

Independent Auditors' Report
and
Financial Statements

Lockwood School District No. 26

Yellowstone County
Billings, Montana
June 30, 2008

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Lockwood School District No. 26

Organization

June 30, 2008

BOARD OF TRUSTEES

Susanne Vinton
Teresa Stroebe
Greg Bochy
Peter Freivalds
Jason Hamrick
Becky Malenowsky
Tim Sather

Chairman
Vice Chairman
Trustee
Trustee
Trustee
Trustee
Trustee

OFFICIALS

Eileen Johnson
Diane Brook
Dennis Paxinos
A.J. Micheletti
Max Lennington

District Superintendent
District Clerk
County Attorney
County Superintendent of Schools
County Treasurer

Lockwood School District No. 26
Management's Discussion and Analysis
June 30, 2008

This Management Discussion and Analysis (MD&A) written by the Business Manager/District Clerk of the Lockwood School District provides an overview of the financial position and governmental financial activities for the fiscal year ended June 30, 2008. Please read it in conjunction with our audited financial statements.

Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Financial Highlights for 2008:

The financial position of the school district is stronger as a result of operations for fiscal year 2008. This is substantiated by a 17.69 percent overall increase in net assets totaling \$1,278,791.

The taxable valuation of the district has increased steadily since 2001. The taxable value certified on August 7, 2008, increased 13.7 percent from the previous year. It grew from \$14,890,588 to \$16,929,994.

On January 8, 2007, Lockwood Elementary School District competitively sold \$12,860,000 General Obligation School Building Bonds for its capital improvement project that was authorized by voters at the November 7, 2006 general election. The bond sale resulted in reduced interest costs over initial election estimates of approximately \$1,771,684. Local taxpayers will benefit from the lower interest rates in the form of reduced annual tax levies over election projections as related to the bonds. The District utilized a conservative rate of 5.25% on its 20-year bond issue estimates that were presented to voters; however with interest rates remaining in a historically low range, the District was able to lock into a true interest cost rate of 4.08%.

On August 24, 2007, Lockwood Elementary District issued General Obligation Bond, Series 2007A in the amount of \$540,000 with a maturity date of August 15, 2010. The Bond was issued in connection with its participation in the INTERCAP Revolving Program of the Board of Investments of the State of Montana. Payments for this bond will be levied in years 2007/2008, 2008/09, and 2009/10. The interest cost savings mentioned above is inclusive of approximately \$50,000 in interest on this issue of \$540,000. The payments are due from February 2008 through August 2010. There is a variable interest rate on this loan, which is set in February each year.

These bonds, in the amounts of \$12,860,000 and \$540,000 in aggregate, total \$13,400,000. The proceeds of the bonds are being used for the purpose of designing, constructing, furnishing and equipping a new middle school at the existing Lockwood School Campus to serve approximately 450 students containing approximately 32 classrooms, office areas, and an all-purpose room, and associated improvements and amenities, related renovation of the existing elementary school buildings to include improvements to classrooms in conjunction with the new middle school construction; replacing and/or upgrading some or all of the existing heating/ventilation/air-conditioning system with an integrated heating/ventilation/air-conditioning system, including boilers and associated improvements; and related improvements.

Construction in progress for this project totaled \$9,341,699.84 during 2007/08.

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For 2007-08, other capital items included \$137,406.11 for new equipment, \$92,756.14 for land/site improvements for fencing, paving and concrete work, and \$17,557.25 in building improvements for carpeting/flooring.

District funds reserves remain in satisfactory condition. Tax collections were down slightly this year compared to last year. District levy collections averaged 95% in 2007-08, 96% in 2006-07 and were above 99% for 2005-06. Some of this is due to more protested taxes, but the majority is uncollected taxes. The overall effect is reductions in reserves for budgeted funds.

General Fund reserves are \$419,334.43, which is 6.06%; last year General Fund reserves were \$454,157.11 which was 6.69%. Maximum allowed by law is ten percent.

Transportation Fund reserves are \$61,721.39, which is 10.73% percent this year. This is a decrease from \$75,521.46 which was 15.33% last year. Maximum reserve allowed is 20%. For 2008-09 the district budgeted \$10,000 to increase reserves in the Transportation Fund.

Retirement Fund reserves are \$323,534.40, which is 35.00%, the maximum allowed. The district also re-appropriated \$84,333.48 back to Yellowstone County to fund retirement 2008-09.

Adult Education Fund reserves are \$10,720.94 which is 34.91%; the maximum allowed is 35%.

Building Reserve Fund had an ending balance of \$1,010,984.82, which will continue to be used for approved purposes such as maintenance, safety, construction, renovation, electrical and plumbing, remodeling, major equipment, roof repairs, sewer system hook-up, site improvements, technology acquisition and updating. The Building Reserve levy ended with the 2006/07 fiscal year.

Using this Audit Report

Statement No. 34 of the Governmental Accounting Standards Board (GASB) requires the general format of this report. Components and purposes of the report are explained below.

Reporting the District as a Whole

One important question asked about school district finances is, "Is the District, as a whole, in a better or worse financial position as a result of the year's activities?" The Statement of Net Assets on page 12 and the Statement of Activities on page 13 report information about the district as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the basis of accounting used by most private-sector companies. A comparative analysis of government-wide data to the prior year is presented.

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The change in net assets over time is one indicator of whether the District's financial health is improving or deteriorating. However, there are other non-financial factors that influence the financial health of the school district, such as enrollment changes, changes in how the State of Montana funds educational costs, and changes in the tax base of the school district.

The report includes two district-wide statements that focus on operations of the district as a whole. These statements measure inputs and outflows using an economic resources measurement focus, and use the accrual basis of accounting. Activities that are fiduciary in nature are not included in these statements.

A. The Statement of Net Assets on page 12 shows the assets, liabilities, and the net assets of the school district. The statement categorizes assets to show that some assets are very liquid, such as cash and cash equivalents. Some assets are restricted for certain purposes or reserved for emergencies and cash flow purposes. Some assets are invested in fixed or capital assets, such as buildings, equipment and other long-lived property; and some assets are available to fund budgets of the following year. Assets exceed liabilities by \$8,508,354 as of June 30, 2008. For current year net assets, capital assets compose 169% of the total of net assets and 45% are unrestricted or liquid. For net assets inclusive of long-term debt, capital assets compose 55% of the total. Current liquid assets could not pay all long-term debt. Last year capital assets composed 65% of the total net assets and unrestricted or liquid assets comprised 35% of the total. The reallocation in percentages is due to these factors: the increase in the bonds payable due to the addition of the \$540,000 bond and an increase in accounts payable due to large construction payments for the project. Last year the district had the cash on hand from the bond proceeds, but had only paid out \$403,231.83 for the project compared to \$9,341,670 this year.

B. The Statement of Activities on page 13 shows the amounts of program-specific and general school district revenues used to support the various functions of the school district. General revenues, from taxes and other sources for general school supported 86 percent of expenditures, while 14 percent of expenditures were supported with sources other than taxes, called program revenues. Program revenues for Lockwood Schools include grants, purchased meals and community education fees.

The fund financial statements are reported for the governmental funds. These funds provide a short-term view of the district's operations. Basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other short-term assets and liabilities (receivables and payables) that can readily be converted to cash or will soon be paid with cash. The governmental fund statements provide a detailed short-term view of the general government operations and the basic services it provides.

Reporting the District's Most Significant Funds

The fund statements on pages 14-17 provide detailed information about the funds used by the school district. State law and Generally Accepted Accounting Principles (GAAP) establish the fund structure of school districts. State law generally requires school districts to segregate money generated for certain specific purposes, such as transportation, into separate fund accounts.

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These fund statements report balances and activities of the most significant or major funds separately and combine activities of less significant funds under a single category. To be reported as a major fund, total assets, liabilities, revenues, or expenditures of an individual fund must be at least ten percent of the corresponding element totals (assets, liabilities, etc.) for all funds. The General Fund is always reported as a major fund. The Building Fund is considered a major fund for our district because it has assets of \$6,140,159, which is greater than ten percent of the total assets. Building Reserve Fund is also reported as a major fund. These funds use the modified accrual basis of accounting and represent the majority of the district's activities and programs.

Fund statements include a reconciliation of the governmental fund statements to the district-wide statements pages 15 and 17. Most significant differences result from the use of different presentation bases. The district-wide statements are presented using the accrual basis of accounting and the fund statements for governmental funds use the modified accrual basis. In addition, capital assets and long-term debt are reported in the district-wide statements but not in the fund statements.

Reporting the District's Trust and Fiduciary Responsibilities

Fiduciary funds: The district is the trustee or fiduciary for the student extracurricular fund and the deferred compensation fund. This report includes these funds in a separate Statement of Fiduciary Net Assets and Changes in Fiduciary Net Assets on page 18 because the district cannot use these assets to fund its operations. The district is responsible for ensuring these assets are used for their intended purpose.

Budget to Actual Comparisons

The district's original and final budgets for all funds were identical for the year ended June 30, 2008. There were no budget amendments adopted during the year.

There was a significant negative variance of \$8,258.22 between the final expenditure budget and actual expenditures for business support services. This variance is the result of increased benefits costs due to staffing changes, increased software/hardware support fees including fees for implementation of a new business software system, and purchasing needed new computers and printers from end of year funds available within the general fund budget as a whole.

There was a significant negative variance of \$40,111.82 in operation and maintenance of plant services. This variance is the result of increased salary costs for summer workers due to having to move the contents of every room on campus, as well as and paying for needed repair and maintenance, additional supplies for the new building, and necessary minor equipment from end of year funds available within the general fund budget as a whole.

Even though there was significant positive variance in extracurricular activity function 3400 and significant negative variance in extracurricular activity athletics function 3500, there was no significant variance in the extracurricular area of the general fund budget. The positive variance of \$2,266.86 and negative variance of \$1,746.39 offset each other within the extracurricular area of the budget.

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The District as a Whole

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The district experienced a 17.69 percent overall increase in net assets totaling \$1,278,791, as referenced on page 12 Statement of Net Assets.

As stated in the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds on page 16 the combined ending fund balances for all funds decreased by \$7,920,472. Details of the changes in the major funds are explained below:

The fund balance of the General Fund decreased \$34,823. The decrease was due to lower tax collections which made expenditures greater than revenues, lower interest revenues, and making an operating transfer of \$2,844 to Compensated Absences Fund.

The Building Fund balance decreased \$8,244,172 due to \$9,341,670 in capital expenditures for the bond project being paid this year compared to \$403,489 last year. \$540,000 in bond revenue was received, but the increased expenditures decreased the fund balance.

Building Reserve Fund balance is \$159,817 less than last year because building reserve expenditures for technology, safety, buildings, and site improvements were greater than last year and the Building Reserve Fund levy ended June 30, 2007, so there are no district levy revenues. Building Reserve Fund monies have been accumulated to pay for district needs as specified in the levy ballot language over time

Capital Assets

The district's investment in capital assets as of June 30, 2008, totaled \$14,407,363. This investment in capital assets includes land, land improvements, buildings and improvements, machinery, equipment, and major technology software, and construction in progress. The following schedule presents capital asset balances net of depreciation for the fiscal year ended June 30, 2008:

<u>CAPITAL ASSETS</u>	<u>2006-2007</u>	<u>2007-2008</u>	<u>Changes</u>
Land	277,490	277,490	0
Land Improvements	601,225	641,188	39,963
Buildings & Improvements	3,593,504	3,444,849	-148,655
Machinery, Equipment, & Major Technology Software	200,011	298,677	98,666
Construction in Progress	403,489	9,745,159	9,341,670
TOTALS	5,075,719	14,407,363	9,331,644

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The net increase to the district's capital assets is \$9,331,644. The capital assets increase in Construction in Progress is due to the capital expenditures for the new middle school and HVAC renovation. Depreciation expense for the year amounted to \$257,745. Depreciation exceeded capital additions to Buildings and Improvements resulting in a decrease in that value. When the middle school building/HVAC renovation project is complete, approximately \$13,700,000 more will be added to the value of buildings and improvements.

Debt Administration

There was no General Fund mill levy requested for the purpose of proper maintenance and operation of the school programs for the 2008/2009 school year. The district budget was at the maximum allowed by the state without requesting a levy.

Lockwood school district has no capital leases.

For budget year 2008/09, levies for all Lockwood School funds decreased by 24.60 mills over the previous year. The decrease was mainly due to increased taxable valuation.

The general long term debt of the district for 2007/2008 includes:

1. Outstanding general obligation bonds of \$12,605,000 payable over 20 years.
2. Outstanding general obligation bonds of \$540,000 payable over three years.
3. Future payout of vacation leave, sick leave, and termination/severance pay for all employees of the district in the amount of \$562,625. This liability increased \$5,408 over last year mainly due to increases in salaries.

The General Obligation Bond, Series 2007A in the amount of \$540,000 issued in connection with participation in the INTERCAP Revolving Program of the Board of Investments of the State of Montana had an interest rate for February 2007 to February 2008 of 4.85%; this rate decreased to 4.25% effective February 2008 to February 2009.

Summary Information For Continuing Disclosure

Population

The 2000 district population estimate was 7,080.

Debt Limitations: The statutory debt limit as of June 1, 2008, is \$15,267,870; the outstanding debt is \$13,145,000; the remaining debt capacity is \$2,122,870, per Note E on page 28-29.

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Property Valuation: The table below indicates the property valuation trends for the District for the current and four prior fiscal years.

Fiscal Year	Market Value	Percent Change	Taxable Value	Percent Change
2007/08	\$504,126,400	6.74%	\$14,890,588	6.57%
2006/07	\$472,282,692	4.51%	\$13,971,862	5.11%
2005/06	\$451,913,307	4.84%	\$13,292,837	1.81%
2004/05	\$431,041,189	13.61%	\$13,056,178	4.01%
2003/04	\$379,419,287	.08%	\$12,552,493	----

Tax Collections: The following table demonstrates the tax collection history for real property taxes levied by the District for all funds for fiscal years ending June 30, 2004 through June 30, 2008.

Fiscal Year	Total Current Total Tax Levy	Total Current Tax Collections	Tax Collections as Percent of Levy	Total Tax Collections*	Total Collections as Percent of Levy*
2007/08	\$3,295,321	\$3,132,500	95.06%	\$3,139,432	95.27%
2006/07	\$2,871,688	\$2,773,203	96.57%	\$2,779,831	96.80%
2005/06	\$2,759,011	\$2,752,770	99.77%	\$2,761,705	100.10%
2004/05	\$2,539,288	\$2,499,723	98.44%	\$2,506,565	98.71%
2003/04	\$2,352,178	\$2,325,878	98.88%	\$2,335,598	99.30%

* Total tax collection figures include principal and interest collected on delinquent taxes.

Lockwood School District No. 26
Management's Discussion and Analysis
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Major Taxpayers: The following table lists the major taxpayers within the district for fiscal year 2007/08, in declining order of taxable value.

Taxpayer	Business	2007/08 Taxable Value	Percent of 2007/08 Taxable Value \$14,890,588
1. Exxon Corporation	Pipeline	\$4,677,871	31.41%
2. Northwestern Corp.	Utility	662,005	4.45%
3. Yellowstone Electric	Utility	551,516	3.70%
4. WW Holding Co., Inc	Cellular Towers	519,403	3.49%
5. Montana Sulphur & Chemical Co.	Chemical Plant	201,873	1.36%
6. Qwest Corporation	Telecommunications	157,495	1.06%
7. Cenex Products Pipeline	Pipeline	130,321	.88%
8. Conagra, Inc.	Food Products	128,287	.86%
9. Montana Rail Link, Inc.	Railroad	122,385	.82%
10 Sector Corporation	Equipment/Trailer Manufacturer	111,500	.75%

Enrollment and ANB Historical Data:

Fiscal Year	Enrollment	ANB*
2007/08	1,159 (Fall/Spring Avg.)	1230
2006/07	1,171 (Fall/Spring Avg.)	1174
2005/06	1,166 (Fall/Spring Avg.)	1203
2004/05	1,249 (Fall/Spring Avg.)	1195
2003/04	1,241 (Fall/Spring Avg.)	1154

* ANB (Average Number Belonging) used for fiscal year budget funding. ANB is determined from previous years' enrollment figures or average of previous three years' enrollment figures, whichever is greater. ANB calculation includes adjustments for adding seven additional PIR days and half time or full time kindergarten enrollment.

The Future of the District

The new middle school was open and welcomed about 380 students on the first day of school which was August 28, 2008. It is a wonderful facility with well-planned learning spaces designed especially for middle school students. The Lockwood Community and Lockwood School staff are extremely proud of this new school.

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Management's Discussion and Analysis
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Construction costs for the project were greater than expected in some areas, however the administration and Board of Trustees have been very diligent in keeping the project on time and within budget. When necessary, certain areas or items were value engineered out of the project in order to stay within budget so the HVAC portions of the project could also be completed.

For the 2008/09 Budget, Lockwood Schools experienced a decrease in the three-year average for Average Number Belonging of 30 students over the prior year; 1,200 versus 1,230. This decrease was mainly due to the state's funding formula for calculating kindergartners in order to fund full-time kindergarten in 2007/08. Actual enrollment had a slight decrease of one percent or 12 students.

It is expected that enrollment at Lockwood Schools will grow in the near future because there are some significant housing developments under construction in the community, new businesses are entering the community and existing businesses are expanding. This is evidenced by the increase in the taxable value of \$2,039,406.

The new Staff Daycare Center opened on campus on August 25, 2008. The center provides care for about eight infants and toddlers. It has been well-received by the staff and the community.

RiverStone Health contracted by Yellowstone City-County Health Department opened offices on the Lockwood School Campus in September 2008. They pay rent to the district for the space they occupy. RiverStone will provide health care and health education for the Lockwood Community.

The Boys' and Girls' Club is planning to make renovations to the additional building space they now occupy for their After School Program and Summer Program.

The heating and ventilation portion of the bond project is still in progress. Since some of the work cannot be done during the school year, the project will not finally conclude until the fall of 2009. The project has progressed well and most of the areas in the Primary School Building are complete. The Board of Trustees will soon decide whether to include the air conditioning portion of the project for the Intermediate School.

The Head Start Program is exploring the possibility of opening a site on the Lockwood School campus. They have been communicating with the superintendent and looking at the space available.

The Board of Trustees and administration are committed to providing the best and safest learning environment for students. They continue to work diligently to keep all classrooms and the entire campus technologically updated and the buildings and grounds well-maintained and safe.

Independent Auditors' Report

November 17, 2008

Board of Trustees
Lockwood School District No. 26
Yellowstone County
Billings, Montana

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Lockwood School District No. 26, Yellowstone County, Billings, Montana, (the District), as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year summarized comparative information has been derived from the District's 2007 financial statements and, in our report dated January 7, 2008, we expressed unqualified opinions on the respective financial statements of the governmental activities, each major fund, and the aggregate remaining fund information.

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 Lockwood School District No. 26, as of June 30, 2008, 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 our report dated November 17, 2008 on our consideration of the District's internal control over financial reporting and 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 and budgetary comparison information on pages 1 through 9 and 34 through 36 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the USA. 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 the District's basic financial statements. The supplemental information and other schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



GALUSHA, HIGGINS & GALUSHA, P.C.
Billings, Montana

Lockwood Public School District No. 26
Statement of Net Assets
 June 30, 2008

	<u>2008</u>	<u>Summarized For Comparative Purposes Only 2007</u>
ASSETS:		
Cash and Equivalents	9,149,291	15,533,262
Taxes Receivables	338,763	180,735
Due from Other Funds	6,650	6,649
Due from Other Governments	5,775	419
Capital Assets:		
Land	277,490	277,490
Other Capital Assets, net of depreciation	14,129,873	4,798,230
Total Capital Assets	<u>14,407,363</u>	<u>5,075,720</u>
Total Assets	<u>23,907,842</u>	<u>20,796,785</u>
LIABILITIES:		
Accounts Payable and Accrued Expenses	1,691,863	150,005
Long-Term Liabilities:		
Due within one year:		
Bonds Payable	350,000	255,000
Compensated Absences	28,131	19,393
Due in more than one year:		
Bonds Payable	12,795,000	12,605,000
Compensated Absences	534,494	537,824
Total Liabilities	<u>15,399,488</u>	<u>13,567,222</u>
NET ASSETS:		
Invested in Capital Assets, net of related debt	4,662,204	4,672,231
Unrestricted	3,846,150	2,557,332
Total Net Assets	<u>8,508,354</u>	<u>7,229,563</u>

The accompanying notes are an integral part of these financial statements.

Lockwood Public School District No. 26
Statement of Activities
For the Year Ended June 30, 2008

	Program Revenue		Net Revenue (Expense)	Summarized for Comparative Purposes Only	
	Expenses	Charges for Services			Operating Grants
Primary government					
Instruction:					
Regular Programs	4,797,001	0	464,223	(4,332,778)	(4,082,856)
Special Programs	695,482	0	452,273	(243,209)	(220,235)
Vocational Programs	288,403	0	0	(288,403)	(203,618)
Adult Education	1,416	790	0	(626)	(955)
Supporting Services	2,119,938	0	0	(2,119,938)	(2,035,668)
Operations & Maintenance	981,551	0	0	(981,551)	(1,012,817)
Student Transportation	484,850	0	118,933	(365,917)	(331,448)
Food Services	528,664	183,949	307,224	(37,491)	(55,261)
Extracurricular	36,526	0	0	(36,526)	(33,313)
Interest on Long-term debt	793,873	0	0	(793,873)	0
Debt Issuance Costs	300	0	0	(300)	0
Total governmental activities	<u>10,728,004</u>	<u>184,739</u>	<u>1,342,653</u>	<u>(9,200,612)</u>	<u>(7,976,171)</u>
General revenues:					
Property taxes, levied for general purposes				3,313,154	2,824,249
County Retirement Distribution				811,707	794,219
State Aid				5,602,640	4,645,941
Interest				677,688	347,004
Miscellaneous				74,214	159,116
Special items:					
Gain/(Loss) on sale of assets				0	3,775
Total general revenues				<u>10,479,403</u>	<u>8,774,304</u>
Change in net assets				1,278,791	798,133
Net assets - beginning				7,229,563	6,431,430
Net assets - ending				<u>8,508,354</u>	<u>7,229,563</u>

The accompanying notes are an integral part of these financial statements.

Lockwood Public School District No. 26

Balance Sheet - Governmental Funds

June 30, 2008

	General Fund	Building	Building Reserve	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and equivalents	419,792	6,140,159	1,010,985	1,578,356	9,149,292
Taxes receivable	204,689	0	12,998	121,074	338,761
Due from other funds	8,289	0	0	0	8,289
Due from other governments	0	0	0	5,775	5,775
Total assets	632,770	6,140,159	1,023,983	1,705,205	9,502,117
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	0	1,683,116	0	0	1,683,116
Due to other funds	0	0	0	1,640	1,640
Deferred revenue	204,689	0	12,998	121,074	338,761
Other payables	8,747	0	0	0	8,747
Total liabilities	213,436	1,683,116	12,998	122,714	2,032,264
Fund balances:					
Reserved for:					
Compensated absences	0	0	0	61,348	61,348
Unreserved					
General fund	419,334	0	0	0	419,334
Special revenue funds	0	0	1,010,985	1,190,210	2,201,195
Capital projects funds	0	4,457,043	0	0	4,457,043
Debt service funds	0	0	0	330,933	330,933
Total fund balances	419,334	4,457,043	1,010,985	1,582,491	7,469,853
Total liabilities and fund balances	632,770	6,140,159	1,023,983	1,705,205	9,502,117

The accompanying notes are an integral part of these financial statements.

Lockwood Public School District No. 26

Reconciliation of the Governmental Funds Balance Sheet to the Government Wide Statement of Net Assets
June 30, 2008

Total fund balance, governmental funds 7,469,853

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 this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets. 14,407,363

Property taxes receivable that are not available to pay current period expenditures and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets. 338,763

Some liabilities, (such as Notes Payable, Capital Lease Contract Payable, Compensated Absences, and Bonds Payable), are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets. (13,707,625)

Net Assets of Governmental Activities in the Statement of Net Assets 8,508,354

The accompanying notes are an integral part of these financial statements.

Lockwood Public School District No. 26
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
 For the Year Ended June 30, 2008

	General Fund	Building	Building Reserve	Other Governmental Funds	Total Governmental Funds
REVENUES					
Property Taxes for General Purposes	1,844,992	0	16,538	1,293,597	3,155,127
Tuition	0	0	0	790	790
Intergovernmental:					
County	0	0	0	862,865	862,865
State	4,951,803	0	0	1,171,419	6,123,222
Federal	0	0	0	770,913	770,913
Interest on Investments	17,087	557,448	49,769	53,383	677,687
Food Services	0	0	0	183,949	183,949
Other	43,575	50	0	30,589	74,214
Total revenues	<u>6,857,457</u>	<u>557,498</u>	<u>66,307</u>	<u>4,367,505</u>	<u>11,848,767</u>
EXPENDITURES					
Current:					
Instruction	4,390,463	0	0	1,189,226	5,579,689
Supporting Services	1,644,347	0	23,992	441,686	2,110,025
Operations and Maintenance	813,650	0	13,893	134,978	962,521
Student Transportation	0	0	0	484,850	484,850
Food Services	0	0	0	503,861	503,861
Extracurricular	31,576	0	0	4,950	36,526
Capital Outlay	9,400	9,341,670	188,239	43,285	9,582,594
Debt Service	0	0	0	1,049,173	1,049,173
Total Expenditures	<u>6,889,436</u>	<u>9,341,670</u>	<u>226,124</u>	<u>3,852,009</u>	<u>20,309,239</u>
Excess (deficiency) of revenues over expenditures	<u>(31,979)</u>	<u>(8,784,172)</u>	<u>(159,817)</u>	<u>515,496</u>	<u>(8,460,472)</u>
OTHER FINANCING SOURCES (USES)					
Proceeds from long-term debt, net	0	540,000	0	0	540,000
Operating Transfers in	0	0	0	2,844	2,844
Operating Transfers out	(2,844)	0	0	0	(2,844)
Total other financing sources and uses	<u>(2,844)</u>	<u>540,000</u>	<u>0</u>	<u>2,844</u>	<u>540,000</u>
Net change in fund balances	<u>(34,823)</u>	<u>(8,244,172)</u>	<u>(159,817)</u>	<u>518,340</u>	<u>(7,920,472)</u>
Fund balances - beginning	<u>454,157</u>	<u>12,701,215</u>	<u>1,170,802</u>	<u>1,064,151</u>	<u>15,390,325</u>
Fund balances - ending	<u>419,334</u>	<u>4,457,043</u>	<u>1,010,985</u>	<u>1,582,491</u>	<u>7,469,853</u>

The accompanying notes are an integral part of these financial statements.

Lockwood Public School District No. 26

*Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances -
Governmental Funds to Government Wide Statement of Activities*

For the Year Ended June 30, 2008

Net change in fund balances - total governmental funds:	(7,920,472)
Amounts reported for Governmental Activities in the Statement of Activities are different because:	
Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.	(257,745)
Governmental funds report bond proceeds as other financing sources. In contrast, bond proceeds are reported as liabilities in the Statement of Net Assets.	(540,000)
Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned.	158,027
Statement of activities report expenses that the governmental funds do not and are not reported as expenditures in the governmental funds:	
Compensated absences expense	(5,408)
Governmental funds report expenses that the statement of activities do not and are not reported as expenditures in statement of activities:	
Capital outlays, not including capital assets under leases	9,589,389
Principal payments on debt	255,000
Change in net assets of governmental activities	<u><u>1,278,791</u></u>

The accompanying notes are an integral part of these financial statements.

Lockwood School District No. 26

Statement of Fiduciary Net Assets and Changes in Fiduciary Net Assets

For the Year Ended June 30, 2008

	PRIVATE PURPOSE	TRUST STUDENT ACTIVITY FUND	AGENCY FUND DEFERRED COMPENSATION
FIDUCIARY NET ASSETS			
Assets:			
Cash		24,223	40,429
Total Assets		<u>24,223</u>	<u>40,429</u>
Liabilities:			
Due to other funds		0	6,650
Other current liabilities		0	33,779
Total liabilities		<u>0</u>	<u>40,429</u>
Net Assets:			
Held in Trust		<u>24,223</u>	<u>0</u>
Total Net assets		<u><u>24,223</u></u>	<u><u>0</u></u>

CHANGES IN FIDUCIARY NET ASSETS

Additions	
Revenue	29,010
Deductions	
Expenses	<u>33,631</u>
Change in Net Assets	(4,621)
Net Assets, Beginning of Year	<u>28,844</u>
Net Assets, End of Year	<u><u>24,223</u></u>

The accompanying notes are an integral part of these financial statements.

Note A – Description of the School District and Reporting Entity

Reporting Entity

Lockwood School District No. 26 was established under Montana law to provide educational services below the college and university level to residents of the District. The District is managed by a Board of Trustees elected by the citizens, and by a central administration appointed by and responsible to the Board.

The criteria for including organizations within the District's reporting entity are set forth in Governmental Accounting Standards Board (GASB) Statement No. 14 "The Financial Reporting Entity." This statement defines the financial reporting entity as the primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the District. The District has determined that no other outside agency meets the above criteria and, therefore, no other agency has been included as a component unit in the District's financial statements. In addition, the District is not aware of any entity that would exercise such financial accountability that would result in the District being considered a component unit of the entity.

Yellowstone County provides substantial services to the District; tax billings, cash collections, debt payments and warrant redemption all flow through the office of the County Treasurer. This office also maintains the District's cash and invests funds at the direction of the District. The County Commissioners have the legal obligation to set levy amounts to finance the budget of the District, as directed by the Board of Trustees. Despite the degree of services rendered, the District has determined that neither Yellowstone County nor any other outside agency meets the criteria set forth in the preceding paragraph and therefore, no other agency has been included as a component unit of the District's financial statements.

The District functions in a fiduciary capacity relating to the Student Extracurricular Funds and the Deferred Compensation Fund.

Lockwood School District No. 26
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2008

Note B - Summary of Significant Accounting Policies

The financial statements of Lockwood School District No. 26 have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to school districts. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District's significant accounting policies are described below:

1. Basis of Presentation

a. Government-Wide Financial 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 Extracurricular and Deferred Compensation funds. The Extracurricular fund, which accounts for the extracurricular activities of the District's students, is reported as a private purpose trust fund in the statement of fiduciary net assets and changes in fiduciary net assets. The Deferred Compensation fund accounts for the District's cafeteria plan. The Deferred Compensation fund is reported as an agency fund in those same statements.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to students or the public who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not included among program revenues are reported as general revenues.

b. Fund Financial Statements

These statements provide information about the District's funds, including a separate statement for the District's fiduciary funds (the Extracurricular, and Deferred Compensation funds). 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 non-major funds.

2. Fund Accounting

The District uses funds to report on its financial position and results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. Funds are classified into three categories: governmental, proprietary, and fiduciary. Each category, in turn, is divided into separate 'fund types.'

Note B - Summary of Significant Accounting Policies (Continued)

2. Fund Accounting (Continued)

a. Governmental Funds Types

General Fund

The General Fund is the general operating fund of the District. It accounts for resources traditionally associated with government operations, which are not required to be accounted for in another fund. The District maintains the General Fund to account for most of the instructional and administrative aspects of the District's operations and to account for repair and maintenance of District property.

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than those accounted for in the Debt Service Fund, Capital Projects Funds, or Fiduciary Funds) that are legally restricted to expenditures for specific purposes.

Debt Service Fund

The Debt Service Fund accounts for the accumulation of resources for, and the payment of general long-term debt, principal, interest, and related costs. Since there are no legal or bond indenture requirements which mandate that a separate fund be established for each bond issue, the District maintains one Debt Service Fund for all bond issues.

Capital Projects Funds

The Capital Projects Funds account for financial resources to be used for the acquisition or construction of major capital improvements or facilities.

b. Fiduciary Funds

Agency Funds

The Agency Funds are used to account for funds held by the District, in a trustee capacity, to receive and pay health insurance premiums for former employees and to pay medical claims submitted by employees.

Private Purpose Trust Fund

The private purpose trust fund is used to account for funds held by the District, in a trustee capacity, for the District's extracurricular fund.

Note B - Summary of Significant Accounting Policies (Continued)

3. Basis of Accounting and Measurement Focus

a. Government-Wide Financial Statements

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 eligibility requirements imposed by the provider have been met.

b. Fund Financial Statements

Fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when 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 District 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.

The District recognizes property taxes as a receivable at the time an enforceable legal claim is established and considers property taxes as available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year. Those revenues susceptible to accrual are property taxes, special assessments, grants, interest revenue, and charges for services. Capital asset acquisitions are reported as expenditures in governmental funds and proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The District reports deferred revenue on its government-wide Statement of Net Assets and on its Balance Sheet – Governmental Funds. Deferred revenues arise when potential revenue does not meet both the ‘measurable’ and ‘available’ criteria for recognition in the current period. Deferred revenues also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the occurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to resources, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

Note B - Summary of Significant Accounting Policies (Continued)

3. Basis of Accounting and Measurement Focus (Continued)

c. Basis of Accounting

The District adopted GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, during the fiscal year ended June 30, 2004. The adoption of this statement is meant to present the information in a format more closely resembling that of the private sector and to provide the user with more managerial analysis regarding the financial results and the District's financial outlook.

State Law permits the inclusion of obligations for construction in progress and the purchase of personal property as expenditures for budget purposes. Obligations for the purchase of personal property which have been duly recorded with the County Treasurer as prescribed by the Superintendent of Public Instruction shall be included (MCA 20-9-209).

Note B - Summary of Significant Accounting Policies (Continued)

4. Cash and Investments

Cash resources of the District for all funds other than the Extracurricular Fund, are combined with cash resources of other school districts within Yellowstone County to form a pool of cash and cash equivalents that is managed by the Yellowstone County Treasurer. Investments of the pooled cash consist primarily of certificates of deposit and repurchase agreements and are carried at cost, which approximates fair value. Among the instruments which state statutes authorize the District to invest in are direct obligations of the United States government; in savings or time deposits in a state or national bank, building or loan association, savings and loan association, or credit union insured by the FDIC, FSLIC, or NCUA located in the state; in a repurchase agreement or Montana short-term investment pool. Interest income received as a result of pooling is distributed to the appropriate district utilizing a formula based on the respective district's previous month's ending balance of cash and cash equivalents. The County Treasurer then distributes interest income to each fund utilizing a formula based on the fund's previous month's ending balance cash and cash equivalents.

The District issues warrants in payment of its obligations. When the warrants are presented to the County Treasurer, the District's cash balance is reduced to pay the warrant. The cash and claims warrants payable for the payroll and claims clearing agency funds are netted for reporting purposes.

The cash and warrants payable in the payroll and claims clearing accounts are as follows:

	Payroll Clearing	Claims Clearing
Cash	284,002	139,730
Warrants payable	284,002	139,730

Information regarding the collateral and security for cash and cash equivalents is not available to the District. Montana state statute requires that collateral to secure deposits of public funds be held in direct obligations of the United States government or its agencies.

Extracurricular Fund cash of \$24,223 at June 30, 2008 is held at Little Horn State Bank. The account is insured by the FDIC up to \$100,000.

Lockwood School District No. 26
Notes to Financial Statements (Continued)
 For the Year Ended June 30, 2008

Note B - Summary of Significant Accounting Policies (Continued)

5. Capital Assets

Capital assets, including land, buildings, improvements, and equipment, are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an initial useful life of one year or more. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair 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 the life of the asset are not capitalized. Buildings, improvements, and equipment are depreciated using the straight-line depreciation method over the following estimated useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	15-50 Years
Buildings and Building Improvements	15-50 Years
Furniture and Equipment	5-20 Years
Vehicles	5-15 Years
Equipment	5-20 Years

6. Compensated Absences

All full-time District employees accumulate vacation and/or sick leave hours for later use or for payment upon termination, death or retirement. Vacation and sick leave benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable the District will compensate the employees for the benefits through paid time off or some other means. The Compensated Absences liability fund is used to pay the accumulated vacation and/or sick leave of a non-teaching employee upon termination, death or retirement. Such reserve may not exceed 30% of the District's recorded liability for accumulated sick leave and 30% of accumulated vacation leave for non-teaching or administrative employees.

7. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The School District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Lockwood School District No. 26
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2008

Note B - Summary of Significant Accounting Policies (Continued)

8. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Note C - Property Taxes

Property taxes are collected by Yellowstone County who remits to the District their respective share of the collections. The 2007 property tax levy, which was perfected and became a receivable in October 2007, was levied to finance District operations during the year ended June 30, 2008. The tax levy was collectible in November 2007 and May 2008. As of May 31, 2008 uncollected property taxes became delinquent. Property taxes are attached as an enforceable lien on the underlying property. After a period of three years, Yellowstone County, the collecting agent, may begin foreclosure proceedings and sell the property at auction. The District receives its share of the sale proceeds from Yellowstone County.

All property taxes are recognized in compliance with GASB interpretation "Property Tax Revenue Recognition in Government Funds," which states that such revenue is recorded when it becomes measurable and available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period.

Lockwood School District No. 26
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2008

Note D – Capital Assets

A summary of changes in capital assets for the year ended June 30, 2008 is as follows:

	<u>July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2008</u>
CAPITAL ASSETS BEING DEPRECIATED AT COST:				
Land Improvements	963,109	92,756	0	1,055,865
Buildings and Improvements	7,006,503	17,557	0	7,024,060
Machinery and Equipment	392,681	137,406	0	530,087
	<u>8,362,293</u>	<u>247,719</u>	<u>0</u>	<u>8,610,012</u>
OTHER CAPITAL ASSETS:				
Land	277,490	0	0	277,490
Construction in Progress	403,489	9,341,670	0	9,745,159
	<u>680,979</u>	<u>9,341,670</u>	<u>0</u>	<u>10,022,649</u>
Total	<u>9,043,272</u>	<u>9,589,389</u>	<u>0</u>	<u>18,632,661</u>
LESS ACCUMULATED DEPRECIATION FOR:				
Land Improvements	361,884	52,793	0	414,677
Buildings and Improvements	3,412,999	166,212	0	3,579,211
Machinery and Equipment	192,670	38,740	0	231,410
Total accumulated depreciation	<u>3,967,553</u>	<u>257,745</u>	<u>0</u>	<u>4,225,298</u>
Total	<u>5,075,719</u>			<u>14,407,363</u>

Lockwood School District No. 26
Notes to Financial Statements (Continued)
 For the Year Ended June 30, 2008

Note D – Capital Assets (Continued)

Depreciation expense was charged to the functions of the District as follows:

Instruction	199,909
Supporting Services	7,209
Operations and Maintenance	25,826
Food Service	24,801
	<u>257,745</u>

Note E - General Long-Term Debt

In January of 2007 the District issued general obligation bonds in the amount of \$12,860,000 to finance the construction of a middle school. The summary of activity in bonds payable (including current maturities) is as follows:

	Bonds Payable July 1, 2007	Debt Issued	Debt Principal Retired	Bonds Payable June 30, 2008
General Obligation Bonds:				
2007 series; interest rate 4.00% 2007 - 2014, 5.50% 2015 - 2017, 4.00% 2018 - 2026, 4.125% 2027; original issue of \$12,860,000; final maturity July 1, 2027	12,860,000		255,000	12,605,000
INTERCAP Loan; current interest rate 4.25%; interest rate varies throughout the term of the loan; original issue of \$540,000; final maturity August 15, 2010		540,000		540,000
Total	<u>12,860,000</u>	<u>540,000</u>	<u>255,000</u>	<u>13,145,000</u>

Lockwood School District No. 26
Notes to Financial Statements (Continued)
 For the Year Ended June 30, 2008

Note E - General Long-Term Debt (Continued)

At June 30, 2008 the annual cash flow requirements for retirement of bond principal are as follows:

Year Ending June 30,	Principal	Interest	Total
2009	350,000	553,702	903,702
2010	430,000	539,263	969,263
2011	695,000	521,368	1,216,368
2012	540,000	496,450	1,036,450
2013	560,000	474,850	1,034,850
Thereafter	10,570,000	3,517,425	14,087,425
Total	13,145,000	6,103,058	19,248,058

The District is subject to Montana Code Annotated which limits the amount of indebtedness by the issuance of bonds to the greater of:

- a) 50% of the taxable value of property subject to taxation by the District as ascertained by the last assessment for property taxes, or
- b) 50% of the statewide Facility Guaranteed Mill Value per ANB multiplied by 1,000, multiplied by the number of students enrolled in a particular district (based on the current year average number of students belonging "ANB").

As of June 30, 2008 the statutory debt limit for the District was as follows:

Statutory debt limit	Elementary
Outstanding debt	15,267,870
Remaining debt capacity	13,145,000
	2,122,870

The following is a summary of changes in long-term obligations for the year ended June 30, 2008:

	July 1, 2007	Additions	Reductions	June 30, 2008	Due Within One Year
Compensated Absences Payable	557,217	5,408	0	562,625	28,131
Bonds Payable	12,860,000	540,000	255,000	13,145,000	350,000
Total	13,417,217	545,408	255,000	13,707,625	378,131

Compensated absences liability will be liquidated by several of the Governmental funds.

Lockwood School District No. 26
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2008

Note F - Employee Benefit Plans

Plan Description and Provisions

All full-time District employees participate in one of two statewide, cost-sharing, multiple-employer retirement benefit plans. Contributions to the two plans are as required by state statute. Information about the two plans is presented below. Total payroll for all District employees for the year ended June 30, 2008 was \$5,796,445.

Public Employees' Retirement System (PERS) - All District employees, except employees who teach on a full-time basis or who are employed in a position in which instructional services are expected to be rendered, are provided pension benefits by a multi-employer plan administered by the State of Montana. Participating units of government and their employees provide funding. The District's contribution to this plan for the year ended June 30, 2008 was \$56,916 (6.80% of eligible payroll). The State of Montana contributes .1% of the PERS employees' monthly compensation that is considered to be an "on behalf" payment. Although not a significant amount, the contribution is a part of the PERS funding policy. The District's contribution to this plan represented less than 1% of total contributions required of all participating employers. Required employee contributions to this plan were \$57,753 (6.90% of eligible payroll). Total payroll for employees covered by PERS was \$836,998. One hundred percent of the required contributions were made for the current year and the preceding two years. They were \$114,669, \$110,535, and \$108,959, for the fiscal years ended June 30, 2008, 2007 and 2006 respectively.

Participants become eligible for benefits after age 60 and 5 years of service, after age 65 regardless of service, or 30 years of service regardless of age. The benefit is 1/56 of the final compensation for each year of credited service, paid as a modified cash refund annuity. A participant is eligible for early retirement benefits after age 50 and 5 years of service or after 25 years of service regardless of age. Rights become vested after 5 years of service. The authority to establish, amend and provide cost of living adjustments for the plan is assigned to the State Legislature.

Teachers' Retirement System (TRS) - All District employees who teach on a full-time basis or are employed in a position in which instructional services are expected to be rendered, are provided pension benefits by a multi-employer plan administered by the State of Montana. Participating units of government and their employees provide funding. The District's contribution to this plan for the year ended June 30, 2008 was \$360,430 (7.47% of eligible payroll). The State of Montana contributes .11% of the TRS employees' monthly compensation, which is considered to be an "on behalf" payment. Although not a significant amount, the contribution is a part of the TRS funding policy. The District's contribution represented less than 1% of total contributions required of all participating employers. Required employee contributions to this plan were \$344,990 (7.15% of eligible payroll). Total payroll for teaching employees was \$4,825,039. One hundred percent of the required contributions were made for the current year and the preceding two years. They were \$705,420, \$667,898, and \$640,257, for the fiscal years ended June 30, 2008, 2007 and 2006, respectively.

Lockwood School District No. 26
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2008

Note F - Employee Benefit Plans (Continued)

Participants become eligible for benefits after age 60 or 25 years of service. The benefit is 1/60 of the final compensation for each year of credited service. A participant is eligible for early retirement, with reduced benefits, after age 50 and 5 years of service. Rights become vested after 5 years of service. The authority to establish, amend and provide cost of living adjustments for the plan is assigned to the State Legislature.

The PERS financial information is reported in the Public Employees' Retirement Board's Comprehensive Annual Financial Report for the fiscal year end. It is available from the PERD at 100 North Park Avenue, Suite 200, P.O. Box 200131, Helena, Montana 59620-0131, (406) 444-3154.

The TRS financial information is reported in the Teachers' Retirement Board's Actuarial Valuation for the fiscal year end. It is available from the TRB at 1500 E. Sixth Avenue, Helena, Montana 59620-0139, (406) 444-3134.

Note G - Risk Management

The District faces a considerable number of risks of loss, including: a) damage to and loss of property and contents; b) employee torts; c) professional liability, (i.e. errors and omissions); d) environmental damage; e) workers' compensation, (i.e. employee injuries) and f) medical insurance costs of employees. A variety of methods are used to provide insurance for these risks. A commercial policy with Western States Insurance, transferring all risks of loss, except for relatively small deductible amounts, was purchased for property and content damage, employee torts and professional liabilities. Beginning in 1992, the District joined together with other Montana school districts to form the Montana Schools Group Workers' Compensation Risk Retention Program, a public entity risk pool currently operating as a common risk management and insurance program for the member school districts. The District pays a quarterly premium for its employee injury insurance coverage which is allocated to the employer fund based on total paid salaries and wages. 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. Employee medical insurance is provided through Blue Cross/Blue Shield of Montana. The District does not carry coverage for environmental damages. The risk of potential loss is low and coverage is not cost beneficial.

Note H - Fund Equity

Reservations of fund balances of governmental funds are created to either (1) satisfy legal covenants that require a portion of the fund balance be segregated, or (2) identify the portion of the fund balance that is not appropriate for future expenditures. Specific reservations of the fund balance accounts are summarized below:

Reserve for Encumbrances - A reserve which segregates a portion of a fund balance for commitments related to purchases of personal property or construction in progress. At June 30, 2008, \$0 of fund balance was reserved in the general fund for encumbrances.

Reserve for Long Term Debt - A reserve, which segregates a portion of fund balance for obligations relating to payments on long-term debt. At June 30, 2008, \$61,348 of fund balance was reserved in the compensated absences fund.

Lockwood School District No. 26
Notes to Financial Statements (Continued)
 For the Year Ended June 30, 2008

Note I - Due From Other Governments

Due from other governments at June 30, 2008 consists of amounts owed to the District from other governmental entities. These consist of the following:

Special Revenue Funds:	
Transportation Fund	5,242
School Food Fund	533
Total	<u>5,775</u>

Note J - Non Monetary Transactions

The District received \$27,632 in USDA Commodities during the 2007-2008 fiscal year. The commodities received are valued at the average wholesale price as determined by the distributing agency. All commodities received by the District were treated as an expense of the fund receiving the commodities.

Note K - Transfers

For the year ended June 30, 2008, resource transfers in of \$214,160 were made to the Miscellaneous Programs fund to record lump sum payments received from the Eastern Yellowstone Special Services Cooperative and a resource transfer out of \$19,055 was made from the General Fund, for special education expenditures relating to the District's share of IDEA B federal funds.

Note L - Interfund Receivables and Payables

Interfund balances at June 30, 2008, consisted of the following individual fund receivables and payables:

Fund	Receivables	Payables
General Fund	8,289	0
Tuition	0	1,639
Deferred Compensation Fund	0	6,650
Total	<u>8,289</u>	<u>8,289</u>

Lockwood School District No. 26
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2008

Note M – Commitments, Contingencies and Subsequent Events

The District participates in a number of federally assisted grant programs that are subject to audit and adjustment by the grantors. Such grantor audits of these programs, if any, for or including the year ended June 30, 2008, have not yet been conducted. Accordingly, the District's compliance with applicable grant requirements for those programs if audited by grantor agencies will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

Note N – Prior Period Comparative Financial Information

The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the government's financial statements from which the summarized information was derived.

Required Supplemental Information

Lockwood School District No. 26

Yellowstone County
Lockwood, Montana
June 30, 2008

Lockwood Public School District No. 26
Budgetary Comparison Schedule
For the Year Ended June 30, 2008

	General Fund		Building Reserve	
	ORIGINAL AND FINAL BUDGET	ACTUAL	ORIGINAL AND FINAL BUDGET	ACTUAL
REVENUES				
Taxes	1,917,845	1,844,992	0	16,538
Intergovernmental revenues				
County	0	0	0	0
State	4,950,189	4,951,803	3,779	0
Federal	0	0	0	0
Interest on investments	20,948	17,087	32,733	49,769
Other revenue	412	43,575	0	0
Total revenues before reappropriations	6,889,394	6,857,457	36,512	66,307
Budgeted reappropriations	0		1,170,802	
Total revenues and reappropriations	<u>6,889,394</u>		<u>1,207,314</u>	
EXPENDITURES				
Current:				
Instruction	6,889,394	4,390,463	1,207,314	0
Supporting services	0	1,644,347	0	23,992
Operations and maintenance	0	813,650	0	13,893
Student transportation	0	0	0	0
Extracurricular	0	31,576	0	0
Capital outlay	0	9,400	0	188,239
Total expenditures	<u>6,889,394</u>	<u>6,889,436</u>	<u>1,207,314</u>	<u>226,124</u>
Excess (deficiency) of revenues over expenditures	<u>0</u>	<u>(31,979)</u>	<u>0</u>	<u>(159,817)</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in (out)		(2,844)		0
Total other financing sources (uses)		<u>(2,844)</u>		<u>0</u>
Excess (deficiency) of revenues and other sources over expenditures		<u>(34,823)</u>		<u>(159,817)</u>
Fund balances, beginning (Non-GAAP budgetary basis)		<u>454,157</u>		<u>1,170,802</u>
Fund balances, ending (Non-GAAP budgetary basis)		<u>419,334</u>		<u>1,010,985</u>
Adjustments to generally accepted accounting principles				
Current year encumbrances included in expenditures		0		0
Fund balances, ending (GAAP basis)		<u><u>419,334</u></u>		<u><u>1,010,985</u></u>

See Notes to Budgetary Comparison Schedule.

Lockwood School District No. 26
Notes to Budgetary Comparison Schedule
 For the Year Ended June 30, 2008

1. Budgetary Process

State Law requires that the District adopt budgets for certain funds, generally those supported by property taxes. Budgeted and non-budgeted funds are as follows:

<u>Fund</u>	<u>Budgeted</u>	<u>Non-Budgeted</u>
<u>Governmental Funds</u>		
General	X	
Transportation	X	
School Food Services		X
Tuition	X	
Retirement	X	
Miscellaneous Programs		X
Adult Education	X	
Lease Rental		X
Compensated Absences		X
Technology	X	
Flex Fund	X	
Debt Service	X	
Building		X
Building Reserve	X	
<u>Fiduciary Funds</u>		
Extracurricular		X
Payroll Clearing		X
Claims Clearing		X
Cobra Insurance		X
Deferred Compensation		X

See independent auditors' report.

Lockwood School District No. 26
Notes to Budgetary Comparison Schedule (Continued)
For the Year Ended June 30, 2008

1. Budgets (Continued)

The District's budget is prepared on the modified accrual basis of accounting, including encumbrances, which results in the accounting for certain transactions to be on a basis other than accounting principles generally accepted in the United States of America (modified accrual). The District's accounting records are maintained on the basis of cash receipts and disbursements during the year. At year end, certain adjustments are made to the District's accounting records to reflect the basis of accounting described above. Reported budget amounts represent the originally adopted budget. Total fund expenditures may not legally exceed the budgeted expenditures. The budget lapses at the end of each year. The results of operations, on the budget basis of accounting, described above, are presented in the Budgetary Comparison Schedule to provide a meaningful comparison of actual results with the budget

General Fund budgets are based on the State of Montana's Foundation Program, which is based primarily on enrollment. Budgets of other funds are based on expected revenues and expenditures. Budgeted fund expenditures are limited by State Law to budgeted amounts which may be amended for emergencies as defined by State Law. Budget authority may be transferred between expenditure classifications within the same fund.

Budgetary policy follows:

- 1) By the second Monday in July, the County Assessor transmits a statement of the assessed valuation and taxable valuation of all property to the County Superintendent of Schools.
- 2) Before the second Monday in August, the County Superintendent estimates revenue by fund and provides this information to the Board of Trustees prior to the final budget meeting.
- 3) On the second Monday in August, the Board of Trustees must meet to legally adopt the final budget. This budget is adopted consistent with the District's basis of accounting, except for encumbrances discussed below.
- 4) Upon adoption of the final budget, expenditures and operating transfers are limited to the total fund budget. Unexpended and unencumbered appropriations lapse at year end. Under State Law and District Policy, management may amend the budget without seeking Board approval as long as the total individual fund budget is not exceeded.
- 5) Individual fund budgets may only be increased with Board approval, in a manner prescribed by State Law (MCA 20-9-161 through MCA 20-9-166).

Encumbrances outstanding at year-end represent the estimated amount of expenditures ultimately to result if unperformed purchase orders or contracts in process at year-end were completed. They do not constitute expenditures or liabilities, and will not until performance is essentially complete. The encumbrances have been reported as a reservation of fund balance of the Balance Sheet – Governmental Funds. Because inclusion of these obligations is required for budgetary purposes, they have been included in expenditures in the Budgetary Comparison Schedule. The difference between this basis of presentation and GAAP basis is reconciled on the face of this statement.

See independent auditors' report.

Supplemental Information

Lockwood School District No. 26

Yellowstone County
Billings, Montana
June 30, 2008

Lockwood School District No. 26
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2008

Federal Grantor/Pass Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor Number	Program or Award Amount	Cash/(Accrued) or Deferred Revenue at July 1, 2007	Receipts or Revenue Recognized	Disbursements or Expenditures	Cash/(Accrued) or Deferred Revenue at June 30, 2008
U.S. Department of Education							
Passed Through The Montana							
Office of Public Instruction							
Title I Part A	84.010A	5609673107	8,142	0	8,142	8,142	0
Title I Part A	84.010A	5609673108	144,596	0	124,596	124,596	0
Title I Part A - Improvement	84.010A	5609673708	20,000	0	20,000	20,000	0
Title II Part A	84.367A	5609671408	84,586	0	84,586	84,586	0
Title II Part D	84.318	5609676008	2,386	0	2,386	2,386	0
Title IV - Drug Free Schools	84.186A	5609671608	7,247	0	7,247	7,247	0
Title V Part A	84.298A	5609673908	3,106	0	3,106	3,106	0
IDEA B Pre-school	84.173A	5696947908ALLO	13,636	0	13,636	13,636	0
IDEA B	84.027A	5696947708ALLO	200,524	0	200,524	200,524	0
Total Department of Education				0	464,223	464,223	0
U.S. Department of Agriculture							
Passed Through The Montana							
Office of Public Instruction							
School Food **	10.555 *	N/A	N/A	0	279,059	279,059	0
Fair Value USDA Commodities **	10.555 *	N/A	N/A	0	27,632	27,632	0
Total Department of Agriculture				0	306,691	306,691	0
Total Federal Financial Assistance				0	770,914	770,914	0

The Schedule of Expenditures of Federal Awards is prepared on the cash basis of accounting.

* Denotes a major program

** These federal programs do not require the District to account for expenditures related to such receipts. Consequently, these receipts are commingled with other funds, and expenditures of such receipts are not separately identified.

See independent auditors' report.

Lockwood Public School District No. 26

*Extracurricular Fund - Schedule of Cash Receipts, Disbursements and Changes in Fund Balance
For the Year Ended June, 30, 2008*

Student Activity	Fund Balance 7/1/07	Receipts	Disbursements	Transfers	Fund Balance 6/30/08
Annual	5,370	8,311	7,409	0	6,272
Athletics	7,000	11,330	13,340	(134)	4,856
Band Boosters	6,157	28	4,466	0	1,719
Extended Studies	5,810	25	2,086	0	3,749
Family Resource Center	31	2,181	1,214	0	998
Field Trip	6	390	200	0	196
Humanitarian Fund	1,756	194	396	18	1,572
Library	1,130	190	81	(18)	1,221
Miscellaneous	0	206	0	0	206
Student Council	1,584	6,155	4,439	134	3,434
Total	28,844	29,010	33,631	0	24,223

See independent auditors' report.

Lockwood School District No. 26
Schedule of Reported Enrollment
 For the Year Ended June 30, 2008

Grade	October 4, 2007		February 1, 2008	
	Enrollment Per FR-4	Enrollment Per District Record	Enrollment Per FR-4	Enrollment Per District Record
Pre-K	8	8	14	14
K-6	908	908	910	910
7-8	242	242	235	235
Totals	1,158	1,158	1,159	1,159

See independent auditors' report.

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*

November 17, 2008

Board of Trustees
Lockwood School District No. 26
Lockwood, Montana

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Lockwood School District No. 26, Yellowstone County, Billings, Montana, (the District), as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 17, 2008. 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 the District's internal control over financial reporting 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 the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District'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 the Board of Trustees, administration, the State of Montana, Federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



GALUSHA, HIGGINS & GALUSHA, P.C.
Billings, Montana

Report on Compliance with Requirements
Applicable to Each Major Program and Internal Control Over
Compliance in Accordance With OMB Circular A-133

November 17, 2008

Board of Trustees
Lockwood School District No. 26
Lockwood, Montana

Compliance

We have audited the compliance of Lockwood School District No. 26, Yellowstone County, Billings, Montana (the District) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that are applicable to each of its major Federal programs for the year ended June 30, 2008. The District's major Federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but, not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by an entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Trustees, administration, the State of Montana, Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


GALUSHA, HIGGINS and GALUSHA, P.C.
Billings, Montana

Lockwood School District No. 26
Schedule of Findings and Questioned Costs
 For the Year Ended June 30, 2008

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:

Unqualified _____
 Yes _____ X _____ No _____

Internal control over financial reporting:

Material weakness(es) identified? _____

Significant deficiency(ies) identified not considered to be material weaknesses?

Yes _____ X _____ No _____

Noncompliance material to financial statements noted?

Yes _____ X _____ No _____

Federal Awards

Internal control over major programs:

Material weakness (es) identified? _____
 Yes _____ X _____ No _____

Significant deficiency(ies) identified not considered to be material weaknesses?

Yes _____ X _____ No _____

Type of auditors' report issued on compliance for major programs

Unqualified _____

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?

Yes _____ X _____ No _____

Identification of major program:

CFDA Number(s)
 10.555
Name of Federal Program or Cluster
 School Food

Dollar threshold used to distinguish between Type A and Type B programs:

\$300,000 _____

Auditee qualified as low-risk auditee?

X _____ Yes _____ No _____

Lockwood School District No. 26
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2008

Section II - Findings Reported in Accordance with GAGAS:

None

Section III - Findings And Questioned Costs For Federal Awards

None

Section IV - Prior Audit Findings

None