

SCHOOL DISTRICT NO. 35
Gallatin Gateway, Montana

FINANCIAL AND COMPLIANCE
REPORT
Year Ended June 30, 2009

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

**FINANCIAL AND COMPLIANCE REPORT
Year Ended June 30, 2009**

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MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2009

This section of the Gallatin Gateway School District's annual financial report presents the management discussion and analysis of the District's financial performance during the fiscal year that ended June 30, 2009. It is intended to provide a clear and concise analysis of the activities, financial results, and financial position during the fiscal year, and is a required element of the reporting model established by the Governmental Accounting Standards Board (GASB) in Statement Number 34. This management and discussion and analysis (MD&A) should be read in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2009 are as follows:

- ◆ Total net assets for the District are \$ 807,527.
- ◆ Total governmental fund balances increased \$ 75,799.
- ◆ Total net assets increased by \$ 37,668.

USING THESE FINANCIAL STATEMENTS

This annual report consists of a series of financial statements and notes for those statements. These statements are organized so the reader can understand School District No. 35 as a complex financial entity. The Statement of Net Assets and the Statement of Activities (pages 4 -5) provide information about the activities of the whole district, presenting both an aggregate view of the District's finances and a longer-term view of those finances (they include capital assets and long-term liabilities).

Fund financial statements present a short-term view of the District's activities (they include only current assets expected to be collected in the very near future and liabilities expected to be paid in the very near future). There is also summarized financial information about the student activity trust fund for which the District acts as a trustee.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts - management discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include different kinds of statements that present both a view of the District as a whole, and individual fund statements that focus on various parts of the District's operations in more detail. The financial statements also include notes that explain some of the information presented in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements.

REPORTING THE DISTRICT AS A WHOLE FINANCIAL ENTITY

One important question asked about the District's finances is, "Is the District better or worse off as a result of this year's activities?" The information found in the District-wide financial statements helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting (and reports depreciation on capital assets), which is similar to the basis of accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or disbursed.

The change in net assets (the difference between total assets and total liabilities) is important because it tells the reader whether, for the District as a whole, the financial position of the District has improved or diminished. In addition, nonfinancial factors such as changes in enrollment, changes in the State's funding of educational costs, changes in the economy, changes in the District's tax base, condition of school buildings and other facilities must be considered in making an assessment of the overall health of the District.

District's net assets were as follows:

	2009	2008	Change	%
Current assets	\$386,514	\$353,884	\$32,630	9%
Capital assets - net	1,605,972	1,650,254	(44,282)	(3)%
Total assets	1,992,486	2,004,138	(11,652)	(1)%
Total liabilities	1,184,959	1,234,279	(49,320)	(4)%
Net assets	\$807,527	\$769,859	37,668	5%
Net assets consist of:				
Invested in capital assets	\$515,972	\$495,254	\$20,718	4%
Restricted net assets	92,748	57,866	34,882	60%
Unrestricted net assets	198,807	216,739	(17,932)	(8)%
Net assets	\$807,527	\$769,859	\$37,668	5%

District's program revenues were as follows:

	2009	2008	Change	%
Program Revenues:				
Operating Grants:				
OTO from State	\$1,618	\$90,082	(\$88,464)	(98)%
Title I	15,803	26,851	(11,048)	(41)%
School Food programs	24,611	22,971	1,640	7%
Title VI	21,701	13,599	8,102	60%
Significant Needs	22,000	0	22,000	
Special Education	38,265	42,916	(4,651)	(11)%
Other	17,102	28,532	(11,430)	(40)%
Total Operating Grants	141,100	224,951	(83,851)	(37)%
User Charges:				
Tuition	5,546	5,501	45	1%
School Food fees	50,163	37,284	12,879	35%
Operation & Maintenance		824	(824)	(100)%
Transportation	3,140	3,085	55	2%
Total User Charges	58,849	46,694	12,155	26%
Total Program Revenues	199,949	271,645	(71,696)	(26)%

General Revenues:	2009	2008	Change	%
District property taxes	608,613	611,265	(2,652)	0%
State equalization	504,624	431,920	72,704	17%
Other State Revenue	112,355	106,302	6,053	6%
County property taxes	129,067	103,177	25,890	25%
Interest	8,472	10,005	(1,533)	(15)%
Other	45,526	40,430	5,096	13%
Total General Revenue	1,408,657	1,303,099	105,558	8%
Total Revenue	\$1,608,606	\$1,574,744	\$33,862	2%

District's expenses were as follows:

	2009	2008	Change	%
Regular Instruction	\$743,961	\$668,300	\$75,661	11%
Special Education	46,490	67,146	(20,656)	(31)%
Adult Education	349	337	12	4%
Educational Enhancement	27,327	27,540	(213)	(1)%
Support Services Student	20,419	23,868	(3,449)	(14)%
General Administration	35,196	43,676	(8,480)	(19)%
Building Administration	153,330	124,655	28,675	23%
Business Administration	90,241	75,860	14,381	19%
Operation and Maintenance	222,689	200,502	22,187	11%
Student Transportation	46,881	42,675	4,206	10%
School Food	73,134	68,485	4,649	7%
Extracurricular	8,092	8,091	1	0%
Interest	58,547	61,297	(2,750)	(4)%
Unallocated depreciation	44,282	44,588	(306)	(1)%
Total expenses	1,570,938	1,457,020	113,918	8%
Less charges for services	(58,849)	(46,694)	(12,155)	26%
Less Program Revenues	(141,100)	(224,951)	83,851	(37)%
Net expenses	\$1,370,989	\$1,185,375	\$185,614	16%

FUND FINANCIAL STATEMENTS

The District maintains individual government funds. Six of these funds are considered major funds: General fund, Transportation fund, Bus Depreciation fund, Retirement fund, Miscellaneous fund, and Debt Service fund. The fund financial statements provide detailed information about the most significant of the District's funds; the District is required to provide detailed information for its "major" funds.

Major funds are defined as the general fund and other funds where the assets, liabilities, revenues, or expenditures exceed 10% of total governmental fund amounts.

The governmental funds provide a short-term view of the District's operations. They are reported using an accounting method called modified accrual accounting which measures amounts using only cash and other short-term assets and liabilities (receivables and payables) that will soon be converted to cash or will soon be paid with cash.

THE FUTURE OF THE DISTRICT

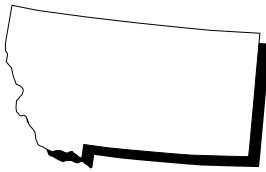
Gallatin Gateway School District #35 has a strong future due to its location and its historical family involvement in the community school. Montana State University and higher education opportunities, technological business growth, outdoor recreation, and quality of schools all contribute to the increased student population in the Gallatin Gateway area located 12 miles from Bozeman, Montana.

Gallatin Gateway School's interest in the potential for student growth led to the creation of a long-range committee on school growth. The committee was charged with the task of compiling family demographics of the area and returning with a report on the future needs of the district. As a first step, the committee analyzed the facility needs of the school district in relationship to student enrollment. Currently the district facility, sewer system, kitchen capacity, and well water can accommodate approximately 200-250 students and staff. This allows for approximate growth of 50 students and staff before the school facilities will have met maximum growth. With anticipated increases in student population, we will have maximized our classroom space, sewer and water systems, and food service capacity.

Current considerations impacting school growth are regulations set by Gallatin County Commissioners on urban sprawl in Gallatin County and the downturn in the local economy. Commissioners currently are not encouraging growth outside Bozeman proper. This has slowed the increase in population to the Gallatin Gateway area. In addition, the growth expectations for our school district dropped temporarily when major businesses in the area scaled back employees to a bare minimum. Gallatin Gateway School District will watch growth trends closely to plan for and accommodate growth.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact School District No. 35, P.O. Box 265, Gallatin Gateway, Montana 59730.



ROSS R. STALCUP

CERTIFIED PUBLIC ACCOUNTANT, P.C.

INDEPENDENT AUDITORS REPORT

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

We 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, 2009, 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. Our responsibility is to express opinions on these financial statements based on our audit. The prior year comparative information has been derived from School District No. 35's 2008 financial statements, and, in our report dated May 14, 2009, we expressed an unqualified opinion on School District No. 35's basic financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

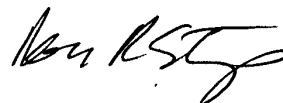
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the government activities, each major fund, and the aggregate remaining fund information of School District No. 35, Gallatin Gateway, Montana, as of June 30, 2009, 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*, we have also issued a report dated February 24, 2010 on our consideration of School District No. 35'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our 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 our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

February 24, 2010



Ross R. Stalcup
Certified Public Accountant

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

**STATEMENT OF NET ASSETS
JUNE 30, 2009**

	2009	2008
ASSETS		
Current Assets:		
Cash and Investments	\$332,250	\$256,451
Property Taxes Receivable	43,108	56,532
Protested Taxes	11,156	40,901
	<hr/>	<hr/>
Total Current Assets	386,514	353,884
Capital Assets	2,078,959	2,078,959
Less Accumulated Depreciation	(472,987)	(428,705)
	<hr/>	<hr/>
Capital Assets - Net	1,605,972	1,650,254
	<hr/>	<hr/>
Total Assets	1,992,486	2,004,138
LIABILITIES:		
Current Liabilities		
Current Liabilities		
Capital Lease		
Compensated Absences	31,653	26,500
Bonds Payable	65,000	65,000
	<hr/>	<hr/>
Total Current Liabilities	96,653	91,500
Non Current Liabilities		
Bonds Payable	1,025,000	1,090,000
Compensated Absences	63,306	52,779
	<hr/>	<hr/>
Total NonCurrent Liabilities	1,088,306	1,142,779
	<hr/>	<hr/>
Total Liabilities	1,184,959	1,234,279
	<hr/>	<hr/>
Total Net Assets	807,527	769,859
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	515,972	495,254
Restricted Net Assets	92,748	57,866
Unrestricted Net Assets	198,807	216,739
	<hr/>	<hr/>
Total Net Assets	<u>\$807,527</u>	<u>\$769,859</u>

See Notes to Financial Statements

SCHOOL DISTRICT No. 35
Gallatin Gateway, Montana
STATEMENT OF ACTIVITIES
FOR THE YEAR Ended June 30, 2009

	Expenses	---Program Charges for Services	Revenue--- Operating Grants	Net (Expense) Revenue 2009	2008
GOVERNMENT OPERATIONS					
Instruction:					
Regular Instruction.	\$743,961	\$5,546	\$58,535	(\$679,880)	(\$589,166)
Special Education.	46,490		38,265	(8,225)	(24,230)
Vocational Education.				0	0
Adult Education.	349			(349)	(337)
Educational Enhancement.	27,327			(27,327)	(27,540)
Support Services.	20,419			(20,419)	(23,868)
Administration:					
General.	35,196			(35,196)	(43,676)
Building.	153,330			(153,330)	(124,655)
Business.	90,241			(90,241)	(75,860)
Operation and Maintenance.	222,689		19,689	(203,000)	(114,247)
Transportation.	46,881	3,140		(43,741)	(39,590)
Food Services.	73,134	50,163	24,611	1,640	(8,230)
Student Extracurricular.	8,092			(8,092)	(8,091)
Interest.	58,547			(58,547)	(61,297)
Unallocated Depreciation.	44,282			(44,282)	(44,588)
Totals.	<u>\$1,570,938</u>	<u>\$58,849</u>	<u>\$141,100</u>	<u>(\$1,370,989)</u>	<u>(\$1,185,375)</u>
GENERAL REVENUES					
District Property Taxes.				\$608,613	\$611,265
State Equalization.				504,624	431,920
Other State Revenue.				112,355	106,302
Federal Revenue.					
County Property Taxes.				129,067	103,177
Interest.				8,472	10,005
Other.				45,526	40,430
Total General Revenues.				<u>\$1,408,657</u>	<u>\$1,303,099</u>
Capital asset writeoffs.					
CHANGE IN NET ASSETS.				37,668	117,724
NET ASSETS					
Beginning of Year.				769,859	652,135
End of the Year.				<u>\$807,527</u>	<u>\$769,859</u>

See Notes to Financial Statements

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

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2009**

	General Fund	Transportation Fund	Bus Depreciation Fund	Retirement Fund	Misc Fund	Debt Service Fund	Other Governmental Funds	Total
ASSETS:								
Cash and Investments.	\$79,545	\$11,414	\$57,878	\$70,213	\$70,996	\$6,217	\$35,987	\$332,250
Property Taxes Receivable.	22,464	5,138	1,756			8,819	4,931	43,108
Protested Taxes.	5,940	1,310	422			2,244	1,240	11,156
Due from Other Governments.								0
Total Assets.	107,949	17,862	60,056	70,213	70,996	17,280	42,158	386,514
LIABILITIES:								
Other Current								0
Deferred Revenue.	28,404	6,448	2,178			11,063	6,171	54,264
Due to Other Governments.								0
Total Liabilities.	28,404	6,448	2,178	0	0	11,063	6,171	54,264
FUND BALANCE:								
Restricted.					70,996			70,996
Operations.	79,545	11,414						90,959
Unreserved.			57,878	70,213		6,217	35,987	170,295
Total Fund Balance.	79,545	11,414	57,878	70,213	70,996	6,217	35,987	332,250
Total Liabilities and Fund Balance.	\$107,949	\$17,862	\$60,056	\$70,213	\$70,996	\$17,280	\$42,158	\$386,514

RECONCILIATION TO THE STATEMENT OF NET ASSETS

Total fund balance from above.	\$332,250
Net capital assets.	1,605,972
Less liabilities not reported above:	
Compensated absences.	(94,959)
Deferred revenues.	54,264
Bonds payable.	(1,090,000)
Capital Lease.	_____
Net Assets.	\$807,527

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, 2009

	General Fund	Transportation Fund	Bus Depreciation Fund	Retirement Fund	Misc Fund	Debt Service Fund	Other Governmental Funds	Total
REVENUES:								
District Levy	\$339,582	\$77,716	\$26,539			\$132,845	\$75,100	\$651,782
Direct State Aid.	529,308					2,616		531,924
Other State Sources.	103,110	13,140			30,885		6,675	153,810
County Sources.		9,071		129,067				138,138
Federal Sources.					43,663		24,611	68,274
User Fees.	5,546	3,140					50,163	58,849
Interest.	5,545	188	1,041	1,168			530	8,472
Other.					40,525			40,525
Total Revenues.	983,091	103,255	27,580	130,235	115,073	135,461	157,079	1,651,774
EXPENDITURES:								
Current Operations:								
Instruction:								
Regular Programs.	521,562			63,451	101,619		41,649	728,281
Special Programs.	39,287			7,203				46,490
Vocational Programs.								0
Adult Education.				349				349
Educational Enhancement.	23,924			3,403				27,327
Support Services Students.	18,731			1,688				20,419
Administration General.	35,196							35,196
Building.	107,253	29,541		15,994			542	153,330
Business.	64,266	14,003		10,949			1,023	90,241
Operation and Maintenance.	154,295	10,692					11,515	218,696
Transportation.	460	44,572		1,849		42,194		46,881
Food Services.				3,161			69,973	73,134
Student Extracurricular.	7,502			590				8,092
Capital Outlay.			3,992					3,992
Debt Service.						123,547		123,547
Total Expenditures.	972,476	98,808	3,992	108,637	143,813	123,547	124,702	1,575,975
Excess (Deficiency) Of Revenues Over Expenditures and Other Financing.	10,615	4,447	23,588	21,598	(28,740)	11,914	32,377	75,799
FUND BALANCE								
Beginning of the Year.	68,930	6,967	34,290	48,615	99,736	(5,697)	3,610	256,451
End of the Year.	\$79,545	\$11,414	\$57,878	\$70,213	\$70,996	\$6,217	\$35,987	\$332,250

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, 2009

Change in Fund Balances.....	\$75,799
Increase in Property Taxes Receivable not included in the Governmental Fund Statements.....	(43,169)
Amounts Reported as Expenditures in the Governmental Fund Statements	
Capital Outlay.....	
Increase in Compensated Absences.....	(15,680)
Expenses on the Statement of Activities not included in the Governmental Fund Statements	
Depreciation.....	(44,282)
Bond Principal.....	65,000
Change in Net Assets.....	<u>\$37,668</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, 2009**

FIDUCIARY NET ASSETS

	Extracurricular	Private Purpose Trust	Total
ASSETS			
Cash.	\$24,204	\$1,338	\$25,542
NET ASSETS			
Held in Trust.	24,204	1,338	25,542
CHANGES IN FIDUCIARY NET ASSETS			
Revenue.	81,949	33	81,982
Expenditures.	67,517		67,517
NET ASSETS			
BEGINNING.	9,772	1,305	11,077
ENDING.	\$24,204	\$1,338	\$25,542

See Notes to Financial Statements

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

**NOTES TO FINANCIAL STATEMENTS
June 30, 2009**

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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.

Miscellaneous fund

This fund accounts for the revenues and expenditures of various grants and other financial items.

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.

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 2009 was as follows:

	Balance June 30, 2008	Additions	Deletions	Balance June 30, 2009
Cost of assets:				
Land	\$58,361			\$58,361
Buildings and Improvements	1,825,106			1,825,106
Equipment	195,492			195,492
Total	\$2,078,959	\$0	\$0	\$2,078,959
Accumulated depreciation:				
Buildings and Improvements	343,974	30,584		\$374,558
Equipment	84,731	13,698		98,429
Total	428,705	44,282	0	472,987
Capital Assets, Net	\$1,650,254	(\$44,282)	\$0	\$1,605,972

Depreciation:

Unallocated	44,282
	\$44,282

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, 2009 are as follows:

Transportation	11,414
Retirement	70,213
Adult Education	6,307
Technology	4,814
Total	\$92,748

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 2009 the contribution rates did not change. The state of Montana makes on behalf payments for the District. 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%	2.110%	16.73%
PERS	6.80%	6.90%	0.235%	13.94%

The amounts contributed to TRS and PERS during the years ended June 30, 2005, 2006, 2007, 2008, and 2009 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:

	2005	2006	2007	2008	2009
TRS	\$65,920	\$67,143	\$75,951	\$75,406	\$76,709
PERS	9,945	8,780	11,971	15,219	15,813
Total	<u>\$75,865</u>	<u>\$75,923</u>	<u>\$87,922</u>	<u>\$90,625</u>	<u>\$92,522</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

Notes to Financial Statements (continued)

7. LONG TERM DEBT

	June 30 2008	Payment	Additions	June 30 2009	Current
Compensated Absences	\$79,279		\$15,680	\$94,959	\$31,653
Series 2000	1,155,000	65,000		1,220,000	65,000
Bond Carrying Value	<u>1,234,279</u>	<u>65,000</u>	<u>15,680</u>	<u>1,314,959</u>	<u>\$96,653</u>

Amortization

GO Bond, Series 2000, \$1,500,000, variable interest rate, as follows:

June 30	Principal	Interest	Total
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>\$1,090,000</u>	<u>\$403,278</u>	<u>\$1,493,278</u>

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

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

FOR THE YEAR ENDED JUNE 30, 2009

	General Fund		Transportation Fund		Bus Depreciation Fund		Retirement Fund	
	Original & Final Budget	Actual	Original & Final Budget	Actual	Original & Final Budget	Actual	Original & Final Budget	Actual
REVENUES								
District Levy	\$330,727	\$339,582	\$76,859	\$77,716	\$26,414	\$26,539		
Direct State Aid	529,308	529,308						
Other State Sources	103,111	103,110	13,141	13,141				
County Sources			9,000	9,070			127,171	129,067
Federal Sources								
User Fees	4,500	5,546		3,140				
Interest	6,218	5,545		188		1,041		1,168
Other								
Total Revenues	973,864	983,091	99,000	103,255	26,414	27,580	127,171	130,235
Total Expenditures	973,864	972,476	99,000	98,808	106,842	3,992	130,212	108,637
Other Financing Sources (Uses) Transfers								
Excess of Revenues over Expenditures	\$0	\$10,615	\$0	\$4,447	(\$80,428)	\$23,588	(\$3,041)	\$21,598

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. None were included in the financial statements.

State law requires only that total actual expenditures not exceed total budgeted expenditures. There were no amendments to the budgets in 2009, 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, 2009

	District Records	Fall Enrollment Report	District Records	Spring Enrollment Report
Kindergarten	19	19	18	18
Grades 1 - 6	108	108	111	111
Grades 7 - 8	39	39	39	39
Total	166	166	168	168

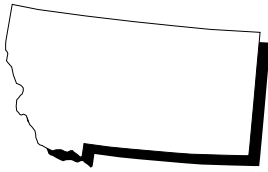
**GALLATIN GATEWAY PUBLIC SCHOOLS
DISTRICT NO. 35, GALLATIN COUNTY
Gallatin Gateway, Montana**

EXTRACURRICULAR FUND

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

FOR THE YEAR ENDED JUNE 30, 2009

Student Activity	Balance June 30, 2008	Revenues	Expenditures	Balance June 30, 2009
Class of 2008	3,774	1,115	4,889	0
Class of 2009	508	29,522	28,287	1,743
Class of 2010	3,750	5,584	37	9,297
Class of 2011	55	11,414	5,379	6,090
Class of 2012	0	8,589	2,831	5,758
Class of 2015	0	63	63	0
Miscellaneous	(149)	4,297	4,036	112
Swimming	(96)	1,944	2,007	(159)
Ski Day	1,284	2,281	2,544	1,021
Student Council	646	0	304	342
Wild Game Feed	0	17,140	17,140	0
Total Extracurricular	\$9,772	\$81,949	\$67,517	\$24,204



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**

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

We 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, 2009, which collectively comprise School District No. 35's basic financial statements and have issued our report thereon dated February 24, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

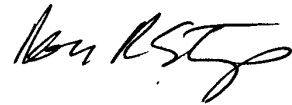
Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying summary of findings and other matters, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying Summary of Findings and Other Matters to be material weaknesses. (Findings No. 09-01, 09-02, 09-03)

Compliance and Other Matters

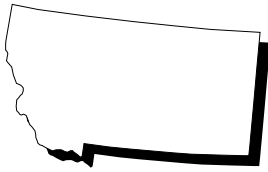
As part of obtaining reasonable assurance about whether School District No. 35's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and 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*.

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



February 24, 2010

Ross R. Stalcup
Certified Public Accountant



ROSS R. STALCUP

CERTIFIED PUBLIC ACCOUNTANT, P.C.
INDEPENDENT AUDITORS SUMMARY
OF FINDINGS AND OTHER MATTERS

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, 2009.

Current Year

INTERNAL CONTROL FINDINGS

09-01 Internal Control of Financial Reporting

Current Auditing Standards (SAS 115) require that entities have internal control procedures over the preparation of their financial statements.

In other words, Statement of Auditing Standards 115 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.

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

09-02 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.

We 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.

09-03 Trustees Report

The District's Trustees Financial Summary included the Student Extracurricular Fund cash balances which had not been reconciled to the appropriate bank statements.

Discussions with District personnel indicate that this was an oversight.

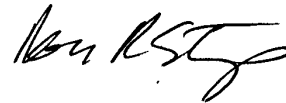
Prior Year

08-01 Internal Control of Financial Reporting see 09-01

08-02 Segregation of Duties see 09-02

08-03 Trustees Report Corrected

February 24, 2010



Ross R. Stalcup
Certified Public Accountant