

FRENCHTOWN SCHOOL DISTRICT NO. 40
Missoula County, Montana

AUDITED FINANCIAL STATEMENTS AND
REPORTS REQUIRED BY
GOVERNMENT AUDITING STANDARDS

June 30, 2013

Cote & Associates, CPA, PLLC
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Frenchtown School District
June 30, 2013

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June 30, 2013

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Frenchtown School District No. 40
Missoula County
Frenchtown, Montana

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, business-type activity, each major fund and the aggregate remaining fund information of the Frenchtown School District No. 40 (District), Missoula County, Montana, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activity, each major fund, and the aggregate remaining fund information of the District as of June 30, 2013 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the budgetary comparison information on pages 4-10 and 31-32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing information and comparing the information for consistency with management's responses to my inquires, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide an assurance.

Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. The schedule of school district enrollment and the extracurricular fund schedule of revenues, expenditures and changes in fund equity by student activity is presented for purposes of additional analysis as required by Montana law and also are not required parts of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

My audit was conducted for the purpose of forming opinions on the financial statements. Statistical information in schedules of student enrollment, school district taxable valuations, school district tax levies, tax collections, major taxpayers and maximum bonded indebtedness are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, I do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated March 12, 2014, on my consideration of the District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Cote & Associates, CPA, PLLC

March 12, 2014
Missoula, Montana

Frenchtown School District
June 30, 2013

ORGANIZATION

For the Fiscal Year Ended June 30, 2013

Board of Trustees

John Mazzola	Chairman
Debbie Lester	Vice Chairman
Michele Bashor	Trustee
Dianne Burke	Trustee
Jami Romney FitzGerald	Trustee
Teresa Teagle	Trustee
Dave Weber	Trustee

Officials

Randy Cline	District Superintendent
Cindy McMurray	Clerk of the Board
Fred Van Valkenburg	County Attorney
Erin Lipkind	County Superintendent of Schools

MANAGEMENT'S DISCUSSION AND ANALYSIS

Frenchtown School District No. 40
Management's Discussion and Analysis
June 30, 2013

OVERVIEW

This discussion and analysis of the Frenchtown School District (District) financial performance provides an overview of the financial activities for the year ending June 30, 2013. It should be read in conjunction with the financial statements and notes.

This annual report consists of a series of financial statements. The government-wide statement of net position and statement of activities provide information about the Frenchtown School District as a whole. The fund financial statements report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds.

FINANCIAL HIGHLIGHTS DURING 2012-2013

Budget problems for Frenchtown School District #40 started with the national and state economic downturn that began in 2009. Smurfit-Stone Container linerboard plant located in Frenchtown, MT closed its doors in 2009. In April 2011 the founders of Illinois-based M2Green Investment Group Inc. (GIGI) announced that they had secured the purchase of the plant and site. Instead of merely selling the equipment and scrapping the rest of the property's materials, they intended to further clean up the site and convert it into a "green" industrial site to be known as M2Green. Instead M2Green has sold a lot of equipment and scrapped the property's material. The area is now being viewed as a potential cleanup site and potential tenants are not interested. The reinvention of the Frenchtown site is at a standstill.

For the first time in three years, the District saw its enrollment starting to stabilize during the 2012-2013 school year. A majority of the funding from the state for K-12 schools in Montana is based on a school's enrollment during the school year. It is called Average Number Belonging (ANB). The number of students in a school district is counted twice a school year and then the number is averaged for the amount of funds a school district will receive from the state for ANB. Students in grades K-6 are paid for by the state at one level and students in grades 7-12 students at a higher rate. The count days for ANB are the first Monday of October and on February 1st of each school year. After the final count day in 2012-2013, the District wasn't declining but was close to maintaining 2011-2012 enrollment levels. However, because of the large losses over the past two years, the District no longer was able to take advantage of 3 year averaging for the budget. This resulted in a lower budget than 2011-2012.

Despite these problems, the District managed to maintain strong general fund reserve levels going into the 2012-2013 school year.

REPORTING THE DISTRICT AS A WHOLE- Government-Wide Statements

The Statement of Net Position and the Statement of Activities

The statement of net position and the statement of activities report information about the District as a whole and about its activities in a way that shows if the District is in a better financial position as a result of each year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

These two sets of statements also report the District's net position and the changes in them. This is one way to measure the District's financial position. Over time, increases or decreases in the District's net position can be an indicator of whether its financial health is improving or deteriorating.

TRANSITION FROM FUND FINANCIAL STATEMENTS TO GOVERNMENT-WIDE FINANCIAL STATEMENTS

Following the governmental financial statements (as described below) is reconciliation from the fund financial statements to the government-wide statements. Longer term assets and liabilities such as general capital assets and long term debt are added to the balance sheet to arrive at the governmental funds statement of net position. Increases or decreases in

Frenchtown School District No. 40
Management's Discussion and Analysis
June 30, 2013

assets and liabilities create increases or decreases in revenue and expenses when activities are reconciled from the governmental fund statements to the government-wide. Capitalization of capital assets will remove some of the capital outlay expenditures (reducing expense) and depreciation will increase expense at the government-wide level.

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS- Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds. Some funds are required to be established by state law. The District has established other funds to help control and manage money for particular purposes. The District's governmental and proprietary (business-type) funds use different accounting approaches.

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific purposes.

Governmental Funds—Most of the District's basic services are reported in governmental funds, which focus on how money flows into and out of those funds. The balances left at year-end are available for spending. These funds are reported using the modified accrual method, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short term view of the District's general government operations and the basic services it provides. Governmental fund information helps in determining whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The general fund includes all revenues and expenses that are not specifically assigned to any other fund. Special revenue funds track revenue and expenditures for certain segregated purposes, debt service funds track the flow of receipts and expenditures required to service governmental debts, and capital projects funds track revenues and expenditures associated with certain projects.

Proprietary/Business-type Funds— there are two types, enterprise funds and internal service funds. The District does not have any enterprise funds, but they do have one internal service fund, the self-health insurance fund. These funds are used when the District intends to operate a service where charges cover costs. These funds are reported in the same way that all activities are reported in the statement of net position and the statement of activities, so there is no reconciliation. Fund statements provide greater detail than the government-wide statements and include a statement of cash flows.

Fiduciary Funds—financial statements show assets, liabilities and where appropriate, changes in assets and liabilities for funds which the District operates in a trust or agency capacity. Net assets of these funds are available to the District to satisfy District obligations.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. In addition to the basic financial statements and accompanying notes, this report also presents additional information.

THE DISTRICT AS A WHOLE

Condensed financial information for the District is outlined in the following tables.

Comparative and combined governmental and business-type assets, liabilities and net position are as follows:

Frenchtown School District No. 40
Management's Discussion and Analysis
June 30, 2013

Table 1

	2013	2012	Change	%
Current assets	\$ 4,915,890	\$ 5,362,525	\$ (446,635)	(8.3)
Capital assets, net	23,307,344	23,926,425	(619,081)	(2.6)
Total assets	<u>\$ 28,223,234</u>	<u>\$ 29,288,950</u>	<u>\$ (1,065,716)</u>	(3.6)
Current liabilities	\$ 2,429,486	\$ 1,511,780	\$ 917,706	60.7
Noncurrent liabilities	15,226,715	16,041,734	(815,019)	(5.1)
Total liabilities	<u>17,656,201</u>	<u>17,553,514</u>	<u>102,687</u>	0.6
Net position:				
Invested in capital assets	\$ 7,706,956	\$ 7,184,639	\$ 522,317	7.3
Restricted net position	1,112,206	2,133,615	(1,021,409)	(47.9)
Unrestricted net position	1,747,871	2,417,184	(669,313)	(27.7)
Total net position	<u>\$ 10,567,033</u>	<u>\$ 11,735,438</u>	<u>\$ (1,168,405)</u>	(10.0)

Table 1 Notes: An overall decrease in 2013 net position reflects a use of reserved cash for the intended purposes and the continual depreciation of capital assets.

Comparative and combined governmental and business-type revenues and expenses were as follows:

Table 2

	2013	2012	Change	%
Revenues				
Program revenue				
Charges for services	\$ 404,627	\$ 520,361	\$ (115,734)	(22.24)
Operating grants and contributions	1,138,914	1,473,015	(334,101)	(22.68)
General Revenue				
District property taxes	\$ 3,250,790	\$ 3,161,605	\$ 89,185	2.82
State equalization	5,459,543	3,674,479	1,785,064	48.58
Other State revenue	1,107,059	2,444,372	(1,337,313)	(54.71)
County property taxes	1,034,994	1,016,524	18,470	1.82
Investment earnings	10,020	8,048	1,972	24.50
Federal revenue	-	-	-	-
Other	41,671	-	41,671	100.00
Total revenues & transfers	<u>\$ 12,447,618</u>	<u>\$ 12,298,404</u>	<u>\$ 599,049</u>	4.87
Expenses:				
Instruction programs	\$ 6,611,710	\$ 5,890,053	\$ 721,657	12.25
Support services	1,840,419	1,854,927	(14,508)	(0.78)
Administration	773,006	835,993	(62,987)	(7.53)
Operation and maintenance	1,346,035	1,332,790	13,245	0.99
Student transportation	656,006	557,053	98,953	17.76
School food	655,799	598,285	57,514	9.61
Extracurricular	400,501	403,431	(2,930)	(0.73)
Interest	251,702	672,172	(420,470)	(62.55)
Total expenses	<u>\$ 12,535,178</u>	<u>\$ 12,144,704</u>	<u>\$ 390,474</u>	3.22
Changes in net position	\$ (87,560)	\$ 153,700	\$ (241,260)	(156.97)
Net position, July 1	11,735,438	11,570,586	164,852	1.42
Changes in beginning equity	(1,080,845)	11,152	(1,091,997)	-
Net position, July 1 restated	<u>\$ 10,654,593</u>	<u>\$ 11,735,438</u>	<u>\$ (1,080,845)</u>	(9.21)
Net position, June 30	<u>\$ 10,567,033</u>	<u>\$ 11,735,438</u>	<u>\$ (1,168,405)</u>	(9.96)

Table 2 Notes: Overall small increases in both revenues and expenditures are consistent with budgeting.

Frenchtown School District No. 40
Management's Discussion and Analysis
June 30, 2013

THE DISTRICT'S FUNDS

Changes in Fund Balances

Table 3

	<u>Major Funds</u>		Other	Total
	General Fund	Debt Service Fund	Governmental Funds	Governmental Funds
Fund balances June 30, 2012	\$ 1,340,453	\$ 1,321,877	\$ 1,188,533	\$ 3,850,863
Prior period adjustments	-	(1,084,100)	3,255	(1,080,845)
Fiscal year 13 revenues	7,944,449	1,505,955	3,051,006	12,501,410
Fiscal year 13 expenditures	(8,073,796)	(1,448,408)	(3,093,345)	(12,615,549)
Fiscal year 13 transfers & other financing sources(uses)	-	-	-	-
Fund balances June 30, 2013	<u>\$ 1,211,106</u>	<u>\$ 295,324</u>	<u>\$ 1,149,449</u>	<u>\$ 2,655,879</u>

Table 3 Notes: The table shows a decrease in fund balance, the largest contributor is an accounting change to recognize bond payments due July 1 as a payable at June 30 to be consistent with other reporting.

GENERAL FUND BUDGETARY HIGHLIGHTS

Table 4

Year Ended June 30,	<u>Revenues and Transfers In</u>			<u>Expenditures and Transfers Out</u>		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
2012	\$ 7,804,655	\$ 7,804,655	\$ 7,773,374	\$ 7,914,987	\$ 7,914,987	\$ 7,878,500
2013	\$ 7,891,070	\$ 7,891,070	\$ 7,944,449	\$ 7,891,070	\$ 7,891,070	\$ 7,890,927

Table 4 Notes: The table shows that actual revenues versus budgeted revenues for 2012 were short \$30,000 whereas revenue versus budgeted revenues for 2013 were plus by about \$53,000. Expenditures for both 2012 and 2013 were less than the original budget by approximately \$22,000 and \$143, respectively.

CAPITAL AND DEBT ADMINISTRATION

Capital Assets – see Note 4 for details

Capital Assets, Balances at June 30,

Table 5

	<u>2013</u>	<u>2012</u>
Land	\$ 590,662	\$ 590,662
Land improvements	790,859	741,859
Construction in Progress	98,251	-
Buildings	27,479,629	27,479,629
Equipment	2,689,107	2,683,449
Total	<u>\$ 31,648,508</u>	<u>\$ 31,495,599</u>
Less accumulated depreciation	<u>(8,341,164)</u>	<u>(7,569,174)</u>
Net capital assets	<u>\$ 23,307,344</u>	<u>\$ 23,926,425</u>

Frenchtown School District No. 40
Management's Discussion and Analysis
June 30, 2013

Additional information on the District's capital assets can be found in the notes to the financial statements.

Table 5 Notes: The District acquired or completed several capital asset projects during 2012-2013 including: a new football field irrigation and sprinkler system, upgrades to the high school triple jump track, added to the elementary field a new aluminum riser, and began construction on the water project.

Debt Administration – see Note 6 for details

Governmental Activities Outstanding Long Term Liabilities, Balances at June 30, 2013 and 2012,

Table 6

	<u>2013</u>	<u>2012</u>
All general obligation bonds	\$ 15,595,000	\$ 1,639,000
Compensated absences & early retirement	625,193	531,946
Capital lease	5,388	14,422
Total	<u>\$ 16,225,581</u>	<u>\$ 2,185,368</u>

ECONOMIC FACTORS, NEXT YEAR'S BUDGET AND RATES

OTHER SIGNIFICANT ITEMS THAT OCCURRED DURING 2012-2013

As the Frenchtown Schools are a vital part of the Frenchtown community, the School Board has consistently sought public input over the years to try and ensure that they build the best possible education system to meet the needs of our community and its students. The School Board has used several methods through the years such as; public comment at Board meetings, holding public meetings, distributing and collecting surveys, etc. Good communication between district voters, parents of children enrolled in school, the school board, and the school superintendent are key to achieving that goal. The Board Goals are the direction the board wants the District to proceed to help foster, nurture, improve, and continue the excellence in the educational environment in Frenchtown. The Board decided that some of the goals set in 2011-2012 still reflected the priorities listed and continued them, revised some goals, dropped some goals, and added new goals for 2012-2013. The leadership team continued to include Montana Effective School Correlates and state educational reform priorities in the Goals for this year. The focus group report, the leadership implementation plan, and the state educational reform priorities are available for public review on the district website under the heading of "District Goals for the 2012-2013 School Year."

Because of the drop in enrollment, the district has continued to approve allowing non-resident students to attend Frenchtown Public Schools. Admitting nonresident students has been a win-win situation financially for both the school district and the district taxpayers. The admission of nonresident students create additional revenue for the district during the next fiscal year through increased ANB, while not increasing its expenses, if this continues; future requests for additional tax levies to support the schools from the district to its taxpayers could be held in check.

The district approved starting an alternative school for the high school during the 2012-2013 school year. This alternative school essentially pays for itself when the District obtains ANB for 4-5 students that might have otherwise dropped out. The other positive impact of the alternative school is the fact that it keeps students from dropping out.

During the summer of 2012, many maintenance projects were completed that could not be done during the school year. The District has set up a maintenance schedule for cleaning, painting, and refurbishing areas for each school year. We always have some major projects for the summer and the School Board prioritized those at our May Board meeting. The major maintenance projects completed in 2012-2013 were:

1. Replacing section of roof at the intermediate building.
2. Replacing the entrance pad on the high school sidewalk.

Frenchtown School District No. 40
Management's Discussion and Analysis
June 30, 2013

3. Fixing the trail to the playground by putting in fill along trail and at base of trail.
4. Repairing windows in phase II elementary classrooms.
5. Installing more auto faucets in the elementary.
6. Repairing the exterior of the middle entry in the elementary building and the small roof below it.
7. Replacing a section of sidewalk in northwest entry of the Phase II building.
8. Repainted all parking/travel through lines in all lots.
9. Replaced tile with water absorbent carpet at several entrances in the junior high and high school.
10. Replaced some propane gas lines on the Roof of the Junior High.
11. Replaced west sidewalk outside Junior High gym per SK Geotechnical recommendations.

THE FUTURE OF THE SCHOOL

During the 2012-2013 school year the District saw its enrollment stabilize after two years of declining enrollment. The District enrollment had declined by almost 12% over the previous two years and so stabilizing at 1162-1166 students for the fall counts in the 2012-2013 and 2011-2012 school years was good news. By the February count day our enrollment was at 1173. It was an increase of 20 students from our February count day in 2011-2012 which was at 1153. Having increasing enrollment from our fall count to our February count was a very positive development. It showed that not only had our decline in enrollment stopped but enrollment was now growing again.

One contribution factor to this stabilization was that we continued to allow enrollment of discretionary non-resident students who were in good standing at their previous school. Admitting non-resident students has been a win-win situation financially for both the school district and the district taxpayers. The admission of 38 non-resident students created additional revenue for the district through increased ANB, while not increasing its expenses.

The Frenchtown Academy for Career Education (FACE), and alternative high school, started operation during the 2012-2013 school year. It paid for itself by getting ANB for students that might have otherwise dropped out. Also, the alternative school had a positive impact by the very fact it would keep students from dropping out. The graduation rate for seniors attending FACE in 2012-2103 school year was 100%.

In February 2012, the Board adopted a final bond resolution in the process of refinancing certain bonds of the District's 2007 and 2008 general obligation bonds outstanding in the amount of \$8,530,000 to take advantage of low historic interest rates. The overall reduction in debt service from the refinancing equals \$509,961.64 over the remaining term until the bonds are paid on July 1, 2027. Local taxpayers will experience lower debt service levies commencing in the 2013/14 fiscal year.

The true interest cost of the new refunding bonds is 2.26%. The 2007 and 2008 bonds that were refinanced in the amount of \$8,530,000 had an outstanding average rate of 4.21%. Yields to investors ranged from 0.30% in the first maturity in 2013 to 2.44% in the final maturity in 2027. The bonds were offered locally to individual and institutional investors through D.A. Davidson & Co. The District refinanced all of the outstanding and callable 2008 bonds and only the 2007 bonds that provided the greatest savings. The District's plan of finance will be to refinance the remaining \$6,335,000 of the 2008 bonds in 2014. By splitting qualified rates that are available for bonds issued in an amount less than \$10,000,000 in a calendar year and also plan to issue a second refinancing that is closer to the first available call date of July 1, 2017 for the 2007 bonds for further possible savings. The 2007 and 2008 bonds were originally issued in the amounts of \$14,935,000 and \$4,000,000, respectively, to construct the District's new junior high facility and to improve the K-6 facility and for the purpose of expanding and improving the high school facility.

As a part of the financing process, Frenchtown K-12 District received an "A" credit rating with a stable outlook from Standard & Poor's rating services (S&P). This rating is an upgrade from the District's last rating of "A-", which was very positive news for the District and a testament to the District's financial management following closure of its major taxpayer and employer, Smurfit Stone Container Corporation, in January 2010. The rating action reflects the S&P's view of the

Frenchtown School District No. 40
Management's Discussion and Analysis
June 30, 2013

District's stabilized and growing tax base in fiscal year 2013 as well as its stabilizing enrollment levels with flat growth projected. The S&P rating report specifically indicates that favorable rating is due to the following strengths:

- Participation in the Missoula-area local economy and strong incomes; and
- Maintenance of strong general fund reserve levels.

Because there was a projected deficit in school funding for the 2013-2014 school year, the Board voted at the regular board meeting in March 2013 to ask the public to approve a levy for school operations. The voters did not approve the levy request. The District had to make personnel and program and other reductions to address the actual deficit created by receiving only an additional \$78,360 more in state education funds for FY 14 than the district received in FY 13. When the additional fixed expenses for FY 14 were added in, the deficit to be addressed in FY 14 totaled \$218,519.

At the end of the 2012-2013 school year the district was still awaiting any positive developments on the former Smurfit-Stone Container Frenchtown linerboard plant site and to what the site's new owners, M2 Green Investment Group will do. Any passer-by can see structures in various states of disassembly and train cars of material being hauled away every day, presumably for scrap. It's anybody's guess how long this could go on. There was no positive news about the former mill site. In fact, two issues came up that cast doubt on the re-development of the plant site: possible status of some of the site as an EPA Superfund and M2 Green did not pay its property taxes during the 2013 fiscal year.

Randy Cline, Superintendent

Copies of this MD&A and the full audit report with financial statements can be obtained by going to the Frenchtown School District website at www.ftsd.org under public documents or by contacting the District Clerk at Frenchtown K-12 Schools, PO Box 117, Frenchtown, MT 59834 or (406) 626-2600.

BASIC FINANCIAL STATEMENTS

Frenchtown School District
Missoula County, Montana

Government-Wide Statement of Net Position
As of June 30, 2013

Assets

	2013	2012
Current assets:		
Cash and investments	\$ 3,987,679	\$ 4,737,521
Property taxes receivable	441,329	495,121
Due from other governments	366,972	71,884
Other receivables	119,910	57,999
Total current assets	\$ 4,915,890	\$ 5,362,525
Non-current assets:		
Capital assets, land	\$ 590,662	\$ 590,662
Capital assets, depreciable, net	22,716,682	23,335,763
Total non-current assets	\$ 23,307,344	\$ 23,926,425
Total assets	\$ 28,223,234	\$ 29,288,950

Liabilities

Current liabilities:		
Accounts payable and accrued	\$ 1,265,508	\$ 210,462
Interest payable	-	332,135
Deferred revenue	165,112	74,549
Current portion of compensated absences	98,478	135,000
Current portion of long-term debt	895,000	759,634
Current portion of capital lease	5,388	-
Total current liabilities	\$ 2,429,486	\$ 1,511,780
Non-current liabilities:		
Long-term portion of compensated absences	\$ 526,715	\$ 391,715
Long-term portion of bonds payable	14,700,000	15,645,000
Capital lease	-	5,019
Total non-current liabilities	\$ 15,226,715	\$ 16,041,734
Total liabilities	\$ 17,656,201	\$ 17,553,514

Net position

Net investment in capital assets	\$ 7,706,956	\$ 7,522,003
Restricted for:		
Debt Service	295,323	1,321,577
Bus Replacement	351,268	347,820
Retirement	337,807	320,122
Transportation	79,495	96,768
Adult Education	12,528	11,644
Building Reserve	13,374	13,344
Tuition	10,909	10,848
Technology	11,502	11,492
Unrestricted	1,747,871	2,079,820
Total net position	\$ 10,567,033	\$ 11,735,438

Frenchtown School District
Missoula County, Montana

Government-Wide Statement of Activities
for the Fiscal Year Ended June 30, 2013

Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Net (Expenses) Revenue	
				2013	2012
Governmental activities:					
Instruction:					
Regular programs	\$ 5,156,835	\$ 845	\$ -	\$ (5,155,990)	\$ (4,529,991)
Other programs	1,454,875	17,710	982,075	(455,090)	(11,496)
Support services	1,840,419	314,320	-	(1,526,099)	(1,446,268)
Administration:					
Schools	131,806	-	-	(131,806)	(197,318)
General	310,468	-	-	(310,468)	(326,864)
Financial	330,732	-	-	(330,732)	(311,811)
Operation and maintenance	1,346,035	-	-	(1,346,035)	(1,332,790)
Student transportation	656,006	-	-	(656,006)	(557,053)
School food	655,799	71,752	156,839	(427,208)	(362,134)
Extracurricular	400,501	-	-	(400,501)	(403,431)
Interest	251,702	-	-	(251,702)	(672,172)
Total governmental activities	<u>\$ 12,535,178</u>	<u>\$ 404,627</u>	<u>\$ 1,138,914</u>	<u>\$ (10,991,637)</u>	<u>\$ (10,151,328)</u>
General revenues:					
				\$ 3,250,790	\$ 3,161,605
District property taxes				5,459,543	3,674,479
State equalization				1,107,059	2,444,372
Other state revenue				1,034,994	1,016,524
County property taxes				10,020	8,048
Investment earnings				41,671	-
Other				<u>\$ 10,904,077</u>	<u>\$ 10,305,028</u>
Total general revenues				(87,560)	153,700
Change in net position				\$ 11,735,438	\$ 11,532,597
Net position-July 1, 2012 as reported				<u>(1,080,845)</u>	<u>11,152</u>
Changes in beginning net position				<u>\$ 10,654,593</u>	<u>\$ 11,543,749</u>
Net position-July 1, 2012 as restated				<u>\$ 10,567,033</u>	<u>\$ 11,697,449</u>
Nets position-June 30, 2013					

Frenchtown School District
Missoula County, Montana

Balance Sheet- Governmental Funds
As of June 30, 2013

	Major Funds		Other	Total
	General	Debt Service	Governmental	Governmental
	Fund	Fund	Funds	Funds
Assets				
Cash and investments	\$ 1,214,224	\$ 1,390,473	\$ 859,397	\$ 3,464,094
Property taxes receivable	251,328	153,098	36,903	441,329
Due from other governments	-	-	366,972	366,972
Total assets	\$ 1,465,552	\$ 1,543,571	\$ 1,263,272	\$ 4,272,395
Liabilities and fund balances				
Liabilities:				
Accounts payable	\$ 3,118	\$ 1,095,149	\$ 76,920	\$ 1,175,187
Total liabilities:	\$ 3,118	\$ 1,095,149	\$ 76,920	\$ 1,175,187
Deferred Inflows of Resources				
Uncollected property taxes	\$ 251,328	153,098	36,903	441,329
Total deferred inflows of resources	\$ 251,328	\$ 153,098	\$ 36,903	\$ 441,329
Fund balances:				
Restricted	\$ -	\$ 295,324	\$ 816,683	\$ 1,112,007
Assigned	385,637	-	332,766	718,403
Unassigned	825,469	-	-	825,469
Total fund balance	\$ 1,211,106	\$ 295,324	\$ 1,149,449	\$ 2,655,879
Total liabilities, deferred inflows and fund balances	\$ 1,465,552	\$ 1,543,571	\$ 1,263,272	

Reconciliation of Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in funds (net).	\$ 23,307,344
Other long-term assets are not available to pay current-period expenditures and, therefore, are deferred in the funds.	441,329
Long-term liabilities, including bonds payable, are not considered due and payable, in the current period and therefore are not reported in the funds	(16,225,581)
Net position of internal service (self-insurance) fund	388,062
Net position of governmental activities (Page 11)	\$ 10,567,033

Frenchtown School District
Missoula County, Montana

Statement of Revenues, Expenditures, and Changes in Fund Balances- Governmental Funds,
for the Fiscal Year Ended June 30, 2013

	Major Funds		Other Governmental Funds	Total Governmental Funds
	General Fund	Debt Service Fund		
Revenues				
District property taxes	\$ 1,869,824	\$ 1,163,989	\$ 270,769	\$ 3,304,582
Intergovernmental:				
County	-	-	1,065,494	1,065,494
State	6,047,080	297,632	535,137	6,879,849
Federal	-	-	957,116	957,116
School food sales	-	-	71,752	71,752
Interest	3,864	1,541	4,615	10,020
Proceeds from refunding bonds	-	42,733	-	42,733
Other	23,681	60	146,123	169,864
Total revenue	<u>\$ 7,944,449</u>	<u>\$ 1,505,955</u>	<u>\$ 3,051,006</u>	<u>\$ 12,501,410</u>
Expenditures				
Current operations				
Instruction:				
Regular programs	\$ 3,903,325	-	\$ 480,417	\$ 4,383,742
Other programs	707,439	-	705,384	1,412,823
Support services	1,160,952	-	600,667	1,761,619
Administration:				
Schools	82,589	-	45,407	127,996
General	225,697	-	69,889	295,586
Financial	266,133	-	34,739	300,872
Student transportation	1,168	-	494,469	495,637
Operation and maintenance	1,212,072	-	84,478	1,296,550
School food	85,524	-	539,400	624,924
Extracurricular	337,347	-	32,445	369,792
Capital outlay	77,370	-	6,050	83,420
Debt service	14,180	1,448,408	-	1,462,588
Total expenditures	<u>\$ 8,073,796</u>	<u>\$ 1,448,408</u>	<u>\$ 3,093,345</u>	<u>\$ 12,615,549</u>
Excess of revenues/(under) expenditures	\$ (129,347)	\$ 57,547	\$ (42,339)	\$ (114,139)
Other financing sources(uses):				
Transfers in (out)	\$ -	\$ -	\$ -	\$ -
Change in fund balances	\$ (129,347)	\$ 57,547	\$ (42,339)	\$ (114,139)
Fund balances-July 1, 2012, as previously reported	\$ 1,340,453	\$ 1,321,877	\$ 1,188,533	\$ 3,850,863
Prior period adjustments		(1,084,100)	3,255	(1,080,845)
Fund balances-July 1, 2012, as restated	<u>\$ 1,340,453</u>	<u>\$ 237,777</u>	<u>\$ 1,191,788</u>	<u>\$ 2,770,018</u>
Fund balances-June 30, 2013	<u>\$ 1,211,106</u>	<u>\$ 295,324</u>	<u>\$ 1,149,449</u>	<u>\$ 2,655,879</u>

Frenchtown School District
Missoula County, Montana

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances-
Governmental Funds to the Government-Wide Statement of Activities
for the Fiscal Year Ended June 30, 2013

Change in fund balance as reported in governmental funds statement	\$	(114,139)
Change in deferred taxes receivable not included in the government funds statement		(53,792)
Expenses on the statement of activities not included in the government funds statement:		
Depreciation expense		(771,990)
Change in interest payable		332,165
Change in compensated absence liability		(98,478)
Expenditures reported in the government funds statement not included in the statement of activities:		
Capital outlay		83,420
Principal payments on bonds		865,000
Principal payments on capital lease		8,721
Early retirement incentive payments		5,000
Excess of revenues over(under) expenses in the internal service fund		(343,467)
Change in net position reported on the statement of activities	\$	<u><u>(87,560)</u></u>

Frenchtown School District
Missoula County, Montana

Balance Sheet-Internal Service (Health Insurance) Fund
As of June 30, 2013

	2013	2012
Assets		
Current assets:		
Cash and investments	\$ 523,585	\$ 917,376
Due from stop loss carrier	119,910	44,508
Total assets	\$ 643,495	\$ 961,884
Liabilities		
Current liabilities:		
Accounts payable	\$ 20,932	\$ 93,170
Estimated claims incurred but not reported	165,112	62,635
Total liabilities	\$ 186,044	\$ 155,805
Deferred inflows of resources		
Premium payments received in advance	69,389	74,549
Total deferred inflows of resources	69,389	74,549
Net position		
Retained earnings:		
Reserved for liabilities	\$ 388,062	\$ 556,026
Unreserved	-	175,504
Total net position	\$ 388,062	\$ 731,530
Total liabilities, deferrals and net position	\$ 643,495	\$ 887,335

Frenchtown School District
Missoula County, Montana

Statement of Revenues, Expenses and Changes in Fund Net Position-Internal Service (Health Insurance) Fund
for the Fiscal Year Ended June 30, 2013

	<u>2013</u>	<u>2012</u>
Operating revenues		
Health insurance premiums & stop-loss received	\$ 1,447,013	\$ 1,099,509
Operating expenses		
Medical claims	\$ 1,531,377	\$ 889,120
Stop-loss premiums	238,825	246,640
Administrative fees	25,094	38,928
Total operating expenses	\$ 1,795,296	\$ 1,174,688
Operating income	\$ (348,283)	\$ (75,179)
Non-operating revenues		
Interest/dividend income	\$ 4,816	\$ 4,189
Change in net position	\$ (343,467)	\$ (70,990)
Total net position		
Net position-beginning	\$ 731,530	\$ 802,520
Net position-ending	\$ <u>388,063</u>	\$ <u>731,530</u>

Frenchtown School District
Missoula County, Montana

Statement of Cash Flows-Internal Service (Health Insurance) Fund
for the Fiscal Year Ended June 30, 2013

	2013	2012
Cash flows from operating activities		
Health insurance premiums received	\$ 1,075,561	\$ 1,043,615
Stop-loss received	290,890	38,337
Medical claims paid	(1,501,138)	(802,531)
Insurance premiums paid	(238,825)	(273,821)
Administrative costs paid	(25,094)	(38,928)
Net cash provided/(used) by operating activities	\$ (398,606)	\$ (33,328)
Cash flows from investing activities		
Interest earnings	\$ 4,815	\$ 4,189
Net cash provided/(used) by investing activities	\$ 4,815	\$ 4,189
Net increases(decrease) in cash and investments	\$ (393,791)	\$ (29,139)
Cash and investments-beginning	\$ 917,376	\$ 946,515
Cash and investments-ending	\$ 523,585	\$ 917,376

Reconciliation of Operating Income to Net Cash Provided/(Used) by Operating Activities:

Net operating income	\$ (348,283)	\$ (75,179)
Adjustments to reconcile operating income to net cash provided/(used) by operating activities:		
(Increase)/decrease in amount due from stop/loss carrier	\$ (75,401)	\$ (18,486)
Increase/(decrease) in accounts payable	(72,238)	65,559
Increase/(decrease) in claims incurred but not reported	102,477	(6,151)
Increase/(decrease) in deferred revenue	(5,161)	929
Net cash provided/(used) by operating activities	\$ (398,606)	\$ (33,328)

Frenchtown School District
Missoula County, Montana

Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position
As of June 30, 2013

	Student Activity Fund	Scholarship Fund	Total
Fiduciary net position			
Assets			
Cash in trust	\$ 105,533	\$ 39,094	\$ 144,627
Petty cash	1,025	-	1,025
Total assets	<u>\$ 106,558</u>	<u>\$ 39,094</u>	<u>\$ 145,652</u>
Net position			
Held in trust for student activities	\$ 106,558	\$ -	\$ 106,558
Held in trust for scholarships	-	39,094	39,094
Total net position	<u>\$ 106,558</u>	<u>\$ 39,094</u>	<u>\$ 145,652</u>
Changes in fiduciary net position			
Additions:			
Revenue from student activities	\$ 207,364	\$ -	\$ 207,364
Contributions to scholarships	-	3,530	3,530
Investment earnings	16	114	130
Other	-	1,634	1,634
Total additions	<u>\$ 207,380</u>	<u>\$ 5,278</u>	<u>\$ 212,658</u>
Deductions:			
Expenses of student activities	\$ 191,169	\$ -	\$ 191,169
Scholarships	-	6,100	6,100
Other endowed purposes	-	728	728
Total deductions	<u>\$ 191,169</u>	<u>\$ 6,828</u>	<u>\$ 197,997</u>
Changes in net position held in trust	\$ 16,211	\$ (1,550)	\$ 14,661
Transfers and closures	99	-	99
Change after transfers/closures	<u>\$ 16,310</u>	<u>\$ (1,550)</u>	<u>\$ 14,760</u>
Net position, July 1, 2012	\$ 89,223	\$ 40,644	\$ 129,867
Prior period adjustment	1,025	-	1,025
Net position July 1, 2012 restated	<u>90,248</u>	<u>40,644</u>	<u>130,892</u>
Net position, June 30, 2013	<u>\$ 106,558</u>	<u>\$ 39,094</u>	<u>\$ 145,652</u>

Frenchtown School District
Missoula County, Montana

Notes to the Financial Statements
June 30, 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The Frenchtown School District (District) provides education from kindergarten through the twelfth grade and adult education classes in Frenchtown, Montana. All operations of the District are controlled by a Board of Trustees, elected in District-wide elections, and responsible for all of the District's activities. The financial statements include all of the District's operations controlled by the Board of Trustees. Based on the criteria for determining the reporting entity (separate legal entity and fiscal or financial dependency on other governments), the District is considered to be an independent reporting entity and has no component units.

B. BASIS OF FINANCIAL STATEMENT PRESENTATION

Government-Wide Financial Statements

The statement of net position and the statement of activities show information about the overall financial position and activities of the District with the exception of the student activity and endowment funds. Eliminations have been made to minimize the double-counting of internal activities.

The statement of net position and statement of activities are reported using the economic resources measurement focus and the accrual basis of accounting. The activities of the District are generally financed through property taxes, state equalization funding, and federal and state grants. Revenues are recorded when earned and expenses are recorded at the time the liability is incurred, regardless of when the related cash flows take place. On the accrual basis, revenues from property taxes are recognized in the fiscal year in which eligibility requirements have been met.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function; the District does not charge indirect expenses to programs or functions. Program revenues include fees for services (primarily drivers education fees, Medicaid and school lunch fees) and grants and contributions that are restricted to a particular program. Revenues that are not classified as program revenues, including property taxes, are presented as general revenues.

Under the terms of the District's grant agreements, certain programs are funded by specific cost-reimbursement grants and general revenues. Generally, the District applies cost-reimbursement funds first to finance such programs with remaining costs paid for with general revenues.

Fund Financial Statements

These statements provide information about the District's funds, including a separate statement for the District's fiduciary funds (the student activity and scholarship funds). The emphasis of fund financial statements is on major governmental funds. Each major fund is displayed in a separate column. All of the remaining funds are aggregated and reported in a single column as other governmental funds.

Governmental Funds—are reported using the current resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. State and other government revenues applicable to the current fiscal year and collected soon after year-end are recognized as revenue.

Frenchtown School District
Missoula County, Montana

Notes to the Financial Statements
June 30, 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

B. BASIS OF PRESENTATION AND BASIS OF ACCOUNTING, continued

Fund Financial Statements, continued

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt and payments for compensated absences which are recognized as expenditures when paid. General capital assets acquisitions are reported as expenditures in governmental funds and proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources. The governmental major funds are:

General Fund—this is the District’s primary operating fund and it accounts for all financial resources of the District except those required to be accounted for in other funds.

Debt Service Fund—this fund is used to account for revenues collected to repay general obligation bonds.

Proprietary Funds—are reported using the economic resources management focus and the accrual basis of accounting similar to the basis used for the government-wide financial statements. Revenues are recorded when earned and expenses are recorded as the time the liability is incurred, regardless of when the related cash flows take place. Investment earnings are reported as non-operating revenues. All assets and liabilities are recorded in the proprietary funds financial statements.

Self-Insurance-Health Fund—this fund is an internal service fund that accounts for medical coverage provided to the District’s employees.

Fiduciary Funds—are also reported using the economic resources measurement focus and the accrual basis of accounting.

Private Purpose Trust Funds—the District has two private-purpose trust funds, a student activity fund, which accounts for the extracurricular activities of its students, and an endowment fund which accounts for funds received for college scholarships for its graduating seniors.

Non-major governmental funds are: transportation fund, bus depreciation fund, lunch fund, tuition fund, retirement fund, adult education fund, traffic education fund, miscellaneous fund, compensated absences fund, technology fund, flex fund, building fund, building reserve fund.

C. CASH AND INVESTMENTS

State law permits investment of District funds in insured savings or time deposits, bank repurchase agreements, direct obligations of the U.S. Government, and the State’s unified investment program. Investments are stated at estimated fair value which approximates cost.

The Board directs that all District funds be invested in a prudent manner so as to achieve maximum economic benefit to the District. Funds not needed for current obligations may be invested in investment options as set out in Montana statutes whenever it is deemed advantageous to the District to do so. See note 2 for the composition of the District’s cash.

Frenchtown School District
Missoula County, Montana

Notes to the Financial Statements
June 30, 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICES, continued

D. INVENTORIES AND PREPAID EXPENSES

Inventories, generally maintenance supplies, are considered to be immaterial and are not recorded. Material expenditures made in the current year for costs attributable to future years are recorded as prepaid expenditures. These expenditures are recognized when used (consumption method).

E. PROPERTY TAXES

Property taxes receivable are offset by deferred revenue in the fund financial statements. The District does not record an allowance for uncollectible taxes; however at June 30, 2013 \$73,379 of taxes receivable were protested. Tax levies are limited by a variety of funding formulas developed by the State, which are designed to equalize school funding throughout the state.

Property taxes are levied in August of each fiscal year, based on assessments as of the prior January 1. Real property taxes are usually billed in October and are payable 50% on November 30 and 50% on the following May 31. Personal property taxes are assessed in May based on the prior August assessment. Property taxes are maintained and collected by the County Treasurer.

F. CAPITAL ASSETS

Capital assets are carried at actual or estimated historical cost based on appraisals. Major additions and betterments with a cost in excess of \$5,000 are recorded as additions to fixed assets. Repair and maintenance costs are not capitalized. Land is not depreciated. Depreciation is computed using the straight-line method and the estimated useful lives are as follows:

Land Improvements	15-35 Years
Buildings and Improvements	10-65 Years
Equipment	5-25 Years

G. COMPENSATED ABSENCES

Non-teaching District employees earn vacation ranging from 15 to 24 days per year depending on the individual's years of service. Vacation may be accumulated to a total not to exceed two times the maximum number of days earned annually. Sick leave is earned at a rate of one day per month for all District employees. Teaching staff are allowed to carry over a maximum of 100 sick days from the previous year. Upon retirement or termination, employees are paid for 100 percent of unused vacation leave and 25 percent of unused sick leave. Termination payments are made at the employee's current salary rate. Part-time employees are entitled to prorated benefits.

H. EARLY RETIREMENT INCENTIVES

The District offered an early retirement incentive, payable over 5 years, in an earlier fiscal year. The incentive consisted of retiree health insurance costs. The last payment was made in fiscal 2013.

I. COMPARATIVE TOTALS

The government-wide financial statements and the internal service fund include prior-year comparative totals and may not be at a level of detail required for a presentation in conformity with U.S. general accepted accounting principles. Accordingly, these totals should be used in conjunction with the fund financial statements for the year ended June 30, 2012, from which they have been derived.

Frenchtown School District
Missoula County, Montana

Notes to the Financial Statements
June 30, 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICES, continued

J. NET POSITION/FUND BALANCE

Net Position – Net position represents the difference between assets and liabilities. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for acquisition, construction or improvements of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws and regulations of other governments.

Fund Balance – Fund balances in the governmental fund balance sheet, is divided according to the following definitions:

Nonspendable Fund Balance – is the portion of net resources that cannot be spent because of their form or because they must be kept intact.

Restricted Fund Balance – (externally enforceable limitation on use) reflects limitations imposed by creditors, grantors, contributors, or laws and regulations of other governments or limitations imposed by law through constitutional provisions or enabling legislation.

Committed Fund Balance – (self-imposed limitations set in place prior to the end of the period) reflects limitations imposed at the highest level of decision making that requires formal action at the same level to remove.

Assigned Fund Balance – (limitations resulting from intended use) reflects intended use established by the highest level of decision making or by body or official designated by the governing body.

Unassigned Fund Balance – (residual net resources) this classification includes all balances in excess of the more restrictive classifications. Any fund that had a negative fund balance at the end of the year would report the negative in this category.

See Notes 10 and 11 for classification of elements of net position and fund balance.

K. ACCOUNTING STANDARD IMPLEMENTATION

For the year ended June 30, 2013 the District implemented Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The effect of Statement No. 63 on the District financial statements was primarily a new label of "net position" and a re-classification in the internal service fund for insurance premiums received in advance.

For the year ended June 30 2013 the District implemented Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities* which allowed the District to expense \$25,000 of refunding bond costs which formerly would have been amortized over the life of the bond.

NOTE 2: CASH AND INVESTMENTS

Missoula County is the cash depository for the District's governmental operating funds. The District participates in the Missoula County Treasurer's investment program. Funds deposited with the County Treasurer are pooled and invested in accordance with State law. Funds are withdrawn from the investment program as needed to pay warrants. Earnings are allocated to the District based on average month-end cash balances and are distributed monthly. Information about the pooled investments is included in the County's annual financial statements found on the Missoula County website, www.co.missoula.mt.us or 200 W. Broadway, Missoula, MT 59802.

Frenchtown School District
Missoula County, Montana

Notes to the Financial Statements
June 30, 2013

NOTE 2: CASH AND INVESTMENTS, continued

Student activity trust funds are deposited in FDIC insured, interest bearing, checking accounts.

Internal service fund cash is invested as follows:

	Interest Rate	Maturity Date	Amount
Federal Home Loan Note	1.00%	September 30, 2015	\$ 200,510
Federal Home Loan Bond	2.50%	January 18, 2016	150,273
Cash in 3 Credit Unions			<u>172,802</u>
Total			<u>\$ 523,585</u>

The above investments are stated at fair value measured from level 1 inputs. Fair value may be measured using one of three categories of inputs: Level 1 – quoted prices in active markets, Level 2- observable inputs, Level 3- unobservable inputs.

NOTE 3: DUE FROM OTHER GOVERNMENTS AND OTHER RECEIVABLES

Due from other governments consists of federal grants of \$334,338, state grants of \$10,457, and county grants of \$14,081. The District does not recognize an allowance for uncollectibles, since all amounts are expected to be collected.

NOTE 4: CAPITAL ASSETS

Changes to capital assets during the year ended June 30, 2013 are as follows:

	Balance June 30, 2012	Additions	Deletions	Balance June 30, 2013
Cost of Assets:				
Land	\$ 590,662	\$ -	\$ -	\$ 590,662
Assest being Depreciated:				
Land Improvements	741,859	49,000	-	790,859
Buildings	27,479,629	-	-	27,479,629
Equipment	2,683,451	5,660	4	2,689,107
Construction in Progress	-	98,251	-	98,251
Total	<u>\$ 31,495,601</u>	<u>\$ 152,911</u>	<u>\$ 4</u>	<u>\$ 31,648,508</u>
Accumulated Depreciation:				
Land Improvements	\$ (476,978)	\$ (32,067)	\$ 1,312	\$ (507,733)
Buildings	(5,471,958)	(555,759)	5,159	(6,022,558)
Equipment	(1,620,238)	(192,180)	1,545	(1,810,873)
Total	<u>\$ (7,569,174)</u>	<u>\$ (780,006)</u>	<u>\$ 8,016</u>	<u>\$ (8,341,164)</u>
Net Book Value	<u>\$ 23,926,427</u>	<u>\$ (627,095)</u>	<u>\$ 8,020</u>	<u>\$ 23,307,344</u>

Frenchtown School District
Missoula County, Montana

Notes to the Financial Statements
June 30, 2013

NOTE 4: CAPITAL ASSETS, continued

Net depreciation expense was charged to functions as follows:

Regular Programs	\$ 562,983
Student Transportation	141,408
Extracurricular	30,709
Operations and Maintenance	10,579
School Food	11,920
Business Administration	14,391
Total Depreciation Expense	<u>\$ 771,990</u>

NOTE 5: ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable in the governmental funds consists of supplies and services, such as utilities used or purchased in June but billed later; the net liability of the internal service fund is also accrued in this category.

NOTE 6: DEFERRED INFLOWS

Deferred inflows in governmental funds equals property taxes receivable; in the internal service fund deferred inflows represents premiums received for the July and August following June 30, 2013.

NOTE 7: LONG-TERM DEBT

Changes in general long-term debt during 2013 are as follows:

	Balance June 30, 2012	Prior Period Adjustment	Increase	Decrease	Refunding	Balance June 30, 2013	Due Within One Year
General Obligation Bonds:							
Series 2008	\$ 3,015,000	\$ (380,000)	-	\$ 400,000	\$ (2,235,000)	-	-
Series 2007	13,375,000	(345,236)	-	380,000	(6,314,764)	6,335,000	395,000
Series 2013	-	-	9,345,000	85,000	-	9,260,000	500,000
Lease Payable	14,422	(313)	-	8,721	-	5,388	5,388
Compensated Absences	526,715	-	98,478	-	-	625,193	98,478
Early Retirement Incentive	5,231	(231)	-	5,000	-	-	-
Total	<u>\$ 16,936,368</u>	<u>\$ (725,780)</u>	<u>\$ 9,443,478</u>	<u>\$ 878,721</u>	<u>\$ (8,549,764)</u>	<u>\$ 16,225,581</u>	<u>\$ 998,866</u>

General Obligation Bonds—

Series 2007 - The District issued \$14,935,000 of general bonds in February 2007 to finance the District's capital projects. The interest rate on the bonds varies from 4.0% to 5.0%. Interest payments are paid semi-annually. Principal payments are due annually in varying amounts to July 1, 2027. The bonds maturing on or after July 1, 2018 are subject to early redemption at a price equal to the unpaid principal plus accrued interest. During the year ended June 30, 2013 the District refunded part of its debt to obtain lower interest rates and paid \$6,314,764 against the outstanding balance of the 2007 Series bonds.

Series 2008 -The District issued \$4,000,000 of general obligation bonds in January 2008 to finance the District's capital projects. The interest rate on the bonds varied from 3.25% to 3.50%. Interest payments were paid semi-annually. Principal payments were due annually in varying amounts to July 1, 2018. The bonds maturing on or after

Frenchtown School District
Missoula County, Montana

Notes to the Financial Statements
June 30, 2013

NOTE 7: LONG-TERM DEBT, continued

July 1, 2014 are subject to early redemption at a price equal to the unpaid principal plus accrued interest. The outstanding balance of the 2008 Series bond was paid in full through refunding from the 2013 bond.

Series 2013 – The series 2013 refunding bonds were issued in February 2013 in the amount of \$9,345,000. Interest payments are due semi-annually on January 1 and July 1; principal payments are due annually on July 1. Interest rates vary from 1.75% to 3.0%. The bonds mature on July 1, 2027. The bonds are expected to save the District \$509,961. Below is a schedule of disbursements from the series 2013 bonds.

Series 2013 Refunding Bonds:

Bonds issued February 27, 2013	\$	9,345,000
Pay down of Series 2007 principal		6,314,764
Held in Trust by US Bank until July 1 to pay Series 2007 bonds		2,235,000
Costs of bond issue		753,565
Excess cash returned to District		41,671
Total distribution of bond resources		9,345,000

Although a portion of the new issue was held in trust until July 1, the District is permitted under accounting standards to consider the Series 2008 bond to have been paid for reporting purposes.

Capital Leases—in 2009 the District entered into a lease purchase agreement for copiers with a purchase option price of \$43,166. The payment schedule is for 5 years (January 2009 through December 2013). The interest rate is 4.93%. Payments are made from the general fund. The last payment will be in fiscal 2014.

Early Retirement Incentive—in 2008 and 2009, the District offered an early retirement incentive program to eligible teachers and three employees accepted the program. Under the program, the District paid the entire monthly health insurance premium for two employees over a five year period up to a total maximum of \$25,000. For the third early retiree, the District paid the retiree \$5,000 each year for five years. Payments were made from the general fund. The last payment was made in the year ending June 30, 2013.

Compensated absence payments are made by the affected fund, usually the general fund; however, compensated absence payments can be made by the compensated absences fund, a special revenue fund. Vacation pay is classified as compensated absences due within one year, accrued sick leave is classified as non-current.

Debt service requirements to maturity (including principal and interest) are as follows:

Year Ended June 30	Capital Lease		Early Retirement Incentive	Total
	Principal	Interest		
2014	\$ 5,388	\$ 85	\$ -	\$ 5,473
Totals	\$ 5,388	\$ 85	\$ -	\$ 5,473

Frenchtown School District
Missoula County, Montana

Notes to the Financial Statements
June 30, 2013

NOTE 7: LONG-TERM DEBT, continued

Debt service to maturity, continued

Year Ended June 30	2007 Bonds		2013 Refunding Bond		Total
	Principal	Interest	Principal	Interest	
2014	\$ 395,000	\$ 253,400	\$ 500,000	\$ 185,200	\$ 1,333,600
2015	410,000	251,813	510,000	175,200	1,347,013
2016	430,000	233,538	520,000	165,000	1,348,538
2017	445,000	214,625	535,000	154,600	1,349,225
2018	470,000	183,200	545,000	143,900	1,342,100
2019	985,000	179,750	60,000	133,000	1,357,750
2020	1,025,000	109,225	-	115,325	1,249,550
2021	1,065,000	63,963	-	115,325	1,244,288
2022	1,110,000	16,788	190,000	115,325	1,432,113
2023			1,220,000	128,000	1,348,000
2024			1,245,000	129,500	1,374,500
2025			1,270,000	108,213	1,378,213
2026			1,310,000	79,950	1,389,950
2027			1,355,000	40,650	1,395,650
					-
Total	\$ <u>6,335,000</u>	\$ <u>1,506,300</u>	\$ <u>9,260,000</u>	\$ <u>1,789,188</u>	\$ <u>18,890,488</u>

Total debt service to maturity for long-term debt is \$18,895,961.

NOTE 8: ESTIMATED RETIREE HEALTH CARE COSTS/OTHER POST EMPLOYMENT BENEFITS (OPEB)

State law (MCA 2-18-704) requires that retirees with at least five years of service and at least 50 years old are allowed to participate in the District's self-insured medical coverage plan until they become eligible for Medicare coverage. Retirees are required to pay the full premium for such coverage. The District commissioned an actuarial study of the potential OPEB liability and it was determined that there is no liability. This opinion was re-affirmed in 2012.

NOTE 9: INTERFUND TRANSFERS

As permitted by MCA 20-9-512, the general fund may transfer cash at the end of the year to the compensated absence fund; for the year ended June 30, 2013 no transfer was made. The compensated absence fund may have a maximum funding of 30% of total accumulated sick and vacation leave of nonteaching and administrative school employees

NOTE 10: GOVERNMENT-WIDE RESTRICTED NET POSITION

Restricted Net Position—state law authorizes certain funds and establishes the criteria for property tax levies and certain other shared payments for specific purposes. Certain assets are restricted by debt covenants. The District classifies the net assets of these funds as restricted net assets. Generally the District applies restricted resources to expenses incurred before using unrestricted resources, when both types are available.

Frenchtown School District
Missoula County, Montana

Notes to the Financial Statements
June 30, 2013

NOTE 10: GOVERNMENT-WIDE RESTRICTED NET POSITION, continued

These funds and their net position at June 30, 2013 are as follows:

Debt Service	\$ 295,324
Bus Depreciation	351,268
Transportation	79,296
Retirement	337,806
Adult Education	12,528
Building Reserve	13,374
Tuition	10,909
Technology	11,502
Total	<u>\$ 1,112,007</u>

NOTE 11: GOVERNMENT FUND BALANCE REPORTING

The District implemented *Government Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions*, in 2011. Restricted fund balances are reported in the aggregate on the face of the balance sheet. Of the total, the amount that is restricted due to the external requirements is \$295,323. The remainder of \$816,883 is restricted by state law.

The District spends restricted amounts first. When an expenditure is incurred for purposes for which committed, or unassigned amounts are available, the District spends committed first, then assigned, and lastly, unassigned funds.

Committed funds must be designated by the District Board and assigned funds are designated by the Superintendent as authorized by the District Board. There were no committed funds at June 30, 2013.

Restricted fund balance consists of the following:

Restricted for expenditure related to:	
Debt service	\$ 295,324
Instruction	
Transportation and buses	430,564
Retirement	337,806
Adult education	12,528
Operation and maintenance	13,374
Tuition	10,909
Technology	11,502
Total restricted fund balance	<u>\$ 1,112,007</u>

Assigned fund balance consists of the following:

Assigned:	
General fund	\$ 385,637
Non-major funds	271,114
Operation and maintenance	57,254
Capital projects	4,398
Total assigned fund balance	<u>\$ 718,403</u>

Unassigned fund balance consists of the following:

General fund	<u>\$ 825,469</u>
Total governmental fund balance	<u>\$ 2,655,879</u>

Frenchtown School District
Missoula County, Montana

Notes to the Financial Statements
June 30, 2013

NOTE 12: RETIREMENT PLANS

The District participates in two statewide, mandatory, cost-sharing, multiple employer, defined benefit retirement plans which cover all employees, except certain substitute teachers and part-time, non-teaching employees. The Montana Teachers' Retirement System (MTRS) covers teaching employees, including principals and superintendents. The Montana Public Employees' Retirement System (MPERS) covers other employees. The plans are established by state law and are administered by the State of Montana. The plans provide retirement, disability, and death benefits to plan members and beneficiaries.

Contribution rates for both plans are required and determined by state law. There were no changes in contribution rates for MTRS and MPERS in 2013. The contribution rates, expressed as a percentage of covered payroll:

	Employer	Employee	State	Total	
MTRS	7.47%	7.15%	2.49%	17.11%	
MPERS	6.80%	6.90%	0.37%	14.07%	Hired prior to 7/1/11
MPERS	6.80%	7.90%	0.37%	15.07%	Hired 7/1/11 or after

The amounts contributed to MTRS and MPERS during the years ended June 30, 2011, 2012 and 2013 were equal to the required contribution of each year. The amounts contributed by both the District and its employees (including additional voluntary contributions by employees as permitted by state law) were as follows:

	2011	2012	2013
MTRS	\$ 856,701	\$ 763,272	\$ 780,058
MPERS	152,012	154,557	160,984
Total	<u>\$ 1,008,713</u>	<u>\$ 917,829</u>	<u>\$ 941,042</u>

The State's contributions to the plans in 2013 were \$38,600 for MTRS and \$8,750 for MPERS. These on-behalf payments were not included in revenue and expenditures in the governmental funds statements.

Both plans issue a publicly available financial report that includes financial statements and required supplementary information for the plans. Those reports may be obtained from the following:

MT Teachers Retirement System
P.O. Box 200139
1500 East Sixth Avenue
Helena, MT 59620-0139
Telephone: (406) 444-3134

MT Public Employees Retirement System
P.O. Box 200131
100 North Park Ave, Suite 200
Helena, MT 59620-0131
Telephone: (406) 444-3154

NOTE 13: RISK MANAGEMENT

The District faces a number of risks including (1) loss or damage to property, (2) general liability, (3) workers compensation, and (4) employee medical insurance. Commercial insurance policies are purchased for loss or damage to property, and general liability.

The District participates in a statewide public risk pool, the Montana Schools Group Workers Compensation Risk Retention Program (WCRRP), for workers compensation coverage. Approximately 200 school districts participate in WCRRP. All school districts participants in this pool are jointly and severally liable for the liabilities of this public risk pool. The pool issues audited financial statements.

Frenchtown School District
Missoula County, Montana

Notes to the Financial Statements
June 30, 2013

NOTE 13: RISK MANAGEMENT, continued

Information about the amount of claim liabilities, charges in claims liabilities, and amount of claims paid, operating results and other information is available at 1 South Montana Avenue, Helena, MT 59601.

The Districts self-insures some medical, dental, and vision health coverage. This activity is accounted for in an internal service fund. The self-insurance program provides coverage for up to \$45,000 for the medical expenses of each participating employee, retiree, and family member. For the purpose of the statement of cash flows all activities, except results of investing, are considered operations.

The District purchases commercial insurance for claims in excess of medical coverage provided by the fund. Dental expenses are paid per covered person up to \$1,000 per year. Any amount above this is paid by the participants. The fund also provides life and disability insurance for District employees.

Changes in medical claims liabilities were as follows:

	Processed Claims	Estimated CIBNR	Total
Claims Liability, June 30, 2012	\$ 93,170	\$ 62,635	\$ 155,805
Claims Incurred in 2013	1,459,139	-	1,459,139
Claims Paid in 2013/Changes in estimate	<u>(1,531,377)</u>	<u>102,477</u>	<u>(1,428,900)</u>
Claims Liability, June 30, 2013	<u>\$ 20,932</u>	<u>\$ 165,112</u>	<u>\$ 186,044</u>

Prior to the fiscal year end, the District pays the health insurance premiums for July and August of the next fiscal year. These advance premium payments are reported as deferred outflows in the fund balance sheet and as accounts payable in the statement of net position.

Receivables at June 30, 2012 and June 30, 2013 consist of payments due from the plan's stop-loss insurer for claims in excess of the self-insurance maximum.

The District purchases insurance for property and liability coverage.

REQUIRED SUPPLEMENTARY INFORMATION

Frenchtown School District
Missoula County, Montana

General Fund-Schedule of Revenues, Expenditures and Changes in Encumbrances-
Budget to Actual
for the Fiscal Year Ended June 30, 2013

	Original and Final Budget	Actual	Variance	GAAP Encumbrance Adjustment	Fund Financial Statement
Revenues					
District property taxes	\$ 1,842,549	\$ 1,869,824	\$ 27,275	\$ -	\$ 1,869,824
Intergovernmental:					
State equalization	5,484,268	5,486,250	1,982	-	5,486,250
State other	560,829	560,830	1	-	560,830
Interest	3,424	3,864	440	-	3,864
Other	-	23,681	23,681	-	23,681
Total revenues	<u>\$ 7,891,070</u>	<u>\$ 7,944,449</u>	<u>\$ 53,379</u>	<u>\$ -</u>	<u>\$ 7,944,449</u>
Expenditures					
Current operations:					
Instruction:					
Regular program	\$ 3,638,653	\$ 3,626,865	\$ 11,788	\$ 276,460	\$ 3,903,325
Special program	703,526	714,171	(10,645)	(6,732)	707,439
Support services	1,389,920	1,288,154	101,766	(127,202)	1,160,952
Administration:					
Schools	94,398	83,385	11,013	(796)	82,589
General	150,631	225,697	(75,066)	-	225,697
Financial	248,938	266,133	(17,195)	-	266,133
Student Transportation	1,150	1,168	(18)	-	1,168
Operations and maintenance	1,259,661	1,174,537	85,124	61,526	1,236,063
School food	60,961	85,643	(24,682)	(119)	85,524
Extracurricular	301,236	333,624	(32,388)	3,723	337,347
Capital outlay	32,476	77,370	(44,894)	(23,991)	53,379
Debt service	9,520	14,180	(4,660)	-	14,180
Total expenditures	<u>\$ 7,891,070</u>	<u>\$ 7,890,927</u>	<u>\$ 143</u>	<u>\$ 182,869</u>	<u>\$ 8,073,796</u>
Excess/(deficiency) of revenues over expenditures and encumbrances	<u>\$ -</u>	<u>\$ 53,522</u>	<u>\$ 53,236</u>	<u>\$ -</u>	<u>\$ (129,347)</u>
Transfers in (out)	\$ -	\$ -	\$ -	\$ -	\$ -
Excess/(deficiency) of revenues over expenditures and transfers	<u>\$ -</u>	<u>\$ 53,522</u>	<u>\$ 53,236</u>	<u>\$ -</u>	<u>\$ (129,347)</u>

Frenchtown School District
Missoula County, Montana

Notes to the Budget and Actual Schedule
For the Fiscal Year Ended June 30, 2013

State law requires the District to prepare budgets for certain funds, generally funds supported by property tax revenues. Budgets are prepared on the modified accrual basis of accounting. Budgeted fund expenditures are limited by State law to the total budgeted amount which may be amended as defined by State law. There were no budget amendments in 2013.

General fund budgets are based on the State of Montana's foundation program which is based primarily on enrollment. Budgets of other funds are based on expected revenues and expenditures. The Board approves the original budget by the second Monday in August.

State law permits the inclusion of obligations (encumbrances) for construction-in-progress and the purchase of personal property as expenditures for budget purposes. There were encumbrances in the general fund of \$385,636 at June 30, 2013 and \$568,505 at June 30, 2012.

State law requires only that a fund's total expenditures not exceed total budgeted expenditures.

Reserved Fund Balances—State law permits a reserve for operations in certain budgeted funds. The maximum reserve for operations permitted for the District, which is a percentage of the subsequent year's budgeted expenditures, and the actual reserves at June 30, 2013 are as follows:

	<u>Actual</u>	<u>Allowed</u>
General Fund	9.78%	10%
Transportation Fund	8.41%	20%
Retirement Fund	34.80%	35%
Adult Education	0.00%	35%

State law also permits the District to reserve the collection of protested and delinquent property taxes in the general fund. There were no such reserves in 2013.

GAAP adjustment is the decrease in encumbrances of \$182,869.

SUPPLEMENTARY INFORMATION

Frenchtown School District
Missoula County, Montana

Schedule of Expenditure of Federal Awards
For the Year Ended June 30, 2013

Project Title	CFDA Number	Project Number	Grant Award	Expenditures	Totals
U.S. Department of Agriculture					
Food and Nutrition Service					
Pass-Through - Montana Office of Public Instruction					
Child Nutrition Cluster:					
Cash Assistance:					
School Breakfast Program	10.553	N/A	N/A	\$ 11,425	\$ 11,425
School Lunch Program	10.555	N/A	N/A	145,414	
Federal Child Nutrition	10.555	N/A	N/A	269,048	
CFDA 10.555 Cash Total				<u>\$</u>	414,462
Total cash assistance				<u>\$</u>	425,887
Non-Cash Assistance (Commodities)					
National School Lunch Program	10.555	N/A	N/A	\$ 15,060	\$ 15,060
Total for Program Cluster				<u>\$</u>	440,947
Total U.S. Department of Agriculture				<u>\$</u>	440,947
U.S. Department of Education					
Office of Elementary and Secondary Education					
Pass-Through - Montana Office of Public Instruction					
Title I, Part A Cluster:					
Title I, Part A Improving Basic Programs	84.010	32-0599-31-12	\$ 241,348	\$ 9,620	
Title I, Part A Improving Basic Programs	84.010	32-0599-31-13	\$ 247,104	217,770	
Total Title I, Part A Cluster and CFDA 84.010 Total				<u>\$</u>	227,390
Title II, Part A, Improving Teacher Quality	84.367	32-0599-14-13	\$ 46,245	44,437	
CFDA 84367.A Total				<u>\$</u>	44,437
Title II, Part D, Education Technology	84.318	32-0599-60-12	\$	\$ -	-
Office of Special Education and Rehabilitation Services					
Pass-Through - Montana Office of Public Instruction					
Special Education Cluster:					
IDEA-Part B Children with Disabilities	84.027	32-0599-77-13	\$ 224,243	\$ 224,243	
IDEA-Preschool	84.173	32-0599-79-13	\$ 9,387	9,380	
Total Special Education Cluster IDEA				<u>\$</u>	233,623
Office of Vocational and Adult Education					
Pass-Through - Montana Office of Public Instruction					
Carl Perkins-Vo Ed	84.048A	32-0599-82-13	\$ 13,956	\$ 13,956	\$ 13,956
Total U.S. Department of Education					
				<u>\$</u>	519,406
Total Expenditures of Federal Awards					
				<u>\$</u>	<u>960,353</u>

Frenchtown School District
Missoula County, Montana

Notes to the Schedule of Expenditure of Federal Awards
For the Year Ended June 30, 2013

1. Accounting Policies

The accounting policies used in preparing the schedule of expenditure of federal awards are the same as those used in the preparation of the fund financial statements as described in Note 1.B to the financial statements (fund financial statements).

Frenchtown School District
Missoula County, Montana

Schedule of School District Enrollment
For the Year Ended June 30, 2013

	School Records	Enrollment Records	Variance
<u>Fall Enrollment-October 2012</u>			
Pre-Kindergarten	-	-	-
Kindergarten	85	85	-
Grades 1-6	490	490	-
Grades 7 & 8	199	199	-
Grades 9-12	388	388	-
Combined Total	<u>1,162</u>	<u>1,162</u>	-
<u>Part Time Enrollment</u>			
<180 hrs/yr	-	-	-
180-359 hrs/yr	1	1	-
360-539 hrs/yr	-	-	-
540-719 hrs/yr	-	-	-
<u>19 Year-olds at Fall Enrollment</u>	-	-	-
<u>Spring Enrollment-February 2013</u>			
Pre-Kindergarten	-	-	-
Kindergarten	87	87	-
Grades 1-6	496	496	-
Grades 7 & 8	199	199	-
Grades 9-12	383	383	-
Combined Total	<u>1,165</u>	<u>1,165</u>	-
<u>Part Time Enrollment</u>			
<180 hrs/yr	-	-	-
180-359 hrs/yr	-	-	-
360-539 hrs/yr	1	1	-
540-719 hrs/yr	2	2	-
<u>Early High School Graduates</u>	8	8	-
<u>19 Year-olds at Spring Enrollment</u>	-	-	-

Frenchtown School District
Missoula County, Montana

Extracurricular Fund-Schedule of Revenues, Expenditures and Changes in Fund Equity
by Student Activity
For the Year Ended June 30, 2013

Organization	Balance June 30, 2012	Revenues	Expenditures	Transfers In (Out)	Balance June 30, 2013
"F" Club	\$ 33	\$ -	\$ -	\$ -	\$ 33
50/50 Fund Raiser	106	-	-	-	106
Academic Challenge	1,386	1,435	1,923	-	898
Activities	21,499	9,678	9,453	752	22,476
Alternative Education	34	-	-	-	34
Art Club	66	-	-	-	66
Band	1,333	755	275	-	1,813
BBB Fund Raiser	-	7,030	7,060	30	-
Box Top Education	1,506	27	999	-	534
Boys Basketball	-	5,343	3,989	(1,354)	-
Candy Machine	635	3,486	2,304	-	1,817
Cheerleaders	1,543	911	1,760	-	694
Choir	269	9,562	9,807	(23)	1
Class of 2017	-	-	-	400	400
Class of 2016	-	467	300	600	767
Class of 2015	191	197	18	-	370
Class of 2014	306	4,769	2,574	-	2,501
Class of 2013	1,872	937	2,675	-	134
Class of 2012	1,782	-	-	-	1,782
Class of 2011	467	-	-	-	467
Community Leadership	191	-	-	-	191
Concessions	15,001	26,538	23,028	-	18,511
Creative Film Club	120	-	-	-	120
Cross Country	-	213	1,065	852	-
Cross Country Fund Raiser	39	1,058	561	3	539
Destination Imagination K-6	-	5,171	5,146	-	25
Elementary P.E. Fund	1,420	1,794	1,428	-	1,786
Elementary Special Ed. Projects	767	316	510	-	573
Elementary Comp For Education	1,297	5,525	4,189	-	2,633
Elementary Recycling	339	-	-	-	339
Environmental Issues	73	-	-	-	73
FCCLA	166	601	439	-	328
Football Gold Card Fund Raiser	19	7,595	6,352	-	1,262
Football	-	11,417	10,079	(1,338)	-
Foreign Language Club	1,452	1	-	-	1,453
GBB Fund Raiser	3,342	8,093	8,070	-	3,365
Girls Basketball	-	3,670	3,859	189	-
Golf Fund Raiser	11	-	-	-	11
Grade School Activities	2,801	6,052	6,540	-	2,313
Home Economics	-	20	-	-	20
In & Out	97	4,030	4,101	-	26
Industrial Tech Club	24	200	93	231	362
Sub-Total	\$ 60,187	\$ 126,891	\$ 118,597	\$ 342	\$ 68,823

(continued on next page)

Frenchtown School District
Missoula County, Montana

Extracurricular Fund-Schedule of Revenues, Expenditures and Changes in Fund Equity
by Student Activity
For the Year Ended June 30, 2013

Organization	Balance June 30, 2012	Revenues	Expenditures	Transfers In (Out)	Balance June 30, 2013
(continued from previous page)					
Sub-Total	\$ 60,187	\$ 126,891	\$ 118,597	\$ 342	\$ 68,823
Jr. High Festival	886	-	1	-	885
Jr. High GBB Fundraiser	235	100	-	-	335
Jr. High Lounge/Pop	285	146	347	-	84
Jr. High Soccer Fundraiser	-	-	-	-	-
Jr. High Tackle Football	-	157	-	-	157
Jr. High Volleyball Fundraiser	167	-	-	-	167
JMG (Jobs for MT Grads)	57	185	-	-	242
Jr. High Activities	478	4,299	4,106	-	671
Jr. High Graduation	-	4,398	3,742	134	790
Jr. High Student Council	1,896	8,690	8,077	(1,134)	1,375
Key Club	818	2,662	1,799	-	1,681
Lock Deposit Account	1,460	15	-	-	1,475
Math Counts	-	119	-	-	119
Music	-	3,688	3,711	23	-
National Honor Society	26	-	-	-	26
Newspaper	248	-	-	-	248
NHS Scholarship	902	2,014	1,565	-	1,351
Parking Permits	646	40	-	-	686
Pep Club	423	-	78	-	345
Resale	208	1,961	1,947	-	222
S.A.D.D.	82	-	-	-	82
S.C. Improvement Fund	2,459	-	-	-	2,459
Softball Fundraiser	5,127	3,773	3,570	-	5,330
School Play	795	3,708	3,567	-	936
Soccer	-	4,053	3,786	(267)	-
Soccer Fundraiser-Boys	302	500	458	-	344
Soccer Fundraiser-Girls	86	452	409	-	129
Softball	-	7,015	7,962	947	-
Speech & Drama	-	75	150	75	-
Spirit, Pride & Student Assistance	1,921	1,252	246	-	2,927
Student Council	2,505	5,710	6,301	(231)	1,683
Track	-	795	521	(274)	-
Track Facilities	164	1	-	-	165
Vietnam Symposium	143	-	-	-	143
Volleyball	-	6,753	7,216	463	-
Volleyball Fundraiser	1,185	4,404	1,308	-	4,281
WR Fundraiser	-	2,508	2,421	252	339
Wrestling	-	5,050	4,819	(231)	-
Yearbook	5,532	5,966	4,465	-	7,033
Total	\$ <u>89,223</u>	\$ <u>207,380</u>	\$ <u>191,169</u>	\$ <u>99</u> *	\$ <u>105,533</u>

STATISTICAL INFORMATION

Frenchtown School District
Missoula County, Montana

Supplemental Information
For the Year Ended June 30, 2013

Student Enrollment

The fall enrollment of K-12 students, for the years ended June 30, attending the Districts schools has been as follows:

	Fall Enrollment	Percentage Change
October 2004	1,203	
Change	53	4.4%
October 2005	1,256	
Change	(26)	(2.1)%
October 2006	1,230	
Change	4	0.3%
October 2007	1,234	
Change	15	1.2%
October 2008	1,249	
Change	(3)	(0.2)%
October 2009	1,246	
Change	(64)	(5.1)%
October 2010	1,182	
Change	(16)	(1.4)%
October 2011	1,166	
Change	(4)	(0.3)%
October 2012	1,162	

School District Taxable Valuations-Rounded to the nearest \$100,000

	Assessed (Market) Valuation	Taxable Valuation	Taxable Valuation as a Percent of Assessed Valuation
January 1, 2001	\$ 378,900,000	\$ 12,300,000	3.25%
January 1, 2002	\$ 390,600,000	\$ 12,400,000	3.17%
January 1, 2003	\$ 393,700,000	\$ 12,400,000	3.15%
January 1, 2004	\$ 406,800,000	\$ 12,500,000	3.07%
January 1, 2005	\$ 418,100,000	\$ 13,200,000	3.16%
January 1, 2006	\$ 458,600,000	\$ 13,700,000	2.99%
January 1, 2007	\$ 444,200,000	\$ 13,100,000	2.95%
January 1, 2008	\$ 461,500,000	\$ 13,500,000	2.93%
January 1, 2009	\$ 473,400,000	\$ 13,300,000	2.81%
January 1, 2010	\$ 446,100,000	\$ 11,800,000	2.65%
January 1, 2011	\$ 420,900,000	\$ 10,900,000	2.59%
January 1, 2012	\$ 436,600,000	\$ 11,000,000	2.52%
January 1, 2013	\$ 452,000,000	\$ 11,000,000	2.43%

Frenchtown School District
Missoula County, Montana

Supplemental Information
For the Year Ended June 30, 2013

School District Tax Levies (in mills)

Taxing Entity	Fiscal Year Ended June 30,						
	2007	2008	2009 ¹	2010	2011	2012	2013
School District No.40							
General Fund	156.20	156.80	161.39	155.71	164.70	167.60	166.84
Transportation	11.46	14.18	20.46	20.70	16.25	17.32	20.47
Debt Service	10.15	112.29	74.04	98.50	100.33	100.93	104.46
Bus Depreciation	6.66	4.88	9.60	8.25	6.31	0.69	0.71
Building Reserve	3.64	3.81	4.02	0.00	0.00	0.00	0.00
Technology	2.55	2.67	2.81	2.62	2.88	3.20	3.17
Adult Education	0.00	0.00	2.00	2.00	0.00	0.00	0.00
Total School District	<u>190.66</u>	<u>294.63</u>	<u>274.32</u>	<u>287.78</u>	<u>290.47</u>	<u>289.74</u>	<u>295.65</u>
State School Levy	144.26	144.26	145.64	144.62	143.45	142.50	102.50
District Levy	190.66	294.63	274.32	285.78	290.47	289.74	289.74
State Levy-University	6.00	6.00	6.00	6.00	6.00	6.00	6.00
County	168.14	168.14	176.57	174.74	175.58	177.91	44.44
Frenchtown Rural Fire District & Other	42.08	136.19	46.46	46.46	46.46	46.46	46.46
Total	<u>551.14</u>	<u>749.22</u>	<u>648.99</u>	<u>657.60</u>	<u>661.96</u>	<u>662.61</u>	<u>489.14</u>

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2009 mill value amounts include a total of 14.55 additional mills to correct a tax levy calculation error regarding a taxable valuation error in 2007.

Tax Collections

Fiscal Year	Total Tax Levy	Current Collections	Current	Total Tax Collections ¹	Total
			Collections as a Percent of Levy		Collections as a Percent of Levy
2012/13	\$ 3,265,102	\$ 2,971,706	91.00%	\$ 3,278,005	100.4%
2011/12	\$ 3,169,351	\$ 2,931,090	92.50%	\$ 3,132,220	98.80%
2010/11	\$ 3,408,030 ²	\$ 3,227,404	94.7%	\$ 3,465,967	101.7%
2009/10	\$ 3,811,241	\$ 3,264,974	85.7%	\$ 3,764,278	98.8%
2008/09	\$ 3,511,719	\$ 2,944,114	83.8%	\$ 3,155,419	89.9%
2007/08	\$ 3,862,636	\$ 3,598,797	93.2%	\$ 3,670,049	95.0%
2006/07	\$ 2,396,146	\$ 2,194,796	91.6%	\$ 2,352,583	98.1%
2005/06	\$ 2,498,907	\$ 2,380,935	95.3%	\$ 2,490,662	99.7%
2004/05	\$ 2,302,229	\$ 2,060,084	89.5%	\$ 2,332,445	101.3%
2003/04	\$ 2,120,959	\$ 2,012,407	94.9%	\$ 2,375,784 ³	112.0% ³
2002/03	\$ 2,003,714	\$ 1,566,753	78.2%	\$ 1,653,285 ³	82.5% ³
2001/02	\$ 1,565,337	\$ 1,463,827	93.5%	\$ 1,589,086	101.5%

¹ Total tax collection figures include delinquencies from prior years, plus correction tax levy for 2003, but excludes penalty and interest.

² Levied amount differed from budgeted amount due to adjustments made by the County between the budgeting process and the actual levy.

³ The County Treasurer did not bill for certain tax levies in 2003; the levies were billed in 2004.

Frenchtown School District
Missoula County, Montana

Supplemental Information
For the Year Ended June 30, 2013

Major Taxpayers

The taxable values of the District's ten largest taxpayers are as follows:

<u>Taxpayer</u>	<u>Business</u>	<u>January 1, 2013 Taxable Value</u>	<u>Percent of Total Taxable Value</u>
M2Green Redevelopment LLC	Industrial	\$ 347,017	21.09
Montana Rail Link	Railroad	340,658	20.70
Missoula Electric Coop	Electric Utility	275,437	16.74
NorthWestern Energy	Gas and Electric Utility	242,358	14.73
Montana Stewards LLC	Town Pump Travel Plaza	140,587	8.54
Qwest Corporation	Tele-Communications	119,270	7.25
Verizon Wireless	Tele-Communications	55,603	3.38
4M Family Limited Partnership	Truck Stop (Muralts)	42,290	2.57
Waldo Williams Development LLP	Developer-Real Estate	41,540	2.52
Nature Conservancy (The)	Non-Profit	40,678	2.47
Total		\$ <u>1,645,438</u>	<u>100.00</u>

Maximum Bonded Indebtedness

State law permits a maximum bonded indebtedness for the school district of 100% of the District's taxable valuation at June 30, 2013 of \$11,061,961. However, for school districts that qualify for guaranteed tax base aid, the law permits maximum bonded indebtedness equal to 50% of the statewide taxable valuation per student time's average number belonging (ANB).

Maximum bonded indebtedness under this exception is:

	<u>Statewide Taxable Value Per Student</u>	<u>Average Number Belonging June 30, 2013</u>	<u>Percent Allowed</u>	<u>Maximum Bonded Indebtedness</u>
High School	\$ 72,210	405	50%	\$ 14,622,525
Elementary	\$ 32,170	829	50%	13,334,465
Maximum Bonded Indebtedness Allowed				27,956,990
Less:				
Outstanding Bonds at June 30, 2013				15,595,000
Lease Payable at June 30, 2013				5,388
Maximum Bonded Indebtedness Available				\$ <u>12,356,602</u>

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

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Frenchtown School District No. 40
Missoula County
Frenchtown, Montana

I have audited, in accordance with the auditing standards generally accepted in the United State of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of Frenchtown School District (District), Missoula County, Montana, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's financial statements and have issued my report thereon dated March 12, 2014.

Internal Control over Financial Reporting

In planning and performing my audit of the financial statements, I considered the District's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my 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, I do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's basic financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatements, I 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 my audit, and accordingly I do not

express such an opinion. The results of my tests disclosed one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*, and which is described in the accompanying schedule of findings as item 2013-1.

Purpose of this Report

This report is intended solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Cote & Associates, CPA, PLLC

March 12, 2014
Missoula, Montana

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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE;
AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Frenchtown School District No. 40
Missoula County
Frenchtown, MT

Report on Compliance for Each Major Federal Program

I have audited Frenchtown School District No.40's (District) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2013. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

My responsibility is to express an opinion on compliance for each of the District's major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my 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 I 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 I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion. However, my audit does not provide a legal determination of the District's compliance.

Opinion on Each major Program

In my opinion the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of requirements referred to above. In planning and performing my audit of compliance, I considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness

of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of my testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

I have audited the financial statements of the District as of and for the year ended June 30, 2013 and have issued my report thereon dated March 12, 2014, which contained an unmodified opinion on those financial statements. My audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards general accepted in the United States of America. In my opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Cote & Associates, CPA, PLLC

March 12, 2014
Missoula, Montana

Frenchtown School District
Missoula County, Montana

Schedule of Findings and Questioned Costs and Prior Audit Findings
For the Year Ended June 30, 2013

Summary of Auditor's Results

<i>Financial Statements</i>	
Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
<ul style="list-style-type: none"> • Material weakness(es) identified? • Reportable condition(s) identified that are not considered to be material weaknesses? 	<p>No</p> <p>No</p>
Noncompliance material to financial statements noted?	No
<i>Federal Awards</i>	
Internal control over major programs:	
<ul style="list-style-type: none"> • Material weakness(es) identified? • Reportable condition(s) identified that are not considered to be material weaknesses? 	<p>No</p> <p>None Reported</p>
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) on OMB Circular A-133?	No
Identification of major programs:	<ul style="list-style-type: none"> • Title I, Part A Cluster – CFDA 84.010 • Special Education Cluster – IDEA –CFDA-84.027, 84.173A, 84.391
Dollar threshold used to distinguish between type A and type B programs:	\$300,000
Auditee qualified as low-risk auditee?	Yes

Frenchtown School District
Missoula County, Montana

Schedule of Findings and Questioned Costs and Prior Audit Findings
For the Year Ended June 30, 2013

FINANCIAL STATEMENT FINDINGS

2013-1

Criteria: Montana School Districts are limited to 3-year leases for real and personal property. (MCA 20-6-609 and 20-10-110).

Condition: During the year ended June 30, 2013 Frenchtown School District No. 40 (District) made payments for months 43-54 of a 60 month (5 year) lease for copiers.

Cause: This was approved by the District Board of Trustees prior to the beginning of the lease in fiscal 2008-09.

Recommendation: By the time of audit the District only had only a few payments left so cancelling the lease was not practical. For the future the District needs to be aware of the 3 year restrictions on leases.

REPORT ON PRIOR FINDINGS

2012-1 Same as 2013-1