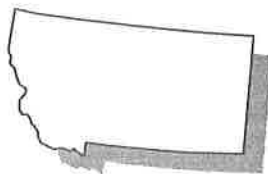


**SCHOOL DISTRICT NO. 35
Gallatin Gateway, Montana**

**Financial and Compliance
Report**

**Year Ended
June 30, 2012**



ROSS R. STALCUP

CERTIFIED PUBLIC ACCOUNTANT, PC

SCHOOL DISTRICT NO. 35
Gallatin Gateway, Montana
FINANCIAL AND COMPLIANCE
REPORT
Year ended June 30, 2012

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

**FINANCIAL AND COMPLIANCE REPORT
Year ended June 30, 2012**

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MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012

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, 2012. 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 2012 are as follows:

- ◆ Total net assets for the District are \$ 945,958.
- ◆ Total net assets increased by \$ 1,717.

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:

	2012	2011	Change	%
Current assets	\$444,527	\$454,160	(\$9,633)	(2)%
Capital assets - net	1,511,387	1,568,422	(57,035)	(4)%
Total assets	1,955,914	2,022,582	(66,668)	(3)%
Total liabilities	1,009,956	1,078,341	(68,385)	(6)%
Net assets	\$945,958	\$944,241	1,717	0%
Net assets consist of:				
Invested in capital assets	\$616,387	\$593,422	\$22,965	4%
Restricted net assets	324,052	118,271	205,781	174%
Unrestricted net assets	5,519	232,548	(227,029)	(98)%
Net assets	\$945,958	\$944,241	\$1,717	0%

District's program revenues were as follows:

Program Revenues:	2012	2011	Change	%
Operating Grants:				
OTO from State		\$2,282	(\$2,282)	(100)%
Title I	34,756	36,560	(1,804)	(5)%
School Food programs	31,504	36,352	(4,848)	(13)%
State & County Transportation	22,102	22,226	(124)	(1)%
Quality Educator		44,279	(44,279)	(100)%
Special Education - State	38,906	27,559	11,347	41%
Part B	13,162	37,746	(24,584)	(65)%
Other	50,910	11,177	39,733	355%
Total Operating Grants	191,340	218,181	(26,841)	(12)%
User Charges:				
Tuition	1,497	3,237	(1,740)	(54)%
School Food fees	36,203	37,858	(1,655)	(4)%
Transportation	2,877	2,347	530	23%
Total User Charges	40,577	43,442	(2,865)	(7)%
Total Program Revenues	231,917	261,623	(29,706)	(11)%

General Revenues:	2012	2011	Change	%
District property taxes	638,981	665,999	(27,018)	(4)%
State equalization	452,565	471,811	(19,246)	(4)%
Guaranteed tax base	145,790	141,117	4,673	3%
Other state revenue	115,721	63,053	52,668	84%
County property taxes	150,430	119,536	30,894	26%
Donations		71,362	(71,362)	(100)%
Interest	5,099	4,941	158	3%
Other	32,459	4,000	28,459	711%
Total General Revenue	1,541,045	1,541,819	(774)	0%
Total Revenue	\$1,723,768	\$1,803,442	(\$79,674)	(4)%

District's expenses were as follows:

	2012	2011	Change	%
Regular Instruction	\$764,744	\$782,749	(\$18,005)	(2)%
Special Education	77,621	93,033	(15,412)	(17)%
Adult Education	1,161	0	1,161	
Educational Media	51,495	42,766	8,729	20%
Support Services Student	73,780	25,396	48,384	191%
General Administration	56,375	61,792	(5,417)	(9)%
Building Administration	162,816	167,794	(4,978)	(3)%
Business Administration	90,337	88,025	2,312	3%
Operation and Maintenance	247,012	199,496	47,516	24%
Student Transportation	50,799	46,365	4,434	10%
School Food	93,391	94,559	(1,168)	(1)%
Extracurricular	13,908	6,893	7,015	102%
Interest	30,771	65,125	(34,354)	(53)%
Unallocated depreciation	57,035	57,035	0	0%
Total expenses	1,771,245	1,731,028	40,217	2%
Less charges for services	(40,577)	(43,442)	2,865	(7)%
Less Program Revenues	(191,340)	(218,151)	26,811	(12)%
Net expenses	\$1,539,328	\$1,469,435	\$69,893	5%

FUND FINANCIAL STATEMENTS

The District maintains individual government funds. 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

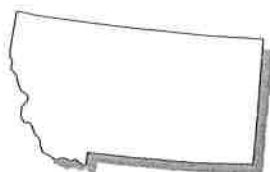
Gallatin Gateway School District No. 35 has a strong future due to its location and its historical family involvement in the community school. Montana State University and higher education opportunities, technological business growth, outdoor recreation, and quality of schools all contribute to the increased 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, 2012, 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 2011 financial statements, and, in our report dated March 21, 2013, 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 governmental activities, each major fund, and the aggregate remaining fund information of School District No. 35, Gallatin Gateway, Montana, as of June 30, 2012, 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 April 5, 2013 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 21) 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 22) and Extracurricular Fund Revenues, Expenditures and Changes in Net Assets (page 23) 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.

April 5, 2013



Ross R. Stalcup
Certified Public Accountant

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

**STATEMENT OF NET ASSETS
JUNE 30, 2012**

	2012	2011
ASSETS		
Current Assets:		
Cash and Investments	\$370,072	\$339,544
Property Taxes Receivable	61,767	89,400
Protested Taxes	12,688	25,216
Total Current Assets	444,527	454,160
Capital Assets	2,142,726	2,142,726
Less Accumulated Depreciation	(631,339)	(574,304)
Capital Assets - Net	1,511,387	1,568,422
Total Assets	1,955,914	2,022,582
LIABILITIES:		
Current Liabilities		
Accounts Payable	45	
Compensated Absences	38,304	34,447
Bonds Payable	80,000	80,000
Total Current Liabilities	118,349	114,447
Non Current Liabilities		
Bonds Payable	815,000	895,000
Compensated Absences	76,607	68,894
Total NonCurrent Liabilities	891,607	963,894
Total Liabilities	1,009,956	1,078,341
Total Net Assets	945,958	944,241
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	616,387	593,422
Restricted Net Assets	324,052	118,271
Unrestricted Net Assets	5,519	232,548
Total Net Assets	\$945,958	\$944,241

See Notes to Financial Statements

SCHOOL DISTRICT No. 35
Gallatin Gateway, Montana
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

	Expenses	Program Charges for Services	Revenue--- Operating Grants	Net (Expense) Revenue 2012	2011
GOVERNMENT OPERATIONS					
Instruction:					
Regular Instruction	\$764,744	\$1,497	\$49,194	(\$714,053)	(\$687,256)
Special Education	77,621		38,906	(38,715)	(27,998)
Adult Education	1,161			(1,161)	0
Educational Media	51,495			(51,495)	(42,766)
Support Services	73,780			(73,780)	(25,396)
Administration:					
General	56,375			(56,375)	(61,792)
Building	162,816			(162,816)	(167,794)
Business	90,337			(90,337)	(88,025)
Operation and Maintenance	247,012		49,634	(197,378)	(197,214)
Transportation	50,799	2,877	22,102	(25,820)	(21,792)
Food Services	93,391	36,203	31,504	(25,684)	(20,349)
Student Extracurricular	13,908			(13,908)	(6,893)
Interest	30,771			(30,771)	(65,125)
Unallocated Depreciation	57,035			(57,035)	(57,035)
Totals	<u>\$1,771,245</u>	<u>\$40,577</u>	<u>\$191,340</u>	<u>(\$1,539,328)</u>	<u>(\$1,469,435)</u>
GENERAL REVENUES					
District Property Taxes				\$638,981	\$665,999
State Equalization				452,565	471,811
Guaranteed Tax Base				145,790	141,117
Other State Revenue				115,721	63,053
County Property Taxes				150,430	119,536
Donations					71,362
Interest				5,099	4,941
Other				32,459	4,000
Total General Revenues				<u>\$1,541,045</u>	<u>\$1,541,819</u>
NON-RECURRING					
Net Loss on Bond Refinancing				0	(3,236)
CHANGE IN NET ASSETS					
				1,717	69,148
NET ASSETS					
Beginning of Year				944,241	875,093
End of the Year				<u>\$945,958</u>	<u>\$944,241</u>

See Notes to Financial Statements

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

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012**

	General Fund	Bus Depreciation Fund	Misc Fund	Debt Service Fund	Transportation Fund	Retirement Fund	Other Governmental Funds	Total
ASSETS:								
Cash and Investments	\$73,449	\$67,663	\$49,027	\$23,195	\$38,965	\$97,498	\$20,275	\$370,072
Property Taxes Receivable	35,119	2,429		10,590	7,722		5,907	61,767
Protested Taxes	7,100	509		2,250	1,624		1,205	12,688
Due from Other Governments								0
Total Assets	115,668	70,601	49,027	36,035	48,311	97,498	27,387	444,527
LIABILITIES:								
Other Current						25	20	45
Deferred Revenue	42,219	2,938		12,840	9,346		7,112	74,455
Due to Other Governments								0
Total Liabilities	42,219	2,938	0	12,840	9,346	25	7,132	74,500
FUND BALANCE:								
Restricted		67,663	49,027	23,195	38,965	97,473	15,493	291,816
Committed								0
Assigned							4,762	4,762
Unassigned	73,449							73,449
Total Fund Balance	73,449	67,663	49,027	23,195	38,965	97,473	20,255	370,027
Total Liabilities and Fund Balance	\$115,668	\$70,601	\$49,027	\$36,035	\$48,311	\$97,498	\$27,387	\$444,527

RECONCILIATION TO THE STATEMENT OF NET ASSETS

Total fund balance from above	\$370,027
Net capital assets	1,511,387
Less liabilities not reported above:	
Compensated absences	(114,911)
Deferred revenues	74,455
Bonds payable	(895,000)
Net Assets	\$945,958

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, 2012

	General Fund	Bus Depreciation Fund	Misc Fund	Debt Service Fund	Transportation Fund	Retirement Fund	Other Governmental Funds	Total
REVENUES:								
District Levy	\$398,177	\$27,377		\$107,603	\$83,783		\$62,202	\$679,142
Direct State Aid	613,935							613,935
Other State Sources	105,706			10,164	15,255		5,811	136,936
County Sources					11,051	150,430		161,481
Federal Sources			62,357				31,503	93,860
User Fees	1,497				2,877		36,203	40,577
Interest	3,149	480		71	395	759	245	5,099
Contributions			82,091					82,091
Other								0
Total Revenues	1,122,464	27,857	144,448	117,838	113,361	151,189	135,964	1,813,121
EXPENDITURES:								
Current Operations:								
Instruction:								
Regular Programs	550,896		120,655			64,775	16,848	753,174
Special Programs	54,557		13,162			9,902		77,621
Adult Education			1,161					1,161
Educational Media	46,949					4,546		51,495
Support Services Students	41,489		516			5,496	26,279	73,780
Administration								
General	56,354					21		56,375
Building	111,748				34,020	16,374	674	162,816
Business	63,792				15,135	11,410		90,337
Operation and Maintenance	159,312		49,634		11,793		26,273	247,012
Transportation					48,798	2,001		50,799
Food Services	22,000					4,587	66,804	93,391
Student Extracurricular	8,816		4,370			722		13,908
Capital Outlay								0
Debt Service				110,771				110,771
Total Expenditures	1,115,913	0	189,498	110,771	109,746	119,834	136,878	1,782,640
Other Financing Sources:								
								0
Excess (Deficiency) Of Revenues Over Expenditures And Other Financing	6,551	27,857	(45,050)	7,067	3,615	31,355	(914)	30,481
FUND BALANCE								
Beginning of the Year	66,898	39,806	94,077	16,128	35,350	66,118	21,169	339,546
End of the Year	\$73,449	\$67,663	\$49,027	\$23,195	\$38,965	\$97,473	\$20,255	\$370,027

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, 2012

Change in Fund Balances	\$30,481
Change in Property Taxes Receivable not included in the Governmental Fund Statements	(40,161)
Amounts Reported as Expenditures in the Governmental Fund Statements	
Change in Compensated Absences	(11,570)
Expenses on the Statement of Activities not included in the Governmental Fund Statements	
Depreciation	(57,035)
Bond Principal	80,000
Rounding	2
Change in Net Assets	<u>\$1,717</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, 2012

FIDUCIARY NET ASSETS

	Extracurricular
ASSETS	
Cash	<u>\$31,650</u>
NET ASSETS	
Held in Trust	<u>31,650</u>
CHANGES IN FIDUCIARY NET ASSETS	
Revenue	60,082
Expenditures	58,251
NET ASSETS	
BEGINNING	<u>29,819</u>
ENDING	<u>\$31,650</u>

See Notes to Financial Statements

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

**NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

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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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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.

Miscellaneous fund

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

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.

Bus Depreciation (Capital Projects)

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

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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 2012 was as follows:

	Balance June 30, 2011	Additions	Deletions	Balance June 30, 2012
Cost of assets:				
Land	\$58,361			\$58,361
Buildings and Improvements	1,825,106			1,825,106
Equipment	259,259			259,259
Total	<u>\$2,142,726</u>	<u>\$0</u>	<u>\$0</u>	<u>\$2,142,726</u>
Accumulated depreciation:				
Buildings and Improvements	(435,726)	(30,584)		(\$466,310)
Equipment	(138,578)	(26,451)		(165,029)
Total	<u>(574,304)</u>	<u>(57,035)</u>	<u>0</u>	<u>(631,339)</u>
Capital Assets, Net	<u>\$1,568,422</u>	<u>(\$57,035)</u>	<u>\$0</u>	<u>\$1,511,387</u>

4. FUND BALANCE/NET ASSET DISCLOSURES

GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions* was issued to enhance the usefulness of Fund Balance information and clarify existing governmental fund type definitions. To that end GASB 54 established the following fund balance classifications:

Non-spendable

Includes fund balances that cannot be spent either because it is not in spendable form or because of legal or contractual constraints. Inventory is an example.

Restricted

Includes fund balances that are constrained for specific purposes which are externally imposed by providers such as creditors, or amounts constrained due to law, constitutional provisions or enabling legislation.

Committed

Includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision-making authority and does not lapse at year-end.

Assigned

Includes fund balance amounts that are intended to be used for a specific purpose that are neither considered restricted or committed.

Unassigned

Unassigned fund balance includes positive fund balance within the General Fund which has not been classified within the above mentioned classifications. Negative fund balances in other governmental will be reported as unassigned.

Additionally the statement addresses fund classification to the extent that the fund type is dependent on proceeds of specific revenue sources which are restricted or committed to expenditure in accordance with a specific purpose. This resulted in the Impact Aid fund and the Flex fund being combined with the General Fund for report purposes.

General policy addresses compliance with this standard and establishes that resources will be spent in the following order: Restricted, Committed, Assigned, and Unassigned. Additionally, it is the general practice of the District to consider fund balance to be restricted for the statutory purposed of the fund, or in the case of the Miscellaneous fund to the purpose of the individual grants; notwithstanding the provisions of MCA-20-9-2-8(B).

Notes to Financial Statements (continued)

4. FUND BALANCE/NET ASSET DISCLOSURES(continued)

SCHOOL DISTRICT NO. 35

NOTES TO THE BASIC FINANCIAL STATEMENTS
Fiscal Year Ending June 30, 2012

Fund Balance Classifications - GASB 54 requires presentation of governmental fund balances by specific purpose. In the basic financial statements the fund balance classifications are presented in the aggregate. The table below displays the fund balances by major purpose.

	MAJOR FUNDS							Total
	General Fund	Transport.	Bus Deprec.	Retirement	Misc.	Debt Service	Other Government Funds	
FUND BALANCES								
Non-Spendable:								
Spendable Fund Balance:								
Restricted for:								
Regular Instruction					49,027			49,027
Transportation		38,965						38,965
Bus replacement							833	833
Tuition								0
Retirement benefits				97,473				97,473
Technology acquisition							2,141	2,141
Adult education							8,234	8,234
School food program							963	963
Operation and Maintenance							3,322	3,322
Debt service						23,195		23,195
Capital outlay			67,663					67,663
Compensated absence liability								0
								<u>291,816</u>
Committed to:								
Assigned for:								
Regular instruction							4,762	4,762
Improvement of Instructional Services							0	0
								<u>4,762</u>
Unassigned:								
Total Fund Balance:	73,449	\$38,965	\$67,663	\$97,473	\$49,027	\$23,195	\$20,255	73,449
	<u>\$73,449</u>	<u>\$38,965</u>	<u>\$67,663</u>	<u>\$97,473</u>	<u>\$49,027</u>	<u>\$23,195</u>	<u>\$20,255</u>	<u>\$370,027</u>

Notes to Financial Statements (continued)

4. FUND BALANCE/NET ASSET DISCLOSURES(continued)

Net Asset Classifications:

Restricted	
Non expendable	
Expendable	324,052
Invested in Capital Assets (Net of Related Debt)	616,387
Unrestricted	5,519
	<u>\$945,958</u>

A reconciliation of Fund Balance by classification to restricted net assets by classification follows:

	Capital Assets	Non Capital Liabilities	Deferred Revenue	Adjustments	Net Assets	
Fund Balance						
Restricted	291,816		32,236		324,052	
Invest Capital Assets	616,387				616,387	
Assigned	4,762			(4,762)	0	
Unrestricted		(114,911)		120,430	5,519	
Unassigned	73,449		42,219	(115,668)	0	
Total	\$370,027	\$616,387	(\$114,911)	\$74,455	\$0	\$945,958

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. 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%	2.11%	16.73%
PERS	6.80%	6.90%	0.37%	14.07%

The amounts contributed to TRS and PERS during the years ended June 30, 2010, 2011, and 2012 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>2010</u>	<u>2011</u>	<u>2012</u>
TRS	\$96,719	\$91,638	\$98,777
PERS	12,802	14,971	16,137
Total	<u>\$109,521</u>	<u>\$106,609</u>	<u>\$114,914</u>

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
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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 2011	Payment	Addition	June 30 2012	Current	Long term
Compensated Absences	\$103,341		\$11,570	\$114,911	\$38,304	\$76,607
Refunding Bonds 2011	975,000	(80,000)		895,000	80,000	815,000
Bond Carrying Value	1,078,341	(80,000)	11,570	1,009,911		

The series 2000 General Obligation Bonds were refunded in April 2011.

The series 2000 bonds were retired by the issuance of 2011 Refunding Bonds and cash payment from the District Debt Service Fund, and the payment of the final bonds in 2011 (\$ 70,000).

The refunding resulted in Gross cash flow savings of \$ 78,506 and a net present value benefit of \$ 66,776.

The District has budgeted and paid the bonds as if they had a June 30 maturity date, although the actual maturity date is July 1.

Amortization

Refunding Bonds 2011, \$975,000, variable interest rate, as follows:

June 30	Principal	Interest	Total
2013	80,000	25,265	105,265
2014	85,000	24,415	109,415
2015	95,000	22,015	117,015
2016	100,000	19,165	119,165
2017	100,000	16,165	116,165
2018	100,000	13,715	113,715
2019	105,000	10,965	115,965
2020	110,000	7,710	117,710
2021	120,000	4,080	124,080
	\$895,000	\$143,495	\$1,038,495

8. OTHER POST EMPLOYMENT BENEFITS (OPEB)

Montana law requires school districts in the state to allow retirees to participate in the District's group health insurance plan until the retirees become eligible for Medicare.

The District considers this liability and the corresponding expense to be immaterial at the date of the financial statements.

SCHOOL DISTRICT NO. 35
Gallatin Gateway, Montana

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

FOR THE YEAR ENDED JUNE 30, 2012

	General Fund		Transportation Fund		Retirement Fund	
	Original & Final Budget	Actual	Original & Final Budget	Actual	Original & Final Budget	Actual
REVENUES						
District Levy	\$386,315	\$398,177	\$79,314	\$83,782		
Direct State Aid	614,466	613,935				
Other State Sources	105,175	105,706	16,468	15,255		
County Sources			12,265	11,051	143,132	150,430
Federal Sources						
User Fees	3,000	1,497		2,877		
Interest	3,173	3,149		395		759
Other	4,000					
Total Revenues	1,116,129	1,122,464	108,047	113,360	143,132	151,189
Total Expenditures	1,116,126	1,115,913	119,500	109,746	155,000	119,834
Excess of Revenues over Expenditures	\$3	\$6,551	(\$11,453)	\$3,614	(\$11,868)	\$31,355

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 with certain exceptions only that total actual expenditures not exceed total budgeted expenditures. There were no amendments to the budgets in 2012, 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, 2012

	District Records	Fall Enrollment Report	District Records	Spring Enrollment Report
Pre-K				
Kindergarten	19	19	19	19
Grades 1 - 6	104	104	98	98
Grades 7 - 8	29	29	27	27
Total	152	152	144	144

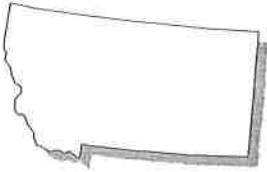
**GALLATIN GATEWAY PUBLIC SCHOOLS
DISTRICT NO. 35, GALLATIN COUNTY
Gallatin Gateway, Montana**

EXTRACURRICULAR FUND

**SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN NET ASSETS
BY STUDENT ACTIVITY**

FOR THE YEAR ENDED JUNE 30, 2012

Student Activity	Balance June 30, 2011	Revenues	Expenditures	Transfers In (Out)	Balance June 30, 2012
Class of 2011	2,565			(2,565)	0
Class of 2012	15,406	22,868	34,179	2,565	6,660
Class of 2013	6,526	7,917	2,551		11,892
Class of 2014	5,265	11,303	9,588		6,980
Class of 2015	0	7,437	3,990		3,447
Class of 2016	0	2,475	417		2,058
Miscellaneous	(318)	8,082	7,526		238
Student Council	375				375
Total Extracurricular	\$29,819	\$60,082	\$58,251	\$0	\$31,650



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, 2012, which collectively comprise School District No. 35's basic financial statements and have issued our report thereon dated April 5, 2013. 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

Management of School District No. 35 is responsible for establishing and maintaining effective 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. 12-01, 12-02)

Compliance and Other Matters

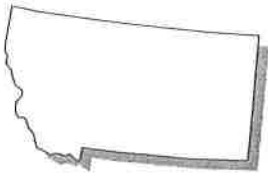
As part of obtaining reasonable assurance about whether School District No. 35's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and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

April 5, 2013



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, 2012.

Current Year
INTERNAL CONTROL FINDINGS

12(-01) Internal Control over Financial Reporting

Criteria: Auditing Standards (SAS 115) require that entities have internal control procedures over the preparation of their financial statements in accordance with US GAAP.

Condition: The District does not have the ability to prepare financial statements in accordance with requirements.

Context: The District financial statements are prepared by the external auditor.

Effect: A material weakness in internal control over reporting.

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

Recommendation: We recommend the District's management take this matter under consideration.

12(-02) Segregation of Duties

Criteria: Segregation of duties is essential for internal control.

Condition: The District does not have ideal segregation of duties.

Context: The District has one employee assigned to the accounting function.

Effect: Internal control is not optimal.

Cause: The small staff of the District does not allow for ideal segregation of duties.

Recommendation: We recommend the Board direct the Superintendent to take an active role so that compensating controls exist and that the Board monitor the District's activities.

Prior Year

11-01 Internal Control of Financial Reporting see 12-01

11-02 Segregation of Duties see 12-02

April 5, 2013



Ross R. Stalcup
Certified Public Accountant