

FRENCHTOWN SCHOOL DISTRICT NO. 40
Missoula County, Montana

RE-ISSUED
AUDITED FINANCIAL STATEMENTS AND
REPORTS REQUIRED BY
GOVERNMENT AUDITING STANDARDS

June 30, 2012

Cote & Associates, CPA, PLLC
P.O. Box 430
Missoula, MT 59806
(406) 543-8088

FRENCHTOWN SCHOOL DISTRICT NO. 40
Missoula County, Montana

RE-ISSUED
AUDITED FINANCIAL STATEMENTS AND
REPORTS REQUIRED BY
GOVERNMENT AUDITING STANDARDS

June 30, 2012

Cote & Associates, CPA, PLLC
P.O. Box 430
Missoula, MT 59806
(406) 543-8088

Frenchtown School District No. 40
June 30, 2012

TABLE OF CONTENTS

Independent Auditor's Report	Pages 1-2
Organization	Page 3
Management's Discussion and Analysis	Pages 4-9
Financial Statements	
Government-Wide Statement of Net Assets, As of June 30, 2012	Page 10
Government-Wide Statement of Activities for the Fiscal Year Ended June 30, 2012	Page 11
Balance Sheet-Governmental Funds, As of June 30, 2012	Page 12
Statement of Revenues, Expenditures, and Changes in Fund Balances- Governmental Funds, for the Fiscal Year Ended June 30, 2012	Page 13
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, 2012	Page 14
Balance Sheet-Internal Service (Health Insurance) Fund, As of June 30, 2012	Page 15
Statement of Revenues, Expenses and Changes in Fund Net Assets-Internal Service, (Health Insurance) Fund for the Fiscal Year Ended June 30, 2012	Page 16
Statement of Cash Flows-Internal Service (Health Insurance) Fund, for the Fiscal Year Ended June 30, 2012	Page 17
Statement of Fiduciary Net Assets and Statement of Changes in Fiduciary Net Assets, As of June 30, 2012	Page 18
Notes to the Financial Statements	Pages 19-28
Required Supplementary Information	
General Fund-Schedule of Revenues, Expenditures, and Changes in Encumbrances- Budget to Actual for the Fiscal Year Ended June 30, 2012	Page 29
Notes to the Budget and Actual Schedule	Page 30
Supplementary Information	
Schedule of Expenditures of Federal Awards	Page 31
Notes to the Schedule of Expenditures of Federal Awards	Page 32
Schedule of School District Enrollment	Page 33
Extracurricular Fund-Schedule of Revenues, Expenditures, and Changes in Fund Equity by Student Activity for the Fiscal Year Ended June 30, 2012	Pages 34-35

Frenchtown School District No. 40
June 30, 2012

Statistical Information

Student Enrollment	Page 36
School District Valuations	Page 36
School District Tax Levies	Page 37
Tax Collections	Page 37
Major Taxpayers	Page 38
Maximum Bonded Indebtedness	Page 38
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	Pages 39-40
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	Pages 41-42
Summary of Auditor's Results for the Year Ended June 30, 2012	Page 43
Schedule of Findings and Questioned Costs and Prior Audit Findings for the Year Ended June 30, 2012	Page 44

COTE & ASSOCIATES, CPA, PLLC

Phone: 406-543-8088
Fax: 406-721-9357

1225 Cleveland, Suite 1
P.O. Box 430
Missoula, MT 59806

INDEPENDENT AUDITOR'S REPORT

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

I have audited the accompanying financial statements of the governmental activities, business-type activities, 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, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. My responsibility is to express opinions on these financial statements based on my audit. I did not audit the financial statements of the District for the year ended June 30, 2011. Those financial statements were audited by another auditor whose report thereon has been furnished to us, and our opinion, insofar as it relates to the June 30, 2011 balances, is based on the report of the other auditor.

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 includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, I express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2012 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated February 26, 2013 and June 12, 2013, 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* and should be considered in assessing the results of my audit.

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 4-9 and 29-30 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 and other auditors 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

management's responses to my inquiries, 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.

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 by me and other auditors. 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.

Cote & Associates, CPA, PLLC

Cote & Associates, CPA, PLLC

February 26, 2013
Re-Issued June 12, 2013
Missoula, Montana

Frenchtown School District
June 30, 2012

ORGANIZATION

For the Fiscal Year Ended June 30, 2012

Board of Trustees

John Mazzola	Chairman
Dianne Burke	Vice Chairman
Michele Bashor	Trustee
Carla Doxey	Trustee
Debbie Lester	Trustee
Jami Romney FitzGerald	Trustee
Teresa Teagle	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 Discussion and Analysis
June 30, 2012

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, 2012. 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 assets 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 2011-2012

Budget problems for the District 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 Green Investment Group (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. M2Green has said previously that it expected job activity, in the form of new tenants, to take two or three years and for the reinvention of the Frenchtown site to require a total investment approaching \$40 million. The loss of taxes from this large employer put a further tax burden on local taxpayers.

One of the areas hardest hit was in the construction industry and the building of new houses. Housing starts in the District have remained slow.

In addition, the District saw its enrollment decline for the second year in a row during the 2011-2012 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 Belongings (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 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, the District lost 20 students funded at the elementary level and lost 10 students funded at the high school level. This culminated in a loss of 30 students for ANB funding for 2011-2012 and a total loss in ANB numbers at around 100 students for the last two school years.

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 Assets and the Statement of Activities

The statement of net assets 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 assets 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 assets 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 assets. Increases or decreases in 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 assets 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 assets are as follows:

Frenchtown School District No. 40
Management Discussion and Analysis
June 30, 2012

Table 1

	2012	2011*	Change	%
Current assets	\$ 5,362,525	\$ 5,268,000	\$ 94,525	1.8
Capital assets, net	23,926,425	24,684,000	(757,575)	(3.1)
Total assets	\$ 29,288,950	\$ 29,952,000	\$ (663,050)	(2.2)
Current liabilities	\$ 1,511,780	\$ 1,513,000	\$ (1,220)	(0.1)
Noncurrent liabilities	16,041,734	16,868,000	(826,266)	(4.9)
Total liabilities	17,553,514	18,381,000	(827,486)	(4.5)
Net assets:				
Invested in capital assets	\$ 7,184,639	\$ 7,561,000	\$ (376,361)	(5.0)
Restricted net assets	2,133,615	2,396,000	(262,385)	(11.0)
Unrestricted net assets	2,417,184	1,614,000	803,184	49.8
Total net assets	\$ 11,735,438	\$ 11,571,000	\$ 164,438	1.4

*Prior auditor rounded numbers to the thousandths.

Table 1 Notes: As can be seen from the modest 1.4% increase in net assets, there were no significant changes in the District's financial health in FY 2012.

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

Table 2

	2012	2011*	Change	%
Revenues				
Program revenue				
Charges for services	\$ 520,361	\$ 1,391,000	\$ (870,639)	(62.59)
Operating grants and contributions	1,473,015	1,093,000	380,015	34.77
Capital grants and contributions	-	232,000	(232,000)	(100.00)
General Revenue				
District property taxes	\$ 3,161,605	\$ 3,420,000	\$ (258,395)	(7.56)
State equalization	3,674,479	4,507,000	(832,521)	(18.47)
Other State revenue	2,444,372	1,028,000	1,416,372	137.78
County property taxes	1,016,524	853,000	163,524	19.17
Investment earnings	8,048	22,000	(13,952)	(63.42)
Federal revenue	-	580,000	(580,000)	(100.00)
Other	-	145,000	(145,000)	(100.00)
Total revenues & transfers	\$ 12,298,404	\$ 13,271,000	\$ (972,596)	(7.33)
Expenses:				
Instruction programs	\$ 5,890,053	\$ 6,347,000	\$ (456,947)	(7.20)
Support services	1,854,927	1,650,000	204,927	12.42
Administration	835,993	1,438,000	(602,007)	(41.86)
Operation and maintenance	1,332,790	1,385,000	(52,210)	(3.77)
Student transportation	557,053	573,000	(15,947)	(2.78)
School food	598,285	612,000	(13,715)	(2.24)
Extracurricular	403,431	366,000	37,431	10.23
Interest	672,172	708,000	(35,828)	(5.06)
Total expenses	\$ 12,144,704	\$ 13,079,000	\$ (934,296)	(7.14)
Changes in net assets	\$ 153,700	\$ 192,000	\$ (38,300)	(19.95)
Net assets, July 1	11,570,586	11,378,897	191,689	1.68
Changes in beginning equity	11,152	-	11,152	-
Net assets, July 1 restated	\$ 11,735,438	\$ 11,571,000	\$ 164,438	1.42
Net assets, June 30	\$ 11,735,438	\$ 11,571,000	\$ 164,438	1.42

*Prior auditor rounded numbers to the thousandths.

Frenchtown School District No. 40
Management Discussion and Analysis
June 30, 2012

THE DISTRICT'S FUNDS

Changes in Fund Balances

Table 3

	Major Funds		Other	Total
	General Fund	Debt Service Fund	Governmental Funds	Governmental Funds
Fund balances June 30, 2011	\$ 1,250,582	\$ 1,353,733	\$ 1,113,304	\$ 3,717,619
Fiscal year 12 revenues	7,773,374	1,375,606	3,072,946	12,221,926
Fiscal year 12 expenditures	(7,651,648)	(1,407,462)	(3,040,724)	(12,099,834)
Fiscal year 12 transfers & other financing sources(uses)	(35,115)	-	35,115	-
Changes in beginning equity	3,260	-	7,892	11,152
Fund balances June 30, 2012	\$ 1,340,453	\$ 1,321,877	\$ 1,188,533	\$ 3,850,863

Table 3 Notes: Table 3 shows a 3.6% increase in fund balances. The main increase occurred in the general fund due to lower expenditures than revenues received.

GENERAL FUND BUDGETARY HIGHLIGHTS

Table 4

Year Ended June 30,	Revenues and Transfers In			Expenditures and Transfers Out		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
2011	\$ 8,062,872	\$ 8,062,872	\$ 8,246,255	\$ 8,062,872	\$ 8,062,872	\$ 8,034,029
2012	\$ 7,804,655	\$ 7,804,655	\$ 7,773,374	\$ 7,914,987	\$ 7,914,987	\$ 7,878,500

Table 4 Notes: Table 4 shows that actual revenues versus budgeted revenues for 2011 were plus \$180,000 whereas revenue versus budgeted revenues for 2012 were short by about \$30,000. Expenditures for both 2011 and 2012 were less than the original budget by approximately \$28,000 and \$22,000, respectively.

CAPITAL AND DEBT ADMINISTRATION

Capital Assets -- see Note 5 for details

Capital Assets, Balances at June 30,

Table 5

	2012	2011
Land	\$ 590,662	\$ 590,662
Land improvements	741,859	728,139
Buildings	27,479,629	27,471,177
Equipment	2,683,449	2,669,984
Total	\$ 31,495,599	\$ 31,459,962
Less accumulated depreciation	(7,569,174)	(6,775,440)
Net capital assets	\$ 23,926,425	\$ 24,684,522

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

Frenchtown School District No. 40
Management Discussion and Analysis
June 30, 2012

Table 5 Notes: The District acquired or completed several capital asset projects during 2011-2012 including: a new Junior High sand volleyball court built by a student, several picnic tables for use by Junior High students during recess, a Techno LC Servo 24x30 CNC for the High School Shop and an Elementary Marquee paid for by the PTSA.

Debt Administration – see Note 6 for details

Governmental Activities Outstanding Long Term Liabilities, Balances at June 30, 2012 and 2011,

Table 6

	2012	2011
All general obligation bonds	\$ 16,390,000	\$ 17,105,000
Compensated absences & early retirement	531,946	633,082
Capital lease	14,422	23,179
Total	<u>\$ 16,936,368</u>	<u>\$ 17,761,261</u>

ECONOMIC FACTORS, NEXT YEAR'S BUDGET AND RATES

OTHER SIGNIFICANT ITEMS THAT OCCURRED DURING 2011-2012

As the Frenchtown Schools are a vital part of the Frenchtown community, the School Board has consistently sought public input over the years. 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. The Frenchtown School Board and Superintendent have used public input to try and ensure that they build the best possible education system to meet the needs of our community and its students. Good communication between district voters, parents of children enrolled in school, the school board, and the school superintendent is key to achieving that goal. At the September school board meeting the Board outlined its goals in the direction the board wants 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 2010-2011 still reflected the priorities listed and continued them, revised some goals, dropped some goals, and added new goals for 2011-2012. The board used a report from the focus groups that were held last spring to survey the public this year in place of an actual written survey. Also used to develop the goals this year was an implementation plan from the leadership team regarding the Montana Effective School Correlates and state educational reform priorities for this year. The focus group report, the leadership implementation plan, and the state educational reform priorities were available for public review on the district website under the heading of "District Goals for the 2011-2012 School Year."

Because of the drop in enrollment, the District approved allowing non-resident students to attend Frenchtown Public Schools for the first time in several years. Admitting non-resident students has been a win-win situation financially for both the school district and the district taxpayers. The admission of 25 non-resident students will 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.

With a steadily dwindling high school population during the school year and a number of those students leaving having dropped out, the District approved starting an alternative school for the high school during the 2012-2013 school year. An alternative school could pay for itself if we get ANB for 4-5 students that might have otherwise dropped out. Also, the alternative school would have a positive impact by the very fact it would keep students from dropping out. The high school principal presented his plan for an alternative school, Frenchtown Academy for Career Education (FACE) in January and the Board approved it at the April Board meeting.

During the summer of 2011, many maintenance projects were completed that can't be done during the school year. Our schools were cleaned, painted, and refurbished for the 2011-2012 school year. We always have some major projects for

Frenchtown School District No. 40
Management Discussion and Analysis
June 30, 2012

the summer and the School Board prioritized those at our May board meeting. The major maintenance projects completed in 2011-2012 were:

1. Replacing section of roof at the intermediate building.
2. Replacing the entrance pad on the high school sidewalk.
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 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 the Junior High gym per SK Geotechnical recommendations.

THE FUTURE OF THE SCHOOL

At the end of the 2011-2012 school year the District was awaiting further positive developments on the former Smurfit-Stone Container Frenchtown linerboard plant site and what the site's new owners, Green Investment Group, will do. Anyone passing by the site could see structures in various states of disassembly and train cars of material being hauled away every day, presumable for scrap. It's anybody's guess how long this could go on.

In 2007 and 2009 bonds were originally issued in the amounts of \$14,935,000 and \$4,000,000, respectively, to construct a new Junior High with 17 new classrooms and gymnasium, a high school with a new academic wing with 16 new classrooms and remodeled offices, classrooms, and library in the main building, a new 12,000 sq. ft. 7-12 vocational education building, and remodeling the old junior into an intermediate school. The District has completed its third year in the new facilities opened at the start of school in the fall of 2009.

On Tuesday, February 19, 2013 the Board adopted a final bond resolution in the process of refinancing certain of the District's outstanding 2007 and 2008 general obligation bonds to take advantage of low historic interest rates. The 2007 and 2008 bonds that were refinanced in the amount of \$8,530,000 had an outstanding average rate of 4.21%. The true interest cost of the new refunding bonds is 2.26%. 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 District plans to refinance the remaining \$6,335,000 of the 2008 bonds in 2014. By splitting the refinancing into two series of bonds, the District was able to take advantage of lower bank 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.

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 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.

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 Assets
As of June 30, 2012

Assets

	2012	2011
Current assets:		
Cash and investments	\$ 4,737,521	\$ 4,253,358
Property taxes receivable	495,121	479,655
Due from other governments	71,884	501,764
Other receivables	57,999	6,981
Prepaid expenses	-	26,022
Total current assets	<u>\$ 5,362,525</u>	<u>\$ 5,267,780</u>
Non-current assets:		
Capital assets, land	\$ 590,662	\$ -
Capital assets, depreciable, net	23,335,765	24,684,522
Total non-current assets	<u>\$ 23,926,427</u>	<u>\$ 24,684,522</u>
Total assets	<u><u>\$ 29,288,952</u></u>	<u><u>\$ 29,952,302</u></u>

Liabilities

Current liabilities:		
Accounts payable and accrued	\$ 210,462	\$ 267,986
Interest payable	332,135	352,469
Deferred revenue	74,549	-
Current portion of compensated absences	135,000	154,292
Current portion of long-term debt	759,634	738,738
Total current liabilities	<u>\$ 1,511,780</u>	<u>\$ 1,513,485</u>
Non-current liabilities:		
Long-term portion of compensated absences	\$ 391,715	\$ 457,078
Long-term portion of bonds payable	15,645,000	16,390,000
Capital lease	5,019	14,317
Early retirement incentive	-	6,836
Total non-current liabilities	<u>\$ 16,041,734</u>	<u>\$ 16,868,231</u>
Total liabilities	<u><u>\$ 17,553,514</u></u>	<u><u>\$ 18,381,716</u></u>

Net assets

Invested in capital assets (net of related debt)	\$ 7,522,003	\$ 7,561,067
Restricted for:		
Debt Service	1,321,577	1,508,008
Bus Replacement	347,820	350,286
Retirement	320,122	321,172
Transportation	96,768	173,981
Adult Education	11,644	12,533
Building Reserve	13,344	13,710
Tuition	10,848	11,287
Technology	11,492	4,699
Health Insurance Fund	731,530	802,520
Unrestricted	1,348,290	811,323
Total net assets	<u><u>\$ 11,735,438</u></u>	<u><u>\$ 11,570,586</u></u>

Frenchtown School District
Missoula County, Montana

Government-Wide Statement of Activities
for the Fiscal Year Ended June 30, 2012

Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Net (Expenses) Revenue 2012	2011
Governmental activities:					
Instruction:					
Regular programs	\$ 4,530,391	\$ 400	\$ -	\$ (4,529,991)	\$ (4,467,742)
Other programs	1,359,662	31,572	1,316,594	(11,496)	(82,661)
Support services	1,854,927	408,659	-	(1,446,268)	(1,603,078)
Administration:					
Schools	197,318	-	-	(197,318)	(660,774)
General	326,864	-	-	(326,864)	(233,545)
Financial	311,811	-	-	(311,811)	(543,827)
Operation and maintenance	1,332,790	-	-	(1,332,790)	(1,258,494)
Student transportation	557,053	-	-	(557,053)	(341,917)
School food	598,285	79,730	156,421	(362,134)	(96,909)
Extracurricular	403,431	-	-	(403,431)	(365,656)
Interest	672,172	-	-	(672,172)	(708,210)
Total governmental activities	\$ <u>12,144,704</u>	\$ <u>520,361</u>	\$ <u>1,473,015</u>	\$ <u>(10,151,328)</u>	\$ <u>(10,362,813)</u>
General revenues:					
District property taxes				\$ 3,161,605	\$ 3,419,630
State equalization				3,674,479	4,506,764
Other state revenue				2,444,372	1,027,938
County property taxes				1,016,524	853,508
Investment earnings				8,048	22,188
Federal revenue				-	579,896
Other				-	144,578
Total general revenues				\$ <u>10,305,028</u>	\$ <u>10,554,502</u>
Change in net assets				153,700	191,689
Net assets-July 1, 2011 as reported				\$ 11,570,586	\$ 11,378,897
Changes in beginning equity				11,152	-
Net assets-July 1, 2011 as restated				\$ <u>11,581,738</u>	\$ <u>11,378,897</u>
Nets assets-June 30, 2012				\$ <u>11,735,438</u>	\$ <u>11,570,586</u>

Frenchtown School District
Missoula County, Montana

Balance Sheet- Governmental Funds
As of June 30, 2012

	Major Funds		Other	Total
	General	Debt Service	Governmental	Governmental
	Fund	Fund	Funds	Funds
Assets				
Cash and investments	\$ 1,384,892	\$ 1,321,877	\$ 1,113,376	\$ 3,820,145
Property taxes receivable	292,091	162,286	40,744	495,121
Due from other governments	-	-	71,884	71,884
Other receivables	16	-	13,475	13,491
Total assets	<u>\$ 1,676,999</u>	<u>\$ 1,484,163</u>	<u>\$ 1,239,479</u>	<u>\$ 4,400,641</u>
Liabilities and fund balances				
Liabilities:				
Accounts payable	\$ 44,455	\$ -	\$ 10,202	\$ 54,657
Deferred revenue	292,091	162,286	40,744	495,121
Total liabilities:	<u>\$ 336,546</u>	<u>\$ 162,286</u>	<u>\$ 50,946</u>	<u>\$ 549,778</u>
Fund balances:				
Restricted	\$ -	\$ 1,321,877	\$ 1,069,550	\$ 2,391,427
Assigned	568,505	-	118,983	687,488
Unassigned	771,948	-	-	771,948
Total fund balance	<u>\$ 1,340,453</u>	<u>\$ 1,321,877</u>	<u>\$ 1,188,533</u>	<u>\$ 3,850,863</u>
Total liabilities and fund balances	<u>\$ 1,676,999</u>	<u>\$ 1,484,163</u>	<u>\$ 1,239,479</u>	

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in funds (net).	\$ 23,926,427
Other long-term assets are not available to pay current-period expenditures and, therefore, are deferred in the funds.	\$ 495,121
Long-term liabilities, including bonds payable, are not considered due and payable, in the current period and therefore are not reported in the funds	\$ (16,936,368)
Interest payable (six months due July 1, 2012)	\$ (332,135)
Net assets of internal service (self-insurance) fund	\$ 731,530
Net assets of governmental activities (Page 10)	<u>\$ 11,735,438</u>

Frenchtown School District
Missoula County, Montana

Statement of Revenues, Expenditures, and Changes in Fund Balances- Governmental Funds,
for the Fiscal Year Ended June 30, 2012

	Major Funds		Other	Total
	General	Debt Service	Governmental	Governmental
	Fund	Fund	Funds	Funds
Revenues				
District property taxes	\$ 1,815,516	\$ 1,093,213	\$ 237,410	\$ 3,146,139
Intergovernmental:				
County	-	-	1,016,524	1,016,524
State	5,935,731	281,516	629,316	6,846,563
Federal	3,862	-	1,003,755	1,007,617
School food sales	-	-	79,730	79,730
Interest	1,962	847	1,050	3,859
Other	16,303	30	105,161	121,494
Total revenue	<u>\$ 7,773,374</u>	<u>\$ 1,375,606</u>	<u>\$ 3,072,946</u>	<u>\$ 12,221,926</u>
Expenditures				
Current operations				
Instruction:				
Regular programs	\$ 3,352,631	\$ -	\$ 595,704	\$ 3,948,335
Other programs	758,223	-	601,439	1,359,662
Support services	1,257,858	-	557,469	1,815,327
Administration:				
Schools	160,611	-	36,707	197,318
General	253,985	-	72,879	326,864
Financial	261,489	-	32,851	294,340
Student transportation	-	-	406,924	406,924
Operation and maintenance	1,198,672	-	123,186	1,321,858
School food	61,525	-	524,840	586,365
Extracurricular	305,171	-	69,288	374,459
Capital outlay	16,201	-	19,437	35,638
Debt service	25,282	1,407,462	-	1,432,744
Total expenditures	<u>\$ 7,651,648</u>	<u>\$ 1,407,462</u>	<u>\$ 3,040,724</u>	<u>\$ 12,099,834</u>
Excess of revenues/(under) expenditures	\$ 121,726	\$ (31,856)	\$ 32,222	\$ 122,092
Other Financing Sources(Uses):				
Transfers in (out)	\$ (35,115)	\$ -	\$ 35,115	\$ -
Change in fund balances	\$ 86,611	\$ (31,856)	\$ 67,337	\$ 122,092
Fund balances-July 1, 2011, as previously reported	\$ 1,250,582	\$ 1,353,733	\$ 1,113,304	\$ 3,717,619
Changes in beginning fund equity	3,260	-	7,892	11,152
Fund balances-July 1, 2011, as restated	<u>\$ 1,253,842</u>	<u>\$ 1,353,733</u>	<u>\$ 1,121,196</u>	<u>\$ 3,728,771</u>
Fund Balances-June 30, 2012	<u>\$ 1,340,453</u>	<u>\$ 1,321,877</u>	<u>\$ 1,188,533</u>	<u>\$ 3,850,863</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, 2012

Change in fund balance as reported in governmental funds statement	\$	122,092
Change in deferred taxes receivable not included in the government funds statement	\$	15,466
Expenses on the statement of activities not included in the government funds statement:		
Depreciation expense	\$	(793,734)
Change in interest payable		20,335
Change in compensated absence liability		84,655
Expenditures reported in the government funds statement not included in the statement of activities:		
Capital outlay	\$	35,638
Principal payments on bonds		715,000
Principal payments on capital lease		8,757
Early retirement incentive payments		16,481
Excess of revenues over expenses in the internal service fund	\$	(70,990)
Change in net assets reported on the statement of activities	\$	<u>153,700</u>

Frenchtown School District
Missoula County, Montana

Balance Sheet-Internal Service (Health Insurance) Fund
As of June 30, 2012

	<u>2012</u>	<u>2011</u>
Assets		
Current assets:		
Cash and investments	\$ 917,376	\$ 946,515
Due from stop loss carrier	44,508	26,022
Total assets	<u>\$ 961,884</u>	<u>\$ 972,537</u>
Liabilities		
Current liabilities:		
Accounts payable	\$ 93,170	\$ 27,611
Estimated claims incurred but not reported	62,635	68,786
Deferred revenue	74,549	73,620
Total liabilities	<u>\$ 230,354</u>	<u>\$ 170,017</u>
Net assets		
Assets restricted for:		
Liability reserve	\$ 556,026	\$ 519,864
Fund operations	175,504	282,656
Total net assets	<u>\$ 731,530</u>	<u>\$ 802,520</u>
Total liabilities and net assets	<u>\$ 961,884</u>	<u>\$ 972,537</u>

Frenchtown School District
Missoula County, Montana

Statement of Revenues, Expenses and Changes in Fund Net Assets-Internal Service (Health Insurance) Fund
for the Fiscal Year Ended June 30, 2012

	<u>2012</u>	<u>2011</u>
Operating revenues		
Health insurance premiums & stop-loss received	\$ 1,099,509	\$ 1,140,457
Operating expenses		
Medical claims	\$ 889,120	\$ 696,595
Stop-loss premiums	246,640	232,307
Administrative fees	38,928	24,821
Total operating expenses	\$ 1,174,688	\$ 953,723
Operating income	\$ (75,179)	\$ 186,734
Non-operating revenues		
Interest income	\$ 4,189	\$ 8,177
Change in net assets	\$ (70,990)	\$ 194,911
Total net assets		
Net assets-beginning	\$ 802,520	\$ 607,609
Net assets-ending	\$ <u>731,530</u>	\$ <u>802,520</u>

Frenchtown School District
Missoula County, Montana

Statement of Cash Flows-Internal Service (Health Insurance) Fund
for the Fiscal Year Ended June 30, 2012

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities		
Health insurance premiums received	\$ 1,043,615	\$ 1,115,897
Stop-loss received	38,337	-
Medical claims paid	(802,531)	(767,307)
Insurance premiums paid	(273,821)	(232,307)
Administrative costs paid	(38,928)	(24,821)
Net cash provided/(used) by operating activities	<u>\$ (33,328)</u>	<u>\$ 91,462</u>
Cash flows from investing activities		
Interest earnings	\$ 4,189	\$ 8,177
Net cash provided/(used) by investing activities	<u>\$ 4,189</u>	<u>\$ 8,177</u>
Net increases(decrease) in cash and investments	\$ (29,139)	\$ 99,639
Cash and investments-beginning	\$ 946,515	\$ 846,876
Cash and investments-ending	<u>\$ 917,376</u>	<u>\$ 946,515</u>

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

Net operating income	\$ (75,179)	\$ 186,734
----------------------	-------------	------------

Adjustments to reconcile operating income to net cash provided/(used) by operating activities:

(Increase)/decrease in other assets	\$ (18,486)	\$ (8,453)
Increase/(decrease) in accounts payable	65,559	-
Increase/(decrease) in claims incurred but not reported	(6,151)	(70,712)
Increase/(decrease) in deferred revenue	929	(16,107)
Net cash provided/(used) by operating activities	<u>\$ (33,328)</u>	<u>\$ 91,462</u>

Frenchtown School District
Missoula County, Montana

Statement of Fiduciary Net Assets and Statement of Changes in Fiduciary Net Assets
As of June 30, 2012

	Student Activity Fund	Scholarship Fund	Total
Fiduciary net assets			
Assets			
Cash	\$ 89,223	\$ 40,644	\$ 129,867
Total assets	<u>\$ 89,223</u>	<u>\$ 40,644</u>	<u>\$ 129,867</u>
Net assets			
Held in trust for student activities	\$ 89,223	\$ -	\$ 89,223
Held in trust for scholarships	-	40,644	40,644
Total net assets	<u>\$ 89,223</u>	<u>\$ 40,644</u>	<u>\$ 129,867</u>
Changes in fiduciary net assets			
Additions:			
Revenue from student activities	\$ 180,740	\$ -	\$ 180,740
Contributions to scholarships	-	6,400	6,400
Investment earnings	28	51	79
Other	-	(1,000)	(1,000)
Total additions	<u>\$ 180,768</u>	<u>\$ 5,451</u>	<u>\$ 186,219</u>
Deductions:			
Expenses of student activities	\$ 186,573	\$ -	\$ 186,573
Scholarships	-	4,350	4,350
Credit card fees to net	5	-	5
Total deductions	<u>\$ 186,578</u>	<u>\$ 4,350</u>	<u>\$ 190,928</u>
Changes in net assets held in trust	\$ (5,810)	\$ 1,101	\$ (4,709)
Net assets, July 1, 2011	<u>\$ 95,033</u>	<u>\$ 39,543</u>	<u>\$ 134,576</u>
Net assets, June 30, 2012	<u>\$ 89,223</u>	<u>\$ 40,644</u>	<u>\$ 129,867</u>

Frenchtown School District
Missoula County, Montana

Notes to the Financial Statements
June 30, 2012

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 assets 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 assets 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 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 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, 2012

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 fund 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 enterprise funds financial statements. The District applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, except those that conflict with Governmental Accounting Standards Board pronouncements. Proprietary funds include enterprise funds which charge external users, and internal service funds. The District does not have any enterprise funds.

Self-Insurance-Health Fund—this fund is an internal service fund that accounts for medical coverage provided to the District's employees. Operating revenues and expenses include all activity not classified as investing.

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

Private Purpose Trust Funds—the District also has two private-purpose trust funds, as 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 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, endowment fund, and the student activity fund.

C. CASH AND INVESTMENTS

The District follows state law, which 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.

Frenchtown School District
Missoula County, Montana

Notes to the Financial Statements
June 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICES, continued

C. CASH AND INVESTMENTS, continued

Cash, cash equivalents and investments in the internal service fund statement of cash flows consists of readily available cash in checking or savings funds and investments whose original maturity date was greater than 90 days.

D. INVENTORIES AND PREPAID EXPENSES

Inventories are considered to be immaterial and are not recorded. 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 because it is considered to be immaterial. 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 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

Consist of payments for retirees health insurance costs for a specific period of time.

Frenchtown School District
Missoula County, Montana

Notes to the Financial Statements
June 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICES, continued

I. FAIR VALUE

Cash and investments in the internal service fund are reported at fair value which is determined using the depositor institution's quote. Fair value measurement is considered level 1 if observable inputs are available that reflect quoted prices for identical assets or liabilities in active markets, level 2 if observable inputs are available but not for quoted markets, and level 3 if fair value is required to be measured from resources other than observable markets. The District's cash, cash equivalents and investments fair value inputs are considered level 2 as reported by the county and other financial institutions.

J. COMPARATIVE TOTALS

The government-wide financial statements and the internal service fund include prior-year comparative totals and are not at a level of detail required for a presentation in conformity with U.S. general accepted accounting principles. Accordingly, these totals should be in conjunction with the government-wide financial statements for the year ended June 30, 2011, from which they have been derived.

NOTE 2: CASH, CASH EQUIVALENTS AND INVESTMENTS

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. 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			566,593
Total			<u>\$ 917,376</u>

The above investments are stated at fair value.

NOTE 3: DUE FROM OTHER GOVERNMENTS AND OTHER RECEIVABLES

Due from other governments consists of federal grants of \$47,439, state grants of \$7,300, a county grant of \$10,163, \$6,982 for a refund of legal fees. Other receivables were \$11,328 due from Medicaid, \$2,042 due from a private grant, \$105 in lunch fees, and \$16 miscellaneous. The District does not recognize an allowance for uncollectible since all amounts are expected to be paid.

Frenchtown School District
Missoula County, Montana

Notes to the Financial Statements
June 30, 2012

NOTE 4: CAPITAL ASSETS

	Balance June 30, 2011	Additions	Deletions	Balance June 30, 2012
Non-depreciable				
Land	\$ 590,662	\$ -	\$ -	\$ 590,662
Depreciable				
Land Improvements	\$ 728,139	\$ 13,720	\$ -	\$ 741,859
Buildings	27,471,177	8,452	-	27,479,629
Equipment	2,669,984	13,467	-	2,683,451
Total	<u>\$ 31,459,962</u>	<u>\$ 35,639</u>	<u>\$ -</u>	<u>\$ 31,495,601</u>
Accumulated Depreciation:				
Land Improvements	\$ (446,049)	\$ (30,929)	\$ -	\$ (476,978)
Buildings	(4,911,041)	(560,917)	-	(5,471,958)
Equipment	(1,418,350)	(201,888)	-	(1,620,238)
Total	<u>\$ (6,775,440)</u>	<u>\$ (793,734)</u>	<u>\$ -</u>	<u>\$ (7,569,174)</u>
Net Book Value	<u>\$ 24,684,522</u>	<u>\$ (758,095)</u>	<u>\$ -</u>	<u>\$ 23,926,427</u>

Depreciation expense was charged to functions as follows:

Regular Programs	\$ 574,310
Student Transportation	150,129
Extracurricular	28,972
Operations and Maintenance	10,932
School Food	11,920
Business Administration	17,471
Total Depreciation Expense	<u>\$ 793,734</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. Deferred revenue in governmental funds equals property taxes receivable; in the internal service fund deferred revenue represents premiums received for July and August.

NOTE 6: LONG-TERM DEBT

Changes in general long-term debt during 2012 are as follows:

	Balance June 30, 2011	Increase	Decrease	Balance June 30, 2012	Due Within One Year
General Obligation Bonds:					
Series 2008	\$ 3,380,000	\$ -	\$ 365,000	\$ 3,015,000	\$ 380,000
Series 2007	13,725,000	-	350,000	13,375,000	365,000
Lease Payable	23,179	-	8,757	14,422	9,403
Compensated Absences	611,370	-	84,655	526,715	135,000
Early Retirement Incentive	21,712	-	16,481	5,231	5,231
Total	<u>\$ 17,761,261</u>	<u>\$ -</u>	<u>\$ 824,893</u>	<u>\$ 16,936,368</u>	<u>\$ 894,634</u>

Frenchtown School District
Missoula County, Montana

Notes to the Financial Statements
June 30, 2012

NOTE 6: LONG-TERM DEBT, continued

General Obligation Bonds—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 varies from 3.25% to 3.50%. Interest payments are paid semi-annually. Principal payments are due annually in varying amounts to July 1, 2018. The bonds maturing on or after July 1, 2014 are subject to early redemption at a price equal to the unpaid principal plus accrued interest. Payments are made from the debt service fund.

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. Payments are made from the debt service fund.

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.

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 will pay 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 will pay the retiree \$5,000 each year for five years. Payments are made from the general fund.

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	2007 Bonds		2008 Bonds		Total
	Principal	Interest	Principal	Interest	
2013	\$ 365,000	\$ 567,906	\$ 380,000	\$ 96,363	\$ 1,409,269
2014	380,000	552,550	400,000	83,687	1,416,237
2015	395,000	537,050	415,000	70,444	1,417,494
2016	410,000	520,437	430,000	56,175	1,416,612
2017	430,000	502,588	445,000	40,863	1,418,451
2018	445,000	483,994	465,000	24,938	1,418,932
2019	470,000	465,137	480,000	8,400	1,423,537
2020	985,000	431,113			1,416,113
2021	1,025,000	384,706			1,409,706
2022	1,065,000	340,294			1,405,294
2023	1,110,000	294,075			1,404,075
2024	1,155,000	245,222			1,400,222
2025	1,205,000	193,597			1,398,597
2026	1,255,000	140,569			1,395,569
2027	1,310,000	86,062			1,396,062
2028	1,370,000	29,113			1,399,113
Total	\$ 13,375,000	\$ 5,774,413	\$ 3,015,000	\$ 380,870	\$ 22,545,283

Frenchtown School District
Missoula County, Montana

Notes to the Financial Statements
June 30, 2012

NOTE 6: LONG-TERM DEBT, continued

Year Ended June 30	Capital Lease		Early Retirement	Total
	Principal	Interest	Incentive	
2013	\$ 9,403	\$ 597	\$ 5,231	\$ 15,231
2014	5,019	85	-	5,104
Totals	\$ 14,422	\$ 682	\$ 5,231	\$ 20,335

Total debt service to maturity for long-term debt is \$22,565,618.

NOTE 7: 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 in 2010 of the potential OPEB liability and it was determined that there is no liability. The actuarial assumptions did not change for 2012, therefore still immaterial.

NOTE 8: DUE FROM OTHER FUNDS AND DUE TO OTHER FUNDS

At June 30, 2011 there was a due to other funds in the miscellaneous fund, which was a major fund that year, of \$277,000 and a corresponding amount of due from other funds in the bus depreciation fund, representing funds transferred to maintain a positive cash balance in the miscellaneous fund. At June 30, 2012 all borrowing had been re-paid.

NOTE 9: INTERFUND TRANSFERS

As permitted by MCA 20-9-512, the general fund transferred \$35,115 at the end of the year to the compensated absence fund. 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 ASSETS

Restricted Net Assets—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 bank 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.

These funds and their net assets at June 30, 2012 are as follows:

Debt Service	\$ 1,321,577
Bus Depreciation	347,820
Retirement	320,122
Transportation	96,768
Adult Education	11,644
Building Reserve	13,344
Tuition	10,848
Technology	11,492
Total	\$ 2,133,615

Frenchtown School District
Missoula County, Montana

Notes to the Financial Statements
June 30, 2012

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 \$1,322,332. The remainder of \$1,059,095 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, 2012.

Restricted fund balance consists of the following:

Restricted for expenditure related to:

Debt service	\$ 1,321,877
Transportation	442,873
Retirement	320,122
Instruction	190,760
Compensated absences	39,910
Operation and maintenance	13,344
Adult education	11,644
Tuition	10,849
Traffic education	16,203
School food	12,353
Technology	11,492
Total restricted fund balance	<u>\$ 2,391,427</u>

Assigned fund balance consist of the following:

Assigned for encumbrances:

General fund	\$ 568,505
Non-major funds	57,465
Total encumbrances	<u>625,970</u>
Assigned for operation and maintenance	57,132
Assigned for capital projects	4,386
Total assigned fund balance	<u>\$ 687,488</u>

Unassigned fund balance consists of the following:

General fund	<u>\$ 771,948</u>
--------------	-------------------

Total governmental fund balance \$ 3,850,863

Frenchtown School District
Missoula County, Montana

Notes to the Financial Statements
June 30, 2012

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 2012.

The contribution rates, expressed as a percentage of covered payroll, were as follows:

	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 July 1, 2011
MPERS	6.80%	7.90%	0.37%	15.07%	Hired on or after July 1, 2011

The amounts contributed to MTRS and MPERS during the years ended June 30, 2010, 2011 and 2012 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:

	2010	2011	2012
MTRS	\$ 871,438	\$ 856,701	\$ 763,272
MPERS	156,272	152,012	154,557
Total	<u>\$ 1,027,710</u>	<u>\$ 1,008,713</u>	<u>\$ 917,829</u>

The State's contributions to the plans in 2012 were \$124,750 for MTRS and \$4,228 for MPERS. This on-behalf-of payment was included in revenue and expenditures in the governmental funds statements in the other governmental funds column.

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.

Frenchtown School District
Missoula County, Montana

Notes to the Financial Statements
June 30, 2012

NOTE 13: RISK MANAGEMENT, continued

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. 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.

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, 2011	\$ 27,611	\$ 68,786	\$ 96,397
Claims Incurred in 2012	895,270	-	895,270
Claims Paid in 2012/Changes in estimate	(829,711)	(6,151)	(835,862)
Claims Liability, June 30, 2012	<u>\$ 93,170</u>	<u>\$ 62,635</u>	<u>\$ 155,805</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 revenue in the fund balance sheet and as accounts payable in the statement of net assets.

Receivables at June 30, 2011 and June 30, 2012 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.

NOTE 14: SUBSEQUENT EVENTS

The District finalized refunding of certain 2008 bonds as described on page 9 in the management discussion and analysis.

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, 2012

	Original and Final Budget	Actual	Variance	GAAP Encumbrance Adjustment	Fund Financial Statement
Revenues					
District property taxes	\$ 1,833,419	\$ 1,815,516	\$ (17,903)	\$ -	\$ 1,815,516
Intergovernmental:					
State equalization	5,939,592	5,935,731	(3,861)	-	5,935,731
State other	-	-	-	-	-
Federal payments	-	3,862	3,862	-	3,862
Interest	6,768	1,962	(4,806)	-	1,962
Other	24,876	16,303	(8,573)	-	16,303
Total revenues	<u>\$ 7,804,655</u>	<u>\$ 7,773,374</u>	<u>\$ (31,281)</u>	<u>\$ -</u>	<u>\$ 7,773,374</u>
Expenditures					
Current operations:					
Instruction:					
Regular program	\$ 3,508,146	\$ 3,352,631	\$ (155,515)	\$ -	\$ 3,352,631
Special program	732,327	757,379	25,052	844	758,223
Support services	1,290,103	1,442,015	151,912	(184,157)	1,257,858
Administration:					
Schools	111,345	160,611	49,266	-	160,611
General	299,613	253,366	(46,247)	619	253,985
Financial	267,930	261,489	(6,441)	-	261,489
Operations and maintenance	1,261,390	1,226,674	(34,716)	(28,002)	1,198,672
School food	116,144	62,204	(53,940)	(679)	61,525
Extracurricular	307,026	309,028	2,002	(3,857)	305,171
Capital outlay	10,963	27,821	16,858	(11,620)	16,201
Debt service	10,000	25,282	15,282	-	25,282
Total expenditures	<u>\$ 7,914,987</u>	<u>\$ 7,878,500</u>	<u>\$ (36,487)</u>	<u>\$ (226,852)</u>	<u>\$ 7,651,648</u>
Excess/(deficiency) of revenues over expenditures and encumbrances	<u>\$ (110,332)</u>	<u>\$ (105,126)</u>	<u>\$ 5,206</u>		<u>\$ 121,726</u>
Transfers in (out)	\$ 9,596	\$ (35,115)	\$ (44,711)		\$ (35,115)
Excess/(deficiency) of revenues over expenditures and transfers	<u>\$ (100,736)</u>	<u>\$ (140,241)</u>	<u>\$ (39,505)</u>		<u>\$ 86,611</u>

Frenchtown School District
Missoula County, Montana

Notes to the Budget and Actual Schedule
For the Year Ended June 30, 2012

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 2012.

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 \$568,505 at June 30, 2012 and \$341,653 at June 30, 2011.

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, 2012 are as follows:

	Actual	Allowed
General Fund	9.78%	10%
Transportation Fund	8.41%	20%
Retirement Fund	34.80%	35%
Adult Education	0%	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 2012.

GAAP adjustments include a change in encumbrances \$226,852 and reclassification of \$15,281 from instruction to debt service for payments of early retirement obligations.

SUPPLEMENTARY INFORMATION

Frenchtown School District
Missoula County, Montana

Schedule of Expenditure of Federal Awards
For the Year Ended June 30, 2012

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	\$ 12,939	\$ 12,939
School Lunch Program	10.555	N/A	N/A	145,482	
Federal Child Nutrition	10.555	N/A	N/A	252,523	
CFDA 10.555 Cash Total				\$	398,005
Total cash assistance				\$	410,944
Non-Cash Assistance (Commodities)					
National School Lunch Program	10.555	N/A	N/A	\$ 18,660	\$ 18,660
Total for Program Cluster				\$	429,604
Total U.S. Department of Agriculture				\$	429,604
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	\$ 235,654	
Title I, Part A Improving Basic Programs	84.010	32-0599-31-11	\$ 241,979	3,926	
Total Title I, Part A Cluster and CFDA 84.010 Total				\$	239,580
Title II, Part A, Improving Teacher Quality	84.367	32-0599-14-11	\$	3,424	
Title II, Part A, Improving Teacher Quality	84.367	32-0599-14-12	\$	45,845	
CFDA 84367.A Total				\$	49,269
Title II, Part D, Education Technology	84.318	32-0599-60-12	\$ 189	\$ 189.00	\$ 189
ARAA-Education Jobs Fund	84.410	N/A	\$ 3,862	\$ 3,862	\$ 3,862
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	32-0599-77-12	\$ 221,934	\$ 221,934	
IDEA-Preschool	84.173	32-0599-79-12	\$ 9,446	9,446	
ARRA-IDEA B Children with Disabilities	84.391	32-0599-92-10	\$ 45,488	38,458	
Total Special Education Cluster IDEA				\$	269,838
Office of Vocational and Adult Education					
Pass-Through - Montana Office of Public Instruction					
Carl Perkins-Vo Ed	84.048A	32-0599-82-12	\$ 13,163	\$ 13,163	\$ 13,163
Total U.S. Department of Education					\$ 575,901
Total Expenditures of Federal Awards					\$ 1,005,505

Frenchtown School District
Missoula County, Montana

Notes to the Schedule of Expenditure of Federal Awards
For the Year Ended June 30, 2012

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, 2012

	School Records	Enrollment Records	Variance
<u>Fall Enrollment-October 2011</u>			
Pre-Kindergarten	-	-	-
Kindergarten	83	83	-
Grades 1-6	504	504	-
Grades 7 & 8	186	186	-
Grades 9-12	393	393	-
Combined Total	1,166	1,166	-
<u>Part Time Enrollment</u>			
<180 hrs/yr	-	-	-
180-359 hrs/yr	-	-	-
360-539 hrs/yr	-	-	-
540-719 hrs/yr	-	-	-
<u>19 Year-olds at Fall Enrollment</u>	-	-	-
<u>Spring Enrollment-February 2012</u>			
Pre-Kindergarten	-	-	-
Kindergarten	78	78	-
Grades 1-6	501	501	-
Grades 7 & 8	186	186	-
Grades 9-12	385	385	-
Combined Total	1,150	1,150	-
<u>Part Time Enrollment</u>			
<180 hrs/yr	-	-	-
180-359 hrs/yr	-	-	-
360-539 hrs/yr	-	-	-
-Kindergarten	1	1	-
540-719 hrs/yr	-	-	-
<u>Early High School Graduates</u>	1	1	-
<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, 2012

Organization	Balance June 30, 2011	Revenues	Expenditures	Transfers In (Out)	Balance June 30, 2012
"F" Club	\$ 33	\$ -	\$ -	\$ -	\$ 33
50/50 Fund Raiser	106	-	-	-	106
Academic Challenge	790	11,928	11,332	-	1,386
Activities	27,582	8,428	14,118	(393)	21,499
Alternative Education	34	-	-	-	34
Art Club	81	135	150	-	66
Band	801	12,511	11,979	-	1,333
BBB Fund Raiser	-	438	438	-	-
Box Top Education	1,217	289	-	-	1,506
Boys Basketball	-	4,753	3,452	(1,301)	-
Candy Machine	924	2,634	1,967	(956)	635
Cheerleaders	1,195	1,494	1,522	376	1,543
Choir	718	14,091	14,879	339	269
Class of 2015	-	-	9	200	191
Class of 2014	200	233	127	-	306
Class of 2013	224	3,314	1,564	(102)	1,872
Class of 2012	3,741	1,629	3,588	-	1,782
Class of 2011	467	-	-	-	467
Community Leadership	191	-	-	-	191
Concessions	11,932	26,984	23,915	-	15,001
Creative Film Club	120	-	-	-	120
Cross Country	-	230	626	396	-
Cross Country Fund Raiser	319	-	280	-	39
Elementary P.E. Fund	1,420	-	-	-	1,420
Elementary Special Ed. Projects	751	394	378	-	767
Elementary Comp For Education	2,298	-	1,001	-	1,297
Elementary Recycling	239	100	-	-	339
Environmental Issues	73	-	-	-	73
FCCLA	55	1,973	1,862	-	166
Football Gold Card Fund Raiser	105	1,380	1,466	-	19
Football	-	6,622	4,842	(1,780)	-
Foreign Language Club	1,452	-	-	-	1,452
GBB Fund Raiser	1,320	7,852	5,830	-	3,342
Girls Basketball	-	4,235	3,557	(678)	-
Golf Fund Raiser	11	-	-	-	11
Grade School Activities	1,698	6,218	5,115	-	2,801
Home Economics	39	-	218	179	-
In & Out	123	1,762	1,788	-	97
Industrial Tech Club	740	-	716	-	24
Jr. High Festival	886	-	-	-	886
JH GBB Fundraiser	-	235	-	-	235
Sub-Total	\$ 61,885	\$ 119,862	\$ 116,719	\$ (3,720)	\$ 61,308

(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, 2012

Organization	Balance June 30, 2011	Revenues	Expenditures	Transfers In (Out)	Balance June 30, 2012
(continued from previous page)					
Sub-Total	\$ 61,885	\$ 119,862	\$ 116,719	\$ (3,720)	\$ 61,308
Jr. High Lounge/Pop	265	525	505	-	285
JH Volleyball Fundraiser	-	216	49	-	167
JMG (Jobs for MT Grads)	705	388	1,036	-	57
Jr. High Activities	389	3,373	3,284	-	478
Jr. High Student Council	1,846	11,444	11,194	(200)	1,896
Key Club	1,332	2,174	3,188	500	818
Kiva	-	33	33	-	-
Lock Deposit Account	1,450	10	-	-	1,460
Music-Percussion	557	511	1,206	138	-
National Honor Society	-	26	-	-	26
Newspaper	312	-	64	-	248
NHS Scholarship	1,522	676	1,752	456	902
Parking Permits	660	286	300	-	646
Pep Club	172	300	49	-	423
Resale	40	3,595	3,427	-	208
S.A.D.D.	82	-	-	-	82
S.C. Improvement Fund	4,869	200	415	(2,195)	2,459
Softball Fund Raiser	3,810	3,471	2,154	-	5,127
School Play	713	4,879	5,672	875	795
Soccer	-	2,387	2,710	323	-
Soccer Fund Raiser-Boys	245	461	404	-	302
Soccer Fund Raiser-Girls	-	490	404	-	86
Softball	-	4,567	6,650	2,083	-
Speech & Drama	-	324	154	(170)	-
Spirit & Pride	117	977	200	1,027	1,921
Student Council	3,384	5,572	6,553	102	2,505
Student Store	1,026	-	-	(1,026)	-
Track	-	640	1,309	669	-
Track Facilities	164	-	-	-	164
Vietnam Symposium	143	-	-	-	143
Volleyball	-	3,178	4,140	962	-
Volleyball Fund Raiser	147	4,217	3,179	-	1,185
WR Fund Raiser	1,400	25	1,425	-	-
Wrestling	-	1,776	1,947	171	-
Yearbook	7,798	4,185	6,451	-	5,532
Total	\$ 95,033	\$ 180,768	\$ 186,573	\$ (5) *	\$ 89,223

*Timing variance on credit card fees.

STATISTICAL INFORMATION

Frenchtown School District
Missoula County, Montana

Supplemental Information
For the Year Ended June 30, 2012

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	

School District Taxable Valuations

	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%

Frenchtown School District
Missoula County, Montana

Supplemental Information
For the Year Ended June 30, 2012

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	190.66	294.63	274.32	287.78	290.47	289.74	295.65
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	551.14	749.22	648.99	657.60	661.96	662.61	489.14

¹ 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 Collections as a Percent of Levy	Total Tax Collections	Total Collections as a Percent of Levy
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, 2012

Major Taxpayers

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

Taxpayer	Business	January 1, 2012 Taxable Value	Percent of Total Taxable Value
Green Development	Redevelopment	\$ 424,029	22.61
Montana Rail Link	Railroad	335,467	17.89
Northwestern Energy	Gas and Electric Utility	240,226	12.81
Missoula Electric Coop	Electric Utility	239,779	12.78
Montana Steward LLC	Truck Stop	133,409	7.11
Qwest Corporation	Tele-Communications	123,626	6.59
Celloco Partnership DBA Verizon Wireless	Tele-Communications	57,772	3.08
Puget Sound Energy Inc	Gas and Electric Utility	44,924	2.40
4M Family Limited Partnership	Truck Stop (Murals)	42,171	2.25
Patchy, Inc.	Developer-Real Estate	40,049	2.14
Waldo Williams Development LLP	Developer-Real Estate	39,940	2.13
Nature Conservancy (The)	Non-Profit	39,904	2.13
Ockler Cornerstone LLC	Golf Course	39,856	2.13
GOSI Development Inc	Developer-Real Estate	37,520	2.00
AT&T Mobility	Tele-Communications	36,815	1.96
Total		\$ 1,875,487	100.00

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, 2012 of \$10,938,000. 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:

	Statewide Taxable Value Per Student	Average Number Belongings June 30, 2012	Percent Allowed	Maximum Bonded Indebtedness
High School	\$ 29,245,050	405	50%	\$ 14,622,525
Elementary	\$ 26,668,930	829	50%	13,334,465
Maximum Bonded Indebtedness Allowed				27,956,990
Less:				
Outstanding Bonds at June 30, 2012				16,390,000
Lease Payable at June 30, 2012				14,422
Maximum Bonded Indebtedness Available				\$ 11,552,568

COTE & ASSOCIATES, CPA, PLLC

Phone: 406-543-8088
Fax: 406-721-9357

1225 Cleveland, Suite 1
P.O. Box 430
Missoula, MT 59806

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*

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

I have audited 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, 2012, which collectively comprised the District's financial statements and have issued my report thereon dated February 26, 2013 and June 12, 2013. My report includes a reference to another auditor. 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. Another auditor audited the financial statements of the District, as described in my report on the District's financial statements. This report includes my consideration of the results of the other auditor's testing of internal control over financial reporting and compliance and other matters that are reported on separately by the other auditor. However, this report, insofar as it relates to the results of the other auditor, is based solely on the reports of the other auditor.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting.

In planning and performing my audit, I considered the District's internal control over financial reporting as a basis for designing my auditing procedures 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 over financial reporting.

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.

My consideration of internal control over financial reporting 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 deficiencies, significant deficiencies, or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined previously.

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 2012-1.

The District's response to findings in my audit will be submitted separately from this report. I did not audit the District's response and, accordingly I express no opinion on it.

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

Cote & Associates, CPA, PLLC
Cote & Associates, CPA, PLLC

February 26, 2013
Re-Issued June 12, 2013
Missoula, Montana

COTE & ASSOCIATES, CPA, PLLC

Phone: 406-543-8088
Fax: 406-721-9357

1225 Cleveland, Suite 1
P.O. Box 430
Missoula, MT 59806

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

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

COMPLIANCE

I have audited the compliance of School District No.40 (District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. 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. Compliance with the requirements of law, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. My responsibility is to express an opinion on the District's compliance based on my audit.

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. My audit does not provide legal determination of the District's compliance with those requirements.

In my opinion the District complied, in all material respects, with the 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, 2012.

INTERNAL CONTROL OVER COMPLIANCE

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine my auditing procedures for the purpose of expressing my opinion on compliance, 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.

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 deficiencies,

significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses, as defined above.

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

Cote & Associates, CPA, PLLC

Cote & Associates, CPA, PLLC

February 26, 2013

Re-Issued June 12, 2013

Missoula, Montana

Frenchtown School District
Missoula County, Montana

Summary of Auditor's Results
For the year ended June 30, 2012

1. The auditor's report expresses an unqualified opinion on the financial statements of the Frenchtown School District No. 40 (District).
2. No deficiencies were disclosed in the report on internal control over financial reporting based on an audit of financial statements performed in accordance with *Government Auditing Standards*.
3. One instance of noncompliance was disclosed in the report on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*. See 2012-1.
4. The auditor's report on compliance for the major federal programs for the District expresses an unqualified opinion on all major federal programs.
5. No material weaknesses were disclosed in the report on compliance with requirements applicable to each major program in accordance with OMB Circular A-133.
6. No deficiencies were disclosed in the report on Internal Control Over Compliance with requirements applicable to each major program in accordance with OMB Circular A-133.
7. There are no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
8. The programs tested as major programs were:

 Department of Agriculture- Child Nutrition Cluster-CFDA 10.553/10.555
 Special Education Cluster – IDEA –CFDA- 84.027, 84.173A, 84.391
9. The threshold for distinguishing Type A and B Programs was:

 Type A Programs: \$ 300,000 or more
 Type B Programs \$ 300,000 or less
10. The District did not qualify as a low risk auditee.

Frenchtown School District
Missoula County, Montana

Schedule of Findings and Questioned Costs and Prior Audit Findings
For the Year Ended June 30, 2012

SCHEDULE OF FINDINGS

2012-1

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, 2012 Frenchtown School District No. 40 (District) made payments for months 31-42 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 approximately twelve months 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

No findings in the year ended June 30, 2011

