Board of Trustees
Florence-Carlton Public School
Ravalli County
Florence, Montana

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Florence-Carlton Public School, Ravalli County, Montana, as of and for the year ended June 30, 2012, which collectively comprise the Florence-Carlton Public School’s basic financial statements and have issued our report thereon dated June 37, 2013, which was qualified because general capital assets did not report the correct current year capital additions and related depreciation expense and we further were unable to examine due to other governments and restatements. Except as discussed in the previous sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting
Management of Florence-Carlton Public School is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Florence-Carlton Public School internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Florence-Carlton Public School’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Florence-Carlton Public School’s internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable
possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described below to be material weaknesses as items 12-6 and 12-7.

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. We consider the deficiencies described below as items 12-1 to 12-5 to be significant deficiencies.

12-1 Student Extracurricular Accounts

Condition:
During our review of the Student Extracurricular Accounts we noted the school district is reporting an ending cash balance relating to Adult Education, Parking Passes, Student Fines and School Lunch. These activities relate to regular school operations and were not reduced to zero at year-end. In additions, the interest accounts were also not allocated to the various activity accounts and reduced to zero at fiscal year-end.

Criteria:
The Student Activity Fund Accounting manual issued by the Montana Associations of School Business Officials states “Since an extracurricular fund is established for student functions, all receipts should be related to organized student activities or student assessments the following should not be deposited into the student extracurricular accounts...Book fines...Driver Education Class Fees...Lunch monies....Interest earned.....must be deposited to the fund from which the investment is made.”

Effect:
Money belonging to the school district is not correctly reported in the school district funds and activity accounts are not receiving their respective interest earnings.

Recommendation:
We recommend all interest earned on extracurricular fund activity be allocated to the activity accounts on a regular basis and we further recommend only student functions be included in the extracurricular fund.

Auditee Response:
As of June 30, the Florence-Carlton School District will report zero cash balance in each of these reported activities related to the regular school operation. Any cash balance will be deposited into the appropriate activity. All interest earned will be deposited in the interest/adjustment fund. The interest monies are small enough in amount they will have no material effect on our cash balance.
12-2 Debt Service Fund Balance

Condition:
During fiscal year ended June 30, 2011 the School District paid their bonds off and the debt service fund maintained a cash balance. The cash balance as specified by State law should have been transferred to the building reserve levy fund, the technology acquisition and depreciation fund, or the general fund.

Criteria:
MCA 20-9-443 When all of the bonds, bond interest and special improvement district obligations of a school district have been fully paid, all money remaining in the debt service fund for the school district and all money that may come into the debt service fund from the payment of the delinquent taxes must be transferred to the building reserve levy fund, the technology acquisition and depreciation fund, or the general fund as designated by the school district, provided that the subsequent use of the funds by the school district is limited to constructing, equipping, or enlarging school buildings or purchasing land needed for school purposes in the district.

Effect:
$80,598 of debt service cash has not been transferred to the building reserve levy fund, the technology acquisition and depreciation fund, or the general fund as specified by State law causing the school district to be out of compliance with State law.

Recommendation:
We recommend the School district comply with the provisions of MCA 20-9-443.

Auditee Response:
On June 11, 2013, the Florence-Carlton School Board took action to direct the Clerk to complete a fund transfer from the debt service fund into the building reserve fund. These monies will be spent on an emergency project for the schools facility.

12-3 Trustee’s Financial Summary and the Accounting Records

Condition:
During our review of the Trustee’s Financial Summary (TFS) we noted the financial information reported in the Miscellaneous Fund and Traffic Education fund did not agree to the accounting records.

Criteria:
GASB Codification 2900.101 “Financial Reporting” - Financial statements and schedules are derived from the accounts and related records. Annual financial statements are prepared for each fiscal year to serve information needs of both internal and external users

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Effect:
1. Traffic Education Fund – Revenues and due from other governments in the accounting system do not report the $8,194 of State funds which are reported on the TFS. The revenues were reported in the accounting system in the subsequent year.
2. Miscellaneous Fund – Revenues per the TFS were $327,707 and the accounting system is reporting $379,528. In addition, the accounting system is reporting $30,450 as due from other government and $15,540 of deferred revenues. The TFS is not reporting such amounts

Recommendation:
We recommend the TFS be derived from the accounting records.

Auditee Response:
We concur and intend to implement the recommendations.

12-4 Booster Club

Condition:
The School District does not analyze the activity of the Booster Club to determine if the non-profit organization is significant to the schools’ financial statements.

Criteria:
GASB Statement No. 39, paragraph 40a states “A legally separate, tax-exempt organization should be reported as a component unit of a reporting entity if all of the following criteria are met:
1. The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.
2. The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
3. The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government.

Effect:
The Booster Club exists solely for the purpose of collecting contributions and donations for school functions. If, in any year, these contributions are significant to the school district, Generally Accepted Accounting Principles requires that the Booster Club be reported in the financial statements as a component unit. Financial data and a current audit report for the booster club will need to be available to the school district.

Cause:
The school district was not aware of this GASB requirement.

Recommendation:
Obtain and analyze the financial activity of the Booster Club annually to determine if the economic resources are significant to the school.
Auditee Response:
The Superintendent and Clerk will conduct an annual review of the financial activities of the Booster Club to determine if it has significant economic resources to the school’s require reporting.

12-5 **Internal Control Risk Assessment**

**Condition:**
During our review of internal controls we noted journal vouchers are not reviewed by a member of management.

**Criteria:**
Internal controls procedures require journal vouchers be reviewed and approved by the governing body.

**Effect:**
Failure to review adjusting journal entries increases the possibility of the financial statements being adjusted without the governing body’s knowledge.

**Recommendation:**
We recommend all adjustments to the accounting system be reviewed and approved by management.

Auditee Response:
The Superintendent will review and approve any adjustments to all journal entries of the school district.

12-6 **Miscellaneous Programs Fund**

**Condition:**
The Trustee’s Financial Summary is reporting $51,821 as due to other governments and $43,603 as restatement of beginning balance in the Miscellaneous Fund. These amounts could not be verified from the accounting records.

**Criteria:**
GASB Codification 2900.101 “Financial Reporting” – Financial statements and schedules are derived from the accounts and related records. Annual financial statements are prepared for each fiscal year to serve information needs of both internal and external users.

**Effect:**
The $51,821 appears to represent $15,168, $16,744 and 19,909 of Title I, Title II and ARRA moneys that may not have been spent and the restatement may relate to the due to other governments. The financial statements and the financial report do not agree.

**Cause:**
The Trustee’s Financial Summary was not derived from the accounting records
**Recommendation:**
The Trustee's Financial Summary should be derived from the accounting records and all amounts reports should be documented.

**Auditee Response:**
We have a consultation contract with our auditor Denning, Downey & Associates to provide the district clerk with training on Project Recorder Codes and appropriate activity financials. This training will help the clerk to reconcile activities with our records.

**12-7 Capital Assets**

**Condition:**
During our review of capital assets we recalculated accumulated depreciation and noted it was understated by $192,677. During our claims testing we noted $187,583 of assets purchased was not capitalized. In addition, the amount reported as current year capital assets was encumbrances of $172,447.

**Criteria:**
GASB Codification 1400 .102 Capital assets should be reported at historical cost.

SAM 5-0410.10 "Encumbrances" are commitments related to unperformed, legally binding contracts for the purchase of goods or construction in progress. Used in budgeting, encumbrances are not GAAP expenditures or liabilities, but represent the estimated amount of expenditures ultimately to result if unperformed contracts/purchase orders in process are completed.

SAM 5-0410.40 Purchase orders used to encumber the costs of goods at June 30 must be complete as to the items being purchased, show the price, be signed by the board-authorized purchasing officer and must be delivered or mailed to the vendor by June 30.

By definition a purchase order is merely a document used to request someone to supply something in return for payment.

**Effect:**
Capital assets as presented are materially misstated by $552,707.

**Recommendation:**
We recommend purchase orders not be reported as a capital addition on the capital schedule until a valid invoice for payment has been received. We further recommend the School District ensure all capital assets are properly coded and updated in the capital assets schedule. In addition, we recommend the school district review their current capital assets schedule and ensure amounts are properly reported and accounted for.

**Auditee Response:**
We have a consultation contract with our auditor Denning, Downey & Associates to provide the district clerk with training to properly code capital assets so they can be reconciled to our records.
Compliance and Other Matters
As part of obtaining reasonable assurance about whether the Florence-Carlton Public School’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Florence-Carlton Public School’s response to the findings identified in our audit is described in the Auditee’s Response to Findings. We did not audit Florence-Carlton Public School’s response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Trustees, the Montana Department of Administration, the Montana Office of Public Instruction, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Dearing, Downey and Associates, CPA’s, P.C.

June 27, 2013
REPORT ON PRIOR AUDIT REPORT RECOMMENDATIONS

Board of Trustees
Florence-Carlton Public School
Ravalli County
Florence, Montana

The prior audit report contained one recommendation. The action taken on each recommendation is as follows:

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>Action Taken</th>
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<tbody>
<tr>
<td>Student Activity Internal Control</td>
<td>Implemented</td>
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</tbody>
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June 27, 2013

Robert K. Denning, CPA · Kim M. Downey, CPA