

**SCHOOL DISTRICT NUMBER 35  
GALLATIN COUNTY  
GALLATIN GATEWAY, MONTANA**

**FINANCIAL STATEMENTS**

**For the Year Ended June 30, 2006**

**OLNESS & ASSOCIATES, P. C.**

**CERTIFIED PUBLIC ACCOUNTANTS**

**2810 CENTRAL AVENUE, SUITE B  
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SCHOOL DISTRICT NUMBER 35

ORGANIZATION

June 30, 2006

BOARD OF TRUSTEES

Erik Yager	Chairman
Jess Holloway	Vice-Chairman
Alec Nisbet	Trustee
Nikki Robbins	Trustee
Cheryl Thiem	Trustee

OFFICIALS

Kim DeBruycker	Superintendent
Carrie Fisher	Clerk
Ken Mosby	Business Manager

# OLNESS & ASSOCIATES, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
School District Number 35  
Gallatin Gateway, Montana

We were engaged to audit the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of School District Number 35, Gallatin Gateway, Montana (the government) as of and for the year ended June 30, 2006, which collectively comprise the government's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the government's management.

Documentation was not available for the following; allocation of salaries and benefits between funds, revenues and expenditures for the extracurricular fund and the amounts at which donated capital assets were recorded. We were unable to satisfy ourselves through other auditing procedures.

Because of the significance of the matters discussed in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, opinions on the financial statements referred to in the first paragraph.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2006, on our consideration of the government'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 government has not presented the management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

The budgetary comparison information identified in the table of contents 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. As discussed in the second paragraph above, the scope of our work was not sufficient to enable us to express opinions on the financial statements referred to in the first paragraph. Similarly, we were unable to express, and do not express, an opinion on the budgetary comparison information.

We were engaged to audit the financial statements referred to above for the purpose of forming opinions on the financial statements that collectively comprise the government's basic financial statements. The extracurricular fund schedule and schedule of school district enrollment are presented for purposes of additional analysis and are not a required part of the basic financial statements. As discussed in the second paragraph above, the scope of our work was not sufficient to enable us to express opinions on the financial statements referred to in the first paragraph. Similarly, we were unable to express, and do not express, an opinion on the other supplementary information.

*Olness & Associates, PC*

October 4, 2006

SCHOOL DISTRICT NUMBER 35  
STATEMENT OF NET ASSETS  
June 30, 2006

<b>ASSETS</b>	
Cash and cash equivalents	\$ 236,225
Taxes receivables	44,947
Capital assets:	
Land	58,361
Depreciable capital assets, net	<u>1,604,628</u>
Total assets	<u>1,944,161</u>
<b>LIABILITIES</b>	
Accounts payable-vendors	10,981
Long-term liabilities:	
Due within one year:	
Bonds and capital leases payable	62,762
Compensated absences	4,419
Termination benefits	21,000
Due in more than one year:	
Bonds and capital leases payable	1,213,155
Compensated absences	<u>39,773</u>
Total liabilities	<u>1,352,090</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	387,072
Restricted for:	
Transportation	1,055
Bus replacement	61,112
Tuition	721
Employee benefits	54,325
Adult education	3,426
Technology	2,830
Unrestricted	<u>81,530</u>
Total net assets	<u>\$ 592,071</u>

SCHOOL DISTRICT NUMBER 35  
STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	
Instruction	\$ 567,245	\$ 4,227	\$ 61,934	\$ (501,084)
Support services:				
Students	30,351	-	-	(30,351)
Instructional staff	23,812	-	9,584	(14,228)
General administration	29,181	-	-	(29,181)
School administration	132,634	-	-	(132,634)
Business services	66,371	-	-	(66,371)
Operation and maintenance	117,753	-	-	(117,753)
Student transportation	36,296	2,355	13,482	(20,459)
Food services	49,093	20,284	21,940	(6,869)
Extracurricular	7,736	-	-	(7,736)
Interest	67,387	-	-	(67,387)
<b>Total</b>	<b>\$ 1,127,859</b>	<b>\$ 26,866</b>	<b>\$ 106,940</b>	<b>(994,053)</b>
General revenues:				
Property taxes				491,898
Intergovernmental:				
State aid				351,728
State other				65,829
County				89,597
Interest				7,177
Miscellaneous				51,491
Gain on disposal of capital assets				4,500
<b>Total general revenues</b>				<b>1,062,220</b>
Change in net assets				68,167
Net assets - beginning				523,556
Prior period adjustment				348
<b>Net assets - ending</b>				<b>\$ 592,071</b>

SCHOOL DISTRICT NUMBER 35  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2006

	General	Transportation	Bus Depreciation	Retirement	Debt Service	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>							
Cash and cash equivalents	\$ 80,685	\$ 266	\$ 59,432	\$ 55,131	\$ 7,413	\$ 33,298	\$ 236,225
Taxes receivables	24,061	3,361	1,680	-	11,565	4,280	44,947
<b>Total assets</b>	<b>\$ 104,746</b>	<b>\$ 3,627</b>	<b>\$ 61,112</b>	<b>\$ 55,131</b>	<b>\$ 18,978</b>	<b>\$ 37,578</b>	<b>\$ 281,172</b>
<b>LIABILITIES AND FUND BALANCES</b>							
Liabilities:							
Accounts payable-vendors	\$ 3,377	\$ 2,572	\$ -	\$ 806	\$ -	\$ 4,226	\$ 10,981
Deferred revenue	24,061	3,361	1,680	-	11,565	4,280	44,947
<b>Total liabilities</b>	<b>27,438</b>	<b>5,933</b>	<b>1,680</b>	<b>806</b>	<b>11,565</b>	<b>8,506</b>	<b>55,928</b>
Fund balances:							
Reserved for:							
Debt service	-	-	-	-	7,413	-	7,413
Protested/delinquent taxes	4,013	-	-	-	-	-	4,013
Operations	73,295	-	-	35,448	-	3,292	112,035
Unreserved:							
Major funds:	-	(2,306)	59,432	18,877	-	-	76,003
Nonmajor funds:							
Special revenue funds	-	-	-	-	-	27,650	27,650
Capital projects funds	-	-	-	-	-	(1,870)	(1,870)
<b>Total fund balances</b>	<b>77,308</b>	<b>(2,306)</b>	<b>59,432</b>	<b>54,325</b>	<b>7,413</b>	<b>29,072</b>	<b>225,244</b>
<b>Total liabilities and fund balances</b>	<b>\$ 104,746</b>	<b>\$ 3,627</b>	<b>\$ 61,112</b>	<b>\$ 55,131</b>	<b>\$ 18,978</b>	<b>\$ 37,578</b>	<b>\$ 281,172</b>

SCHOOL DISTRICT NUMBER 35  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS  
June 30, 2006

Total fund balance, governmental funds	\$ 225,244
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds.	1,662,989
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the funds.	44,947
Some liabilities, including bonds payable, capital leases, termination benefits and compensated absences are not due and payable in the current period and, therefore, are not included in the funds.	<u>(1,341,109)</u>
Net assets of governmental activities	<u>\$ 592,071</u>



SCHOOL DISTRICT NUMBER 35  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 GOVERNMENTAL FUNDS  
 For the Year Ended June 30, 2006

	General	Transportation	Bus Depreciation	Retirement	Debt Service	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>							
Property taxes	\$ 263,398	\$ 38,108	\$ 17,782	\$ -	\$ 122,726	\$ 48,689	\$ 490,703
Intergovernmental:							
County	-	6,741	-	89,597	-	-	96,338
State aid	351,728	-	-	-	-	-	351,728
State other	76,450	10,851	29	-	198	24,121	111,649
Federal	-	-	-	-	-	54,379	54,379
Tuition	4,227	-	-	-	-	-	4,227
Charges for services	-	2,355	-	-	-	20,284	22,639
Interest	2,321	208	2,310	1,588	-	750	7,177
Miscellaneous	-	-	-	-	-	51,491	51,491
<b>Total revenues</b>	<b>698,124</b>	<b>58,263</b>	<b>20,121</b>	<b>91,185</b>	<b>122,924</b>	<b>199,714</b>	<b>1,190,331</b>
<b>EXPENDITURES</b>							
Current:							
Instruction	388,627	-	-	51,895	-	141,373	581,895
Support services:							
Students	21,972	-	-	3,284	-	5,095	30,351
Instructional staff	18,603	-	-	2,736	-	40	21,379
General administration	26,213	-	-	114	-	1,232	27,559
School administration	89,847	28,098	-	12,987	-	75	131,007
Business services	48,238	9,290	-	6,113	-	-	63,641
Operation and maintenance	93,911	4,868	-	485	-	18,489	117,753
Student transportation	82	27,039	-	625	-	135	27,881
Food services	-	-	-	3,082	-	45,130	48,212
Extracurricular	4,933	-	-	569	-	2,234	7,736
Capital outlay	-	-	58,676	-	-	7,775	66,451
Debt service:							
Principal	2,411	-	-	-	55,000	-	57,411
Interest and other charges	339	-	-	-	67,048	-	67,387
<b>Total expenditures</b>	<b>695,176</b>	<b>69,295</b>	<b>58,676</b>	<b>81,890</b>	<b>122,048</b>	<b>221,578</b>	<b>1,248,663</b>
<b>Net change in fund balances</b>	<b>2,948</b>	<b>(11,032)</b>	<b>(38,555)</b>	<b>9,295</b>	<b>876</b>	<b>(21,864)</b>	<b>(58,332)</b>
Fund balances - beginning	76,860	8,726	97,987	45,030	6,537	48,088	283,228
Prior period adjustments	(2,500)	-	-	-	-	2,848	348
<b>Fund balances - ending</b>	<b>\$ 77,308</b>	<b>\$ (2,306)</b>	<b>\$ 59,432</b>	<b>\$ 54,325</b>	<b>\$ 7,413</b>	<b>\$ 29,072</b>	<b>\$ 225,244</b>

SCHOOL DISTRICT NUMBER 35  
 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, 2006

Net change in fund balances - total governmental funds: \$ (58,332)

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

Governmental funds report capital outlay expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

This is the amount by which capital outlay (\$66,451) exceeded depreciation (\$40,982) in the current period. 25,469

The net effect of various transactions involving capital assets (i.e., sales, donations and trade ins) is to increase net assets. 4,500

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds. 1,195

Governmental funds report repayment of debt principal as expenditures. In contrast, the statement of activities treats such repayments as a reduction in long-term liabilities. This is the amount of repayments. 57,411

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:

Termination benefits 42,000  
 Compensated absences (4,076)

Change in net assets of governmental activities \$ 68,167

SCHOOL DISTRICT NUMBER 35  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
June 30, 2006

	Private Purpose Trust Fund- Extracurricular	Agency Funds
<b>ASSETS</b>		
Cash and cash equivalents	\$ 3,340	\$ 15,829
Total assets	3,340	\$ 15,829
<b>LIABILITIES</b>		
Accounts payable	\$ -	\$ 15,829
Total liabilities	-	\$ 15,829
<b>NET ASSETS</b>		
Held in trust	\$ 3,340	

SCHOOL DISTRICT NUMBER 35  
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
 FIDUCIARY FUND  
 For the Year Ended June 30, 2006

	<u>Private Purpose Trust Fund- Extracurricular</u>
<b>ADDITIONS</b>	
Student extracurricular activities	<u>\$ 23,976</u>
Total contributions	<u>23,976</u>
<b>DEDUCTIONS</b>	
Student extracurricular activities	<u>22,847</u>
Total deductions	<u>22,847</u>
Change in net assets	1,129
Net assets - beginning	-
Prior period adjustment	<u>2,211</u>
Net assets - ending	<u><u>\$ 3,340</u></u>

SCHOOL DISTRICT NUMBER 35  
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the government have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The government's significant accounting policies are described below.

Reporting Entity

The government was established under Montana law to provide educational services below the college and university level to residents of the district. The government consists of kindergarten through eighth grade district, which is managed by a central Board of Trustees, elected in a district wide election and by a central administration appointed by and responsible to the Board.

The County provides substantial services to the government; tax billing, cash collections, debt payments and warrant redemption. The County also maintains the government's cash and invests available funds at the direction of the government. The County Commissioners have a legal obligation to set levy amounts and to approve the budget adopted by the government. However, despite the degree of services provided, the government does not qualify as a component unit of the County.

These financial statements present, as a single reporting entity, all activities of the primary government. A primary government is defined as having a separately elected governing body, being legally separate, and fiscally independent

Government-wide and Fund Financial Statements

The government-wide financial statements (the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements. Fiduciary funds are excluded from the government-wide financial statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or identifiable activity. Program revenues include 1) charges for services which report fees and other charges provided by a given function or identifiable activity 2) operating grants and contributions and 3) capital grants. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund financial statements are provided for governmental funds and fiduciary funds. Major individual governmental funds are reported in separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized 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.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes 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 government.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

SCHOOL DISTRICT NUMBER 35  
NOTES TO BASIC FINANCIAL STATEMENTS

The government reports the following major governmental funds:

The general fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The transportation fund accounts for resources accumulated and payments made for student transportation.

The bus depreciation fund accounts for resources accumulated and payments made for the replacement of buses and two-way radios.

The retirement fund accounts for resources accumulated and payments made for retirement, unemployment and Social Security.

The debt service fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt.

Additionally, the government reports the following fund types:

The government has a private-purpose trust fund, the student extracurricular fund, which accounts for the extracurricular student activities.

Agency funds are custodial in nature and are used to account for assets that the government holds for others in an agency capacity.

Assets, Liabilities and Net Assets or Equity

Cash and Investments

Cash and investments, except amounts in the extracurricular and flexible benefits funds, are held by the County Treasurer. The County Treasurer invests the District's cash at the direction of the government as required by state statute. Allowable investments include direct obligations of the United States Government, repurchase agreements, savings or time deposits in a state or national bank, building and loan associations, savings and loan associations, or credit unions insured by the FDIC, FSLIC, or NCUA and the State Short Term Investment Pool (STIP). STIP is classified as a 2a7-like pool, and as such, uses amortized cost to report unit values.

Investments in the pool are reported at fair value. Fair value is determined annually, based on year-end market values. Short-term investments are reported at cost, which approximates fair value. Cash on hand, demand, savings and time deposits, STIP and short-term investments with original maturities of three months or less from the date of acquisition are considered cash equivalents.

Receivables

Most property taxes are levied in September of each fiscal year, based on assessments as of the prior January 1. Real property taxes are billed as of November 1 and are payable in two payments, November 30 and May 31. Unpaid taxes become delinquent on December 1 and June 1. Most personal property taxes are due and payable on January 1 and become delinquent February 1. Property taxes are maintained and collected by the County Treasurer. No allowance is made for uncollectible taxes as they are not considered significant.

Inventories

Inventory items purchased are recorded as expenditures/expenses at the time of purchase. Inventory at year-end was not material and therefore not recorded.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., sidewalks and similar items) are reported in the government-wide financial statements. The government has elected not to report major infrastructure assets retroactively. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Contributed capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

SCHOOL DISTRICT NUMBER 35  
NOTES TO BASIC FINANCIAL STATEMENTS

Depreciation on capital assets is calculated on the straight-line basis over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings/improvements	20-80
Machinery and equipment	5-15

Collections Not Capitalized

Certain collections of historic artifacts and works of art are not reported in the accompanying financial statements. These assets have not been capitalized because they meet all of the conditions that qualify them as collections that are not required to be capitalized. These conditions are the collections are held for public exhibition or education in the furtherance of public service, not held for financial gain; the collections are protected, kept unencumbered, cared for, and preserved; and any sale proceeds are expected to be used to acquire other items for the collections.

Warrants Payable

The government pays expenditures by means of warrants. These warrants are orders to the County Treasurer to pay a specified sum to the person named or to the bearer. Warrants not redeemed by the County Treasurer as of June 30, 2006, are reported on the statement of fiduciary net assets as accounts payable.

Compensated Absences

Liabilities associated with accumulated vacation and sick leave are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

Classified employees (non-teaching) earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Accumulated vacation is restricted under state statute to a maximum accumulation of two times the amount earned annually. Vacation leave is absorbed by time off from work, or, with certain limitations, may be payable to the employee upon termination.

Sick leave is accumulated for classified employees at the rate of 12 days per year with no limit on the carry over amount. Sick leave for certified personnel (teachers) is awarded at 14 days per year up to a cumulative maximum of 60 days. Upon retirement or resignation, classified employees are eligible for sick leave compensation at one fourth of the accumulated amount and certified employees are eligible for a lump sum payout of the accumulated balance at the current substitute teacher's daily rate.

Long-term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. In the fund financial statements, the face amount of debt issued is reported as an other financing source.

Fund Equity

In the government-wide statements, equity is classified as net assets and displayed in three components:

Invested in capital assets, net of related debt—Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets—Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted net assets—All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

In the fund statements, governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved.

Use of Estimates

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

SCHOOL DISTRICT NUMBER 35  
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Deficit Fund Equity

The school food (\$449), transportation (\$2,306) and building reserve (\$3,578) funds had deficit fund balances. The deficit in the school food is expected to be eliminated by allocating certain expenditures over to the general fund. The transportation and building reserve deficits are expected to be eliminated through collection of delinquent taxes.

NOTE 3. DETAILED NOTES ON ALL FUNDS

Equity in Pooled Cash and Investments

As discussed in Note 1, the government's cash and investments, except amounts in the extracurricular and flexible benefits funds, are held by the County Treasurer. The government directs the investment of money pursuant to the provisions of state statute. The extracurricular and flexible benefits bank balances were entirely insured by the FDIC.

Montana law allows the local governing body to require security for the portion of deposits not guaranteed or insured. Deposit insurance is administered by the FDIC. The County Treasurer has the fiduciary responsibility to ensure that adequate collateral is pledged for all investments that are not fully covered by Federal Deposit Insurance. Montana code allows the County Treasurer to take collateral up to 50% of deposits if the institution in which the deposit is made has a net worth to total assets ratio of 6% or more and 100% if the ratio is less than 6%. Risk in the event of loss is unclear in state law, but may be the liability of the County government. Custodial credit risk, interest rate risk and concentration of credit risk classifications of the government's deposits and pooled investments can be obtained from the Gallatin County Treasurer.

Capital Assets

Capital asset activity for the year ended June 30, 2006, was as follows:

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Capital assets, not being depreciated				
Land	\$ 58,361	\$ -	\$ -	\$ 58,361
Total capital assets, not being depreciated	<u>58,361</u>	<u>-</u>	<u>-</u>	<u>58,361</u>
Capital assets, being depreciated				
Buildings/improvements	1,811,746	7,775	-	1,819,521
Machinery and equipment	129,654	63,176	(14,500)	178,330
Total capital assets, being depreciated	<u>1,941,400</u>	<u>70,951</u>	<u>(14,500)</u>	<u>1,997,851</u>
Less accumulated depreciation for:				
Buildings/improvements	(259,449)	(28,201)	-	(287,650)
Machinery and equipment	(107,292)	(12,781)	14,500	(105,573)
Total accumulated depreciation	<u>(366,741)</u>	<u>(40,982)</u>	<u>14,500</u>	<u>(393,223)</u>
Total capital assets, being depreciated, net	<u>1,574,659</u>	<u>29,969</u>	<u>-</u>	<u>1,604,628</u>
Capital assets, net	<u>\$ 1,633,020</u>	<u>\$ 29,969</u>	<u>\$ -</u>	<u>\$ 1,662,989</u>

Depreciation expense was charged as follows:

Instruction	\$ 25,911
Support services-instructional staff	2,433
Support services-general administration	1,622
Support services-business	810
Student transportation	9,460
Food services	746
	<u>40,982</u>



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Capital Leases

The government has entered into certain capital lease agreements under which the related equipment will become the property of the government when all terms of the lease agreements are met. Assets acquired through capital leases are as follows:

Machinery and equipment	\$	14,157
Less: accumulated depreciation		<u>(8,494)</u>
	\$	<u>5,663</u>

The future minimum lease obligations and the present value of these minimum lease payments, as of June 30, 2006, are as follows:

	Year ending June 30,		
	2007	\$	3,000
	2008		3,000
	2009		<u>250</u>
Total minimum lease payments			6,250
Less: amount representing interest			<u>(333)</u>
Present value of minimum lease payments		\$	<u>5,917</u>

Long-Term Debt

During fiscal year 2001, the government issued general obligation bonds (\$1,500,000) to provide funds for the acquisition and construction of major capital facilities. The general obligation bonds were issued for 20 years and have a variable interest rate of 4.75 to 6.00 percent. General obligation bonds outstanding as June 30, 2006 were \$1,270,000

Annual debt service requirements to maturity for general obligation bonds are as follows:

	Year ending June 30,	Principal	Interest	Total
	2007	\$ 60,000	\$ 63,998	\$ 123,998
	2008	55,000	60,997	115,997
	2009	65,000	58,247	123,247
	2010	65,000	55,062	120,062
	2011	70,000	51,975	121,975
	2012-2016	405,000	206,720	611,720
	2017-2021	<u>550,000</u>	<u>89,523</u>	<u>639,523</u>
		<u>\$ 1,270,000</u>	<u>\$ 586,522</u>	<u>\$ 1,856,522</u>

The government also provided an early retirement incentive program for six employees at the end of fiscal year 2003. Each employee receives \$7,000 per year for three years. Annual requirements for the termination benefits are \$21,000 for the year ended June 30, 2007.

Long-term liability activity for the year ended June 30, 2006 was as follows:

	Balance July 1, 2005	Additions	Retirements	Balance June 30, 2006	Due Within One Year
Compensated absences	\$ 40,116	\$ 4,076	\$ -	\$ 44,192	\$ 4,419
Capital leases	8,328	-	(2,411)	5,917	2,762
Termination benefits	63,000	-	(42,000)	21,000	21,000
Bonds payable	<u>1,325,000</u>	<u>-</u>	<u>(55,000)</u>	<u>1,270,000</u>	<u>60,000</u>
	<u>\$ 1,436,444</u>	<u>\$ 4,076</u>	<u>\$ (99,411)</u>	<u>\$ 1,341,109</u>	<u>\$ 88,181</u>

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NOTE 4. OTHER INFORMATION

Risk Management

The government is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; professional liability (i.e., errors and omissions); workers compensation (i.e., employee injuries); medical insurance costs; and environmental damages. A variety of methods is used to provide insurance for these risks. Commercial policies, transferring all risks of loss, except for relatively small deductible amounts, are purchased for theft, damage or destruction of assets, professional liabilities and employee medical costs. The government participates in the Montana Schools Group's Workers' Compensation Risk Retention Program, a state-wide public risk pool currently operating as a common risk management and insurance program for the member school districts. The government pays quarterly premiums for its employee injury insurance coverage. The agreement for formation of the pool provides that it will be self-sustaining through member premiums. There are no deductibles or maximum coverage limits in the plan. Given lack of coverage available, the government has no coverage for potential losses from environmental damages. Coverage limits and the deductibles on the commercial policies have remained relatively constant for the last several years. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Prior Period Adjustments

Prior period adjustments resulted from recording certain transactions in the incorrect accounting period.

Interlocal Cooperative

The government participates with other school districts located in Park, Gallatin and Madison County in the Gallatin/Madison/Park Educational Related Services Consortium. The Consortium provides special education services to its member schools.

Contingencies

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any to be immaterial.

Retirement Plans

The government 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 Teachers' Retirement System (TRS) covers teaching employees, including principals and superintendents. The Public Employees Retirement System (PERS) covers non-teaching employees. The plans are established under State law and are administered by the State of Montana. The plans provide retirement, disability, and death benefits to plan members and beneficiaries.

Beginning in fiscal year 2002, eligible members of PERS had a 12-month window to choose between the PERS-defined benefit retirement plan (DBRP) or the PERS-defined contribution retirement plan (DCRP). Eligible new hires have a 12-month window during which they may choose to remain in the PERS-DBRP or join the PERS-DCRP. Members may not be active in both the defined contribution and defined benefit retirement plans. The choice is irrevocable. For members that choose to join the PERS-DCRP, a percentage of the employer contribution is used to maintain the funding of the defined benefit plan.

The plans issue a publicly available financial report that include financial statements and required supplementary information. The reports may be obtained from the Public Employees' Retirement Board, 100 North Park, P.O. Box 200131, Helena, Montana 59620-0131, telephone (406) 444-3154.

Contribution rates for the plans are required and determined by State law. The contribution rates, expressed as a percentage of covered payroll, were as follows:

	<u>Employer</u>	<u>Employee</u>	<u>Total</u>
TRS	7.47%	7.15%	14.62%
PERS	6.80%	6.90%	13.70%

The State of Montana contributes .10% and .11% per year to the PERS and TRS plans, respectively, on behalf of the employer. The State of Montana contributions have not been recorded in the financial statements.

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The amounts contributed to the plans during the years ended June 30, 2006, 2005 and 2004, were equal to the required contributions for each year. The amounts contributed by both the government and its employees (including additional voluntary contributions by employees as permitted by State law) were as follows:

	2006	2005	2004
TRS	\$ 67,143	\$ 65,920	\$ 66,573
PERS	8,780	9,945	8,817
	\$ 75,923	\$ 75,865	\$ 75,390

Future Implementation of GASB Pronouncements

The GASB has issued the following pronouncements:

- o Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other than Pension Plans, which is required to be implemented during fiscal year 2007.
- o Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions, which is required to be implemented during fiscal year 2008.

These pronouncements will be implemented when required.

REQUIRED SUPPLEMENTARY INFORMATION