five years, with mortality improvements projected by Scale BB to 2018.

*Total Wage Increases include 4.00% general wage increase.

- Mortality assumptions among contributing members, service retired members and beneficiaries were based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2020 using Scale BB, males set back 1 year.
- Mortality assumptions among Disabled Members were based on RP 2000 Combined Mortality Tables.

Discount Rate

PERS

The discount rate used to measure the Total Pension Liability was 7.65%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities will be made based on the Board's funding policy, which establishes the contractually required rates under Montana Code Annotated.

For PERS the State contributes 0.1% of salaries for local governments and 0.37% for school districts. In addition, the state contributed coal severance tax and interest money from the general fund. The interest was contributed monthly and the severance tax was contributed quarterly. Based on those assumptions, the Plan's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2121. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL. A municipal bond rate was not incorporated in the discount rate.

TRS

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities will be made based on the Board's funding policy, which establishes the contractually required rates under Montana Code Annotated. In addition to the contributions the State general fund will contribute \$25 million annually to the System payable July 1st of each year. Based on those assumptions, the System's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2122. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. No municipal bond rate was incorporated in the discount rate.

GALLATIN GATEWAY PUBLIC SCHOOL
GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018

Target Allocations

PERS

<u>Asset Class</u>	<u>Target Asset Allocation</u>	Real Rate of Return Arithmetic <u>Basis</u>	Long-Term Expected Real <u>Rate of Return</u>
Cash Equivalents	2.60%	4.00%	0.10%
Domestic Equity	36.00%	4.55%	1.64%
Foreign Equity	18.00%	6.35%	1.14%
Fixed Income	23.40%	1.00%	0.23%
Private Equity	12.00%	7.75%	0.93%
Real Estate	<u>8.00%</u>	4.00%	<u>0.32%</u>
Total	<u>100.00%</u>		<u>4.37%</u>
	Inflation		2.75%
	Portfolio Return Expectation		7.12%

The long-term expected return on pension plan assets was reviewed as part of the regular experience study prepared for the Plan. The most recent analysis, performed for the period of July 1, 2010 to June 30, 2016, is outlined in a report dated May 2017 and can be located on the MPERA website. The long-term expected rate of return on pension plan investments was determined by considering information from various sources, including historical rates of return, rate of return assumptions adopted by similar public sector systems, and by using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2017, are summarized above. The long-term expected nominal rate of return above of 7.12% is an expected portfolio rate of return provided by Board of Investments (BOI), which differs from the total long-term assumed rate of return of 7.65% in the experience study. The assumed investment rate is comprised of a 2.75% inflation rate and a real rate of return of 4.90%.

GALLATIN GATEWAY PUBLIC SCHOOL
GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018

TRS

<u>Asset Class</u>	Target Asset <u>Allocation</u>	Real Rate of Return <u>Arithmetic Basis</u>	Long-Term Expected Portfolio Real Rate of <u>Return*</u>
Broad US Equity	36.00%	4.80%	1.73%
Broad International Equity	18.00%	6.05%	1.09%
Private Equity	12.00%	8.50%	1.02%
Intermediate Bonds	23.40%	1.50%	0.35%
Core Real Estate	4.00%	4.50%	0.18%
High Yield Bonds	2.60%	3.25%	0.08%
Non-Core Real Estate	<u>4.00%</u>	7.50%	<u>0.30%</u>
Total	<u>100.00%</u>		<u>4.75%</u>
	Inflation		<u>3.25%</u>
	Expected arithmetic nominal return		8.00%

*The long-term expected nominal rate of return above of 8.00% differs from the total TRS long-term rate of return assumption of 7.75%. The assumed rate is comprised of a 3.25% inflation rate and a real long-term expected rate of return of 4.50%.

The assumed long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the System. The most recent analysis, performed for the period covering fiscal years 2009 through 2013, is outlined in a report dated May 1, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates of arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2017, is summarized in the above table.

GALLATIN GATEWAY PUBLIC SCHOOL
GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018

Sensitivity Analysis

		1.0% Decrease	Current Discount Rate		1.0% Increase
TRS	\$	1,240,860	\$ 900,459	\$	613,769
PERS	\$	305,914	\$ 210,046	\$	129,572

TRS

In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the above table presents the net pension liability calculated using the discount rate of 7.75%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.75%) or 1.00% higher (8.75%) than the current rate.

PERS

In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the above table presents the net pension liability calculated using the discount rate of 7.65%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.65%) or 1.00% higher (8.65%) than the current rate.

Summary of Significant Accounting Policies

The Montana Public Employee Retirement Administration (MPERA (for PERS)) MPERA prepared financial statements using the accrual basis of accounting. The same accrual basis was used by MPERA for the purposes of determining the NPL; Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions; Pension Expense; the Fiduciary Net Position; and, Additions to or Deductions from Fiduciary Net Position. Member contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Revenues are recognized in the accounting period they are earned and become measurable. Benefit payments and refunds are recognized in the accounting period in which they are due and payable in accordance with the benefit terms. Expenses are recognized in the period incurred. Investments are reported at fair value. MPERA adhered to all accounting principles generally accepted by the United States of America. MPERA applied all applicable pronouncements of the Governmental Accounting Standards Board (GASB).

GALLATIN GATEWAY PUBLIC SCHOOL
GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018

TRS

The Teachers' Retirement System prepares its financial statements using the accrual basis of accounting. For the purposes of measuring the Net Pension Liability, deferred inflows of resources and deferred outflows of resources related to pensions, pension expense, information about the fiduciary net position of the Teachers' Retirement System (TRS) and additions to/deductions from TRS's fiduciary net position have been determined on the same accrual basis as they are reported by TRS. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. TRS adheres to all applicable Governmental Accounting Standards Board (GASB) statements.

NOTE 9. INTERFUND RECEIVABLES AND PAYABLES

Interfund Transfers

The following is an analysis of operating transfers in and out during Fiscal Year 2018:

<u>Purpose</u>	<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
Operating transfer	Building Reserve – Major Governmental	Bus Depreciation – Nonmajor Governmental	\$ 20,186
Operating transfer	Bus Depreciation – Nonmajor Governmental	Building Reserve – Major Governmental	270
Operating transfer	Transportation – Nonmajor Governmental	General – Major Governmental	7,451
Operating transfer	Compensated Absences – Nonmajor Governmental	General– Major Governmental	<u>1,797</u>
			<u>\$ 29,704</u>

NOTE 10. FUND BALANCE CLASSIFICATION POLICIES AND PROCEDURES

Governmental Fund equity is classified as fund balance. The District, categorizes fund balance of the governmental funds into the following categories:

Restricted - constraint is externally imposed by a third party, State Constitution, or enabling legislation.

Assigned – constraint is internally imposed by the body or official authorized to assign amounts for a specific purpose.

Unassigned – negative fund balance in all funds, or fund balance with no constraints in the General Fund.

The government considers restricted amounts to have been spent first when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available.

GALLATIN GATEWAY PUBLIC SCHOOL
GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018

The government considers that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Restricted Fund Balance

<u>Fund</u>	<u>Amount</u>	<u>Purpose of Restriction</u>
Miscellaneous Programs	\$ 64,469	Third party grantor restriction
Retirement	95,232	Employer costs of benefits
Debt Service	2,262	Debt service
Building Reserve	103,723	Future capital projects
All other aggregate	27,243	Student transportation
	62,455	Bus replacement
	712	Student food services
	19,266	Adult education
	875	Student instructional services
	10,093	Future vacation and sick leave payments
	6,354	Future technology upgrades
	<u>2,078</u>	Future capital costs
	<u>\$ 394,762</u>	

Other Significant Commitments

Encumbrances

<u>Fund</u>	<u>Amount of Encumbrance</u>	
General	\$ <u>74,822</u>	Encumbrances

NOTE 11. RESTATEMENTS

During the current fiscal year, the following adjustments relating to prior years' transactions were made to fund balance and net position.

<u>Fund</u>	<u>Amount</u>	<u>Reason for Adjustment</u>
General	\$ 2,765	Unrecorded due from other government receivable
Miscellaneous Programs	19,014	Unrecorded due from other government receivable
Government-wide Governmental	<u>(2,179)</u>	Change in OPEB assumptions
	<u>\$ 19,600</u>	

NOTE 12. JOINT VENTURES

Joint ventures are independently constituted entities generally created by two or more governments for a specific purpose which are subject to joint control, in which the participating governments retain 1) an ongoing financial interest or 2) an ongoing financial responsibility.

GALLATIN GATEWAY PUBLIC SCHOOL
GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018

Special Education Cooperative

The District is a member of the Gallatin-Madison County Special Education Cooperative. The Cooperative is comprised of fourteen member districts, each of which contributes to the operating costs of providing special educational services to the participating districts. Each year each member District appoints a member to the Joint Advisory Board.

The District's contributions for the payment of the special educational services provided was \$7,075 for the fiscal year ended June 30, 2018. Separate financial statements are available from the Gallatin-Madison County Special Education Cooperative, P.O. Box 162, Belgrade, MT 59714.

Multidistrict Educational Cooperative

The District is cooperative agency in a interlocal agreement with Amerstadam District, Cottonwood District, and Malmborg District to collaborate and collectively pay for staff, contracted services, and purchase classroom supplies and materials to meet student needs of the participating districts. Amerstadam is the prime agency in the agreement. During fiscal year 2018, the District contributed \$7,000 to the cooperative.

NOTE 13. SERVICES PROVIDED BY OTHER GOVERNMENTS

County Provided Services

The District is provided various financial services by Gallatin County. The County also serves as cashier and treasurer for the District for tax and assessment collections and other revenues received by the County which are subject to distribution to the various taxing jurisdictions located in the County. The collections made by the County on behalf of the District are accounted for in an agency fund in the District's name and are periodically remitted to the District by the County Treasurer. No service charges have been recorded by the District or the County.

NOTE 14. RISK MANAGEMENT

The District faces considerable number of risks 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. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Insurance Policies:

Commercial policies transferring all risks of loss, except for relatively small deductible amounts are purchased for property and content damage, employee torts, and professional liability. Employee medical insurance is provided for by a commercial carrier. And, given the lack of coverage available, the District has no coverage for potential losses from environmental damages.

GALLATIN GATEWAY PUBLIC SCHOOL
GALLATIN COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018

Insurance Pools:

The Montana School Group Insurance Authority (MSGIA) was created pursuant to the Interlocal Cooperation Act by execution of an Interlocal Agreement creating the MSGIA. The MSGIA is responsible for paying all workers' compensation claims of the member school districts. Each member of the MSGIA is jointly and severally liable for the full amount of any and all known or unknown claims of each member arising during the member's participation in the program. The MSGIA purchases workers' compensation reinsurance to provide statutory excess limits. The MSGIA contracts with Montana School Boards Association (MTSBA) to provide third party administrative services to the program. The MTSBA provides general program management, claim management, and risk management services to its program members.

The Montana School Unemployment Insurance Program (MSUIP) was created pursuant to the Interlocal Cooperation Act by execution of an Interlocal Agreement creating the MSUIP. The MSUIP is responsible for paying all unemployment insurance claims of the member school districts. Each member of the MSUIP is jointly and severally liable for the full amount of any and all known or unknown claims of each member arising during the member's participation in the program. The MSUIP contracts with Montana School Boards Association (MTSBA) to provide third party administrative services to the program. The MTSBA provides general program management and technical services to its program members.

Separate audited financial statements are available from Montana School Group Insurance Authority for MSGIA and MSUIP.

**REQUIRED SUPPLEMENTAL
INFORMATION**

Gallatin Gateway Public School, Gallatin County, Montana
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2018

General				
	BUDGETED AMOUNTS		ACTUAL AMOUNTS (BUDGETARY BASIS) See Note A	VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL		
RESOURCES (INFLOWS):				
Local revenue	\$ 516,546	\$ 516,546	\$ 522,165	\$ 5,619
State revenue	670,481	670,481	667,152	(3,329)
Amounts available for appropriation	\$ 1,187,027	\$ 1,187,027	\$ 1,189,317	\$ 2,290
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
Instructional - regular	\$ 677,558	\$ 677,558	\$ 664,793	\$ 12,765
Instructional - special education	86,575	86,575	92,218	(5,643)
Supporting services - operations & maintenance	101,277	101,277	131,866	(30,589)
Supporting services - general	39,154	39,154	35,955	3,199
Supporting services - educational media services	29,137	29,137	31,495	(2,358)
Administration - general	38,021	38,021	35,326	2,695
Administration - school	116,266	116,266	109,676	6,590
Administration - business	66,846	66,846	53,775	13,071
Extracurricular	19,899	19,899	21,462	(1,563)
School food	27,362	27,362	9,421	17,941
Capital outlay	-	-	6,715	(6,715)
Total charges to appropriations	\$ 1,202,095	\$ 1,202,095	\$ 1,192,702	\$ 9,393
OTHER FINANCING SOURCES (USES)				
Transfers out	\$ -	\$ -	\$ (9,248)	\$ (9,248)
Total other financing sources (uses)	\$ -	\$ -	\$ (9,248)	\$ (9,248)
Net change in fund balance			\$ (12,633)	
Fund balance - beginning of the year			\$ 136,384	
Restatements			2,550	
Fund balance - beginning of the year - restated			\$ 138,934	
Fund balance - end of the year			\$ 126,301	

Gallatin Gateway Public School, Gallatin County, Montana
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2018

	Retirement			
	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL	AMOUNTS (BUDGETARY BASIS) See Note A	WITH FINAL BUDGET
RESOURCES (INFLOWS):				
Local revenue	\$ 25,063	\$ 25,063	\$ 811	\$ (24,252)
County revenue	-	-	184,669	184,669
Amounts available for appropriation	<u>\$ 25,063</u>	<u>\$ 25,063</u>	<u>\$ 185,480</u>	<u>\$ 160,417</u>
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
Instructional - regular	-	-	85,550	(85,550)
Instructional - special education	-	-	15,401	(15,401)
Instructional - adult education	-	-	321	(321)
Supporting services - operations & maintenance	-	-	331	(331)
Supporting services - general	-	-	4,154	(4,154)
Supporting services - educational media services	-	-	3,550	(3,550)
Administration - general	-	-	-	-
Administration - school	-	-	15,309	(15,309)
Administration - business	-	-	11,210	(11,210)
Student transportation	-	-	7,546	(7,546)
Extracurricular	-	-	1,412	(1,412)
School food	-	-	7,392	(7,392)
Capital outlay	\$ 81,175	\$ 81,175	-	\$ 81,175
Total charges to appropriations	<u>\$ 81,175</u>	<u>\$ 81,175</u>	<u>\$ 152,176</u>	<u>\$ (71,001)</u>
Net change in fund balance			<u>\$ 33,304</u>	
Fund balance - beginning of the year			<u>\$ 61,928</u>	
Fund balance - end of the year			<u>\$ 95,232</u>	

Gallatin Gateway Public School, Gallatin County, Montana
Budgetary Comparison Schedule
Budget-to-GAAP Reconciliation

Note A - Explanation of differences between budgetary inflows and outflows and GAAP Revenues and Expenditures

	<u>General</u>	<u>Retirement</u>
Sources/Inflows of resources		
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 1,189,317	\$ 185,480
Combined funds (GASBS 54) revenues	<u>4,903</u>	<u>-</u>
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances-governmental funds.	<u>\$ 1,194,220</u>	<u>\$ 185,480</u>
Actual amounts (Budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 1,192,702	\$ 152,176
Combined funds (GASBS 54) expenditures	1,430	-
- Encumbrances reported at the beginning of the year	101,693	-
- Encumbrances reported at the end of the year	<u>(74,822)</u>	<u>-</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>\$ 1,221,003</u>	<u>\$ 152,176</u>

Note B

The Miscellaneous Programs Fund is a major special revenue fund in which a legally adopted budget is not required.

Gallatin Gateway Public School, Gallatin County, Montana
Schedule of Changes in Total OPEB Liability
and Related Ratios
For the Year Ended June 30, 2018

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Total OPEB liability			
Service Cost	\$ 2,053	\$ -	\$ 2,160
Net change in total OPEB liability	2,053	-	2,160
Total OPEB Liability - beginning	24,942	24,942	-
Restatement	2,179	-	22,782
Total OPEB Liability - ending	\$ <u>29,174</u>	\$ <u>24,942</u>	\$ <u>24,942</u>
Covered-employee payroll	\$ 718,322	\$ 466,451	\$ 466,451
 Total OPEB liability as a percentage of covered -employee payroll	 4%	 5%	 5%

**The above schedule is presented by combining the required schedules from GASB 75 paragraphs 170a and 170b. The GASB requires that 10 years of information related to the OPEB liability be presented, but due to this being the third year of implementation only three years of data is available.*

Gallatin Gateway Public School, Gallatin County, Montana
Schedule of Proportionate Share of the Net Pension Liability
For the Year Ended June 30, 2018

	<u>PERS</u> <u>2018</u>	<u>PERS</u> <u>2017</u>	<u>PERS</u> <u>2016</u>	<u>PERS</u> <u>2015</u>
Employer's proportion of the net pension liability	0.0108%	0.0086%	0.0080%	0.0087%
Employer's proportionate share of the net pension liability associated with the Employer	\$ 210,046	\$ 146,296	\$ 112,336	\$ 108,509
State of Montana's proportionate share of the net pension liability associated with the Employer	\$ 9,595	\$ 6,837	\$ 5,279	\$ 5,072
Total	<u>\$ 219,641</u>	<u>\$ 153,133</u>	<u>\$ 117,615</u>	<u>\$ 113,581</u>
Employer's covered payroll	\$ 138,246	\$ 106,350	\$ 96,965	\$ 101,992
Employer's proportionate share of the net pension liability as a percentage of its covered payroll	151.94%	137.56%	115.85%	111.22%
Plan fiduciary net position as a percentage of the total pension liability	73.75%	74.71%	78.40%	79.87%

	<u>TRS</u> <u>2018</u>	<u>TRS</u> <u>2017</u>	<u>TRS</u> <u>2016</u>	<u>TRS</u> <u>2015</u>
Employer's proportion of the net pension liability	0.0534%	0.0553%	0.0566%	0.0576%
Employer's proportionate share of the net pension liability associated with the Employer	\$ 900,459	\$ 1,010,369	\$ 929,872	\$ 885,950
State of Montana's proportionate share of the net pension liability associated with the Employer	\$ 571,780	\$ 661,572	\$ 629,878	\$ 609,412
Total	<u>\$ 1,472,239</u>	<u>\$ 1,671,941</u>	<u>\$ 1,559,750</u>	<u>\$ 1,495,362</u>
Employer's covered payroll	\$ 704,400	\$ 717,904	\$ 722,359	\$ 726,030
Employer's proportionate share of the net pension liability as a percentage of its covered payroll	127.83%	140.74%	128.73%	122.03%
Plan fiduciary net position as a percentage of the total pension liability	70.09%	66.69%	69.30%	70.36%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Gallatin Gateway Public School, Gallatin County, Montana
Schedule of Contributions
For the Year Ended June 30, 2018

	PERS		PERS		PERS		PERS
	2018		2017		2016		2015
Contractually required contributions	\$ 11,568	\$	11,198	\$	8,599	\$	7,728
Contributions in relation to the contractually required contributions	\$ 11,568	\$	11,198	\$	8,599	\$	7,728
Contribution deficiency (excess)	\$ -	\$	-	\$	-	\$	-
District's covered payroll	\$ 141,073	\$	138,246	\$	106,350	\$	96,965
Contributions as a percentage of covered payroll	8.20%		8.10%		8.09%		7.97%
	TRS		TRS		TRS		TRS
	2018		2017		2016		2015
Contractually required contributions	\$ 67,374	\$	66,413	\$	62,242	\$	91,033
Contributions in relation to the contractually required contributions	\$ 67,374	\$	66,413	\$	62,242	\$	91,033
Contribution deficiency (excess)	\$ -	\$	-	\$	-	\$	-
District's covered payroll	\$ 737,508	\$	704,400	\$	717,904	\$	722,359
Contributions as a percentage of covered payroll	9.14%		9.43%		8.67%		12.60%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Gallatin Gateway Public School, Gallatin County, Montana
Notes to Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Liability and
Schedule of Contributions
For the Year Ended June 30, 2018

PERS

Changes of Benefit Terms

The following changes to the plan provisions were made as identified:

2015 Legislative Changes:

General Revisions – House Bill 101, effective January 1, 2016

Second Retirement Benefit – for PERS

1) Applies to PERS members who return to active service on or after January 1, 2016. Members who retire before January 1, 2016, return to PERS-covered employment, and accumulate less than 2 years of service credit before retiring again:

- Refund of member's contributions from second employment plus regular interest (currently 0.25%);
- No service credit for second employment;
- Start same benefit amount the month following termination; and
- GABA starts again the January immediately following second retirement.

1) For members who retire before January 1, 2016, return to PERS-covered employment and accumulate two or more years of service credit before retiring again:

- Member receives a recalculated retirement benefit based on laws in effect at second retirement; and
- GABA starts the January after receiving recalculated benefit for 12 months.

2) For members who retire on or after January 1, 2016, return to PERS-covered employment and accumulate less than 5 years of service credit before retiring again:

- Refund of member's contributions from second employment plus regular interest (currently 0.25%);
- No service credit for second employment;
- Start same benefit amount the month following termination; and
- GABA starts again the January immediately following second retirement.

3) For members who retire on or after January 1, 2016, return to PERS-covered employment and accumulate five or more years of service credit before retiring again:

- Member receives the same retirement benefit as prior to return to service;
- Member receives second retirement benefit for second period of service based on laws in effect at second retirement; and
- GABA starts on both benefits in January after member receives original and new benefit for 12 months.

Revise DC Funding Laws – House Bill 107, effective July 1, 2015

Employer Contributions and the Defined Contribution Plan – for PERS and MUS-RP

The PCR was paid off effective March 2016 and the contributions of 2.37%, .47% and the 1.00% increase previously directed to the PCR are now directed to the Defined Contribution or MUS-RP member's account.

Gallatin Gateway Public School, Gallatin County, Montana
Notes to Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Liability and
Schedule of Contributions
For the Year Ended June 30, 2018

2017 Legislative Changes:

General Revisions – House Bill 101, effective July 1, 2017

Working Retiree Limitations – for PERS

If a PERS retiree returns as an independent contractor to what would otherwise be PERS-covered employment, general contractor overhead costs are excluded from PERS working retiree limitations.

Terminating Employers – Recovery of actuary costs – for PERS

Employers who terminate participation in PERS must pay the actuarial liability associated with that termination. Starting July 1, 2017, the terminating employer must also pay for the cost of the actuarial study used to determine that liability.

Refunds

- 1) Terminating members eligible to retire may, in lieu of receiving a monthly retirement benefit, refund their accumulated contributions in a lump sum.
- 2) Terminating members with accumulated contributions between \$200 and \$1,000 who wish to rollover their refund must do so within 90 days of termination of service.
- 3) Trusts, estates, and charitable organizations listed as beneficiaries are entitled to receive only a lump-sum payment.

Family Law Orders

If a Family Law Order (FLO) is silent regarding the apportionment of post-retirement benefit adjustments such as the Guaranteed Annual Benefit Adjustment (GABA), the FLO is presumed to require apportionment of the post-retirement benefit adjustment in the same percentage as the monthly retirement benefit is apportioned.

Disabled PERS Defined Contribution (DC) Members

PERS members hired after July 1, 2011 have a normal retirement age of 65. PERS DC members hired after July 1, 2011 who became disabled were previously only eligible for a disability benefit until age 65. Effective July 1, 2017, these individuals will be eligible for a disability benefit until they reach 70, thus ensuring the same 5-year time period available to PERS DC disabled members hired prior to July 1, 2011 who have a normal retirement age of 60 and are eligible for a disability benefit until age 65.

PERS Statutory Appropriation – House Bill 648, effective July 1, 2017

Revenue from coal severance taxes and interest income from the coal severance tax permanent fund previously statutorily-appropriated to the PERS defined benefit trust fund will be replaced with the following statutory appropriations:

1. FY2018 - \$31.386 million
2. FY2019 - \$31.958 million
3. Beginning July 1, 2019 through at least June 30, 2025, 101% of the contribution from the previous year from the general fund to the PERS defined benefit trust fund, as follows:
 - a. FY2020 - \$32.277 million
 - b. FY2021 - \$32.6 million
 - c. FY2022 - \$32.926 million
 - d. FY2023 - \$33.255 million
 - e. FY2024 - \$33.588 million
 - f. FY2025 - \$33.924 million

Gallatin Gateway Public School, Gallatin County, Montana
Notes to Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Liability and
Schedule of Contributions
For the Year Ended June 30, 2018

Changes in Actuarial Assumptions and Methods

Method and assumptions used in calculations of actuarially determined contributions

The following Actuarial Assumptions were adopted from the June 30, 2017 actuarial valuation:

General Wage Growth*	3.50%
Investment Rate of Return*	7.65%
* Includes inflation at	2.75%
Merit salary increases	0% to 6.30%
Asset valuation method	Four-year smoothed market
Actuarial cost method	Entry Age Normal
Mortality (Healthy members)	For Males and Females: RP 200 Combine Employee and Annuitant Mortality Table project to 2020 Using Scale BB, males set back 1 year
Mortality (Disabled members)	For Males and Females: RP 2000 Combined Mortality Table
Admin Expense as % of Payroll	0.23%

Administrative expenses are recognized by an additional amount added to the normal cost contribution rate for the System. This amount varies from year to year based on the prior year's actual administrative expenses.

TRS

Changes of Benefit Terms:

The following changes to the plan provisions were made as identified:

The 2013 Montana Legislature passed HB 377 which provides additional revenue and created a two tier benefit structure. A Tier One Member is a person who first became a member before July 1, 2013 and has not withdrawn their member's account balance. A Tier Two Member is a person who first becomes a member on or after July 1, 2013 or after withdrawing their member's account balance, becomes a member again on or after July 1, 2013.

The second tier benefit structure for members hired on or after July 1, 2013 is summarized below.

- (1) **Final Average Compensation:** average of earned compensation paid in five consecutive years of full-time service that yields the highest average
- (2) **Service Retirement:** Eligible to receive a service retirement benefit if the member has been credited with at least five full years of creditable service and has attained the age of 60; or has been credited with 30 or more years of full-time or part-time creditable service and has attained age 55
- (3) **Early Retirement:** Eligible to receive an early retirement allowance if a member is not eligible for service retirement but has at least five years of creditable service and attained age 55

Gallatin Gateway Public School, Gallatin County, Montana
Notes to Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Liability and
Schedule of Contributions
For the Year Ended June 30, 2018

(4) **Professional Retirement Option:** if the member has been credited with 30 or more years of service and has attained the age of 60 they are eligible for an enhanced allowance equal to 1.85% of average final compensation times all service at retirement. Otherwise, the multiplier used to calculate the retirement allowance will be equal to 1.67%

(5) **Annual Contribution:** 8.15% of member's earned compensation

(6) **Supplemental Contribution Rate:** On or after July 1, 2023, the TRS Board may require a supplemental contribution up to 0.5% if the following three conditions are met:

- a. The average funded ratio of the System based on the last three annual actuarial valuations is equal to or less than 80%; and
- b. The period necessary to amortize all liabilities of the System based on the latest annual actuarial valuation is greater than 20 years; and
- c. A State or employer contribution rate increase or a flat dollar contribution to the Retirement System Trust fund has been enacted that is equivalent to or greater than the supplemental contribution rate imposed by the TRS Board.

(7) **Disability Retirement:** A member will not be eligible for a disability retirement if the member is or will be eligible for a service retirement on the date of termination

(8) **Guaranteed Annual Benefit Adjustment (GABA):**

- a. If the most recent actuarial valuation shows that Retirement System liabilities are at least 90% funded and the provision of the increase is not projected to cause the System's liabilities to be less than 85% funded, the GABA may increase from the 0.5% floor up to 1.5%, as set by the Board.

HB 377 increased revenue from the members, employers and the State as follows:

- Annual State contribution equal to \$25 million paid to the System in monthly installments.
- One-time contribution payable to the Retirement System by the trustees of a school district maintaining a retirement fund. The one-time contribution to the Retirement System shall be the amount earmarked as an operating reserve in excess of 20% of the adopted retirement fund budget for the fiscal year 2013. The amount received was \$22 million in FY 2014.
- 1% supplemental employer contribution. This will increase the current employer rates:
 - School Districts contributions will increase from 7.47% to 8.47%
 - The Montana University System and State Agencies will increase from 9.85% to 10.85%.
 - The supplemental employer contribution will increase by 0.1% each fiscal year for fiscal year 2014 thru fiscal year 2024. Fiscal years beginning after June 30, 2024 the total supplemental employer contribution will be equal to 2%.
- Members hired prior to July 1, 2013 (Tier 1) under HB 377 are required to contribute a supplemental contribution equal to an additional 1% of the member's earned compensation.
- Each employer is required to contribute 9.85% of total compensation paid to all re-employed TRS retirees employed in a TRS reportable position to the System.

Gallatin Gateway Public School, Gallatin County, Montana
Notes to Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Liability and
Schedule of Contributions
For the Year Ended June 30, 2018

Changes in actuarial assumptions and other inputs:

The following changes to the actuarial assumptions were adopted in 2016:

- The normal cost method has been updated to align the calculation of the projected compensation and the total present value of plan benefits so that the normal cost rate reflects the most appropriate allocation of plan costs over future compensation.

The following changes to the actuarial assumptions were adopted in 2015:

- Correctly reflect the proportion of members that are assumed to take a refund of contributions upon termination and appropriately reflect the three year COLA deferral period for Tier 2 Members.
- The 0.63% load applied to the projected retirement benefits of the university members “to account for larger than average annual compensation increases observed in the years immediately preceding retirement” is not applied to benefits expected to be paid to university members on account of death, disability and termination (prior to retirement eligibility).
- The actuarial valuation was updated to reflect the assumed rate of retirement for university members at age 60 is 8.50% as stated in the actuarial valuation report.
- The actuarial valuation was updated to reflect the fact that vested terminations are only covered by the \$500 death benefit for the one year following their termination and, once again when the terminated member commences their deferred retirement annuity (they are not covered during the deferral period). Additionally, only the portion of the terminated members that are assumed to “retain membership in the System” are covered by the \$500 death benefit after termination.

The following changes to the actuarial assumptions were adopted in 2014:

- Assumed rate of inflation was reduced from 3.50% to 3.25%
- Payroll Growth Assumption was reduced from 4.50% to 4.00%
- Assumed real wage growth was reduced from 1.00% to 0.75%
- Investment return assumption was changed from net of investment and administrative expenses to net of investment expenses only.
- Mortality among contributing members, service retired members, and beneficiaries was updated to the following:

For Males: RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back four years, with mortality improvements projected by Scale BB to 2018.

For Females: RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back two years, with mortality improvements projected by Scale BB to 2018.

Gallatin Gateway Public School, Gallatin County, Montana
Notes to Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Liability and
Schedule of Contributions
For the Year Ended June 30, 2018

Method and assumptions used in calculations of actuarially determined contributions:

Actuarial cost method	Entry age
Amortization method	Level percentage of pay, open
Remaining amortization period	22 years
Asset valuation method	4- year smoothed market
Inflation	3.25 percent
Salary increase	4.00 to 8.51 percent, including inflation for Non-University Members and 5.00% for University members;
Investment rate of return	7.75 percent, net of pension plan investment expense and including inflation

SUPPLEMENTAL INFORMATION

**Gallatin Gateway Public School
Gallatin County, Montana
SCHEDULE OF ENROLLMENT
For the Fiscal Year Ended June 30, 2018**

Fall Enrollment - October, 2017
Elementary School District

	FALL		
	Per Enrollment	Audit Per	<u>Difference</u>
	<u>Reports</u>	<u>District Records</u>	
Kindergarten Full	20	20	
Kindergarten Part	0	0	0
Grades 1-6	113	113	0
Grades 7-8	17	17	0
Total Elementary	150	150	0

Part-time Students

Grade	Per Enrollment Reports				Audit per District Records				Difference
	< 181 hrs/yr	181-359 hrs/yr	360-539 hrs/yr	540-719 hrs/yr	< 181 hrs/yr	181-359 hrs/yr	360-539 hrs/yr	540-719 hrs/yr	
Kinder - Full	0	0	0	0	0	0	0	0	0
Kinder - Part	0	0	N/A	N/A	0	0	N/A	N/A	0
1-6	0	0	0	0	0	0	0	0	0
7-8	0	0	0	0	0	0	0	0	0

Spring Enrollment - February, 2018
Elementary School District

	SPRING		
	Per Enrollment	Audit Per	<u>Difference</u>
	<u>Reports</u>	<u>District Records</u>	
Kindergarten - Full	20	20	
Kindergarten - Part	0	0	0
Grades 1-6	117	117	0
Grades 7-8	20	20	0
Total Elementary	157	157	0

Part-time Students

Grade	Per Enrollment Reports				Audit per District Records				Difference
	< 181 hrs/yr	181-359 hrs/yr	360-539 hrs/yr	540-719 hrs/yr	< 181 hrs/yr	181-359 hrs/yr	360-539 hrs/yr	540-719 hrs/yr	
Kinder - Full	0	0	0	0	0	0	0	0	0
Kinder - Part	0	0	N/A	N/A	0	0	N/A	N/A	0
1-6	0	0	0	0	0	0	0	0	0
7-8	0	0	0	0	0	0	0	0	0

Gallatin Gateway Public School
Gallatin County, Montana
EXTRACURRICULAR FUND
SCHEDULE OF REVENUES AND EXPENDITURES - ALL FUNDS ACCOUNTS
Fiscal Year Ended June 30, 2018

FUND ACCOUNT	<u>Beginning Balance</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Ending Balance</u>
Class of 2017	\$ 7,475	\$ 1,360	\$ 6,336	\$ 2,499
Class of 2018***	3,177	26,984	26,039	4,122
Class of 2019	556	147	-	703
Class of 2020	2,534	4,961	4,855	2,640
Class of 2021	33	-	-	33
Miscellaneous	(38)	-	-	(38)
Student Council	317	-	-	317
Total	<u>\$ 14,054</u>	<u>\$ 33,452</u>	<u>\$ 37,230</u>	<u>\$ 10,276</u>

***Receivable balance reported of \$12,802 and accounts payable of \$25,519 included in the revenue and expenditures.

Denning, Downey & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

1740 U.S. Hwy 93 South, P.O. Box 1957, Kalispell, MT 59903-1957

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

To the Board of Trustees
Gallatin Gateway Public School
Gallatin County
Belgrade, Montana

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 *Government 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 Gallatin Gateway Public School, Gallatin County, Montana, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Gallatin Gateway Public School's basic financial statements and have issued our report thereon dated June 19, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Gallatin Gateway Public School, Gallatin County, Montana'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 Gallatin Gateway Public School, Gallatin County, Montana's internal control. Accordingly, we do not express an opinion on the effectiveness of Gallatin Gateway Public School'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 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 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described below that we consider to be material weaknesses listed as items 2018-001, 2018-002 and 2018-003.

2018-001 Unrecorded Accounts Payable

Condition:

The District materially understated the accounts payable and related expenditures in the Building Reserve Fund during the fiscal year ended June 30, 2018.

Context:

The District reported a significant amount of encumbrances during the fiscal year. To test the encumbrances, we pulled a sample of significant encumbrances to test if they were appropriate. In testing the sample, we found that one encumbrance was for the services had been completed prior to the end of the year and should be reported as an accounts payable.

Criteria:

Generally accepted accounting principles require that expenditures be recognized in the period in which the goods or services have received or provided to the District.

Effect:

The accounts payables and expenditures in the Building Reserve Fund are materially understated \$6,950. This has been corrected for the audit, and the financial statements determined to be fairly stated.

Cause:

The District does not have an end of year process to review subsequent invoices received and paid in subsequent months to the end of the fiscal year, to determine if the expenditures were incurred in the fiscal year requiring an accounts payable liability be recognized.

Recommendation:

We recommend that the District implement policies and procedures to review invoices received and paid in the months of July and August to determine when the expenditures were incurred, and record the appropriate accounts payable adjustments. In addition, review significant purchase orders at the end of the year to ensure the goods or services have not been incurred prior to end of the year.

2018-002 Timeliness of Reimbursement Requests

Condition:

The District is not making timely reimbursement requests to granting agencies to ensure revenues are received in the period the expenditures were incurred.

Context:

We completed detailed testing of the reimbursement requests of the significant grants programs of the District that included Title I, REAP, and Medicaid Administration Reimbursement and misstatements in the revenues reported and unreported due from other governments.

Criteria:

Policies and procedures should be in place requiring reimbursement requests be submitted timely to ensure state and federal revenues are received to cover the expenditures incurred in the programs.

Effect:

The Miscellaneous Programs Fund materially overstated revenues \$1,696 and understated restatements and due from other government receivables \$18,874 and \$17,178. This has been corrected for the audit, and the financial statements determined to be fairly stated.

Cause:

The District does not have policies and procedures requiring reimbursement requests be submitted to granting agencies in a timely manner.

Recommendation:

We recommend that the District implement policies and procedures requiring that all reimbursement requests be prepared and submitted to granting agencies on a monthly or quarterly basis.

2018-003 Student Activity Field Trip Reimbursements**Condition:**

The District incurred the following material misstatements during fiscal year ended 2018:

1. Revenues and expenditures were overstated, and receivables understated in the Miscellaneous Programs fund.
2. The receivables, accounts payable, revenues, and expenses were materially understated in the Student Activities fund (Private Purpose Trust Fund).

Context:

We completed detailed testing of the Student Activity Washington D.C. and Yellowstone National Park field trips that are covered by the District and then reimbursed by the Student Activities funds through inquiry, observation, documentation, and inspection.

Criteria:

1. The District should offset the expenditures when reimbursing expenditures from the Student Activities fund, and make timely reimbursements.
2. The District should have year-end procedures to review the field trip money due to the District from the student activities, and identify the amounts still receivable in the activities from outside sources.

Effect:

1. The Miscellaneous Programs fund revenues and expenditures were materially overstated \$7,335 and \$32,854, and receivables understated \$25,519. This has been corrected for the audit, and the financial statements determined to be fairly stated.
2. The Student Activities fund receivables and revenues were materially understated \$12,802, and accounts payable and expenses materially understated \$25,519. This has been corrected for the audit, and the financial statements determined to be fairly stated.

Cause:

1 and 2. The District does not have policies and procedures to review the amounts owed to the District from the student activities at the end of the fiscal year to ensure the appropriate adjustments are recognized for reporting. In addition, the District does not have policies and procedures to identify the amounts that will billed and received from outside sources.

Recommendation:

We recommend that the District implement policies and procedures to reimburse all field trips in a timely manner and request payment from outside sources timely. In addition, the District should implement procedures to identify any outstanding reimbursements due to the District from activities, and any outstanding bills due from outside sources.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Gallatin Gateway Public School'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*.

Gallatin Gateway Public School's Response to Findings

Gallatin Gateway Public School's response to the findings identified in our audit is described Auditee's Corrective Action Plan. Gallatin Gateway Public School's response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 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.

Denning, Downey and Associates, CPAs, P.C.

June 19, 2019

Denning, Downey & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

1740 U.S. Hwy 93 South, P.O. Box 1957, Kalispell, MT 59903-1957

REPORT ON PRIOR AUDIT REPORT RECOMMENDATIONS

To the Board of Trustees
Gallatin Gateway Public School
Gallatin County
Belgrade, Montana

The prior audit report contained one recommendation. The action taken on each recommendation is as follows:

<u>Recommendation</u>	<u>Action Taken</u>
Miscellaneous Program Fund Misstatement	Repeated

Denning, Downey and Associates, CPAs, P.C.

June 19, 2019

**GALLATIN GATEWAY SCHOOL
P.O. Box 265
Gallatin Gateway, Montana 59730**

Contact Person:

Carrie Fisher
District Clerk
406-763-4415 ext. 36
fisher@gallatingatewayschool.com

Expected Completion Date of Corrective Action Plan:

June 30, 2019

CORRECTIVE ACTION PLAN

FINDING 2018-001: Understated Accounts Payable

Response: Financial statements were adjusted to record the encumbrance that should be recognized as accounts payable. The District will practice a procedure of reviewing all year end purchase orders to ensure goods or services have not been incurred prior to year end. In addition, new procedures will be used for posting such expenses in the Districts accounting software to reflect properly on financial statements.

FINDING 2018-002: Timeliness of Reimbursement Requests

Response: The District will develop procedures to request funds from granting agencies on at least a quarterly basis.

FINDING 2018-003: Student Activity Field Trip Reimbursement

Response: The District will develop procedures to: 1) request funds from outside sources for field trip expenses in a more timely manner; 2) identify any reimbursements due to the District prior to year end; and 3) ensure any outstanding reimbursements due are accurately reported on financial statements. In addition, the District plans to move all activity funds to the County in FY20 to allow the District to utilize their accounting software to better track revenues and expenses.

STATUS OF PRIOR AUDIT FINDINGS

FINDING 2017-001: Miscellaneous Program Fund Misstatement

Response: The District is still developing procedures and has started coding reimbursements as refunds. In addition, as stated above, the District plans to move all activity funds to the County in FY20 to allow the District to utilize their accounting software to better track revenues and expenses.