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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS**

Board of Trustees
Florence-Carlton Public School
District No. 15-6, Ravalli County
Florence, Montana

I have audited the financial statements of Florence-Carlton Public School, Ravalli County, Florence, Montana, as of and for the year ended June 30, 2006, and have issued my report thereon dated May 1, 2007. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing the audit, I considered the School's internal control over financial reporting in order to determine the auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

My consideration of the School's internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

I noted no matters involving the internal control over financial reporting and its operation that I considered to be material weaknesses.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, I performed tests of the School's 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 statements 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

However, I noted certain other matters that I believe should be brought to the attention of the School's management.

06-1 Monitoring Revenue

Most of the District's revenue is collected or determined by other governments (the State of Montana and Ravalli and Missoula Counties). These other governments sometimes make errors in determining the amounts to be distributed to the District. For example, I noted that the county share of the transportation and retirement revenue exceeded the budgeted amount. It appears that Ravalli County distributed more than its share while Missoula County appears to have distributed less than its share.

Monitoring the revenue the District receives from these other governments is difficult and often cannot be analyzed until after the end of the fiscal year when total revenues are known. Nevertheless, I recommend that you analyze these revenues collected or determined by other governments, particularly when actual revenues are significantly different than budgeted or expected revenues.

06-2 Extracurricular/Student Activity Funds

The purpose of student extracurricular funds is to account for receipts and disbursements of funds raised by students through recognized student body organizations and activities. The extracurricular activity funds are considered to be an expendable trust with the District acting as the fund custodian. Paragraph 4 of ARM 10.10.304 states that: "Cash balances in the student extracurricular fund may not be loaned to other district funds, may not be used to finance district expenditures for purposes other than student extracurricular activities, and may not be used as a convenience to pay the district's liabilities pending reimbursement from the appropriate district, except when student extracurricular expenditures are subsidized by the general fund." During expenditure testing it was noted that District expenditures were paid for using student activity funds. The District reimbursed these expenditures as part of the next warrant run.

The District should refrain from using the student extracurricular funds as a temporary means of paying for District expenditures.

In accordance with State law (MCA 2-7-515), within 30 days upon the receipt of the final audit report, the District's Board of Trustees is required to respond to the Department of Administration and the Office of Public Instruction concerning audit findings. This response should be in writing and include what action they plan to take on any deficiencies or recommendations contained in the audit report.

This report is intended solely for the information and use of the School, Ravalli and Missoula Counties, and the State of Montana's Office of Public Instruction and Department of Administration and is not intended to be and should not be used by anyone other than these specified parties.


May 1, 2007