

SCHOOL DISTRICT NO. 35
Gallatin Gateway, Montana

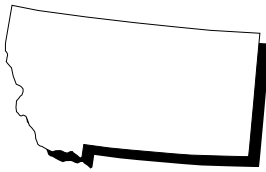
FINANCIAL AND COMPLIANCE
REPORT
Year Ended June 30, 2007

**SCHOOL DISTRICT NO. 35
Gallatin Gateway, Montana**

**FINANCIAL AND COMPLIANCE REPORT
Year Ended June 30, 2007**

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT.....	2 - 3
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements	
Statement of Net Assets.....	4
Statement of Activities.....	5
Fund Financial Statements	
Balance Sheet - Governmental Funds.....	6
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds.....	7
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities.....	8
Statement of Fiduciary Net Assets and Statement of Changes in Fiduciary Net Assets Private Purpose Trust Funds.....	9
Notes to Financial Statements.....	10 - 18
SUPPLEMENTAL SCHEDULES	
Schedule of Revenues, Expenditures and Encumbrances - Budget and Actual - General, Transportation, Bus Depreciation, and Retirement Funds.....	19 - 20
Schedule of School District Enrollment.....	21
Extracurricular Fund Schedule of Revenues, Expenditures, and Changes in Fund Balance by Student Activity.....	22
INDEPENDENT AUDITOR'S REPORTS	
On Compliance and Internal Control Over Financial Reporting.....	23 - 24
Summary of Findings and Other Matters.....	25 - 29
Management's Response to Summary of Findings and Other Matters.....	30



ROSS R. STALCUP

CERTIFIED PUBLIC ACCOUNTANT, P.C.

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
School District No. 35
Gallatin Gateway, Montana

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of School District No. 35, Gallatin Gateway, Montana, as of and for the year ended June 30, 2007, which collectively comprise School District No. 35's basic financial statements as listed in the table of contents. These financial statements are the responsibility of School District No. 35's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

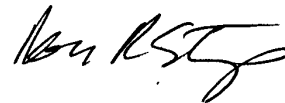
In my opinion, the financial statements referred to above fairly, in all material respects, the respective financial position of the government activities, each major fund, and the aggregate remaining fund information of School District No. 35, Gallatin Gateway, Montana, as of June 30, 2007, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued a report dated February 29, 2008 on my consideration of School District No. 35's internal control over financial reporting and on my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

The District has not presented a management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise School District No. 35's basic financial statements. The Supplemental Schedule of Revenues, Expenditures, and Other Sources(Uses) -Budget and Actual (page 19-20) is not part of the basic financial statements but is required by accounting principles generally accepted in the United States of America, the Supplemental Schedules of School District Enrollment (page 21) and Extracurricular Fund Revenues, Expenditures and Changes in Net Assets (page 22) are required by the Montana Standard Audit Contract. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

February 29, 2008



Ross R. Stalcup
Certified Public Accountant

**SCHOOL DISTRICT No. 35
Gallatin Gateway, Montana**

**STATEMENT OF NET ASSETS
JUNE 30, 2007**

	2007
ASSETS	
Current Assets:	
Cash and Investments.	\$247,186
Property Taxes Receivable.	35,106
Protested Taxes.	28,128
Due from Other Governments.	
Total Current Assets.	310,420
Capital Assets.	2,051,712
Less Accumulated Depreciation.	(430,264)
Capital Assets - Net.	1,621,448
Total Assets.	1,931,868
LIABILITIES:	
Current Liabilities	
Current Liabilities.	8,714
Capital Lease.	2,917
Compensated Absences.	19,367
Bonds Payable.	55,000
Total Current Liabilities.	85,998
Non Current Liabilities	
Bonds Payable.	1,155,000
Compensated Absences.	38,735
Total NonCurrent Liabilities	1,193,735
Total Liabilities.	1,279,733
Total Net Assets.	652,135
NET ASSETS	
Invested in Capital Assets, Net of Related Debt.	408,531
Restricted Net Assets.	7,486
Unrestricted Net Assets.	236,118
Total Net Assets.	\$652,135

See Notes to Financial Statements

SCHOOL DISTRICT No. 35
Gallatin Gateway, Montana
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007

	Expenses	---Program Charges for Services	Revenue--- Operating Grants	Net (Expense) Revenue 2007
GOVERNMENT OPERATIONS				
Instruction:				
Regular Instruction.	\$628,729	\$5,909	\$86,575	(\$536,245)
Special Education.	37,945		33,329	(4,616)
Vocational Education.	0			0
Adult Education.	17,012			(17,012)
Educational Enhancement.	25,961			(25,961)
Support Services.	30,393		6,339	(24,054)
Administration:				(30,855)
General.	30,855			
Building.	112,031		1,008	(111,023)
Business.	62,362			(62,362)
Operation and Maintenance.	132,812		21,342	(111,470)
Transportation.	46,623	4,040	14,090	(28,493)
Food Services.	59,119	24,447	31,274	(3,398)
Student Extracurricular.	6,516			(6,516)
Interest.	61,297			(61,297)
Unallocated Depreciation.	37,453			(37,453)
Totals.	<u>\$1,289,108</u>	<u>\$34,396</u>	<u>\$193,957</u>	<u>(\$1,060,755)</u>
GENERAL REVENUES				
District Property Taxes.				\$561,543
State Equalization.				375,093
Other State Revenue.				92,120
Federal Revenue.				
County Property Taxes.				78,625
Interest.				10,573
Restatement of Beginning Fund Balance.				6,953
Other.				
Total General Revenues.				<u>\$1,124,907</u>
Capital asset writeoffs.				
CHANGE IN NET ASSETS.				64,152
NET ASSETS				
Beginning of the Year (See Note 7).				587,983
End of the Year.				<u>\$652,135</u>

See Notes to Financial Statements

**SCHOOL DISTRICT No. 35
Gallatin Gateway, Montana**

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007**

	General Fund	Transportation Fund	Bus Depreciation Fund	Retirement Fund	Debt Service Fund	Other Governmental Funds	Total
ASSETS:							
Cash and Investments.	\$81,762	(\$4,088)	\$85,877	\$42,731	(\$493)	\$41,397	\$247,186
Property Taxes Receivable.	19,456	3,357	1,501		7,633	3,159	35,106
Protested Taxes.	15,489	2,599	1,149		6,258	2,633	28,128
Due from Other Governments.							0
Total Assets.	116,707	1,868	88,527	42,731	13,398	47,189	310,420
LIABILITIES:							
Other Current	668	2,012		1,486		4,548	8,714
Deferred Revenue.	34,945	5,956	2,650		13,891	5,791	63,233
Due to Other Governments.							0
Total Liabilities.	35,613	7,968	2,650	1,486	13,891	10,339	71,947
FUND BALANCE:							
Reserved for Operations.	81,094			37,919		4,256	123,269
Unreserved.		(6,100)	85,877	3,326	(493)	32,594	115,204
Total Fund Balance.	81,094	(6,100)	85,877	41,245	(493)	36,850	238,473
Total Liabilities and Fund Balance.	\$116,707	\$1,868	\$88,527	\$42,731	\$13,398	\$47,189	\$310,420

RECONCILIATION TO THE STATEMENT OF NET ASSETS

Total fund balance from above.	\$238,473
Net capital assets.	1,621,448
Less liabilities not reported above:	
Compensated absences.	(58,102)
Deferred revenues.	63,233
Bonds payable.	(1,210,000)
Capital Lease.	(2,917)
Net Assets.	\$652,135

See Notes to Financial Statements

SCHOOL DISTRICT No. 35
Gallatin Gateway, Montana
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	General Fund	Transportation Fund	Bus Depreciation Fund	Retirement Fund	Debt Service Fund	Other Governmental Funds	Total
REVENUES:							
District Levy.	\$302,909	\$52,923	\$23,411		\$116,281	\$47,882	\$543,406
Direct State Aid.	394,984						394,984
Other State Sources.	82,654	11,175	23		111	46,197	140,160
County Sources.	0	7,045		78,625			85,670
Federal Sources.	0					86,835	86,835
User Fees.	5,909	4,040				24,447	34,396
Interest.	5,396		3,012	1,808		207	10,423
Other.	0					32,147	32,147
Total Revenues.	791,852	75,183	26,446	80,433	116,392	237,715	1,328,021
EXPENDITURES:							
Current Operations:							
Instruction:							
Regular Programs.	460,139			55,331		120,349	635,819
Special Programs.	31,598			6,347			37,945
Vocational Programs.	0						0
Adult Education.				312		16,700	17,012
Educational Enhancement.	22,773			3,188			25,961
Support Services Students.	20,647			3,407		6,339	30,393
Administration							
General.	30,826			29			30,855
Building.	78,982	20,307		11,734		1,008	112,031
Business.	45,104	9,682		7,576			62,362
Operation and Maintenance.	94,206	6,440		91		32,075	132,812
Transportation.		44,843		1,780			46,623
Food Services.				3,245		55,874	59,119
Student Extracurricular.	6,042			474			6,516
Capital Outlay.							0
Debt Service.					124,297		124,297
Total Expenditures.	790,317	81,272	0	93,514	124,297	232,345	1,321,745
Excess (Deficiency) Of Revenues Over Expenditures and Other Financing.	1,535	(6,089)	26,446	(13,081)	(7,905)	5,370	6,276
FUND BALANCE							
Beginning of the Year (See Note 7).	79,559	(12)	59,432	54,325	7,413	31,480	232,197
End of the Year.	\$81,094	(\$6,101)	\$85,878	\$41,244	(\$492)	\$36,850	\$238,473

See Notes to Financial Statements

**SCHOOL DISTRICT No. 35
Gallatin Gateway, Montana**

**RECONCILIATION OF THE
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**

FOR THE YEAR ENDED JUNE 30, 2007

Change in Fund Balances.....	\$6,276
Increase in Property Taxes Receivable not included in the Governmental Fund Statements.....	18,287
Amounts Reported as Expenditures in the Governmental Fund Statements	
Capital Outlay.....	0
Decrease in Compensated Absences.....	(13,910)
Expenses on the Statement of Activities not included in the Governmental Fund Statements	
Depreciation.....	(37,453)
Bond Principal.....	60,000
Capital Lease.....	3,000
Termination Benefits.....	21,000
Rounding.....	(1)
Restatement of Fund Balance.....	<u>6,953</u>
Change in Net Assets.....	<u><u>\$64,152</u></u>

See Notes to Financial Statements

**SCHOOL DISTRICT No. 35
Gallatin Gateway, Montana**

**STATEMENT OF FIDUCIARY NET ASSETS
AND
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PRIVATE PURPOSE TRUST FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2007**

FIDUCIARY NET ASSETS

	Extracurricular
ASSETS	
Cash.	<u>\$8,767</u>
NET ASSETS	
Held in Trust.	<u>8,767</u>
CHANGES IN FIDUCIARY NET ASSETS	
Revenue.	36,537
Expenditures.	31,104
NET ASSETS	
BEGINNING.	<u>3,334</u>
ENDING.	<u>\$8,767</u>

See Notes to Financial Statements

**SCHOOL DISTRICT No. 35
Gallatin Gateway, Montana**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2007**

TABLE OF CONTENTS

	<u>Note</u>	<u>Page</u>
Summary of Significant Accounting Policies:		
Reporting Entity.	1A	11
Basis of Presentation and Basis of Accounting.	1B	11-12
Specific Accounting Policies:		
Cash and Investments.	1C	12
Inventories.	1D	13
Property Taxes.	1E	13
Capital Assets.	1F	13
Compensated Absences.	1G	13
Cash and Investments.	2	14
Capital Assets.	3	15
Restricted Net Assets and Reserved Fund Balances.	4	15-16
Retirement Plans.	5	16-17
Risk Management.	6	17
Restatements.	7	17
Long Term Debt.	8	18

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

All operations of School District No. 35, Gallatin Gateway, Montana are controlled by a Board of Trustees, elected in School-wide elections, and responsible for all of the School's activities. The financial statements include all of the District's operations controlled by the Board of Trustees. Based on the criteria for determining the reporting entity (separate legal entity and fiscal or financial dependency on other governments), the District is considered to be an independent reporting entity and has no component units.

B. Basis of Presentation and Basis of Accounting

Government-wide Statements - The statement of net assets and the statement of activities show information about the overall financial position and activities of the District with the exception of the student activity fund.

These statements are reported using the economic resources measurement focus and the accrual basis of accounting. The activities of the District are generally financed through property taxes, state equalization funding, and federal and state grants. Revenues are recorded when earned and expenses are recorded at the time the liability is incurred, regardless of when the related cash flows take place. On the accrual basis, revenues from property taxes are recognized in the fiscal year for which the taxes are levied. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which eligibility requirements have been met. Adjustments have been made to eliminate the double recording of internal activities.

The Statement of Activities present 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. Program revenues include fees for services (primarily school lunch and breakfast charges) and grants and contributions that are restricted to a particular program. Revenues that are not classified as program revenues, including all property taxes, are presented as general revenues.

Fund Financial Statements - These statements provide information about the District's funds, including a separate statement for the District's fiduciary fund (the student activity fund). The emphasis of fund financial statements is on major governmental funds. Each major fund is displayed in a separate column. All of the remaining funds are aggregated and reported in a single column as other governmental funds.

These funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. State and other governmental revenues applicable to the current fiscal year and collected soon after year-end are recognized as revenue.

Notes to Financial Statements (continued)

Most current property taxes receivable are delinquent at June 30 and amounts collected soon after year-end are not significant. Deferred revenues are recorded for these receivables. Property tax levies for the subsequent fiscal year are recorded as property tax receivables because they become a lien on real property as of January 1. Because these taxes are levied for the subsequent fiscal year, they are offset by deferred revenue.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt and payments for compensated absences which are recognized as expenditures when paid. General capital asset acquisitions under capital leases are reported as other financial sources.

Under the terms of the District's grant agreements, certain programs are funded by specific cost-reimbursement funds first to finance such programs with remaining costs paid for with general revenues.

Generally accepted accounting principles require that the general fund be reported as a major fund and that all other governmental funds whose assets, liabilities, revenues, or expenditures exceed 10% or more of the total for all governmental funds also be reported as major funds.

Accordingly, the District reports the following major governmental funds:

General fund

This fund 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.

Bus Depreciation

This fund is to account for revenues and expenditures relating to bus replacement.

Retirement fund

This fund is used to account for the financial activities of retirement monies.

Transportation fund

This fund is to account for financial activities of student transportation.

Debt Service

This fund accounts for revenues and expenditures relating to the payment of District bonds.

The District also has a student activity fund accounting for the extracurricular activities of its students. This fund is a private-purpose trust fund.

C. Cash and Investments

State law permits investment of District funds in insured savings or time deposits, bank repurchase agreements, direct obligations of the U.S. Government, and the State's unified investment program. Except for the private purpose trust fund, all cash and investments are held by the County Treasurer. Investments are stated at cost.

Notes to Financial Statements (continued)

D. Inventories

Inventories are considered to be immaterial and are not recorded.

E. Property Taxes

Property taxes receivable at June 30 consist primarily of delinquent and protested property taxes from the current and prior year levies. Property taxes receivable are offset by deferred revenue in the fund financial statements. Approximately 95% of protested taxes are collected. The District does not record an allowance for uncollectible taxes because it is considered to be immaterial.

Property taxes are levied in August of each fiscal year, based on assessments as of the prior January 1. Real property taxes are usually billed in October and are payable 50% on November 30 and 50% on May 31. Property taxes are maintained and collected by the County Treasurer.

F. Capital Assets

Capital assets are carried at actual or estimated historical cost based on appraisals. Major additions and betterments with a cost in excess of \$5,000 are recorded as additions to fixed assets. Repair and maintenance costs are not capitalized. Depreciation is computed using the straight-line method and the estimated useful lives are as follows:

Buildings and improvements. 20-80 years

Equipment. 6- 20 years

G. Compensated Absences

Vacation leave, within certain limitations, may be payable to administrative and classified (non-teaching) employees on termination. Sick leave is accumulated for classified employees at the rate of 12 working days for each year of service. Part-time classified employees are entitled to prorated benefits upon fulfillment of the qualifying period of time. Classified employees are eligible for compensation at one fourth of the accumulated sick leave amount on termination.

Upon termination, certified employees (teachers) are paid pursuant to the master agreement.

Notes to Financial Statements (continued)

2. CASH AND INVESTMENTS

The District participates in the Gallatin County Investment Pool.

Student activity funds are deposited in FDIC insured, interest bearing, checking accounts.

The District does not have policies regarding credit risk, interest rate risk, or custodial credit risk, but relies on State law for allowable investments. Investment risk disclosures are described in the following paragraphs:

Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The STIP securities have credit risk as measured by major credit rating services. This risk is that the issuer of a security may default in making timely principal and interest payments.

Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality per GASB Statement No. 40.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

Notes to Financial Statements (continued)

3. CAPITAL ASSETS

Capital asset activity during 2007 was as follows:

	Balance June 30, 2006	Additions	Deletions	Balance June 30, 2007
Cost of assets:				
Land	\$58,361			\$58,361
Buildings and Improvements	1,819,521			1,819,521
Equipment	173,830			173,830
Total	\$2,051,712	\$0	\$0	\$2,051,712
Accumulated depreciation:				
Buildings and Improvements	\$287,650			\$287,650
Equipment	105,161	37,453		142,614
Total	392,811	37,453	0	430,264
Capital Assets, Net	\$1,658,901	(\$37,453)	\$0	\$1,621,448

Depreciation:

Unallocated	37,453
	\$37,453

4. RESTRICTED NET ASSETS AND RESERVED FUND BALANCES

Restricted Net Assets

State law authorizes certain funds and establishes the criteria for property tax levies for specific purposes. The District classifies the net assets of these funds as restricted net assets. These funds and their net assets at June 30, 2007 are as follows:

Retirement	41,245
Adult Education	2,526
Technology	4,960
Total	\$7,486

Notes to Financial Statements (continued)

Reserved Fund Balances

State law permits a reserve for operations in certain budgeted funds. The maximum reserve for operations permitted for the District, which is a percentage of the subsequent year's budgeted expenditures, are as follows:

General Fund	10%
Transportation Fund	20%
Retirement Fund	35%
Adult Education Fund	35%

State law also permits the District to reserve the collection of protested and delinquent property taxes and the proceeds of Department of Revenue audits in the general fund (\$0 at year end).

5. RETIREMENT PLANS

The District participates in two statewide, mandatory, cost-sharing, multiple employer, defined benefit retirement plans which cover all employees, except certain substitute teachers and part-time, non-teaching employees. The Montana Teachers' Retirement System (MTRS) covers teaching employees, including principals and superintendents. The Montana Public Employees' Retirement System (MPERS) covers other non-teaching employees. The plans are established by State law and are administered by the State of Montana. The plans provide retirement, disability, and death benefits to plan member and beneficiaries.

Contribution rates for both plans are required and determined by State law. During FY 2007 the contribution rates did not change. There were no changes to the plans or the required contribution rates in 2007. The contribution rates, expressed as a percentage of covered payroll, were as follows:

	<u>Employer</u>	<u>Employee</u>	<u>State</u>	<u>Total</u>
TRS	7.47%	7.15%	0.11%	14.73%
PERS	6.80%	6.90%	0.10%	13.80%

The amounts contributed to TRS and PERS during the years ended June 30, 2005, 2006 and 2007 were equal to the required contribution for each year. The amounts contributed by both the District and its employees (including additional voluntary contributions by employees as permitted by State law) were as follows:

	<u>2005</u>	<u>2006</u>	<u>2007</u>
TRS	\$65,920	\$67,143	\$75,951
PERS	9,945	8,780	11,971
Total	<u>\$75,865</u>	<u>\$75,923</u>	<u>\$87,922</u>

Notes to Financial Statements (continued)

Both plans issue a publicly available financial report that includes financial statements and required supplementary information for the plans. Those reports may be obtained from the following:

MT Teachers Retirement System
P.O. Box 200139
1500 Sixth Avenue
Helena, Montana 59620-0139
Telephone (406) 444-3134

MT Public Employees Retirement System
P.O. Box 200131
1712 Ninth Avenue
Helena, Montana 59620-0131
Telephone (406) 444-3154

6. RISK MANAGEMENT

The District faces a number of risks including:

- a) loss or damage to property
- b) general liability
- c) workers compensation
- d) employee medical insurance

Commercial insurance policies are purchased for loss or damage to property, general liability, and health insurance.

The District participates in a statewide public risk pool, the Montana Schools Group Workers Compensation Risk Retention Program (WCRRP), for workers compensation coverage. Approximately 200 schools participate in WCRRP. All school participants in this pool are jointly and severally liable for the liabilities of this public risk pool.

The pool issues audited financial statements. Information about the amount of claim liabilities, changes in claims liabilities, amount of claims paid, operating results and other information is available at:

WCRRP
1 South Montana Avenue
Helena, Montana 59601

7. RESTATEMENTS

Fund balance at July 1, 2006 per the Trustees Financial Summary could not be reconciled to the audited financial statements. Beginning fund balance for financial statement purposes was restated as follows:

Financial Statements June 30, 2006	\$225,244
Trustees Financial Summary	<u>232,197</u>
Restatement	<u><u>(\$6,953)</u></u>

Net Assets were restated by \$ 4,088 because of an error in calculating the depreciable cost of a bus purchase.

8. LONG TERM DEBT

	June 30 2006	Payment	Additions	June 30 2007	Current
Compensated Absences	\$44,192		\$13,910	\$58,102	\$19,367
Series 2000	1,270,000	(60,000)		1,210,000	\$55,000
Capital Lease	5,917	(3,000)		2,917	\$2,917
Early Retirement	21,000	(21,000)		0	
	<u>1,341,109</u>	<u>(84,000)</u>	<u>13,910</u>	<u>1,271,019</u>	<u>\$77,284</u>

Amortization

GO Bond, Series 2000, \$1,500,000

June 30	Principal	Interest	Total
2008	\$55,000	\$60,997	\$115,997
2009	65,000	58,248	123,248
2010	65,000	55,062	120,062
2011	70,000	51,975	121,975
2012	70,000	48,650	118,650
2013	75,000	45,255	120,255
2014	75,000	41,580	116,580
2015	90,000	37,867	127,867
2016	95,000	33,367	128,367
2017	100,000	28,570	128,570
2018	100,000	23,470	123,470
2019	110,000	18,320	128,320
2020	115,000	12,600	127,600
2021	125,000	6,562	131,562
	<u>\$1,210,000</u>	<u>\$522,523</u>	<u>\$1,732,523</u>

**SCHOOL DISTRICT No. 35
Gallatin Gateway, Montana**

**SCHEDULE OF REVENUES, EXPENDITURES AND ENCUMBRANCES
BUDGET AND ACTUAL
GENERAL, TRANSPORTATION, BUS DEPRECIATION, RETIREMENT, AND DEBT SERVICE FUNDS**

FOR THE YEAR ENDED JUNE 30, 2007

	General Fund			Transportation Fund			Bus Depreciation Fund			Retirement Fund		
	Budget	Amended	Actual	Budget	Amended	Actual	Budget	Amended	Actual	Budget	Amended	Actual
REVENUES												
District Levy	\$310,763	\$310,763	\$302,909	\$55,012		\$52,923	\$24,119		\$23,411			
Direct State Aid	360,014	394,985	394,984									
Other State Sources	82,358	82,358	82,564	20,020		11,175			23			
County Sources				15,893		7,045				81,401		78,625
Federal Sources												
User Fees			5,909	1,900		4,040						
Interest	2,321	2,321	5,396	175					3,012	1,000		1,808
Other												
Total Revenues	755,456	790,427	791,762	93,000	0	75,183	24,119	0	26,446	82,401	0	80,433
Total Expenditures	755,456	790,427	790,317	86,000		81,272	83,551		0	101,279		93,514
Other Financing Sources (Uses) Transfers												
Excess of Revenues over Expenditures	\$0	\$0	\$1,445	\$7,000	\$0	(\$6,089)	(\$59,432)	\$0	\$26,446	(\$18,878)	\$0	(\$13,081)

Budgetary information is presented as required supplemental information.

Budgets:

Budgets are adopted by funds defined as budgeted funds as defined in state law (MCA 20-9-201).

The budgets must be adopted on or before August 15th of each year, but may be continued day to day until the 4th Monday in August. If taxable value information is not available. (MCA 20-9-131). Appropriations (budgetary spending authority) lapse at year end except for construction in progress and obligations for the purchase of personal property ordered but not paid for during the current year (MCA 20-9-209). Because Montana schools have appropriations which lapse at year end encumbrances are allowed as a means of budgetary control (NCGA Statement 1 Para 91). Encumbrances do not represent expenditures for the period for generally accepted accounting principles.

State law requires only that total actual expenditures not exceed total budgeted expenditures. There were amendments to the budgets in 2007, the amounts shown above are the original, amended, and final budgeted amounts.

**GALLATIN GATEWAY PUBLIC SCHOOLS
DISTRICT NO. 35, GALLATIN COUNTY
Gallatin Gateway, Montana**

SCHEDULE OF SCHOOL DISTRICT ENROLLMENT

Year Ended June 30, 2007

	District Records	Fall Enrollment Report	District Records	Spring Enrollment Report
Kindergarten	22	22	21	21
Grades 1 - 6	107	107	106	106
Grades 7 - 8	31	31	33	33
Total	160	160	160	160

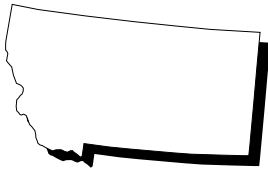
**GALLATIN GATEWAY PUBLIC SCHOOLS
DISTRICT NO. 35, GALLATIN COUNTY
Gallatin Gateway, Montana**

EXTRACURRICULAR FUND

**SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
BY STUDENT ACTIVITY**

FOR THE YEAR ENDED JUNE 30, 2007

Student Activity	Balance June 30, 2006	Revenues	Expenditures	Balance June 30, 2007
Class of 2006	\$682		\$682	\$0
Class of 2007	410	13,561	13,971	0
Class of 2008	1,001			1,001
Class of 2009	0	14,132	7,688	6,444
Class of 2010	47			47
Class of 2011	1			1
Miscellaneous	(153)	3,124	2,984	(13)
Swimming	(16)	1,602	1,667	(81)
Ski Day	919	2,444	2,364	999
Student Council	418	1,674	1,723	369
Music	25		25	0
Total Extracurricular	\$3,334	\$36,537	\$31,104	\$8,767



ROSS R. STALCUP

CERTIFIED PUBLIC ACCOUNTANT, P.C.

**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**

Honorable Board of Trustees
School District No. 35
Gallatin Gateway, Montana

I have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of School District No. 35, Gallatin Gateway, Montana as of and for the year ended June 30, 2007, which collectively comprise School District No. 35's basic financial statements and have issued my report thereon dated February 29, 2008. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered School District No. 35's internal control over financial as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of School District No. 35's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of School District No. 35's internal control over financial reporting.

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

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.


My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. Findings 07-01 and 07-02 are considered material weaknesses.

Compliance and Other Matters

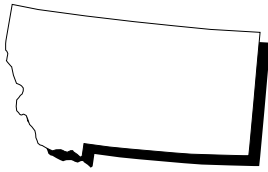
As part of obtaining reasonable assurance about whether School District No. 35's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of School District No. 35, its management, and the Montana Department of Administration and is not intended to be and should not be used by anyone other than these specified parties.

February 29, 2008



Ross R. Stalcup
Certified Public Accountant



ROSS R. STALCUP

CERTIFIED PUBLIC ACCOUNTANT, P.C.
INDEPENDENT AUDITOR'S SUMMARY
OF FINDINGS AND OTHER MATTERS

Honorable Board of Trustees
School District No. 35
Gallatin Gateway, Montana

The following is a schedule of findings and other matters which arose during the audit of year ended June 30, 2007.

Current Year

INTERNAL CONTROL FINDINGS

07-01 Internal Control of Financial Reporting

Current Auditing Standards (SAS 112) require that entities have internal control procedures over the preparation of their financial statements.

In other words, Statement of Auditing Standards 112 requires that the Gallatin Gateway Schools have someone with the qualifications and training to apply generally accepted accounting principles in recording transactions and preparing financial statements.

Notwithstanding this requirement, the scale of the District's operations and legally required frequency of its audits make this requirement impractical to comply with.

I recommend that the Board of Trustees and management take this matter under consideration.

07-02 Segregation of Duties

Ideal segregation of duties is not always possible in an organization with a small staff as is the case with the School District No. 35.

I recommend that the Superintendent and Board of Trustees take an active role so that compensating controls exist, and that they monitor the District's activities.

07-03 Trustees Report

The District's Trustees Financial Summary did not include the Student Extracurricular Fund. In order for the Trustees Financial Summary to be complete, this needs to be included.

Discussions with District personnel indicate that this was an oversight.

Prior Year

06-01 General Ledger out of balance

Corrected

06-02 Accounts Payable not complete

District did not concur with this finding.

The District pays its June payroll in July and accounts for the salary component on cash basis. The result of an analysis was that the results of methodology used differed from the recommended in the audit finding by about ½ %.

The District's position appears reasonable, its methodology while not perfect, does not misstate the financial statements.

06-03 Payroll

Corrected

06-04 Extracurricular

Corrected

06-05 Journal Entries

District did not concur with this finding.

Evidential matter reviewed supports the District's position.

06-06 Allocation of Wages

District did not concur with this finding.

Based on an analysis the District has been, and continues to be, in compliance with Administrative Rule of Montana 10-10-303.

06-07 Health Insurance properly classified

District did not concur with this finding.

The audit finding addresses the fact that health insurance costs were not always charged to the same fund and function as wages.

There is no legal requirement for this, although it might be a "best practice".

06-08 Allocation of Property and Casualty Insurance

The District does not concur with this finding.

See finding 06-06.

The District has been, and continues to be, in compliance with Administrative Rule.

06-09 District's Share of Retirement Cost for Federal Programs paid from the Retirement Fund

The District does not concur with this finding.

Documentation demonstrating transfer of retirement cost to the federal programs via journal entry prior to year end was reviewed and supports the District's position.

06-10 Flex Plan cash not recorded

The District does not concur with this finding.

This finding is written in a confusing manner. Apparently, based on wording, the finding speaks to the Section 125 Plan cash. There is no requirement for this to be recorded on the District's accounting records.

06-11 Deficit fund balances

The District does not concur with this finding.

State Law MCA 20-10-210 does speak to deficit cash in non-budgeted funds, but does not address deficit fund balances.

06-12 Budgets

Comment addressed two issues:

Basis of a bus

The District does not concur.

A recalculation of the basis of the bus supports the District's position.

Technology Fund Levy

Corrected prior to taxes being levied.

06-13 Minutes

Corrected

06-14 Budget Overdrafts

Comment addressed three issues:

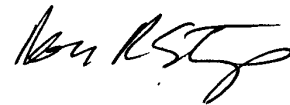
Debt Service budget

Corrected

Transportation and Bus Depreciation Funds

The District does not concur with this finding.

Documentation provided by the District indicates that its position on the matter is correct. Budgetary compliance was accomplished by means of year end Journal vouchers.



February 29, 2008

Ross R. Stalcup
Certified Public Accountant