

GATEWAY REGIONAL SCHOOL DISTRICT

**FINANCIAL STATEMENTS
INCLUDING INDEPENDENT AUDITORS' REPORTS
FOR THE YEAR ENDED JUNE 30, 2007**

GATEWAY REGIONAL SCHOOL DISTRICT
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INDEPENDENT AUDITORS' REPORT

To the School Committee of the
Gateway Regional School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Gateway Regional School District of the Commonwealth of Massachusetts (the "District") as of and for the year ended June 30, 2007, 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.

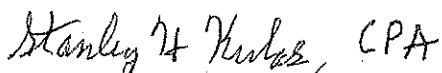
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and 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, the business-type activities, each major fund, and the aggregate remaining fund information of the Gateway Regional School District as of June 30, 2007, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund 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 March 31, 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 important for assessing the results of our audit.

The management's discussion and analysis beginning on page 2-1, 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 the District's basic financial statements. The combining and other schedules, are presented for purposes of additional analysis; and the accompanying schedule of expenditures of federal awards is also presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and are not a required part of the basic financial statements of the District. The combining and other schedules, and the schedule of expenditures of federal awards 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.


STANLEY H. KULAS
Certified Public Accountant

March 31, 2008

GATEWAY REGIONAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2007

As management of the Gateway Regional School District of the Commonwealth of Massachusetts, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2007. We encourage readers to consider the information presented here in conjunction with additional information provided throughout this document.

FINANCIAL HIGHLIGHTS

On a government-wide basis:

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$32,976,977 and by \$68,735 for the governmental and business-type activities, respectively.(Exhibit A)
- The District's total net assets for governmental activities decreased by \$826,379 and increased by \$44,887 for the business-type activities.(Exhibit B)
- The District's long-term debt decreased by \$909,830 to \$9,166,258 for governmental activities and decreased by \$41,175 to \$27,561 for business-type activities during the year.

On a governmental fund basis:

- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$1,241,351 (Exhibit C), a decrease of \$85,608 in comparison with the prior year (Exhibit D).
- As of June 30, 2007, the School Roof Repair Fund had a deficit balance of \$228,000. This deficit results from the accounting convention of recognizing revenue from debt only upon the issuance of permanent financing. As of June 30, 2007, bond anticipation notes (temporary debt) of \$228,000 have been issued to finance the roof repair. This deficit should be eliminated in subsequent years when long-term debt is issued.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$817,161 (Exhibit C), or 4.69% of next year's budgeted general fund expenditures of \$17,437,797.
- The District's bond anticipation notes decreased by \$824,748 to \$228,000 during the current fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements; 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

GATEWAY REGIONAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2007

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets/(liabilities) may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net assets/(liabilities) changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected state grants are recognized as receivables due from other governments, and earned but unused vacation leave is recognized as a liability for compensated absences).

Both of the government-wide financial statements distinguish functions of the District that are principally supported by assessments and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The District has one business-type activity to "sell" laptop computers to students which it treats as an enterprise fund. The governmental activities of the District include administration, instruction, ancillary school charges, maintenance and operations, insurance and other fixed charges, programs with other schools, transportation, and capital improvements.

The government-wide financial statements can be found in Exhibits A and B of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Reconciliations to facilitate this comparison between governmental funds and governmental activities are provided in Exhibit C and Exhibit K – Note 2.

The District maintains various individual governmental funds. Information is presented separately in the governmental fund balance sheet (Exhibit C) and in the governmental fund statement of revenues, expenditures, and changes in fund balances (Exhibit D) for the general fund, the debt service fund, the state payments on-behalf of teacher retirement fund, and the school buildings construction and renovation fund, all of which are considered to be major funds. Data from the other governmental funds are combined into a single aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining schedules 1 through 6 in this report.

GATEWAY REGIONAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2007

The District adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget (Exhibit E).

The basic governmental fund financial statements can be found in Exhibits C through E of this report.

Proprietary funds. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The District uses an enterprise fund to account for its lease purchase of laptop computers from vendors and its subsequent lease sale of these laptops to its students. The accounting for this enterprise fund is the accrual basis.

The basic proprietary fund financial statements can be found in Exhibits F, G, and H of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the District's own programs. The accounting used for fiduciary funds is the accrual basis.

The basic fiduciary fund financial statements can be found in Exhibits I and J of this report.

Notes to the basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found in Exhibit K of this report.

Other information. The combining schedules referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund schedules and other types of schedules can be found in Schedules 1 through 9 of this report.

GATEWAY REGIONAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2007

Summary of the major features of the government-wide and fund financial statements.

	-----Fund Financial Statements-----			
	Government-wide Statements	Governmental	Proprietary	Fiduciary
Scope	Entire District (except fiduciary funds)	The activity of the District that is not proprietary or fiduciary, such as general government, public safety, and education.	Activities the District operates similar to private businesses.	Assets held by the District on behalf of someone else. Students and other organizations that have funds on deposit with the District are reported here.
Required financial statements	Statement of net assets, & statement of activities	Balance sheet, and statement of revenues, expenditures and changes in fund balance.	Statement of net assets, and statement of revenues, expenses and changes in net assets, and statement of cash flows.	Statement of fiduciary net assets, and statement of changes in fiduciary net assets.
Basis of accounting and measurement focus.	Accrual accounting Economic resources focus	Modified accrual accounting. Current financial resources focus	Accrual accounting Economic resources focus	Accrual accounting Economic resources focus
Type of asset and liability information	All assets and liabilities, both financial and capital, short-term and long- term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter. No capital assets or long-term liabilities included	All assets and liabilities, both financial and capital; short-term and long- term	All assets and liabilities, both financial and capital; short-term and long- term. These funds do not currently contain any capital assets, although they can
Type of inflow and outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability are due and payable	All revenues and expenses during the year, regardless of when cash is received or paid.	All additions or deductions during the year, regardless of when cash is received or paid

GATEWAY REGIONAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2007

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The District's assets exceeded liabilities by \$33,045,712 (Exhibit A) at the close of the most recent fiscal year.

By far the largest portion of the District's net assets reflects its investment in capital assets (e.g. land, buildings, leasehold improvements, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to school children; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other services, since the capital themselves cannot be used to liquidate these liabilities.

DISTRICT'S NET ASSETS

Description	Amounts					
	Governmental Activities		Business-Type Activities		Totals	
	2007	2006	2007	2006	2007	2006
Current and other assets	\$ 1,918,284	\$ 2,629,541	\$ 169,205	\$ 171,677	\$ 2,087,489	\$ 2,801,218
Capital assets	41,620,494	43,158,596	-	-	41,620,494	84,779,090
Total assets	43,538,778	45,788,137	169,205	171,677	43,707,983	87,580,308
Bond anticipation notes	228,000	1,052,748	-	-	228,000	1,052,748
Other current liabilities	1,167,543	855,945	72,909	79,093	1,240,452	935,038
Long-term liabilities	9,166,258	10,076,088	27,561	68,736	9,193,819	10,144,824
Total liabilities	10,561,801	11,984,781	100,470	147,829	10,662,271	12,132,610
Net assets:						
Invested in capital assets, net of related debt ..	32,123,209	32,621,047	-	-	32,123,209	32,621,047
Restricted	405,719	1,183,081	-	-	405,719	1,183,081
Unrestricted	448,049	(772)	68,735	23,848	516,784	23,076
Total net assets	\$ 32,976,977	\$ 33,803,356	\$ 68,735	\$ 23,848	\$ 33,045,712	\$ 33,827,204

A portion of the District's net assets at June 30, 2007 \$405,719 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$516,784 is further segregated by internal designations as shown below.

Description	Governmental Type	Proprietary Type	Totals
Designated for subsequent year's budget	\$ 231,250	\$ -	\$ 231,250
Undesignated and unreserved	216,799	68,735	285,534
Total unrestricted net assets	\$ 448,049	\$ 68,735	\$ 516,784

GATEWAY REGIONAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2007

Governmental activities. Governmental activities (decreased)/increased the District's net assets by \$(826,379) and \$6,274,949 for fiscal years 2007 (Exhibit B) and 2006, respectively. Key elements of these changes are as follows:

DISTRICT'S CHANGES IN NET ASSETS		
Description	Amount	
	2007	2006
Revenues:		
Program revenues:		
Charges for services	\$ 386,966	\$ 405,705
Member town assessments	1,334,840	1,267,279
Investment income	158	191
Other	22,292	41,749
Operating grants and contributions	4,785,195	4,179,021
Capital grants and contributions	-	8,160,100
General revenues:		
Assessments to member towns	7,355,770	6,446,491
Grants and contributions not restricted to specific programs	5,817,025	5,377,752
Miscellaneous	15,498	15,858
Investment income	67,131	76,852
Total revenues	<u>19,784,875</u>	<u>25,970,998</u>
Expenses:		
Administration	803,999	731,457
Instruction	9,200,379	8,699,233
Ancillary school services	1,018,863	1,014,360
Transportation	1,610,474	1,524,519
Maintenance and operations	1,419,802	1,376,973
Insurance and fixed charges	4,032,961	3,495,793
Programs with other schools	1,111,865	948,372
Prior year expenditures	-	4,111
Unallocated depreciation	1,033,366	1,390,586
Debt service	379,545	510,645
Total expenses	<u>20,611,254</u>	<u>19,696,049</u>
Change in net assets	<u>\$ (826,379)</u>	<u>\$ 6,274,949</u>

GATEWAY REGIONAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2007

- Program revenues related to capital grants and contributions decreased by \$8,160,100. This occurred because in fiscal 2006 the Massachusetts School Building Authority made its final reimbursement for construction and interest costs associated with the school building projects to the District of \$8,160,100.
- For the most part, increases in expenses closely paralleled inflation and growth in the demand for services.

Business-type activities. Business-type activities increased the District's net assets by \$44,887 as gross revenues of \$134,836 from the sale of computers offset \$89,949 of operating expenses.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$1,241,351 (Exhibit C), a decrease in the balance of \$85,608 in comparison with the prior year (Exhibit D). A summary of the components comprising these balances is described below.

Description	Balance 06/30/07	Balance 06/30/06
Reserved for designated expenditures	\$ 172,368	\$ 94,165
Reserved to reduce subsequent years' assessments	231,250	231,250
Reserved to segregate assets associated for food services inventory	5,351	6,282
Reserved to pay debt service	15,221	236,380
Unreserved - available for spending at the government's discretion	817,161	758,882
Total fund balances	<u>\$ 1,241,351</u>	<u>\$ 1,326,959</u>

The general fund is the chief operating fund of the District. At the end of the current fiscal year, total fund balance was \$1,048,411 (Exhibit C) of which \$817,161 was the unreserved fund balance. As a measure of the general fund liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total general fund expenditures and transfers for the current year. Unreserved fund balance represents 5.01% of total general fund expenditures and transfers, while total fund balance represents 6.43% of that same amount. These results are compatible with the 4.96% and 6.44% associated with the prior fiscal year.

GATEWAY REGIONAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2007

The fund balance of the District's general fund increased by \$58,279 during the current fiscal year (Exhibits D). Key factors in this change are (Exhibit E):

- Use of \$231,250 of beginning fund balance to finance current year's operations.
- Current expenditures for instruction, insurance, transportation and the like were \$56,531 less than budgeted.
- State aid transportation and Medicaid revenues were \$201,052 more than budgeted.
- Investment and miscellaneous income were \$31,946 more than budgeted.

The debt service fund has a total fund balance of \$15,221, all of which is reserved for the payment of debt service. During fiscal 2007, \$221,159 was transferred to the general fund to finance debt service expenditures (Exhibit D).

State payments on-behalf of the teacher retirement program totaling \$1,712,057 and \$1,447,041 for fiscal 2007 and 2006 were made directly by the Massachusetts Teachers Retirement System for the benefit of District teachers (Exhibit D).

GENERAL FUND BUDGETARY HIGHLIGHTS

The District's original fiscal 2007 budget of \$16,373,710 did not change during the year; however, there were some minor changes reclassifying amounts between individual line items (Exhibit E).

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets. The District's investment in capital assets as of the end of the current fiscal year amounts to \$41,620,494 (net of accumulated depreciation). This investment in capital assets includes construction in progress, buildings, leasehold improvements, machinery and equipment, vehicles, furniture and fixtures, land, and computer equipment.

GATEWAY REGIONAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2007

Major capital asset events during the current fiscal year included the following:

- A vehicle was acquired at a cost of \$30,342.
- Apple computers were acquired through a lease purchase agreement at a cost of \$100,210.
- Ten Konica copiers were acquired through a lease purchase agreement at a cost of \$98,119
- Depreciation expense for the year was \$1,772,533.

DISTRICT'S CAPITAL ASSETS (net of depreciation)		
Description	Amount	
	2007	2006
Buildings	\$ 32,877,311	\$ 33,652,150
Leasehold improvements	7,400,051	7,559,192
Computers	523,554	778,908
Machinery and equipment	85,798	833
Furniture and fixtures	675,183	1,122,564
Land	17,250	17,250
Vehicles	41,347	27,699
Total capital assets	<u>\$ 41,620,494</u>	<u>\$ 43,158,596</u>

Additional information on the District's capital assets can be found in Exhibit K - Note 4 of this report.

Short-term debt. At the end of fiscal year 2007 and 2006, the District had total bond anticipation notes outstanding of \$228,000 and \$1,052,748, respectively; all of which is debt backed by the full faith and credit of the District and its member towns. The District's total short-term obligation is comprised of the following components.

DISTRICT'S OUTSTANDING SHORT-TERM OBLIGATIONS		
Description	Amount	
	2007	2006
School construction and renovation bond anticipation notes ...	\$ -	\$ 767,748
School roof repairs bond anticipation notes	228,000	285,000
Total bond anticipation notes	<u>\$ 228,000</u>	<u>\$ 1,052,748</u>

GATEWAY REGIONAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2007

Long-term debt. At the end of fiscal year 2007 and 2006, the District had long-term obligation outstanding of \$9,857,283 and \$10,636,511, respectively; comprised of the following components.

Description	Amount	
	2007	2006
Bonds payable.....	\$ 9,097,000	\$ 9,437,000
Notes payable.....	57,565	81,050
Compensated absences.....	395,529	881,400
Capital lease obligations.....	272,755	195,630
Early retirement liability.....	22,140	28,454
Unamortized bond premium.....	12,294	12,977
Total outstanding debt.....	<u>\$ 9,857,283</u>	<u>\$ 10,636,511</u>

The District maintains a "BBB+" and a "SP1+" rating from Standard & Poor's on its general obligation debt. Additional information on the District's long-term and short-term debt can be found in Exhibit K - Note 4 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Gateway Regional School District is dependent on the State of Massachusetts as well as seven member towns for the funding of the budget. Five of the seven towns must approve the school budget on an annual basis. The Gateway District is located in the Berkshires and is part of both Hamden and Hampshire County. There is little industry within the district, with the school district being the largest employer. Primary business within the district includes small general stores, self-employed contractors, restaurants, and health centers.

- The Gateway Regional School District had an increase of Chapter 70 revenue of approximately 8.2% or \$439,273 and an increase in regional transportation revenue of 4.5% or \$1,050,666.
- Financial implications affecting the FY '07 budget were the following:
 - \$231,250 was used from E & D to offset the budget.
 - \$220,059 reserved for debt service used to offset FY '07 assessments to the towns.

GATEWAY REGIONAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2007

These factors were considered in preparing the District's budget for the 2008 fiscal year.

- State chapter 70 funds for the District are expected to increase by approximately 1.8% providing an additional \$104,606 in state revenues.
- Regional transportation reimbursement is expected to increase to a total amount of \$1,210,666.
- The minimum contributions component of town assessments established by the Commonwealth of Massachusetts are expected to increase by approximately 1.0% providing an additional \$59,893 of assessment revenues.
- The District's proposed FY2007 operating budget is requesting \$2,644,610 of town assessments above the minimum contribution amounts established by the Commonwealth.
- The District will be using \$231,250 out of excess and deficiency to reduce town assessments.
- The District's foundation enrollment has decreased by 53 students; therefore, a rather low increase in Chapter 70 reimbursement reflects the declining enrollment.

REQUESTS FOR INFORMATION

The financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Business Manager, Gateway Regional School District, 12 Littleville Road, Huntington, MA 01050.

GATEWAY REGIONAL SCHOOL DISTRICT

GOVERNMENT-WIDE

STATEMENT OF NET ASSETS

JUNE 30, 2007

	Govern- mental Activities	Business- Type Activities Laptop Program	Totals
Assets:			
Pooled cash	1,898,721	22,931	1,921,652
Due from other governments	14,212	-	14,212
Notes receivable - current	-	95,879	95,879
Inventory	5,351	-	5,351
Notes receivable - noncurrent	-	50,395	50,395
Capital assets - net of accumulated depreciation	41,620,494	-	41,620,494
Total assets	43,538,778	169,205	43,707,983
Liabilities:			
Accounts and other payables	64,248	-	64,248
Current unamortized premium from bond issuance	683	-	683
Current portion of bonds payable	417,000	-	417,000
Current portion of notes payable	42,416	-	42,416
Current portion of early retirement liability	6,820	-	6,820
Current portion of capital lease obligations	76,107	72,909	149,016
Current portion of compensated absences	47,529	-	47,529
Accrued interest payable	175,584	-	175,584
Payroll withholdings	337,156	-	337,156
Bond anticipation notes	228,000	-	228,000
Noncurrent unamortized premium from bond issuance ..	11,611	-	11,611
Noncurrent portion of bonds payable	8,680,000	-	8,680,000
Noncurrent portion of notes payable	15,149	-	15,149
Noncurrent portion of early retirement liability	15,320	-	15,320
Noncurrent portion of capital lease obligations	96,178	27,561	123,739
Noncurrent portion of compensated absences	348,000	-	348,000
Total liabilities	10,561,801	100,470	10,662,271
Net assets:			
Invested in capital assets, net of related debt	32,123,209	-	32,123,209
Restricted	405,719	-	405,719
Unrestricted	448,049	68,735	516,784
Total net assets	32,976,977	68,735	33,045,712

See accompanying notes to the basic financial statements.

GATEWAY REGIONAL SCHOOL DISTRICT
GOVERNMENT-WIDE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007

Functions/Programs	Expenses for all Functions and Programs	Program Revenues					Net (Expenses) Revenues and Changes in Net Assets		
		Charges for Services	Member Town Assessments	Investment Income	Other	Operating Grants and Contributions	Govern- mental Activities	Business- Type Activities	Totals
Governmental activities:									
Administration	803,999	-	-	-	-	-	(803,999)	-	(803,999)
Instruction	9,200,379	1,984	-	-	9,075	1,518,048	(7,671,272)	-	(7,671,272)
Ancillary school services	1,018,863	359,878	-	158	13,217	228,372	(417,238)	-	(417,238)
Transportation	1,610,474	-	559,910	-	-	1,164,255	113,691	-	113,691
Maintenance and operations	1,419,802	25,104	-	-	-	-	(1,394,698)	-	(1,394,698)
Insurance and fixed charges	4,032,961	-	-	-	-	1,874,520	(2,158,441)	-	(2,158,441)
Programs with other schools	1,111,865	-	-	-	-	-	(1,111,865)	-	(1,111,865)
Unallocated depreciation	1,033,366	-	-	-	-	-	(1,033,366)	-	(1,033,366)
Principal associated with renovation bonds ..	-	-	340,000	-	-	-	340,000	-	340,000
Interest associated with renovation bonds ..	365,748	-	421,133	-	-	-	55,385	-	55,385
Interest associated with bans	13,797	-	13,797	-	-	-	-	-	-
Total governmental activities	20,611,254	386,966	1,334,840	158	22,292	4,785,195	(14,081,803)	-	(14,081,803)
Business-type activity - laptop program	99,737	134,836	-	9,788	-	-	-	44,887	44,887
Totals	20,710,991	521,802	1,334,840	9,946	22,292	4,785,195	(14,081,803)	44,887	(14,036,916)
General revenues:									
Assessments to member towns							7,355,770	-	7,355,770
State and federal aid not restricted to specific purposes							5,817,025	-	5,817,025
Miscellaneous							15,498	-	15,498
Investment income							67,131	-	67,131
Total general revenues							13,255,424	-	13,255,424
Changes in net assets							(826,379)	44,887	(781,492)
Net assets - beginning of the year							33,803,356	23,848	33,827,204
Net assets - end of the year							32,976,977	68,735	33,045,712

See accompanying notes to the basic financial statements.

GATEWAY REGIONAL SCHOOL DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2007

	General Fund	Debt Service Fund	Other Nonmajor Governmental Fund	Total Governmental Funds
Assets				
Pooled cash	1,494,433	15,221	389,067	1,898,721
Due from other governments	-	-	14,212	14,212
Inventory	-	-	5,351	5,351
Total assets	<u>1,494,433</u>	<u>15,221</u>	<u>408,630</u>	<u>1,918,284</u>
Liabilities and fund balances				
Liabilities:				
Accounts and other payables	61,337	-	2,911	64,248
Payroll withholdings	337,156	-	-	337,156
Compensated absences	47,529	-	-	47,529
Bond anticipation notes	-	-	228,000	228,000
Total liabilities	<u>446,022</u>	<u>-</u>	<u>230,911</u>	<u>676,933</u>
Fund balances:				
Reserved for inventory	-	-	5,351	5,351
Reserved for debt service	-	15,221	-	15,221
Reserved for designated expenditures	-	-	172,368	172,368
Reserved to reduce subsequent years' assessments	231,250	-	-	231,250
Unreserved - available for appropriation	817,161	-	-	817,161
Total fund balances	<u>1,048,411</u>	<u>15,221</u>	<u>177,719</u>	<u>1,241,351</u>
Total liabilities and fund balances	<u>1,494,433</u>	<u>15,221</u>	<u>408,630</u>	

Reconciliation to government-wide statement of net assets:

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds statement:

Gross capital assets	51,013,438	
Less: Accumulated depreciation	(9,392,944)	
Subtotal		41,620,494

Long-term liabilities, including early retirement, capital lease obligations and compensated absences, are not due and payable in the current period and therefore are not reported in the governmental funds statement:

Bonds payable	(9,097,000)	
Premiums from the issuance of bonds	(12,294)	
Compensated absences	(348,000)	
Capital lease obligations	(229,850)	
Early retirement obligations	(22,140)	
Subtotal		(9,709,284)

Accrued interest payable is not due in the current period and therefore is not reported in the governmental funds statements

(175,584)

Net assets (Exhibit A)

32,976,977

See accompanying notes to the basic financial statements.

GATEWAY REGIONAL SCHOOL
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2007

	General Fund	Debt Service Fund	State Payments On-behalf of Teacher Retirement Fund	Other Nonmajor Governmental Fund	Total Governmental Funds
Revenues:					
Town assessments	8,690,610	-	-	-	8,690,610
Intergovernmental	7,143,743	-	1,712,057	1,746,420	10,602,220
Investment income	66,448	-	-	158	66,606
Fees and charges for services	-	-	-	386,966	386,966
Other revenues	15,498	-	-	22,292	37,790
Total revenues	15,916,299	-	1,712,057	2,155,836	19,784,192
Other financing sources:					
Proceeds from the issuance of capital lease obligations	-	-	-	228,671	228,671
Transfers from the general fund	-	-	-	57,000	57,000
Transfers from debt service fund	221,159	-	-	-	221,159
Transfers from nonmajor school choice fund	210,000	-	-	-	210,000
Transfers from nonmajor head start fund	16,000	-	-	-	16,000
Transfers from nonmajor parking fees fund	12,000	-	-	-	12,000
Total other financing sources	459,159	-	-	285,671	744,830
Total revenues and other financing sources	16,375,458	-	1,712,057	2,441,507	20,529,022
Expenditures:					
Current:					
Administration	761,145	-	-	-	761,145
Instruction	7,879,137	-	-	1,314,273	9,193,410
Ancillary school services	456,799	-	-	562,200	1,018,999
Transportation	1,610,474	-	-	-	1,610,474
Maintenance and operations	1,382,377	-	-	21,091	1,403,468
Insurance and fixed charges	2,320,904	-	1,712,057	-	4,032,961
Programs with other schools	1,111,865	-	-	-	1,111,865
Capital outlays	-	-	-	228,671	228,671
Debt Service:					
Principal payments associated with bonds	340,000	-	-	-	340,000
Interest associated with long-term debt	371,746	-	-	-	371,746
Interest associated with bond anticipation notes	25,732	-	-	-	25,732
Total expenditures	16,260,179	-	1,712,057	2,126,235	20,098,471
Other financing uses:					
Transfers to the general fund	-	221,159	-	238,000	459,159
Transfers to nonmajor school roof fund	57,000	-	-	-	57,000
Total other financing uses	57,000	221,159	-	238,000	516,159
Total expenditures and other financing uses	16,317,179	221,159	1,712,057	2,364,235	20,614,630
Net changes in fund balances	58,279	(221,159)	-	77,272	(85,608)
Fund balance - beginning of the year	990,132	236,380	-	100,447	
Fund balance - end of the year	1,048,411	15,221	-	177,719	
Reconciliation of the statement of revenues, expenditures, and changes in fund balances to the statement of activities (See footnote 2 for additional information):					
Capital outlays net of depreciation expense					(1,538,102)
Net change in certain accrued liabilities					1,025,319
Capital lease obligation proceeds and amortization of bond premiums					(227,988)
Change in net assets of the government-wide statement of activities (Exhibit B)					(826,379)

See accompanying notes to the basic financial statements.

GATEWAY REGIONAL SCHOOL DISTRICT
GENERAL FUND - STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE, BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2007

	Original Budget	Revised Budget	Actual Expenditures	Over/ (Under) Budget
Revenues - budgetary basis:				
Town assessments:				
Blandford	1,376,385	1,376,385	1,376,385	-
Chester	1,333,741	1,333,741	1,333,741	-
Huntington	1,893,131	1,893,131	1,893,131	-
Middlefield	572,494	572,494	572,494	-
Montgomery	801,494	801,494	801,494	-
Russell	1,365,699	1,365,699	1,365,699	-
Worthington	1,347,666	1,347,666	1,347,666	-
Total town assessments	8,690,610	8,690,610	8,690,610	-
Commonwealth of Massachusetts - state aid:				
Chapter 70	5,817,025	5,817,025	5,817,025	-
Transportation	1,050,666	1,050,666	1,164,255	113,589
Medicaid	75,000	75,000	162,463	87,463
Total Commonwealth of Massachusetts - state aid	6,942,691	6,942,691	7,143,743	201,052
Miscellaneous:				
Investment income	50,000	50,000	66,448	16,448
Other	-	-	15,498	15,498
Total miscellaneous	50,000	50,000	81,946	31,946
Total revenues	15,683,301	15,683,301	15,916,299	232,998
Other financing sources:				
Transfers from beginning fund balance	231,250	231,250	231,250	-
Transfers from debt service revolving fund	221,159	221,159	221,159	-
Transfers from school choice revolving fund	210,000	210,000	210,000	-
Transfers from head start revolving fund	16,000	16,000	16,000	-
Transfers from parking fees revolving fund	12,000	12,000	12,000	-
Total other financing sources	690,409	690,409	690,409	-
Total revenues and other financing sources - budgetary basis	16,373,710	16,373,710	16,606,708	232,998
Expenditures - budgetary basis:				
Current:				
Administration	771,817	766,418	761,145	(5,273)
Instruction	7,940,999	7,909,152	7,879,137	(30,015)
Other school services	470,226	465,276	456,799	(8,477)
Transportation	1,618,417	1,610,476	1,610,474	(2)
Operations and maintenance	1,356,221	1,389,989	1,382,377	(7,612)
Fixed charges	2,371,094	2,326,056	2,320,904	(5,152)
Programs with other schools	1,052,685	1,111,865	1,111,865	-
Total administration	15,581,459	15,579,232	15,522,701	(56,531)
Debt service:				
Principal - construction and renovation obligations	340,000	340,000	340,000	-
Interest - construction and renovation obligations	369,519	371,746	371,746	-
Interest - bond anticipation notes	25,732	25,732	25,732	-
Total debt service	735,251	737,478	737,478	-
Total expenditures - budgetary basis	16,316,710	16,316,710	16,260,179	(56,531)
Other financing uses - transfers to roof repair fund	57,000	57,000	57,000	-
Total expenditures and other financing uses - budgetary basis	16,373,710	16,373,710	16,317,179	(56,531)
Net changes in fund balance	-	-	289,529	289,529
Reconciliation of GAAP basis to budgetary basis:				
	(See Exhibit D)			
Description	GAAP Basis	Transfers From Beginning Fund Balance	Budgetary Basis	
Revenues and other financing sources	16,375,458	231,250	16,606,708	
Expenditures and other financing uses	16,317,179	-	16,317,179	
Net changes in fund balance	58,279	231,250	289,529	

See accompanying notes to the basic financial statements.

EXHIBIT F

GATEWAY REGIONAL SCHOOL DISTRICT
BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUND
STATEMENT OF NET ASSETS
JUNE 30, 2007

	Laptop Program
Assets:	
Current assets:	
Pooled cash	22,931
Notes receivable - students	53,463
Notes receivable - governmental activities	42,416
Total current assets	<u>118,810</u>
Noncurrent assets:	
Notes receivable - students	35,246
Notes receivable - governmental activities	15,149
Total noncurrent assets	<u>50,395</u>
Total assets	<u>169,205</u>
Liabilities:	
Current portion of capital lease obligations	72,909
Noncurrent portion of capital lease obligations	27,561
Total liabilities	<u>100,470</u>
Net assets - unrestricted	<u>68,735</u>

See accompanying notes to the basic financial statements.

EXHIBIT G

GATEWAY REGIONAL SCHOOL DISTRICT

BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUND

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

JUNE 30, 2007

	Laptop Program
Operating revenues - charges for sales and services laptop fees	134,836
Operating expenses - charges by ancillary suppliers	89,949
Operating income	<u>44,887</u>
Nonoperating revenues (expenses):	
Interest income	9,788
Interest expense	(9,788)
Total nonoperating revenues (expense)	<u>-</u>
Change in net assets	<u>44,887</u>
Total net assets - beginning of the year	<u>23,848</u>
Total net assets - end of the year	<u><u>68,735</u></u>

See accompanying notes to the basic financial statements.

EXHIBIT H

GATEWAY REGIONAL SCHOOL DISTRICT
BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUND
STATEMENT OF CASH FLOWS
JUNE 30, 2007

	Laptop Program
Cash flows from operating activities:	
Cash received from users	155,210
Cash paid to suppliers	89,949
Net cash provided from operating activities	<u>65,261</u>
Cash flows from capital and related financing activities:	
Proceeds from the issuance of new capital lease obligations	40,425
Principal paid on capital lease obligations	(87,784)
Interest paid on capital lease obligations	(9,788)
Net cash used by capital and related financing activities	<u>(57,147)</u>
Cash flows from investing activities - interest received on notes receivable	<u>9,788</u>
Net decrease in pooled cash	17,902
Pooled cash - beginning of the year	5,029
Pooled cash - end of the year	<u><u>22,931</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	44,887
Reconciling adjustments - decrease in notes receivable	20,374
Net cash provided by operating activities	<u><u>65,261</u></u>

See accompanying notes to the basic financial statements.

EXHIBIT I

GATEWAY REGIONAL SCHOOL DISTRICT
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2007

	Private- Purpose Trust Expendable Scholarship Funds	Agency Student Activities Funds	Totals
Assets			
Pooled cash.	25,188	69,467	94,655
Liabilities			
Due to students	-	69,467	69,467
Accounts payable	20,815	-	20,815
Total liabilities	20,815	69,467	90,282
Net assets - held in trust for scholarships	4,373	-	4,373

See accompanying notes to the basic financial statements.

EXHIBIT J

GATEWAY REGIONAL SCHOOL DISTRICT
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2007

	Private- Purpose Trust Expendable Scholarship Funds
Additions:	
Donations	17,000
Investment earnings	201
Total additions	17,201
Deductions - scholarships	20,379
Change in net assets	(3,178)
Net assets - beginning of the year	7,551
Net assets - end of the year	4,373

See accompanying notes to the basic financial statements.

GATEWAY REGIONAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

The Gateway Regional School District (the District) is comprised of the Districts of Blandford, Chester, Huntington, Middlefield, Montgomery, Russell, and Worthington. The District operates under a regional agreement established in 1957, and serves the educational needs of students in grades K through 12.

The form of government is an elected seventeen-member school committee, which is responsible for appointing a Superintendent who is the chief operating official for the District.

The District presently operates six school buildings, three of which are owned by the individual Towns and leased, at \$1 each, to the District which pays all operating costs. These three schools are located in the Towns of Blandford, Russell, and Worthington. The District owns the two elementary schools in Chester and Huntington, as well as the middle/high school, which is located in the Town of Huntington. The District is responsible for both the operating and capital costs related to the schools it owns.

The accounting policies of the District conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies.

As required by generally accepted accounting principles, these financial statements present the District and its component units, entities for which the District is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. Each discretely presented component unit (if any), on the other hand, is reported in a separate column in the government-wide financial statements to emphasize it is legally separate from the District. Any blended or discretely presented component unit present has a June 30 year-end. Based upon the foregoing criteria, the District has no component units that would require either blended or discrete presentation in these basic financial statements.

B. Basis of presentation

Government-wide financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by assessments and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

GATEWAY REGIONAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of presentation (continued)

Government-wide financial statements (continued)

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

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Fund financial statements

Fund financial statements of the District are organized into funds each of which are considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts, which constitute its assets, liabilities, fund equity, revenues, and expenditures.

Funds are organized as major fund or non-major funds within the governmental statements because emphasis is placed on major funds within the governmental category. A fund is considered major if it is the primary operating fund of the District or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding element total (assets, liabilities, etc.) for all funds of that category or type (that is, total governmental or total enterprise funds), and
- b. The same element that met the 10 percent total in (a), is at least 5 percent of the corresponding element total for all governmental and enterprise funds combined.

In addition, any other governmental or enterprise fund that the District believes is particularly important to financial statement users may be reported as a major fund.

GATEWAY REGIONAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of presentation (continued)

Governmental activities

Governmental funds are identified as either general, special revenue, debt service, or capital projects funds based upon the following guidelines.

General fund – is the general operating fund of the District and is always classified as a major fund. It is used to account for all financial resources except those required to be accounted for in another fund.

Special revenue funds – are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

Debt service funds – are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital project funds – are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

Business-type activities

Business-type activities are comprised of proprietary-type enterprise funds or internal service funds. The District has a laptop program enterprise fund in which laptops are obtained from vendors via capital lease obligations and sold to students via notes receivable.

Fiduciary funds (not included in government-wide statements)

Fiduciary funds are identified as either private-purpose trust funds or agency funds based upon the following guidelines.

Private-purpose trust funds – are used to account for resources legally held in trust for scholarship payments.

Agency funds – are used to account for assets held by the District as an agent for individuals, private organizations, and/or other governmental units.

GATEWAY REGIONAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of presentation (continued)

Major Funds

The District reports the following as major funds.

- General fund
- Debt service fund
- State payments on-behalf of teacher retirement fund
- Enterprise fund – laptop program

Nonmajor funds

The District reports the following nonmajor funds.

Special revenue funds:

 All revolving funds

 All federal, state, and other grant funds

Capital project funds:

 School roof fund

 School buildings construction and renovation fund

 Capital lease obligation fund

Fiduciary funds

The District reports the following fiduciary funds.

Private-purpose trust funds:

 Scholarship trust funds

Agency funds:

 Student activities funds

GATEWAY REGIONAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of accounting

Government-wide financial statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred or an economic asset used, regardless of the timing of related cash flows. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided including specific member town assessments; 2) operating grants and contributions; and 3) capital grants and contributions. Revenues not classified as program revenues (e.g. general member town assessments) are presented as general revenues.

When both restricted and unrestricted resources are available for use, except in the case of debt service, it is the District's policy to generally use restricted resources first, then unrestricted resources as they are needed.

Fund financial statements

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

The annual assessments to the District's member towns for operating and capital costs, state aid to the District attributable to the general fund and various inter-governmental revenues attributable to the special revenue or capital project funds, and interest income as earned, comprise the significant revenues susceptible to accrual. Charges for tuition, contributions, gifts, and other miscellaneous revenues are recorded as revenues when received because they are generally not measurable until actually received.

GATEWAY REGIONAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of accounting (continued)

Fund financial statements

State, general and categorical grants and other entitlements are recognized as revenue in the period the District is entitled to the resources and the amounts are available. Expenditure-driven programs currently reimbursable are recognized as revenue when the qualifying expenditures have been incurred and the amounts are available. Amounts owed to the District which are not available are recorded as receivables and deferred revenue. Amounts received prior to the entitlement period are also recorded as deferred revenue.

Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed in the governmental funds. Under generally accepted accounting principles, encumbrances outstanding at year end lapse and are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

The fiduciary fund financial statements and the proprietary-type enterprise fund use the accrual method of accounting.

Operating income reported in the proprietary-type fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary-type funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative and depreciation of capital assets expenses (if any). Other revenues and expenses are classified as non-operating in the financial statements.

D. Measurement focus

The government-wide financial statements governmental activities and business-type activities, and the fiduciary fund statement activities are presented using the economic resources measurement focus. Under this concept, revenues and expenses are matched using the accrual basis of accounting.

GATEWAY REGIONAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Measurement focus (continued)

The measurement focus of all governmental funds is the flow of current financial resources concept. Under this concept, sources and uses of financial resources, including capital outlays, debt proceeds and debt retirements are reflected in operations. Resources not available to finance expenditures and commitments of the current period are recognized as deferred revenue or a reservation of fund equity. Liabilities for claims, judgments, compensated absences and pension contributions, which will not be currently liquidated using expendable available financial resources, are included as liabilities in the government-wide financial statements but are excluded from the governmental fund financial statements. The related expenditures are recognized in the governmental fund financial statements when the liabilities are liquidated.

E. Assets, liabilities, and net assets or equity

1. Deposits

Generally, the District's Treasurer is authorized to invest in the following investments: term deposits or certificates of deposit, trust companies, national banks, savings banks or banking companies, or obligations issued or unconditionally guaranteed by the United States government or an agency thereof and having a maturity from date of purchase of one year or less, with certain other limitations.

2. Receivables and payables

Receivables from other governments (i.e., the Commonwealth of Massachusetts and its political subdivisions) are reported as "due from other governments".

3. Inventories and prepaid assets

Inventories, if any, are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors, if any, that reflect costs applicable to future accounting periods are recorded as prepaid items in both government-wide and fund financial statements.

GATEWAY REGIONAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, liabilities, and net assets or equity (continued)

4. Capital assets

Government-wide financial statements

Capital assets, which include construction in progress, buildings, machinery and equipment, computers, and vehicles, are reported in the applicable governmental or business type activities, if any, columns 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 estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Significant donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

Major outlays for capital assets and improvements, for which the District has title are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities (if any) is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the District are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings	50
Leasehold improvements	50
Machinery and equipment	5 - 15
Furniture and fixtures	5 - 15
Vehicles	5
Computer equipment	3 - 5

Fund financial statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets are not capitalized and related depreciation is not reported in the government fund financial statements. However, fixed assets are capitalized and related depreciation is reported in the proprietary-type fund financial statements if these items are considered material.

GATEWAY REGIONAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, liabilities, and net assets or equity (continued)

5. Long-term obligations

In the government-wide and proprietary-type financial statements long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

6. Compensated absences

It is the District's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation and sick pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirement.

7. Fund equity

Government-wide financial statements

Equity is classified as net assets and displayed in three components:

Invested in capital assets, net of related debt – consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt.

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

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

GATEWAY REGIONAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, liabilities, and net assets or equity (continued)

7. Equity (continued)

Fund financial statements

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Any designations of fund balance represent tentative management plans that are subject to change.

Descriptions of the various reservations and designations of the District's fund balance accounts, as are follows.

Reserved for inventory - to segregate the portion of fund balance associated with the inventory in the special revenue funds.

Reserved for debt service - to segregate a portion of fund balance representing net assets to finance the retirement of debt in future years. The \$15,221 fund balance at year-end was generated from premiums associated with the issuance of bond anticipation notes for the school renovation projects.

Reserved for designated expenditures - to segregate a portion of fund balance representing net assets that has been authorized for specific projects.

Reserved to reduce subsequent years' assessments - to segregate a portion of fund balance designated to reduce assessments to member towns in future fiscal years.

8. Economic dependency and use of estimates

The District provides education to the children of the Towns of Blandford, Chester, Huntington, Middlefield, Montgomery, Russell, and Worthington. It receives a substantial portion of its revenues from these towns, as well as from the Commonwealth of Massachusetts, and as such, is dependent on the economic environment of these towns and the Commonwealth.

The preparation of basic 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 basic financial statements and accompanying notes. Actual results may differ from those estimates.

GATEWAY REGIONAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

2. RECONCILIATION OF GOVERNMENT-WIDE AND GOVERNMENTAL FUND FINANCIAL STATEMENTS

A. Explanation of differences between the net changes in fund balances for governmental funds (Exhibit D) and the change in net assets of the government-wide statement of activities (Exhibit B)

The reconciliation between net changes in fund balances reported in the governmental funds statement of revenues, expenditures, and changes in fund balances (Exhibit D) and the change in net assets of the government-wide statement of activities (Exhibit B) is explained below.

Net changes in fund balances - total governmental funds (Exhibit D) \$ (85,608)

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

Governmental funds report capital outlays as expenditures. However, in the government-wide statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. The components of this reconciling item are:

Capital assets	\$ 234,431	
Depreciation expense	(1,772,533)	
Totals		(1,538,102)

Changes in the balance of accrued liabilities from the beginning to the end of the year in the government-wide financial statements that do not affect expenditures in the governmental funds financial statements. The components of this reconciling item are:

Payment of principal associated with outstanding bonds payable	340,000	
Decrease in compensated absence accrual	533,400	
Decrease in early retirement obligations accrual	6,314	
Payment of capital lease obligations	127,672	
Decrease in interest payable accrual	17,933	
Totals		1,025,319

The issuance of bonds provides current financial resources to governmental funds, but has no effect on net assets. Also, governmental funds report the effect of premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The components of this reconciling item are:

Proceeds from the issuance of capital lease obligations	(228,671)	
Amortization of premiums associated with the issuance of bonds	683	
Totals		(227,988)

Change in net assets of the government-side statement of activities (Exhibit B) \$ (826,379)

GATEWAY REGIONAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

3. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary information

The annual budget for the general fund is adopted on a basis consistent with generally accepted accounting principles. All annual appropriations lapse at fiscal year end. Capital project and certain special revenue funds adopt project-length and grant-length budgets, respectively.

The School Committee authorizes capital project funds' expenditures. Capital appropriations do not lapse until the purpose for which they are designated is completed. Expenditures in excess of adopted budgets can be made only upon the authority of a supplemental appropriation or an approved budgetary transfer.

The District follows these procedures, in establishing the budgetary data for the general fund.

- A proposed annual budget, including capital costs, is prepared by the Superintendent for adoption by the School Committee. The annual budget includes proposed expenditures and the means of financing them.
- Public hearings are conducted in the District to obtain taxpayer comments from the member towns.
- In accordance with the District Agreement, the School Committee adopts a final budget no later than 45 days prior to the earliest scheduled town meeting, but no later than March 15.
- The final budget, divided between operating costs and capital costs, is then apportioned among the member towns based upon state mandated minimum contribution requirements and various student enrollment data. The apportioned amount for each member town must be certified by the District's Treasurer to each of the Treasurers of the member towns within 30 days from the date on which the annual budget was adopted by the School Committee.
- Each member town includes its share of the regional school assessment with all other proposed appropriations for town meeting approval.
- The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the total annual budget.

Assessments are levied annually against the seven member towns of the District for the fiscal year beginning July 1, and are due and payable in four installments by August 1, November 1, February 1, and April 1 for 20%, 30%, 20% and 30%, respectively.

Capital costs, as defined in the District's Regional Agreement, generally relate to costs incurred to construct or improve school plant operations. If debt was incurred to pay for these costs, capital costs will include payment for principal and interest on such debt. Debt and capital costs are assessed to member towns based on their student enrollment as of March 1st of the preceding fiscal year.

GATEWAY REGIONAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

3. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continued)

A. Budgetary information (continued)

Operating costs include all other expenses not listed as capital costs, as well as interest on temporary notes issued by the District in anticipation of revenue. Current year's operating costs are apportioned to member towns on the basis of their student enrollment as of March 1st of the preceding fiscal year, in conjunction with the minimum contribution requirement dictated by the Education Reform Act.

Encumbrance accounting, under which purchase orders, contracts and other commitments are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of the formal budgetary process.

Encumbrances outstanding at year-end represent the estimated amount of expenditures ultimately to result if outstanding purchase orders at year-end are filled and if contracts in progress at year-end are completed. For GAAP purposes, encumbrances outstanding at year-end do not constitute expenditures or liabilities and, therefore, are presented in the combined financial statements as a component of fund equity - reserved for encumbrances. As of June 30, 2007 the general fund had no outstanding encumbrances.

B. Excess of expenditures over appropriations

During the current fiscal year, the District's total general fund expenditures did not exceed appropriations.

C. Deficit fund equity

As of June 30, 2007, the School Roof Repair Fund (a nonmajor governmental fund) had a deficit balance of \$228,000. This deficit fund balance results from the accounting convention of recognizing revenue associated with debt only upon the issuance of permanent financing. As of June 30, 2007, bond anticipation notes (temporary debt) of \$228,000 have been issued to finance the roof repair project. This deficit should be eliminated in subsequent years when long-term debt is issued.

GATEWAY REGIONAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

4. DETAILED NOTES ON ALL FUNDS

A. Pooled cash and bank deposits

Cash deposits and the District's investment in the State's Massachusetts Municipal Depository Trust are carried at cost. Government Accounting Standards Board Statement Number 3 requires governments to categorize their deposits into three levels of risk.

Category 1 includes deposits that are insured or collateralized with securities held in the District's name or its agent in the District's name.

Category 2 includes deposits which are collateralized with securities held by the pledging institution's trust department or agent in the District's name.

Category 3 includes deposits which are uncollateralized, including any bank balance that is collateralized with securities held by the pledging financial institution but not in the name of the District.

The amount of deposits and trust investments are reported as "pooled cash" and are summarized below.

	Governmental Funds	Fiduciary Funds	Enterprise Fund	Totals
Risk category 1 - insured (FDIC)(SIF)	\$ 667,041	\$ 101,154	\$ 22,931	\$ 791,126
Investments with Massachusetts Municipal Depository Trust . . .	1,491,394	-	-	1,491,394
Total deposits and cash equivalents in institutions	2,158,435	101,154	22,931	2,282,520
Various reconciling items	(259,714)	(6,499)	-	(266,213)
Total cash and cash equivalents	<u>\$ 1,898,721</u>	<u>\$ 94,655</u>	<u>\$ 22,931</u>	<u>\$ 2,016,307</u>

GATEWAY REGIONAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

4. DETAILED NOTES ON ALL FUNDS (continued)

B. Receivables

Receivables as of year-end are reported in the District's financial statements as follows.

Description	Exhibit F	Exhibit C	Exhibit A
	Fund Financial Statements	Other	Government
	Enterprise	Nonmajor	Wide
	Fund	Funds	Financial
			Statements
Intergovernmental:			
Food services fund - state department of education	\$ -	\$ 13,306	\$ 13,306
Pioneer valley planning	-	450	450
School to work - City of Westfield	-	456	456
Total - intergovernmental	\$ -	\$ 14,212	\$ 14,212
Notes receivable:			
Current notes receivable - students	\$ 53,463	\$ -	\$ 53,463
Current notes receivable - governmental activities	42,416	-	42,416
Subtotal - current notes receivable	95,879	-	95,879
Noncurrent notes receivable - students	35,246	-	35,246
Noncurrent notes receivable - governmental activities	15,149	-	15,149
Subtotal - noncurrent notes receivable	50,395	-	50,395
Total - notes receivables	\$ 146,274	\$ -	\$ 146,274

GATEWAY REGIONAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

4. DETAILED NOTES ON ALL FUNDS (continued)

C. Capital Assets

Asset recognition

The District's capital asset activity for the year ended June 30, 2007 was as follows.

Description	Beginning Balance	Increase	Ending Balance
Capital assets, not being depreciated:			
Land	\$ 17,250	\$ -	\$ 17,250
Capital assets, being depreciated:			
Buildings	38,741,947	-	38,741,947
Leasehold improvements	7,957,044		7,957,044
Computers	1,710,824	100,210	1,811,034
Machinery and equipment	121,600	103,879	225,479
Furniture and fixtures	2,178,640	-	2,178,640
Vehicles	51,702	30,342	82,044
Total capital assets, being depreciated:	50,761,757	234,431	50,996,188
Total capital assets, gross	50,779,007	234,431	51,013,438
Less accumulated depreciation for:			
Buildings	(5,089,797)	(774,839)	(5,864,636)
Leasehold improvements	(397,852)	(159,141)	(556,993)
Computers	(931,916)	(355,564)	(1,287,480)
Machinery and equipment	(120,767)	(18,914)	(139,681)
Furniture and fixtures	(1,056,076)	(447,381)	(1,503,457)
Vehicles	(24,003)	(16,694)	(40,697)
Total accumulated depreciation	(7,620,411)	(1,772,533)	(9,392,944)
Total capital assets, net	\$ 43,158,596	\$ (1,538,102)	\$ 41,620,494

GATEWAY REGIONAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

4. DETAILED NOTES ON ALL FUNDS (continued)

C. Capital Assets (continued)

Depreciation expense was charged to functions / programs of the District as follows.

Description	Balance
Instruction	\$ 42,854
Administration	650,870
Ancillary school services	23,349
Maintenance and operations	22,094
Unallocated	1,033,366
Total depreciation expense	<u>\$ 1,772,533</u>

D. Interfund transfers

Generally, interfund transfers result from the adoption of the annual budget appropriation to finance specific operations or to reserve assets for specific purposes in future years. The composition of interfund transfers for the fiscal year ended June 30, 2007, is as follow:

Transfers Out:	Transfers In:	
	General Fund	Roof Repair Fund
Nonmajor Special Revenue Funds:		
School choice revolving	\$ 210,000	\$ -
Head start revolving	16,000	-
Parking fees revolving	12,000	-
Subtotals	238,000	-
Debt service fund	221,159	-
General fund	-	57,000
Totals	<u>\$ 459,159</u>	<u>\$ 57,000</u>

GATEWAY REGIONAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

4. DETAILED NOTES ON ALL FUNDS (continued)

E. Short-term debt

A schedule of changes to bond anticipation notes for the year ended June 30, 2007 is presented below.

	Date Issued	Maturity Date	Interest Rate	Balance June 30 06	Additions	Reductions	Balance Jun 30 07	Interest Expense
Capital Project Funds:								
Roof repair .	07/22/05	07/21/06	3.350%	\$ 285,000	\$ -	\$ 285,000	\$ -	\$ -
Roof repair .	07/21/06	07/20/07	4.040%	-	228,000	-	228,000	9,521
Subtotals				285,000	228,000	285,000	228,000	9,521
Renovations	12/09/05	07/05/06	3.690%	767,748	-	767,748	-	16,211
Totals				\$ 1,052,748	\$ 228,000	\$ 1,052,748	\$ 228,000	\$ 25,732

F. Long-term debt

Changes in long-term liabilities – governmental activities

Long-term liability activity for the year ended June 30, 2007, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year	Due After One Year	FY 2007 Interest Expense
Bonds payable	\$ 9,437,000	\$ -	\$ 340,000	\$ 9,097,000	\$ 417,000	\$ 8,680,000	\$ 371,746
Compensated absences	881,400	47,529	533,400	395,529	47,529	348,000	-
Capital lease obligations	47,801	228,671	104,187	172,285	76,107	96,178	13,400
Notes payable laptop program	81,050	-	23,485	57,565	42,416	15,149	9,788
Early retirement liability	28,454	-	6,314	22,140	6,820	15,320	2,276
Bond premium	12,977	-	683	12,294	683	11,611	-
Total long-term liabilities	\$ 10,488,682	\$ 276,200	\$ 1,008,069	\$ 9,756,813	\$ 590,555	\$ 9,166,258	\$ 397,210

As in prior years, the general operating fund's assets were used in fiscal 2007 to pay current compensated absence, capital lease obligations, and early retirement liabilities.

The District has a lease agreement to finance the acquisition of computers & copiers, and a lease agreement to finance the purchase of a truck. These lease agreements qualify as capital leases for accounting purposes (title transfers at the end of the lease term) and, therefore, have been recorded as liabilities at the present value of the future minimum lease payments. The acquisition cost of the computers & copiers, and the truck, \$297,418 and \$62,649, respectively, have been capitalized as fixed assets and are being depreciated over their useful life.

GATEWAY REGIONAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

4. DETAILED NOTES ON ALL FUNDS (continued)

F. Long-term debt (continued)

Debt service payments – governmental activities

The following is a schedule of long-term debt maturities associated with the bonds payable as of June 30, 2007.

Fiscal Year	Principal	Interest	Total
2008.....	\$ 417,000	\$ 377,829	\$ 794,829
2009.....	425,000	364,095	789,095
2010.....	440,000	350,110	790,110
2011.....	450,000	334,738	784,738
2012.....	460,000	319,040	779,040
2013.....	475,000	301,997	776,997
2014.....	485,000	283,324	768,324
2015.....	500,000	258,944	758,944
2016.....	515,000	233,781	748,781
2017.....	525,000	207,925	732,925
2018.....	540,000	181,375	721,375
2019.....	555,000	158,875	713,875
2020.....	505,000	137,425	642,425
2021.....	525,000	117,225	642,225
2022.....	540,000	96,225	636,225
2023.....	560,000	73,950	633,950
2024.....	580,000	50,150	630,150
2025.....	600,000	25,500	625,500
Total.....	\$ 9,097,000	\$ 3,872,508	\$ 12,969,508

The following is a schedule of long-term debt maturities associated with capital lease obligations, notes payable, and early retirement liabilities as of June 30, 2007

Fiscal Year	Capital Lease Obligations Payable to Vendors			Notes Payable to Laptop Program Enterprise Fund			Early Retirement Liabilities		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2008.....	\$ 76,107	\$ 9,065	\$ 85,172	\$ 42,416	\$ 2,095	\$ 44,511	\$ 6,820	\$ 1,771	\$ 8,591
2009.....	80,482	4,691	85,173	15,149	396	15,545	7,366	1,226	8,592
2010.....	7,025	854	7,879	-	-	-	7,954	636	8,590
2011.....	6,876	388	7,264	-	-	-	-	-	-
2012.....	1,795	21	1,816	-	-	-	-	-	-
Total.....	\$ 172,285	\$ 15,019	\$ 187,304	\$ 57,565	\$ 2,491	\$ 60,056	\$ 22,140	\$ 3,633	\$ 25,773

The bond premium of \$13,660, incurred in fiscal year 2005 associated with the issuance of \$9,000,000 of bonds, is being amortized on a straight-line basis over a 20 year period ended in fiscal year 2025. The annual amortization is \$683, and the unamortized bond premium at year-end is \$12,294.

GATEWAY REGIONAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

4. DETAILED NOTES ON ALL FUNDS (continued)

F. Long-term debt (continued)

Business-type activities

The District has several lease agreements to finance the acquisition of laptop computers which are then sold to students and teachers through a lease purchase agreement. The District's lease agreements with computer vendors qualify as capital leases for accounting purposes (title transfers at the end of the lease term) and, therefore, have been recorded as liabilities at the present value of the future minimum lease payments. The District's general fund subsidizes a portion of the student's lease purchase payments for those students who qualify as "low-income". See footnote 4B for details associated with the notes receivable from students and from the District's governmental-activities statements.

Long-term liability activity associated with the capital lease obligations for the year ended June 30, 2007, was as follows:

							FY 2007
Description	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year	Due After One Year	Interest Expense
Capital lease obligations	\$ 147,829	\$ 40,425	\$ 87,784	\$ 100,470	\$ 72,909	\$ 27,561	\$ 9,788

The following is a schedule of long-term debt maturities associated with capital lease obligations as of June 30, 2007.

Fiscal Year	Principal	Interest	Total
2008.....	\$ 72,909	\$ 7,873	\$ 80,782
2009.....	22,959	1,200	24,159
2010.....	4,602	76	4,678
Total.....	\$ 100,470	\$ 9,149	\$ 109,619

G. Net assets

The District has the following net restricted assets reported in its government-wide statement of net assets associated with governmental activities.

Description	Amount
Specific grant or project purposes	\$ 400,368
Inventory	5,351
Total	\$ 405,719

GATEWAY REGIONAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

4. DETAILED NOTES ON ALL FUNDS (CONTINUED)

G. Net assets (continued)

A reconciliation between restricted net assets in the government-wide statement of net assets (Exhibit A) and the governmental funds balance sheet (Exhibit C) is presented below.

	Exhibit C	Net Assets (Exhibit A)		
	Fund	Invested in	Restricted	Unrestricted
	Balances	capital assets net of related debt		
General fund:				
Unreserved-available for appropriation.....	\$ 817,161	\$ -	\$ -	\$ 817,161
Reserved for:				
Reduce subsequent years' assessments	231,250	-	-	231,250
Debt service fund:				
Reserved for debt service	15,221	-	15,221	-
Other nonmajor funds:				
Reserved for:				
Inventory	5,351	-	5,351	-
Expenditures:	172,368	-	172,368	-
Subtotals	1,241,351	-	192,940	1,048,411
Adjustments required by GASB #34:				
Capital assets	-	41,620,494	-	-
Outstanding bans associated with capital assets	-	(228,000)	228,000	-
Outstanding bonds associated with capital assets ...	-	(9,097,000)	-	-
Outstanding lease obligations associated				
with capital assets	-	(172,285)	-	-
Compensated absences	-	-	-	(348,000)
Capital lease obligations	-	-	-	(57,565)
Early retirement liability	-	-	-	(22,140)
Unamortized bond premium	-	-	(12,294)	-
Accrued interest	-	-	(2,927)	(172,657)
Total	\$ 1,241,351	\$ 32,123,209	\$ 405,719	\$ 448,049

GATEWAY REGIONAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

5. OTHER INFORMATION

A. Risk management

Hampshire County Health Group

The District, along with fifty-five other governmental entities from the neighboring geographic area, is a member of the Hampshire County Health Group ("HCHG"), a public entity risk pool, currently operating as a common risk sharing management and health insurance program for eligible active and former employees of these fifty-six members.

Payment, in the form of insurance premiums, is made monthly to HCHG. These payments are funded in part from the District (recorded as expenditures in the general fund), and payroll withholdings from active employees, or direct payments from retired and certain eligible former employees. The District pays between 70% and 90% of the cost of insurance for active employees. Retired and other past employees who may be eligible to participate in the plan must pay 50% of their premium cost.

The District makes payments to HCHG in the form of monthly premiums based upon actual employee enrollment. HCHG makes payment, through a third party administrator for actual health claims incurred for the entire group. At the end of HCHG's fiscal year, the Group's insurance consultant will determine if assets are sufficient to meet the liabilities of the Group on an accrual basis and premium rates are adjusted to meet the anticipated needs of the ensuing year. It is anticipated that if claim liabilities exceed assets, premium rates will be adjusted prospectively to recover the necessary assets to meet claims

Based upon the audited results of operations of HCHG for the fiscal year ended March 31, 2007 the District's insurance consultants have reported that HCHG has an accumulated surplus of approximately \$6,490,892 through March 31, 2007.

Commercial Liability Insurance

The District is exposed to various risks of loss relating to torts; theft or damage of, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District has obtained a variety of commercial liability insurance policies which passes the risk of loss listed above to independent third parties. Settlement claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

GATEWAY REGIONAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

5. OTHER INFORMATION (continued)

B. Contingent liabilities

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

There are no suits or claims pending against the District which, individually or in the aggregate is believed by counsel to be likely to result in a judgment or judgments that would materially affect the District's financial position.

C. Other post employment benefits

Retired employees have the option of continuing certain health and life insurance coverage after they retire. The District pays for 50% of these post employment benefits. Retiree health and life insurance expenditures paid by the District, to cover 50 participating parties comprised of retirees and family members during fiscal 2007, was approximately \$181,300.

D. Employee retirement systems and pension plans

Pensions for employees other than school department teaching staff are provided through a contributory retirement system under the Massachusetts Contributory Retirement Law, which is governed by Chapter 32 of the Massachusetts General Laws. Both employer and employee contributions are actuarially determined as directed by the State Division of Insurance. Required contribution rates for employees range from 5% to 9% of wages based upon their date of hire with an additional 2% contribution applied to wages in excess of \$30,000 for employees hired after December 31, 1978 and before June 30, 2001. In general, employees hired after June 2001, pay 11%. For fiscal 2007 the System required the District to pay a contribution rate equal to 3.08% of all required employer contributions compared to 2.98% for fiscal 2006 and 2.61% for fiscal 2005. Payments for the School District's share of pension costs were \$329,724, \$283,352, and \$227,659 for fiscal years 2007, 2006, and 2005, respectively.

The Hampshire County Retirement System administers this defined benefit, multi-employer plan that provides retirement, survivor, disability and accident benefits. The Plan issues stand alone financial statements, which can be obtained by writing the Hampshire County Retirement System, Court House, 99 Main Street, Northampton, Massachusetts 01060.

School Department teaching staff contributes to the Massachusetts Teachers' Retirement System administered by the Massachusetts Teachers Retirement Board. The District's only contributions to this plan are through deductions from certain federal grants; however, the State contributed \$1,712,057 into the System for the benefit of the District's employees. The District reports these "on-behalf" payments as both revenues and expenditures in a special revenue revolving fund.

Both retirement systems are contributory, multi-employer, defined benefit plans. Membership in the plans is mandatory immediately upon the commencement of employment for all permanent full-time employees.

(CONCLUDED)

SCHEDULE 1

GATEWAY REGIONAL SCHOOL DISTRICT
NONMAJOR GOVERNMENTAL FUNDS
COMBINING SCHEDULE OF BALANCE SHEETS
AS OF JUNE 30, 2007

	Special Revenue Funds	Capital Project Funds	Total Nonmajor Governmental Funds
<u>Assets</u>			
Pooled cash	383,984	5,083	389,067
Due from other governments	14,212	-	14,212
Inventory	5,351	-	5,351
Total assets	403,547	5,083	408,630
<u>Liabilities and fund balances</u>			
Liabilities:			
Accounts payable	2,911	-	2,911
Bond anticipation notes	-	228,000	228,000
Total liabilities	2,911	228,000	230,911
Fund balances:			
Reserved for inventory	5,351	-	5,351
Reserved for designated expenditures	395,285	(222,917)	172,368
Total fund balances	400,636	(222,917)	177,719
Total liabilities and fund balances	403,547	5,083	408,630

See accompanying notes to the basic financial statements.

SCHEDULE 2**GATEWAY REGIONAL SCHOOL DISTRICT****NONMAJOR GOVERNMENTAL FUNDS****COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2007**

	Special Revenue Funds	Capital Project Funds	Total Other Governmental Funds
Revenues:			
Intergovernmental	1,746,420	-	1,746,420
Investment income	158	-	158
Fees and charges for services	386,966	-	386,966
Other	22,292	-	22,292
Total revenues	2,155,836	-	2,155,836
Other financing sources:			
Proceeds from the issuance of capital lease obligations	-	228,671	228,671
Transfers from the general fund	-	57,000	57,000
Total other financing sources	-	285,671	285,671
Total revenues and other financing sources	2,155,836	285,671	2,441,507
Expenditures:			
Instruction	1,314,273	-	1,314,273
Ancillary school services	562,200	-	562,200
Maintenance and operations	21,091	-	21,091
Capital outlays	-	228,671	228,671
Total expenditures	1,897,564	228,671	2,126,235
Other financing uses:			
Transfers to the general fund	238,000	-	238,000
Total expenditures and other financing uses	2,135,564	228,671	2,364,235
Net changes in fund balances	20,272	57,000	77,272
Fund balance - beginning of the year	380,364	(279,917)	100,447
Fund balance - end of the year	400,636	(222,917)	177,719

See accompanying notes to the basic financial statements.

GATEWAY REGIONAL SCHOOL DISTRICT
NONMAJOR SPECIAL REVENUE FUNDS
COMBINING SCHEDULE OF BALANCE SHEETS
JUNE 30, 2007

	Assets				Liabilities	Fund Balances			Total
	Due from				Accounts Payable	Reserved	Reserved for	Total	Liabilities and Fund Balances
	Pooled Cash	Other Governments	Inventory	Total		for Inventory	Designated Expenditures		
<u>Revolving funds:</u>									
Adult education	973	-	-	973	-	-	973	973	973
Athletic	13,545	-	-	13,545	-	-	13,545	13,545	13,545
Blandford elementary	934	-	-	934	-	-	934	934	934
Building use	4,740	-	-	4,740	-	-	4,740	4,740	4,740
Chester elementary	4,360	-	-	4,360	-	-	4,360	4,360	4,360
Circuit breaker	2,257	-	-	2,257	-	-	2,257	2,257	2,257
Dialup program	450	-	-	450	-	-	450	450	450
District donation	2,087	-	-	2,087	-	-	2,087	2,087	2,087
Emergency planning	2,420	-	-	2,420	-	-	2,420	2,420	2,420
E-rate	1,294	-	-	1,294	-	-	1,294	1,294	1,294
Foundation for excellence	855	-	-	855	-	-	855	855	855
Friends of gateway	748	-	-	748	-	-	748	748	748
Henderson memorial	246	-	-	246	-	-	246	246	246
High school foundation for excellence ..	1,479	-	-	1,479	-	-	1,479	1,479	1,479
Jeff Fisk recognition	1,880	-	-	1,880	429	-	1,451	1,451	1,880
Murrayfield elementary	661	-	-	661	21	-	640	640	661
Parking fees	890	-	-	890	-	-	890	890	890
Preschool	687	-	-	687	-	-	687	687	687
Russell elementary	1,935	-	-	1,935	-	-	1,935	1,935	1,935
School choice	238,363	-	-	238,363	-	-	238,363	238,363	238,363
School lunch	43,430	13,306	5,351	62,087	658	5,351	56,078	61,429	62,087
Student identification	3,003	-	-	3,003	-	-	3,003	3,003	3,003
Technology	578	-	-	578	-	-	578	578	578
Wellness center	19,031	-	-	19,031	-	-	19,031	19,031	19,031
Worthington elementary	890	-	-	890	-	-	890	890	890
Wrap around day care	21,333	-	-	21,333	-	-	21,333	21,333	21,333
<u>Federal/state/other grants:</u>									
Community foundation FY06	500	-	-	500	-	-	500	500	500
Drug free schools FY07	1,052	-	-	1,052	1,052	-	-	-	1,052
Enhanced technology fy07	595	-	-	595	-	-	595	595	595
Expanded learning fy07	301	-	-	301	301	-	-	-	301
Pioneer valley planning fy04	-	450	-	450	450	-	-	-	450
School to work fy04	1,065	456	-	1,521	-	-	1,521	1,521	1,521
Secondary reading FY07	1,904	-	-	1,904	-	-	1,904	1,904	1,904
Sped curriculum frameworks FY07	118	-	-	118	-	-	118	118	118
Sped idea pl94-142 fy07	9,380	-	-	9,380	-	-	9,380	9,380	9,380
Total	383,984	14,212	5,351	403,547	2,911	5,351	395,285	400,636	403,547

See accompanying notes to the basic financial statements.

GATEWAY REGIONAL SCHOOL DISTRICT
NONMAJOR SPECIAL REVENUE FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2007

	Revenues (See page 6-5 for details)	Expenditures (See page 6-6 for details)	Other Financing Uses	Net Changes in Fund Balances	Fund Balance	
					June 30, 2006	June 30, 2007
Revolving funds:						
Adult education	-	-	-	-	973	973
Athletic	37,093	23,548	-	13,545	-	13,545
Blandford elementary	872	69	-	803	131	934
Building use	12,821	20,201	-	(7,380)	12,120	4,740
Chester elementary	529	23	-	506	3,854	4,360
Circuit breaker	287,523	292,517	-	(4,994)	7,251	2,257
CPC tuition	-	5,183	-	(5,183)	5,183	-
Dialup program	375	-	-	375	75	450
District donation	400	-	-	400	1,687	2,087
Emergency impact aid	500	500	-	-	-	-
Emergency planning	3,000	580	-	2,420	-	2,420
E-rate	-	665	-	(665)	1,959	1,294
Foundation for excellence	1,250	1,428	-	(178)	1,033	855
Friends of gateway	670	-	-	670	78	748
Full day kindergarten	-	4,208	-	(4,208)	4,208	-
Head start	16,000	-	16,000	-	-	-
Health	-	364	-	(364)	364	-
Henderson memorial	-	40	-	(40)	286	246
High school foundation for excellence	1,750	1,244	-	506	973	1,479
Jeff Fisk recognition	3,730	2,279	-	1,451	-	1,451
Murrayfield elementary	1,364	1,379	-	(15)	655	640
Parking fees	11,908	225	12,000	(317)	1,207	890
Preschool	1,984	1,706	-	278	409	687
Russell elementary	1,989	2,333	-	(344)	2,279	1,935
School choice	308,727	40,000	210,000	58,727	179,636	238,363
School lunch	422,518	411,470	-	11,048	50,381	61,429
Student identification	2,951	567	-	2,384	619	3,003
Technology	5,005	4,427	-	578	-	578
Wellness center	35,160	36,968	-	(1,808)	20,839	19,031
Worthington elementary	1,782	1,440	-	342	548	890
Wrap around day care	35,585	23,708	-	11,877	9,456	21,333
Federal/state/other grants:						
Academic support fy07	6,800	6,800	-	-	-	-
Community foundation FY06	-	-	-	-	500	500
Community partnership fy07	243,898	243,898	-	-	-	-
DPH fy07	58,052	58,052	-	-	-	-
Drug free schools FY06	-	828	-	(828)	828	-
Drug free schools FY07	5,974	5,974	-	-	-	-
Enhanced technology fy07	1,948	1,353	-	595	-	595
Expanded learning fy07	15,000	15,000	-	-	-	-
High school partners fy07	2,000	2,000	-	-	-	-
Pioneer valley planning fy04	1,880	1,880	-	-	-	-
Safe schools fy07	1,900	1,900	-	-	-	-
School to work fy04	5,598	4,974	-	624	897	1,521
Secondary reading FY07	9,571	7,667	-	1,904	-	1,904
Sped curriculum frameworks FY07	12,102	11,984	-	118	-	118
Sped early childhood FY07	14,096	14,096	-	-	-	-
Sped mcas alternative fy07	500	500	-	-	-	-
Sped idea p194-142 FY06	-	3,000	-	(3,000)	3,000	-
Sped idea p194-142 fy07	341,471	332,091	-	9,380	-	9,380
Technology enhancement fy06	-	68,935	-	(68,935)	68,935	-
Technology enhancement fy07	37,200	37,200	-	-	-	-
Title I FY07	138,531	138,531	-	-	-	-
Title II fy07	60,003	60,003	-	-	-	-
Title V FY07	1,951	1,951	-	-	-	-
Westfield history grant fy07	1,875	1,875	-	-	-	-
Total	2,155,836	1,897,564	238,000	20,272	380,364	400,636

See accompanying notes to the basic financial statements.

(Continued)

GATEWAY REGIONAL SCHOOL DISTRICT
NONMAJOR SPECIAL REVENUE FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2007

	Revenues				Totals (See page 6-4)
	Inter- governmental	Investment Income	Charges for Services	Fees and Other	
<u>Revolving funds:</u>					
Athletic	-	-	37,093	-	37,093
Blandford elementary	-	-	-	872	872
Building use	-	-	12,821	-	12,821
Chester elementary	-	-	-	529	529
Circuit breaker	287,523	-	-	-	287,523
Dialup program	-	-	375	-	375
District donation	-	-	-	400	400
Emergency impact aid	500	-	-	-	500
Emergency planning	3,000	-	-	-	3,000
Foundation for excellence	-	-	-	1,250	1,250
Friends of gateway	-	-	-	670	670
Head start	16,000	-	-	-	16,000
High school foundation for excellence	-	-	-	1,750	1,750
Jeff Fisk recognition	-	-	-	3,730	3,730
Murrayfield elementary	-	-	-	1,364	1,364
Parking fees	-	-	11,908	-	11,908
Preschool	-	-	1,984	-	1,984
Russell elementary	-	-	-	1,989	1,989
School choice	308,727	-	-	-	308,727
School lunch	170,320	158	252,040	-	422,518
Student identification	-	-	-	2,951	2,951
Technology	-	-	-	5,005	5,005
Wellness center	-	-	35,160	-	35,160
Worthington elementary	-	-	-	1,782	1,782
Wrap around day care	-	-	35,585	-	35,585
<u>Federal/state/other grants:</u>					
Academic support fy07	6,800	-	-	-	6,800
Community partnership fy07	243,898	-	-	-	243,898
DPH fy07	58,052	-	-	-	58,052
Drug free schools FY07	5,974	-	-	-	5,974
Enhanced technology fy07	1,948	-	-	-	1,948
Expanded learning fy07	15,000	-	-	-	15,000
High school partners fy07	2,000	-	-	-	2,000
Pioneer valley planning fy04	1,880	-	-	-	1,880
Safe schools fy07	1,900	-	-	-	1,900
School to work fy04	5,598	-	-	-	5,598
Secondary reading FY07	9,571	-	-	-	9,571
Sped curriculum frameworks FY07	12,102	-	-	-	12,102
Sped early childhood FY07	14,096	-	-	-	14,096
Sped mcas alternative fy07	500	-	-	-	500
Sped idea pl94-142 fy07	341,471	-	-	-	341,471
Technology enhancement fy07	37,200	-	-	-	37,200
Title I FY07	138,531	-	-	-	138,531
Title II fy07	60,003	-	-	-	60,003
Title V FY07	1,951	-	-	-	1,951
Westfield history grant fy07	1,875	-	-	-	1,875
Total	1,746,420	158	386,966	22,292	2,155,836

See accompanying notes to the basic financial statements.

(Continued)

SCHEDULE 4

GATEWAY REGIONAL SCHOOL DISTRICT

NONMAJOR SPECIAL REVENUE FUNDS

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2007

	Expenditures			Totals (See page 6-4)
	Instruction	Ancillary School Services	Maintenance and Operations	
<u>Revolving funds:</u>				
Athletic	-	23,548	-	23,548
Blandford elementary	-	69	-	69
Building use	-	-	20,201	20,201
Chester elementary	-	23	-	23
Circuit breaker	292,517	-	-	292,517
CPC tuition	5,183	-	-	5,183
Emergency impact aid	500	-	-	500
Emergency planning	580	-	-	580
E-rate	-	-	665	665
Foundation for excellence	1,428	-	-	1,428
Full day kindergarten	4,208	-	-	4,208
Health	-	364	-	364
Henderson memorial	40	-	-	40
High school foundation for excellence	1,244	-	-	1,244
Jeff Fisk recognition	-	2,279	-	2,279
Murrayfield elementary	-	1,379	-	1,379
Parking fees	-	-	225	225
Preschool	1,706	-	-	1,706
Russell elementary	-	2,333	-	2,333
School choice	40,000	-	-	40,000
School lunch	-	411,470	-	411,470
Student identification	-	567	-	567
Technology	4,427	-	-	4,427
Wellness center	-	36,968	-	36,968
Worthington elementary	-	1,440	-	1,440
Wrap around day care	-	23,708	-	23,708
<u>Federal/state/other grants:</u>				
Academic support fy07	6,800	-	-	6,800
Community partnership fy07	243,898	-	-	243,898
DPH fy07	-	58,052	-	58,052
Drug free schools FY06	828	-	-	828
Drug free schools FY07	5,974	-	-	5,974
Enhanced technology fy07	1,353	-	-	1,353
Expanded learning fy07	15,000	-	-	15,000
High school partners fy07	2,000	-	-	2,000
Pioneer valley planning fy04	1,880	-	-	1,880
Safe schools fy07	1,900	-	-	1,900
School to work fy04	4,974	-	-	4,974
Secondary reading FY07	7,667	-	-	7,667
Sped curriculum frameworks FY07	11,984	-	-	11,984
Sped early childhood FY07	14,096	-	-	14,096
Sped mcas alternative fy07	500	-	-	500
Sped idea p194-142 FY06	3,000	-	-	3,000
Sped idea p194-142 fy07	332,091	-	-	332,091
Technology enhancement fy04	68,935	-	-	68,935
Technology enhancement fy07	37,200	-	-	37,200
Title I FY07	138,531	-	-	138,531
Title II fy07	60,003	-	-	60,003
Title V FY07	1,951	-	-	1,951
Westfield history grant fy07	1,875	-	-	1,875
Total	1,314,273	562,200	21,091	1,897,564

See accompanying notes to the basic financial statements.

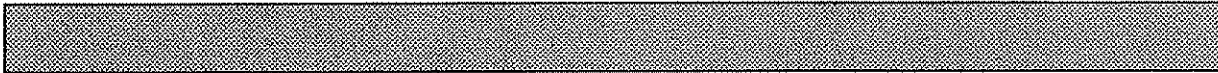
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SCHEDULE 5

GATEWAY REGIONAL SCHOOL DISTRICT
CAPITAL PROJECT FUNDS
COMBINING SCHEDULE OF BALANCE SHEETS
JUNE 30, 2007

	Buildings Construction and Renovations Fund	School Roof Repairs Fund	Totals
Assets - pooled cash	5,083	-	5,083
Liabilities - bond anticipation notes payable	-	228,000	228,000
Fund balance - reserved for designated expenditures	5,083	(228,000)	(222,917)
Total liabilities and fund balances	5,083	-	5,083

See notes to the general-purpose financial statements.

**SCHEDULE 6**

GATEWAY REGIONAL SCHOOL DISTRICT
CAPITAL PROJECT FUNDS
COMBINING SCHEDULE OF REVENUES, OTHER FINANCING SOURCES, EXPENDITURES,
OTHER FINANCING USES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2007

	Capital Lease Obligations Fund	Buildings Construction and Renovations Fund	School Roof Repairs Fund	Totals
Other financing sources:				
Proceeds from the issuance of capital lease obligations . .	228,671	-	-	228,671
Transfers from the general fund	-	-	57,000	57,000
Total other financing sources	228,671	-	57,000	285,671
Capital expenditures	228,671	-	-	228,671
Net changes in fund balance	-	-	57,000	57,000
Fund balance - beginning of the year	-	5,083	(285,000)	(279,917)
Fund balance/(deficit) - end of the year	-	5,083	(228,000)	(222,917)

See accompanying notes to the basic financial statements.

SCHEDULE 7

GATEWAY REGIONAL SCHOOL DISTRICT
FIDUCIARY FUNDS
COMBINING SCHEDULE OF NET ASSETS
AS OF JUNE 30, 2007

	<u>Assets</u>		<u>Liabilities</u>		<u>Net Assets</u>	
	Pooled	Due to	Accounts		Held in	Total
	Cash	Students	Payable	Total	Trust for	Liabilities
		Groups			Scholarships	and Net
						Assets
Agency funds:						
High school student activities	54,413	54,413	-	54,413	-	54,413
Middle school student activities	15,054	15,054	-	15,054	-	15,054
Total agency funds	69,467	69,467	-	69,467	-	69,467
Expendable trust funds:						
Carmel scholarship	17,612	-	17,000	17,000	612	17,612
Euler memorial scholarship	1,000	-	-	-	1,000	1,000
Fisk scholarship	1,150	-	1,150	1,150	-	1,150
General scholarship	2,356	-	-	-	2,356	2,356
Keay scholarship	405	-	-	-	405	405
Richards scholarship	2,665	-	2,665	2,665	-	2,665
Total expendable trust funds	25,188	-	20,815	20,815	4,373	25,188
Total fiduciary funds	94,655	69,467	20,815	90,282	4,373	94,655

See accompanying notes to the basic financial statements.

SCHEDULE 8

GATEWAY REGIONAL SCHOOL DISTRICT
PRIVATE-PURPOSE TRUST FUNDS
COMBINING SCHEDULE OF ADDITIONS, DEDUCTIONS, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2007

	<u>Additions</u>			<u>Change</u>	<u>Net Assets</u>	
	Donations	Interest	Deductions	in Net	June 30,	June 30,
				Assets	2006	2007
Expendable trust funds:						
Carmel scholarship	16,000	185	15,573	612	-	612
Euler memorial scholarship	1,000	-	-	1,000	-	1,000
Fisk scholarship	-	16	2,140	(2,124)	2,124	-
General scholarship	-	-	1	(1)	2,357	2,356
Keay scholarship	-	-	-	-	405	405
Richards scholarship	-	-	2,665	(2,665)	2,665	-
Total expendable trust funds	17,000	201	20,379	(3,178)	7,551	4,373

See accompanying notes to the basic financial statements.

GATEWAY REGIONAL SCHOOL DISTRICT
RECONCILIATION OF TREASURER'S CASH
FOR THE YEAR ENDED JUNE 30, 2007

Bank checking accounts - interest bearing:		
United bank - general	295,755	
United bank - cafeteria	64,864	
United bank - student activities	19,948	
Total bank checking accounts - interest bearing		380,567
Liquid investments:		
Massachusetts municipal depository trust - general	1,491,394	
United bank - general	76,039	
United bank - carmel scholarship	17,638	
United bank - fisk scholarship	1,150	
United bank - student activities	49,519	
Total liquid investment accounts		1,635,740
Total pooled cash		<u>2,016,307</u>

Pooled cash is presented in the basic financial statements as follows:

General fund	1,494,433
Debt service fund	15,221
Other nonmajor governmental funds	389,067
Subtotal	<u>1,898,721</u>
Trust and agency funds	94,655
Subtotal - governmental activities	<u>1,993,376</u>
Proprietary activities - laptop program	22,931
Total pooled cash	<u>2,016,307</u>

Reconciliation between reported treasurer's quarterly cash report and financial statement cash:

Total cash per treasurer's quarterly cash report	2,010,671
Audit adjustment decreasing Massachusetts municipal depository account	(46,342)
Audit adjustment for warrants dated 06/30/07 but run in July 2007	51,978
Total pooled cash per financial statements	<u>2,016,307</u>

See accompanying notes to the basic financial statements.

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the School Committee of the
Gateway Regional School District:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Gateway Regional School District of Massachusetts (the "District") as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 31, 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 opinions 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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 District'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 District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs under heading B - Findings - Financial Statements Audit, "Finding 07-1" to be significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control. Our consideration of the 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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

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 that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we have reported to management of the District in a separate letter dated March 31, 2008.

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended for the information of the school committee, management and 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.

Stanley H. Kulas, CPA

STANLEY H. KULAS
Certified Public Accountant
March 31, 2008

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the School Committee of the
Gateway Regional School District:

Compliance

We have audited the compliance of the Gateway Regional School District (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, 2007. The District's major 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, 2007.

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 the 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.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of the school committee, management, 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.

Stanley H. Kulas, CPA

STANLEY H. KULAS
Certified Public Accountant
March 31, 2008

GATEWAY REGIONAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an opinion on the basic financial statements of the Gateway Regional School District which was unqualified.
2. One significant deficiency disclosed during the audit of the basic financial statements is reported in the "Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards." This deficiency is not reported as a material weakness.
3. No instances of noncompliance material to the basic financial statements of the District were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the "Report on Compliance With Requirements Applicable to Each Major Program & Internal Control Over Compliance in Accordance With Circular A-133."
5. The auditors' report on compliance for the major federal award programs for the District expresses an unqualified opinion.
6. There were no audit findings relative to the District's federal award major programs.
7. The program tested as a major program was:

84.027 Special Education – Grants to States
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. As defined by Circular A-133, the District was determined to be a low risk auditee.

B FINDINGS - FINANCIAL STATEMENTS AUDIT

Significant Deficiency

07-1 – Preparation of financial statements based on generally accepted accounting principles

Condition: As is the case for most school districts and municipalities in Massachusetts, the District does not prepare its financial statements. The financial statements are prepared by the accounting firm that conducts the audit of these statements. Although District management reviews a draft of the financial statements to detect any errors or omissions before the financial statements are finalized and released, the District does not have qualified personnel to determine if these financial statements adhere to the latest governmental accounting standards.

Background: The American Institute of Certified Public Accountants issued Auditing Standard #112 "Communicating Internal Control Related Matters Identified in the Audit", which is effective for fiscal year 2007. This standard requires the auditor to report on control deficiencies involving the preparation of the financial statements. Specifically it addresses the fact that it is the District's, rather than the auditor's, responsibility to prepare financial statements.

Criteria: A system of internal control over financial reporting does not stop at the general ledger. It includes controls over financial statement preparation, including footnote disclosure. The fact that the auditor prepares the financial statements may mean they are correct, but it does not eliminate the control deficiency. An auditor cannot be considered part of the client's internal control. Thus, controls over the financial statement preparation function that exist in the auditor's firm cannot be considered. Only the controls the client has in place can be considered in determining whether there is a control deficiency and its severity.

GATEWAY REGIONAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007

B FINDINGS - FINANCIAL STATEMENTS AUDIT (Continued)

Significant Deficiencies (Continued)

07-1 – Preparation of financial statements based on generally accepted accounting principles (continued)

Effect: Because District personnel are not trained to prepare the financial statements, including accompanying footnotes, there is more than a remote likelihood that District personnel, during their review process, would not be able to detect a significant error or omission in the financial statements.

Recommendation: The District should be aware that this control deficiency exists, and consider whether it wants to spend the resources needed to adequately train its personnel so that they could prepare the financial statements or have the financial statements prepared by a qualified, independent third party.

District's Response: We are aware of this situation and will take the above recommendation under consideration.

C FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None.

GATEWAY REGIONAL SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Pass Through Grantor's Number	Program or Award Amount	Fund Balance 07/01/06	Revenues			Expenditures		Fund Balance 06/30/07
					Federal	State	Other	Program Costs	Refunds to State	
U.S. Department of Agriculture										
Passed Through State Department of Education:										
Food Distribution	10.550	08-143-1	N/A	-	36,176	-	-	36,176	-	-
National School Breakfast Program	10.553	08-143-1	N/A	-	21,486	-	-	21,486	-	-
National School Lunch Program	10.555	08-143-1	N/A	50,381	140,470	8,364	252,198	140,470	-	61,429
TOTAL DEPARTMENT OF AGRICULTURE										
				50,381	198,132	8,364	252,198	198,132	249,514	61,429
U.S. Department of Education										
Passed Through State Department of Education:										
Title 1 - Grants to Local Educational Agencies FY07	84.010	305-127-7-0672-H	138,531	-	138,531	-	-	138,531	-	-
Special Education - Grants to States FY07	84.027	240-080-7-0672-H	341,471	-	341,471	-	-	332,091	-	9,380
Special Education - MCAS FY07	84.027	242-002-7-0672-H	500	-	500	-	-	500	-	-
Special Education - Secondary Reading FY07	84.027	267-013-7-0672-H	9,571	-	9,571	-	-	7,667	-	1,904
Special Education - Program Improvement FY07	84.027	274-161-7-0672-H	12,102	-	12,102	-	-	11,984	-	118
Special Education - Grants to States FY06	84.027	240-061-6-0672-G	338,885	3,000	-	-	-	3,000	-	-
Total Program 84.027										
			702,529	3,000	363,644	-	-	355,242	-	11,402
Title V - Education Block Grants FY07	84.151	302-136-7-0672-H	1,951	-	1,951	-	-	1,951	-	-
Sped Early Childhood Learning FY07	84.173	262	14,096	-	14,096	-	-	14,096	-	-

(Continued)

GATEWAY REGIONAL SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Pass Through Grantor's Number	Program or Award Amount	Fund Balance 07/01/06	Revenues			Expenditures		Fund Balance 06/30/07
					Federal	State	Other	Program Costs	Refunds to State	
U.S. Department of Education (Continued)										
Passed Through State Department of Education:										
Program for Drug Free Schools FY07	84.186	331-126-7-0672-H	5,974	-	5,974	-	-	5,974	-	-
Program for Drug Free Schools FY06	84.186	331-005-6-0672-G	5,507	828	-	-	-	-	828	-
Total Program 84.186			11,481	828	5,974	-	-	5,974	828	-
Enhanced Education Through Technology FY07	84.318	160-162-7-0672-H	1,948	-	1,948	-	-	1,353	-	595
Technology Enhancement Options FY07	84.318	170-002-7-0672-H	37,200	-	37,200	-	-	37,200	-	-
Technology Enhancement Options FY06	84.318	170-036-6-0672-G	100,000	68,935	-	-	-	68,935	-	-
Total Program 84.318			139,148	68,935	39,148	-	-	107,488	-	595
Teacher Quality FY07	84.367	140-123-7-0672-H	60,003	-	60,003	-	-	60,003	-	-
Emergency Impact Aid FY07	84.938	Katrina	500	-	500	-	-	500	-	-
TOTAL DEPARTMENT OF EDUCATION			1,068,239	72,763	623,847	-	-	683,785	828	11,997
TOTAL FEDERAL ASSISTANCE			1,068,239	123,144	821,979	8,364	252,198	881,917	828	73,426

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The schedule of expenditures of federal awards has been prepared on the modified accrual basis of accounting.

NOTE B - FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at fair market value of the commodities received and disbursed.

(Concluded)

GATEWAY REGIONAL SCHOOL DISTRICT
SUMMARY OF PRIOR YEAR'S FINDINGS AND CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2007

SUMMARY SCHEDULE OF PRIOR YEAR'S FINDINGS

There were no findings or questioned costs associated with the audit of major federal award programs for the fiscal year ended June 30, 2006.

CORRECTIVE ACTION PLAN

The only finding regarding this year's audit is a significant deficiency regarding the preparation of financial statements.

Please refer to "Significant Deficiency 07-1" in Section B of the Schedule of Findings and Questioned Costs beginning on page 7-3 of this report package for a detailed description of this deficiency along with the District's corrective action scenario.

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER COMPLIANCE WITH MASSACHUSETTS SCHOOL DISTRICTS

To the School Committee of the
Gateway Regional School District:

Compliance

We have audited the compliance of the Gateway Regional School District (the "District") with the types of compliance requirements described in the Massachusetts Department of Education's 2006 Compliance Supplement applicable to Massachusetts School Districts for the year ended June 30, 2007. Compliance with the requirements of laws, regulations, contracts, and grants applicable to School Districts 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 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 and the Massachusetts Department of Education Compliance Supplement. Those standards 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 Massachusetts School Districts programs 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 firm 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 Massachusetts School Districts for the year ended June 30, 2007.

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, contract, and grants applicable to Massachusetts School Districts. 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 its ability to accurately report year-end information in accordance with Massachusetts DOE requirements in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over compliance that we have reported to management of the District in a separate letter, beginning on page 9-1 of this report package, dated March 31, 2008.

This report is intended solely for the information and use of the school committee, management, state funding agencies, and the Massachusetts Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

Stanley H. Kulas, CPA

STANLEY H. KULAS
Certified Public Accountant
March 31, 2008

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REPORT TO MANAGEMENT

To the School Committee of the
Gateway Regional School District:

In planning and performing our audit of the basic financial statements of the Gateway Regional School District of the Commonwealth of Massachusetts (the "District") for the year ended June 30, 2007, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control structure.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We have issued a separate report on significant deficiencies dated March 31, 2008, which is included in this reporting package.

As a result of our audit of the basic financial statements, we noted certain other matters, not considered to be significant deficiencies, which are listed below.

Current Year's Comments:

Amendments to the Annual Budget

End of Year Report Matters

Prior Year's Comments:

The Laptop Program

Residual Balance in the School Buildings Construction and Renovation Capital Project Fund

Implementation of GASB#45 "Accounting for Post Employment Benefits Other Than Pensions"

This report is intended for the information of the school committee, management and 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.

We will be pleased to discuss these recommendations with you and to assist you in implementing them.

Sincerely,

Stanley H. Kulas, CPA

STANLEY H. KULAS
Certified Public Accountant
March 31, 2008

AMENDMENTS TO THE ANNUAL BUDGET

Observation: Based on new Massachusetts Department of Education regulations, as more fully discussed below, regional school districts can not increase their adopted budgets without securing approval from two thirds of their member towns. This requirement is effective even if the regional school district finances this budget increase strictly from the district's excess and deficiency fund balance. These regulations significantly impair the flexibility regional school district's have to address unanticipated expenditures (e.g. increases in fuel, special education, and health care costs).

Background: The Commonwealth of Massachusetts Department of Education approved amendments to the regulations governing regional school districts (603 CMR41) at its meeting on January 23, 2007. The revised regulations became effective on February 9, 2007. The purpose of these amendments was to clarify the procedural requirements governing regional school district budgets.

Specifically, the following revisions to the regulations affect the process of amending regional school district approved budgets.

- If an amendment results in an increase in the total amount of the budget or an increase in assessment for any member, such amendment shall be submitted to the local appropriating authorities for their approval.
- The proposed amendment shall be effective if it is approved by two-thirds of the members and by the member whose assessment is increased.
- If a member does not vote on the proposed amendment within the 45-day period and that member has previously appropriated funds for its assessment in an amount greater than or equal to the member's assessment for the amended budget, that member shall be deemed to have approved the amended budget.
- If a proposed amendment does not increase the total amount of the budget and reduces or leaves unchanged the assessment for every member, the amendment shall not require approval by the local appropriating authority.

Recommendations:

1. To address the issue of unexpected costs, the District should include as part of its annual operating budget, an appropriation line item for contingencies financed from its excess and deficiency fund balance. If, by the end of the fiscal year, these unexpected costs do not occur, the unexpended appropriation will be closed out and returned to fund balance where it will be available for appropriation in subsequent years.

By having a line item in the annual budget for contingencies, the District should reduce or eliminate the need to ask the member towns to approve an increase in the annual operating budget and allow the District to operate in an efficient manner when faced with unexpected cost increases.

2. The District should consider consulting with legal counsel regarding the interpretation of and its compliance with these revised regulations. Unless otherwise advised by its legal counsel, the District should comply with these revised Department of Education regulations.

END OF YEAR REPORT MATTERS

Observation: The District made several adjustments to its financial records as the result of our audit of the financial statements for fiscal year ended June 30, 2007, which was completed on March 31, 2008. The effects of these adjustments were not included in the information submitted earlier to the Massachusetts Department of Education in the District's "End of Year Pupil and Financial Report" (EOYR) because the District filed the EOYR on September 19, 2007 as required by departmental guidelines.

Recommendation: We recommend that the District prepare the appropriate amendments to its EOYR for fiscal year ended June 30, 2007 and file them with the Massachusetts Department of Education as soon as possible.

PRIOR YEAR'S COMMENTS

THE LAPTOP PROGRAM

Fiscal 2006 Observation 1: The District operates a 1:1 laptop program, as an enterprise fund, that involves leasing laptop computers from vendors and selling them to students using a lease purchase option. The District maintains a database to track the payments received from each student who is lease purchasing a computer. However, the District does not prepare a similar database associated with payments it owes to the computer vendors. Furthermore, the District does not compare outstanding receivables from students to the outstanding balance it owes to computer vendors to determine if there is sufficient cash flow available to pay the debt obligations associated with the leased computers.

Fiscal 2006 Recommendation 1: The District should maintain databases for both laptop payments to vendors and laptop collections from students. These databases should be updated each month and reconciled to the general ledger system. Periodically the District should compare data from both databases to ensure that future collections are sufficient to finance outstanding lease payments to computer vendors.

Prior to any laptops being ordered and any leases being signed, the District's Technology Director must supply the District's Director of Business and Finance with a complete, detailed analysis that reconciles all computers sold to students with computers leased from vendors.

Fiscal 2007 Status 1: At the end of the fiscal year, the District's Director of Business and Finance reconciled the general ledger to the data bases compiling laptop payments to vendors and laptop collections from students. She has also compiled a cash flow projection to ensure that future collections are sufficient to pay the remaining installment obligations to the laptop vendors.

Fiscal 2006 Observation 2: We noted that some of the vendor capital lease obligations for the laptop program include computers that are used by the District's teachers. The District is properly accounting for this teacher portion of these lease payments as a general fund expenditure, but commingling teacher and student computers together in one capital lease obligation creates unnecessary confusion and complexity.

Fiscal 2006 Recommendation 2: Student and teacher computer lease purchases should be kept separate. This will facilitate the tracking, accounting, and billing of these computers to the appropriate owners.

Fiscal 2007 Status: The District has implemented procedures to ensure that future lease purchases do not commingle the acquisition of computers for teachers with those for students.

**RESIDUAL BALANCE IN THE SCHOOL BUILDINGS CONSTRUCTION
AND RENOVATION CAPITAL PROJECT FUND**

Fiscal 2006 Observation: The District has completed all of its construction and renovation of its school buildings. As of June 30, 2006, the capital project fund used to account for this activity has a fund balance of \$5,083.

Fiscal 2006 Recommendation: The District should consult with legal counsel to determine how it can properly use this residual balance. Possible considerations include reduction of member town capital assessments or purchase of capital items associated with these school buildings.

Fiscal 2007 Status: The District is using this \$5,083 residual balance as a financing source in its fiscal year 2008 budget reducing its member town assessments.

**IMPLEMENTATION OF GASB #45
"ACCOUNTING FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS"**

Fiscal 2004 Observation: In June 2004 the Governmental Accounting Standards Board (GASB) issued a new pronouncement, GASB #45 that fundamentally changed the method of reporting for non-pension other postemployment benefits (OPEB). OPEB's include postemployment healthcare benefits (medical, dental, vision, and hearing), as well as other benefits such as life insurance, disability and long-term care.

This pronouncement generally requires governments to change from "pay-as-you-go" recognition of OPEB costs to a full accrual method. Governments may continue to fund these costs when actually paid but must begin recognizing annual OPEB expense as the employee services are provided. Significant balance sheet liabilities will exist for governments that don't convert to accrual funding.

School districts the size of Gateway are required to implement these changes for the fiscal year beginning July 1, 2008.

Fiscal 2004 Recommendation: District management should attend seminars and obtain the necessary literature required, well in advance of the implementation deadline, to ensure compliance with all the provisions of this new accounting pronouncement.

Fiscal 2007 Status: The District has incorporated into its fiscal 2009 budget a line item for an actuarial report to comply with GASB #45, and has sought quotes from actuarial firms to provide this service.

