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MONTGOMERY COUNTY SCHOOL DISTRICT

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2005

**MONTGOMERY COUNTY SCHOOL DISTRICT
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MONTGOMERY COUNTY SCHOOL DISTRICT

FINANCIAL AUDIT REPORT



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**INDEPENDENT AUDITOR'S REPORT
ON THE BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION**

October 4, 2005

Superintendent and School Board
Montgomery County School District

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Montgomery County School District, as of and for the year ended June 30, 2005, which collectively comprise the school district's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Montgomery County School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Montgomery County School District as of June 30, 2005, and the respective changes in financial position, 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*, we have also issued our report dated October 4, 2005, on our consideration of the Montgomery County School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 4 through 13 and the Budgetary Comparison Schedule and corresponding notes on pages 34 through 37 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion in it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Montgomery County School District's basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. In addition, the Schedule of Instructional, Administrative and other Expenditures – Governmental Fund is presented for purposes of additional analysis. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Watkins, Ward and Stafford, PLLC
Louisville, Mississippi
October 4, 2005

Watkins, Ward and Stafford, PLLC

MONTGOMERY COUNTY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Sammie McCaskill

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MONTGOMERY COUNTY SCHOOL DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2005

The discussion and analysis of Montgomery County School District's financial performance provides an overall narrative review of the School District's financial activities for the year ended June 30, 2005. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the School District's financial performance. Information contained in this section is qualified by the more detailed information contained elsewhere in this district's financial statements, notes to financial statements and any accompanying materials. To the extent this discussion contains any forward-looking statements of the district's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

Montgomery County School District is comprised of two schools with a combined enrollment of 510 students for the 2004-2005 school year. Kilmichael Elementary (K-6) had 288 students, and Montgomery County High School (7-12) had 222 students. The district is 85% Black and 15% White with 77% of the students eligible for free lunch. The average per pupil expenditure is approximately \$10,547.

FINANCIAL HIGHLIGHTS

- Total net assets decreased \$47,623, which represents 3% decrease from fiscal year 2004.
- General revenues account for \$3,322,348 in revenue, or 71% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$1,348,330 or 29% of total revenues.

- The District had \$4,718,301 in expenses; only \$1,348,330 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$3,322,348 were inadequate to provide for these programs, since there was a decrease of net assets of \$47,623.
- Among major funds, the General Fund had \$2,952,324 in revenues and \$3,077,792 in expenditures. The General Fund's fund balance decreased \$7,227 from the prior year.
- Capital assets, net of accumulated depreciation, decreased by \$40,393. Decrease is due primarily to the disposition of various school buildings relating to the closure of the Duck Hill School.
- Long-term debt decreased by \$58,285.

OVERVIEW OF FINANCIAL STATEMENTS

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

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. These statements are prepared using the accrual basis of accounting and include all assets and liabilities.

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

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal years.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, non-instructional, sixteenth section and interest on long-term liabilities.

The government-wide financial statements can be found on pages 15 - 16 of this report.

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

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the District's current financing requirements. Governmental Funds are reported using modified accrual accounting. This method of accounting measures cash and other assets that can be easily converted to cash. The Governmental Funds Statements provide a detailed short-term view of the school district's operations.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are on pages 18 and 20, respectively.

The District maintains individual governmental funds in accordance with the *Financial Accounting Manual for Mississippi Public School Districts* issued by the Mississippi Office of the State Auditor. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for all major funds. All other non-major funds are combined together and presented in these reports as other governmental funds.

The basic governmental fund financial statements can be found on pages 17 - 19 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because resources of those funds are not available to support the District's own programs. The accrual basis of accounting is used for fiduciary funds. The school district is responsible for ensuring that the assets reported in these funds are used for their intended purpose. The school district's fiduciary activities are presented in separate Statements of Fiduciary Net Assets on page 21.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 22 - 32 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's budget process. The District adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and each additional major fund. This required supplementary information can be found on pages 34 - 37 of this report. Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133 and can be found on page 39 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets. Net assets may serve over time as a useful indicator of government's financial position. In the case of the District, assets (*liabilities*) exceeded liabilities (*assets*) by \$1,607,422 as of June 30, 2005.

By far the largest portion of the District's net assets (81%) reflects its investment in Sixteen Section Interest Funds. These funds basically have been used in the past to supplement the district's operating activities.

The following table presents a summary of the District's net assets for the fiscal years ended June 30, 2004 and 2005.

	2004 <u>Amount</u>	2005 <u>Amount</u>
Current assets	\$ 2,308,333	\$ 2,223,869
Capital assets, net	<u>712,895</u>	<u>672,502</u>
Total assets	<u>3,021,228</u>	<u>2,896,371</u>
Current liabilities	347,219	328,270
Long-term debt outstanding	<u>1,018,964</u>	<u>960,679</u>
Total liabilities	<u>1,366,183</u>	<u>1,288,949</u>

Net assets:

Invested in capital assets, net of related debt	(327,105)	(312,498)
Restricted	1,710,714	1,652,426
Unrestricted	<u>271,436</u>	<u>267,494</u>
Total net assets	<u>\$ 1,655,045</u>	<u>\$ 1,607,422</u>

The following are significant current year transactions that have had an impact on the Statement of Net Assets.

- The principal retirement of \$55,000 of long-term debt.
- The disposition of the Duck Hill School land and buildings on with building cost of \$163,187 along with accumulated depreciation of \$125,750.

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2005 were \$4,670,678. The total cost of all programs and services was \$4,718,301. The following table presents a summary of the changes in net assets for the fiscal years ended June 30, 2004 and 2005.

	<u>2004 Amount</u>	<u>2005 Amount</u>
Revenues:		
Program revenues	\$ 1,490,462	\$ 1,348,330
General revenues	<u>3,491,087</u>	<u>3,322,348</u>
Total revenues	<u>4,981,549</u>	<u>4,670,678</u>
Expenses:		
Instruction	2,750,156	2,468,570
Support services	1,765,290	1,679,170
Non-instructional	360,256	340,009
Sixteenth section	399,013	181,368
Interest on long-term liabilities	<u>52,314</u>	<u>49,184</u>
Total expenses	<u>5,327,029</u>	<u>4,718,301</u>
Decrease in net assets	<u>\$ (345,480)</u>	<u>\$ (47,623)</u>

Governmental activities. The following table presents the cost of five major District functional activities: instruction, support services, non-instructional, sixteenth section and interest on long-term debt. The table also shows each function's net cost (total cost less charges for services generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the State and District's taxpayers by each of these functions.

Fiscal Year Ended June 30, 2004

	<u>Total Expenses</u>	<u>Net (Expense) Revenue</u>
Instruction	\$ 2,750,156	\$ (1,929,596)
Support services	1,765,290	(1,501,102)
Non-instructional	360,256	(7,819)
Sixteenth section	399,013	(345,736)
Interest on long-term liabilities	52,314	(52,314)
Total expenses	\$ 5,327,029	\$ (3,836,567)

Fiscal Year Ended June 30, 2005

	<u>Total Expenses</u>	<u>Net(Expense) Revenue</u>
Instruction	\$ 2,468,570	\$ (1,770,854)
Support services	1,679,170	(1,411,053)
Non-instructional	340,009	10,683
Sixteenth section	181,368	(149,563)
Interest on long-term liabilities	49,184	(49,184)
Total expenses	\$ 4,718,301	\$ (3,369,971)

- Net cost of governmental activities (\$3,369,971), was financed by general revenue, which is made up of primarily property taxes (\$758,523) and state revenue (\$2,235,463).
- Investment earnings accounted for \$24,015 of funding.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$1,970,101, a decrease of \$65,445 due primarily to the fact that our current revenue sources have decreased over the last several years due to decrease in enrollment. \$1,797,313 or 91% of the fund balance constitutes unreserved and undesignated fund balance, which is available for spending at the District's discretion. The remaining fund balance of \$172,788 or 9% is reserved or designated to indicate that it is not available for spending because it has already been committed.

The General Fund is the principal operating fund of the District. The decrease in fund balance in the General Fund for the fiscal year was \$7,227. The fund balance of Other Governmental Funds showed a decrease of \$2,906. Forestry Escrow had an increase in fund balance of \$15,943. Sixteen Section Fund has a decrease in fund balance of \$71,255 due to pro rata revenue to other districts.

BUDGETARY HIGHLIGHTS

Over the course of the year, the District revised the annual operating budget.

A schedule showing the original and final budget amounts compared to the District's actual financial activity for the General Fund and other major funds is provided in this report as required supplementary information.

Our General Fund instructional expenditures decreased by \$124,410. This decrease is due to a decline in student enrollment over the course of the prior year and we were not required to hire as many teachers as we originally thought for the 2004-2005 school year. There was also a decrease in support services expenditures of \$20,738.

The increase in expenditures under the Forestry Escrow Fund is due to an increase in advertising expenses that was not originally budgeted for the fiscal year.

Our Sixteenth Section Interest Fund revenues increased due to a timber sale that brought in more money than anticipated. This timber sale was on a section that was shared with another school district and this caused our expenditures increased.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2005, the District's total capital assets were \$2,212,234, including school buildings, buses, other school vehicles and furniture and equipment. This amount represents a decrease of \$154,036 from the previous year due to the disposition of the Duck Hill School lands and buildings. Total accumulated depreciation as of June 30, 2005 was \$1,539,732 and total depreciation expense for the year was \$56,680, resulting in total net assets of \$672,502.

Additional information of the District's capital assets can be found in Note 4 on page 29 of this report.

Debt Administration. At June 30, 2005, the District had \$1,015,679 in limited obligation bonds and other long-term debt outstanding, of which \$55,000 is due within one year.

The district's primary debt is the State Aid Improvement Bond Series 1998. The amount owed on this debt was \$985,000 as of June 30, 2005.

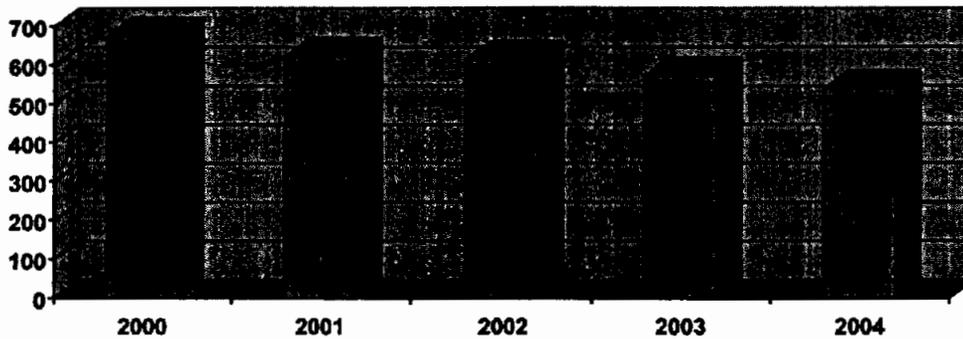
Additional information of the District's long-term debt can be found in Note 5 on page 29 of this report.

CURRENT ISSUES

The Montgomery County School District is not financially stable. Net assets decreased during the year by \$47,623 as noted on Exhibit B. The district has been relying on Sixteenth Section revenue to supplement operations over the last several years.

According to the Mississippi Forestry Commissions 10 year plan (Fiscal year 2001 through Fiscal Year 2010) for the district's Sixteenth Section lands there will be little revenue coming into the district. In fiscal year 2006 160 acres will be clearcut with Choctaw County Schools getting approximately 73% of the revenue, and only thinnings from fiscal years 2007-2010 with other counties getting part of the revenues.

School Year	Enrollment
2000	675
2001	623
2002	614
2003	572
2004	538



Latest enrollment figures indicate that student enrollment in the District will decline approximately 25 students for the 2005-2006 school year. The budget for the next fiscal year has taken into account this reduction in both funding and staffing needs.

The District spent approximately \$9,936.02 per student at Montgomery County Elementary and Montgomery County High School. These figures are based on enrollment of 510 students. Average Daily Attendance (ADA) for 2004-2005 was 476.94 and we received approximately \$4,268 per student ADA from the state. The consolidation of our elementary schools and the housing of the 7th and 8th grades at the high school allowed for a more even distribution of students between the two remaining schools.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Montgomery County School District, P. O. Box 687 or 618 Summit Street, Winona, MS 38967.

MONTGOMERY COUNTY SCHOOL DISTRICT

FINANCIAL STATEMENTS

Montgomery County School District
 Statement of Net Assets
 June 30, 2005

		<u>Primary Government Governmental Activities</u>
Assets		
Cash and cash equivalents(Note 2)	\$	1,951,432
Cash with fiscal agent		23,628
Due from other governments		139,122
Accrued interest receivable		1,304
Other receivables, net		8,733
Inventories		4,484
Restricted assets		95,166
Capital assets, net(Note 4)		672,502
Total Assets		2,896,371
Liabilities		
Accounts payable and accrued liabilities		240,547
Deferred revenue		13,221
Interest payable on long-term liabilities		19,502
Long-term liabilities, Due within one year (Note 5)		
Capital related liabilities		55,000
Long-term liabilities, Due beyond one year (Note 5)		
Capital related liabilities		930,000
Non-capital liabilities		30,679
Total Liabilities		1,288,949
Net Assets		
Invested in capital assets, net of related debt		(312,498)
Restricted net assets		
Expendable:		
School-based activities		1,076,878
Debt service		66,036
Forestry improvements		393,280
Unemployment benefits		21,066
Non-expendable:		
Sixteenth section		95,166
Unrestricted		267,494
Total Net Assets	\$	1,607,422

The notes to the financial statements are an integral part of this statement

Exhibit B

Montgomery County School District
Statement of Activities
For the Year Ended June 30, 2005

Functions/Programs	Program Revenues			Charges for Services	Expenses		Net (Expense) Revenue and Changes In Net Assets
	Operating	Grants and Contributions	Capital Grants and Contributions		Primary Governmental Activities	Governmental Activities	
Primary Government:							
Governmental Activities:							
Instruction	\$ 2,468,570	\$ 40,026	\$ 657,690	\$			(1,770,854)
Support services	1,679,170		268,117				(1,411,053)
Non-instructional	340,009	33,125	317,567				10,683
Sixteenth section	181,368	31,805					(149,563)
Interest on long-term liabilities	49,184						(49,184)
Total governmental activities	4,718,301	104,956	1,243,374	0			(3,369,971)

General Revenues:

Taxes:	
General purpose levies	758,523
Unrestricted grants and contributions:	
State	2,235,463
Federal	21,307
Unrestricted investment earnings	24,015
Sixteenth section sources	276,936
Other	6,104
Total General Revenues	3,322,348
Total General Revenues, Special Items, Extraordinary Items & Transfers	3,322,348
Change in Net Assets	(47,623)
Net Assets - Beginning	1,655,045
Net Assets - Ending	1,607,422

The notes to the financial statements are an integral part of this statement.

Montgomery County School District
 Balance Sheet - Governmental Funds
 June 30, 2005

Exhibit C

	Major Funds			Other Govern- mental Funds	Total Governmental Funds
	General Fund	Forestry Escrow Fund	16th Section Interest Fund		
Assets					
Cash and cash equivalents(Note 2)	\$ 417,633	396,069	957,218	273,567	2,044,487
Cash with fiscal agent(Note 2)				23,628	23,628
Due from other governments	36,281		979	102,150	139,410
Accrued interest receivable			1,304	1,823	3,127
Other receivables, net			8,733		8,733
Due from other funds(Note 3)	0				0
Inventories				4,484	4,484
Total Assets	453,914	396,069	968,234	405,652	2,223,869
Liabilities and Fund Balances					
Liabilities:					
Accounts payable and accrued liabilities	23,897	2,789	18,000	25,552	70,238
Due to other funds(Note 3)	131,844			38,465	170,309
Deferred revenue				13,221	13,221
Total Liabilities	155,741	2,789	18,000	77,238	253,768
Fund Balances:					
Reserved for:					
Inventory				4,484	4,484
Advalorem	168,304				168,304
Unreserved:					
Undesignated, reported in:					
General fund	129,869				129,869
Special revenue funds		393,280	950,234	143,226	1,486,740
Debt service funds				85,538	85,538
Permanent funds				95,166	95,166
Total Fund Balances	298,173	393,280	950,234	328,414	1,970,101
Total Liabilities and Fund Balances	\$ 453,914	396,069	968,234	405,652	2,223,869

The notes to the financial statements are an integral part of this statement.

Montgomery County School District
Reconciliation of Governmental Funds Balance Sheet
to the Statement of Net Assets
June 30,2005

Exhibit C-1

	<u>Amount</u>
Total fund balance - governmental funds	\$ 1,970,101
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>	
<p>1. Capital assets are used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$1,539,732 (Note 4)</p>	672,502
<p>2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.(Note 5)</p>	(1,015,679)
<p>3. Interest payable on long-term liabilities is not due and payable in the current period and therefore is not reported in the funds.</p>	(19,502)
Total net assets - governmental activities	<u>1,607,422</u>

The notes to the financial statements are an integral part of this statement.

Montgomery County School District
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2005

Exhibit D

	Major Funds			Other Govern- mental Funds	Total Governmental Funds
	General Fund	Forestry Escrow Fund	16th Section Interest Fund		
Revenues:					
Local sources	\$ 801,511			40,098	841,609
State sources	2,129,506			225,389	2,354,895
Federal sources	21,307			1,123,941	1,145,248
Sixteenth section sources		36,462	289,593	2,870	328,925
Total revenues	2,952,324	36,462	289,593	1,392,298	4,670,677
Expenditures:					
Instruction	1,758,350			665,965	2,424,315
Support services	1,319,442			376,324	1,695,766
Noninstructional services				331,946	331,946
Sixteenth section		20,519	160,848		181,367
Debt Service:					
Principal				55,000	55,000
Interest				49,940	49,940
Other				550	550
Total expenditures	3,077,792	20,519	160,848	1,479,725	4,738,884
Excess (deficiency) of revenues over expenditures	(125,468)	15,943	128,745	(87,427)	(68,207)
Other Financing Sources (Uses)					
Sale of other property	2,762				2,762
Transfers in	201,209			85,730	286,939
Transfers out	(85,730)		(200,000)	(1,209)	(286,939)
Total other financing sources and uses	118,241	0	(200,000)	84,521	2,762
Net change in fund balances	(7,227)	15,943	(71,255)	(2,906)	(65,445)
Fund balances:					
July 1, 2004	305,400	377,337	1,021,489	332,696	2,036,922
Increase (decrease) in reserve for inventory				(1,376)	(1,376)
June 30, 2005	\$ 298,173	393,280	950,234	328,414	1,970,101

The notes to the financial statements are an integral part of this statement

**Montgomery County School District
 Reconciliation of the Governmental Funds Statement of Revenues,
 Expenditures and Changes in Fund Balances to the Statement of Activities
 For the Year Ended June 30, 2005**

	<u>Amount</u>
Net change in fund balances - governmental funds	\$ (65,445)
Amounts reported for governmental activities in the statement of activities are different because:	
1. Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital assets purchased amounted to \$ 54,174 and the depreciation expense amounted to \$ 56,680. (Note 4)	(2,506)
2. Payment of principal on long term liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of activity. (Note 5)	55,000
3. Increase (decrease) in the inventory is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenditures are increased (decreased) in the statement of activities.	(1,376)
4. Proceeds from the sale of capital assets are reported as an increase in financial in the governmental funds, but only the gain or losses from the sale of the capital assets is reported in the statement of activities.	(37,887)
5. Expenditures are recognized on the modified accrual basis in the governmental funds; therefore expenditures are not recognized for transactions that will not be paid with expendable available financial resources. However, expenses are recognized on the accrual basis in the statement of activities; therefore the change in applicable accrued expenses will result in an increase or decrease in the related expense.	3,285
6. Interest on long-term debt is recognized when it becomes due and payable in the governmental funds, but is recognized when it accrues in the statement of activities.	1,306
Change in net assets of governmental activities	\$ <u>(47,623)</u>

The notes to the financial statements are an integral part of this statement.

Montgomery County School District
Statement of Net Assets - Fiduciary Funds
June 30,2005

Exhibit E

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	\$ 19,307
Due from other funds	170,309
Total Assets	<u>189,616</u>
Liabilities	
Accounts payable and accrued liabilities	187,333
Due to student clubs	2,283
Total Liabilities	<u>\$ 189,616</u>

The notes to the financial statements are an integral part of this statement.

MONTGOMERY COUNTY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2005

(1) Summary of Significant Accounting Policies.

The accompanying financial statements of the school district have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). GASB is the accepted standard-setting body for governmental accounting and financial reporting principles. The most significant of the school district's accounting policies are described below.

A. Financial Reporting Entity.

For financial reporting purposes, the reporting entity includes all funds that are covered by the oversight responsibility of the school district's governing board.

As defined by accounting principles generally accepted in the United States of America, the school district is considered a "primary government." The school district is governed by a five member board which each member was elected by the citizens of each defined county district.

B. Basis of Presentation.

The school district's basic financial statement consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the school district as a whole. They include all funds of the reporting entity except for fiduciary funds, if applicable. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange revenues.

The Statement of Net Assets presents the financial condition of the governmental activities of the school district at year-end. The Government-wide Statement of Activities presents a comparison between direct expenses and program revenues for each function or program of the school district's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the school district, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the school district.

Fund Financial Statements:

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

MONTGOMERY COUNTY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2005

organized into two major categories: governmental and fiduciary. An emphasis is placed on major funds within the governmental category.

C. Measurement Focus and Basis of Accounting.

In the government-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Program revenues on the Statement of Activities consist primarily of state appropriations and federal awards.

In the fund financial statements, governmental funds and agency funds are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Property taxes, state appropriations and federal awards associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

The school district reports the following major governmental funds:

General Fund – This is the school district's primary operating fund. It accounts for all financial resources of the school district, except those required to be accounted for in another fund.

Forestry Escrow Fund – This is the school district's fund that is reserved for improvements to 16th section land and timber resources.

16th Section Interest Fund – This is the school district's fund that accumulates 16th section revenue sources that are available to supplement the district's operating activities.

All other governmental funds not meeting the criteria established for major funds are presented in the other governmental column of the fund financial statements.

Additionally the school district reports the following fund types:

GOVERNMENTAL FUNDS

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

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

MONTGOMERY COUNTY SCHOOL DISTRICT

**Notes to Financial Statements
For the Year Ended June 30, 2005**

Permanent Funds – Permanent Funds are used to account for resources that are legally restricted to the extent that only earnings, and not the principal, may be used for purposes that support the district's programs.

FIDUCIARY FUNDS

Agency Funds – Agency Funds are used to report resources held by the district in a purely custodial capacity (assets equal liabilities) and do not involve measurement of results of operations.

D. Account Classifications.

The account classifications used in the financial statements conform to the classifications prescribed in the *Financial Accounting Manual for Mississippi Public School Districts* issued by the Office of the State Auditor. The classifications in that manual are consistent with the broad classifications recommended in *Financial Accounting for Local and State School Systems, 1990* issued by the U.S. Department of Education.

E. Encumbrances.

An encumbrance system is not maintained to account for commitments resulting from approved purchase orders, work orders and contracts.

F. Cash and Cash Equivalents.

The school district deposits excess funds in the financial institutions selected by the school board. State statutes specify how these depositories are to be selected.

Cash and cash equivalents consists of amounts on deposit in demand accounts and certificates of deposit with maturities of 12 months or less. Cash and cash equivalents are valued at cost.

G. Investments.

The school district can invest its excess funds, as permitted by Section 29-3-113, Miss. Code Ann. (1972), in interest-bearing deposits or other obligations of the types described in Section 27-105-33, Miss. Code Ann. (1972), or in any other type investment in which any other agency, instrumentality or subdivision of the state of Mississippi may invest, except that 100% of said funds are authorized to be so invested.

For accounting purposes, certificates of deposits are classified as investments if they have a maturity greater than 12 months when acquired.

H. Inventories.

Donated commodities are received from the USDA and are valued at USDA cost. Other inventories are valued at cost (calculated on the first-in, first-out basis).

The costs of governmental fund type inventories are reported as expenditures when purchased.

MONTGOMERY COUNTY SCHOOL DISTRICT

**Notes to Financial Statements
For the Year Ended June 30, 2005**

I. Capital Assets.

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed assets are reported at estimated fair value at the time received.

Capitalization thresholds (dollar value above which asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets are reported in the government-wide statements and proprietary funds. Depreciation is calculated on the straight-line basis for all assets, except land. The following schedule details those thresholds.

	Capitalization Policy	Estimated Useful Life
Land	\$ 0	0
Buildings	50,000	40 years
Building improvements	25,000	20 years
Improvements other than buildings	25,000	20 years
Mobile equipment	5,000	5-10 years
Furniture and equipment	5,000	3-7 years
Leased property under capital leases	*	*

(*) the threshold amount will correspond with the amounts for the asset classifications, as listed. See **Note (4)** for details.

J. Long-term liabilities.

Long-term liabilities are unmatured principal of bonds, warrants, notes, or other forms of noncurrent or long-term general obligation indebtedness. Long-term liabilities are not limited to liabilities from debt issuances, but may also include liabilities on lease-purchase agreements and other commitments. Long-term liabilities should not be reported as liabilities in governmental funds, but should be reported in the governmental activities column in the government-wide statement of net assets. (See **Note (5)** for details).

K. Interfund Transactions and Balances.

Interfund transactions and balances are the result of timing differences between the date expenses/expenditures occur and the date payments are made.

Short-term (due within one year) interfund loan receivables are reported as "due from other funds" and are considered available expendable resources.

Transfers are used to (a) move revenues from the fund that statute or budget requires to collect to the fund that statute or budget requires to expend them and to (b) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. See **Note 3** for details for interfund transactions, including receivables and payables at year-end.

MONTGOMERY COUNTY SCHOOL DISTRICT

**Notes to Financial Statements
For the Year Ended June 30, 2005**

L. Equity Classifications.

Government-Wide Financial Statements:

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

- a. Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, constructions, or improvement of those assets.
- b. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Financial Statements:

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved classified as designated and undesignated.

Fund reserves are portions of fund equity that are legally segregated for a specific future use or are not available for current operations. Following is a description of fund reserves used by the district.

Reserved for inventory – An account that represents a portion of the fund balance which indicates that inventories do not represent available spendable resources even though they are a component of net current assets.

Reserved for ad valorem – An account used to record the ad valorem taxes collected in excess of legal limitations for the current fiscal year.

M. Property Taxes.

Ad valorem property taxes are levied by the governing authority of the county on behalf of the school district based upon an order adopted by the school board of the school district requesting an ad valorem tax effort in dollars. Since the taxes are not levied and collected by the school district, the revenues to be generated by the annual levies are not recognized until the taxes are actually collected by the tax levying authority.

N. Mississippi Adequate Education Program Revenues.

Revenues from the adequate education program are appropriated on a fiscal year basis and are recorded at the time the revenues are received from the state of Mississippi.

MONTGOMERY COUNTY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2005

O. Compensated Absences.

Employees of the school district accumulate sick leave at a minimum amount as required by state law or at a greater amount provided by school district policy. Some employees are allowed personal leave and/or vacation leave in accordance with school district policy. The district pays for unused leave for employees as required by Section 37-7-307(5), Miss. Code Ann. (1972).

The liability for these compensated absences is recorded as long-term liabilities in the government-wide statements. The current portion of this liability is estimated based on historical trends in the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources.

(2) Cash and Cash Equivalents and Cash with Fiscal Agents.

The district follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Deposits: The school board must advertise and accept bids for depositories no less than once every three years as required by Section 37-7-333, Miss. Code Ann. (1972). The collateral pledged for school district deposits in financial institutions are held in the name of the Mississippi State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the school district's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

Investments. Section 29-3-113 and 37-59-43, Miss. Code Ann. (1972), authorizes the school board to invest surplus funds in the types of investments authorized by Section 27-105-33 (d) and (e), Miss. Code Ann. (1972). That section permits the following types of investments: (a) certificates of deposit and interest bearing accounts; (b) direct US Treasury obligations; (c) US Government agencies, US Government instrumentalities or US Government sponsored enterprise obligations; (d) direct security repurchase agreements and reverse direct security repurchase agreements of any federal book entry of those securities enumerated in (b) and (c) above; (e) direct obligations of the US in open-end or closed-end of any management type investment company. Investment income on bond funds (Capital Projects), bond sinking funds (Debt Service Funds) and sixteenth section principal funds (Permanent Funds) must be credited to those funds. Investment income of \$100 or more of any fund must be credited to that fund.

Cash and Cash Equivalents.

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$2,044,487 and \$19,307 respectively. The carrying amount of deposits reported in the

MONTGOMERY COUNTY SCHOOL DISTRICT

**Notes to Financial Statements
For the Year Ended June 30, 2005**

government-wide financial statements was: Cash and Cash Equivalents - \$1,951,432 and Restricted Assets - \$93,055. The Restricted Assets represents the cash balance of the sixteenth section principal fund (Permanent Fund) which is legally restricted and may not be used for purposes that support the district's programs. The bank balance was \$2,326,881.

Custodial Credit Risk – Deposits. Custodial risk is the risk that in the event of a depository failure, the school district deposits may not be returned to it. The school district does not have a formal policy for custodial credit risk. However, state law permits the Mississippi State Treasurer's office to manage that risk on behalf of the school district. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. By signed agreement the Mississippi State Treasurer's office is acting on behalf of the school district.

Cash with Fiscal Agents.

The carrying amount of the school district's cash with fiscal agents held by financial institutions was \$23,628.

(3) **Interfund Transactions and Balances.**

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds:

		<u>Due From</u>	<u>Due To</u>
Major funds:			
General fund	\$		131,844
Other governmental funds		-	38,465
Fiduciary funds		<u>170,309</u>	<u> -</u>
Total funds	\$	<u>170,309</u>	<u>170,309</u>

The purpose of the inter-fund receivables and payables are for transfers to the payroll cleaning fund for payment of payroll expenditures. All interfund receivables and payables are expected to be repaid within one year.

B. Transfers In/Out.

		<u>Transfer In</u>	<u>Transfer Out</u>
Major funds:			
General fund	\$	201,209	85,730
Other major fund(s) 16 th section fund		-	200,000
Non-major Funds		<u>85,730</u>	<u>1,209</u>
Total funds	\$	<u>286,939</u>	<u>286,939</u>

MONTGOMERY COUNTY SCHOOL DISTRICT

**Notes to Financial Statements
For the Year Ended June 30, 2005**

The purpose of interfund transfers are to transfer expendable sixteenth section funds to the General Fund and also to transfer funds from the General Fund to the vocational fund to fund this activity. These transfers are consistent with the activities of the fund making the transfer.

(4) Capital Assets.

The following is a summary of changes in capital assets for governmental activities:

	Balance 7-1-2004	Additions	Retirements	Balance 6-30-2005
<u>Non-depreciable capital assets</u>				
Land	\$ 18,623	-	(6,000)	12,623
Total non-depreciable capital assets	<u>18,623</u>	<u>-</u>	<u>(6,000)</u>	<u>12,623</u>
<u>Depreciable capital assets:</u>				
Buildings	1,380,466	-	(157,187)	1,223,279
Mobile equipment	757,253	54,174	-	811,427
Furniture and equipment	209,927	-	(45,022)	164,905
Total depreciable capital assets	<u>2,347,646</u>	<u>54,174</u>	<u>(202,209)</u>	<u>2,199,611</u>
<u>Less accumulated depreciation for:</u>				
Buildings	898,658	12,583	(125,750)	785,491
Mobile equipment	566,933	34,682	-	601,615
Furniture and equipment	187,783	9,415	(44,572)	152,626
Total accumulated depreciation	<u>1,653,374</u>	<u>56,680</u>	<u>(170,322)</u>	<u>1,539,732</u>
Total depreciable capital assets, net	<u>694,272</u>	<u>(2,506)</u>	<u>(31,887)</u>	<u>659,879</u>
Governmental activities capital assets, net	<u>\$ 712,895</u>	<u>(2,506)</u>	<u>(37,887)</u>	<u>672,502</u>

Depreciation expense was charged to the following governmental functions:

	Amount
Instruction	\$ 12,360
Support services	37,704
Non-instructional	<u>6,616</u>
Total depreciation expense	\$ <u>56,680</u>

(5) Long-term liabilities:

The following is a summary of changes in long-term liabilities and other obligations for governmental activities:

	Balance 7-1-2004	Additions	Reductions	Balance 6-30-2005	Amounts due Within one Year
A. Limited obligation bonds Payable	\$ 1,040,000	(55,000)	985,000	55,000
B. Compensated absences payable	<u>33,964</u>	-	(3,285)	<u>30,679</u>	-
Total	\$ <u>1,073,964</u>	-	(58,285)	<u>1,015,679</u>	<u>55,000</u>

MONTGOMERY COUNTY SCHOOL DISTRICT

**Notes to Financial Statements
For the Year Ended June 30, 2005**

A. Limited obligation bonds payable.

Limited obligation bonds are direct obligations and pledge the full faith and credit of the school district. Limited obligation bonds currently outstanding are as follows:

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
State aid capital improvement	Varies	2/01/1998	2/01/2018	\$ <u>1,230,000</u>	<u>985,000</u>
Total				\$ <u>1,230,000</u>	<u>985,000</u>

The following is a schedule by years of the total payments due on this debt:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	55,000	46,805	101,805
2007	60,000	43,780	103,780
2008	60,000	41,080	101,080
2009	65,000	38,380	103,380
2010	70,000	35,390	105,390
2011-2015	390,000	125,603	515,603
2016-2020	<u>285,000</u>	<u>27,840</u>	<u>312,840</u>
Total	\$ <u>985,000</u>	<u>358,878</u>	<u>1,343,878</u>

The state aid capital improvement bonds are secured by an irrevocable pledge of certain revenues the district receives from the state of Mississippi pursuant to the Mississippi Accountability and Adequate Education Program Act, Sections 37-151-1 through 37-151-7, Miss. Code Ann. (1972). The state aid capital improvement bonds are not included in the computation of the debt limit percentage. This debt will be retired from the MAEP Retirement Fund.

B. Compensated absences payable.

As more fully explained in Note 1 (O), compensated absences payable is adjusted on an annual basis as required by Section 37-7-307(5), Miss. Code Ann. (1972). Compensated absences will be paid from the fund from which the employees' salaries were paid.

MONTGOMERY COUNTY SCHOOL DISTRICT

**Notes to Financial Statements
For the Year Ended June 30, 2005**

(6) Defined Benefit Pension Plan.

Plan Description. The school district contributes to the Public Employees Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Public Employees' Retirement System of Mississippi, PERS Building, 429 Mississippi Street, Jackson, MS 39201 or by calling (601) 359-3589 or 1-800-444-PERS.

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The current rate is 9.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2005, 2004 and 2003 were \$277,472, \$278,360 and \$273,805 respectively, which equaled the required contributions for each year.

(7) Sixteenth Section Lands.

Sixteenth section school lands, or lands granted in lieu thereof, constitute property held in trust for the benefit of the public schools. The school board, under the general supervision of the Office of the Secretary of State, has control and jurisdiction of said school trust lands and of all funds arising from any disposition thereof. It is the duty of the school board to manage the school trust lands and all funds arising therefrom as trust property. Accordingly, the board shall assure that adequate compensation is received for all uses of the trust lands, except for uses by the public schools. The following are the future rental payments to be made to the school district for the use of school trust lands. These future rental payments are from existing leases and do not anticipate renewals or new leases.

<u>Year Ending June 30</u>	<u>Amount</u>
2006	54,238
2007	54,088
2008	44,353
2009	31,290
2010	3,063
2011-2015	9,011
2016-2020	500
2021-2025	500
2026-2030	500
2031-2035	500
2036-2040	<u>400</u>
Total	\$ <u>198,443</u>

MONTGOMERY COUNTY SCHOOL DISTRICT

**Notes to Financial Statements
For the Year Ended June 30, 2005**

(8) Risk Management.

The school district is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Except as described below, the district carries commercial insurance for these risks. Settled claims resulting from these insured risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Participation in Public Entity Risk Pool.

The school district is a member of the Mississippi Public Entity Workers' Compensation Trust (MPEWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust covers risks of loss arising from injuries to the school district's employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of MPEWCT contributes quarterly to a fund held in trust. The funds in the trust account are used to pay any claim up to \$350,000. For a claim exceeding \$350,000, MPEWCT has insurance which will pay the excess up to \$1,000,000. If total claims during a year were to deplete the trust account, then the pool members would be required to pay for the deficiencies. The district has not had an additional assessment for excess losses incurred by the pool.

MONTGOMERY COUNTY SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

Montgomery County School District
 Budgetary Comparison Schedule
 General Fund
 For the Year Ended June 30, 2005

Schedule 1

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive(Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local Sources	\$ 635,449	\$ 784,636	\$ 801,511	\$ 149,187	\$ 16,875
State Sources	2,133,341	2,132,841	2,129,506	(500)	(3,335)
Federal Sources	40,000	40,000	21,307	-	(18,693)
Total revenues	<u>2,808,790</u>	<u>2,957,477</u>	<u>2,952,324</u>	<u>148,687</u>	<u>(5,153)</u>
Expenditures:					
Instruction	1,939,326	1,814,916	1,758,350	124,410	56,566
Support Services	1,406,625	1,385,887	1,319,442	20,738	66,445
Total expenditures	<u>3,345,951</u>	<u>3,200,803</u>	<u>3,077,792</u>	<u>145,148</u>	<u>123,011</u>
Excess(deficiency) of revenues over expenditures	<u>(537,161)</u>	<u>(243,326)</u>	<u>(125,468)</u>	<u>293,835</u>	<u>117,858</u>
Other financing sources(uses):					
Sale of other property	-	31,200	2,762	31,200	(28,438)
Operating transfers in	775,301	502,539	201,209	(272,762)	(301,330)
Operating transfers out	(355,228)	(364,474)	(85,730)	(9,246)	278,744
Total other financing sources(uses)	<u>420,073</u>	<u>169,265</u>	<u>118,241</u>	<u>(250,808)</u>	<u>(51,024)</u>
Net change in fund balances	<u>(117,088)</u>	<u>(74,061)</u>	<u>(7,227)</u>	<u>43,027</u>	<u>66,834</u>
Fund Balances					
July 1, 2004	<u>226,500</u>	<u>305,400</u>	<u>305,400</u>	<u>78,900</u>	<u>-</u>
June 30,2005	<u>\$ 109,412</u>	<u>\$ 231,339</u>	<u>\$ 298,173</u>	<u>\$ 121,927</u>	<u>\$ 66,834</u>

The notes to the required supplementary information are an integral part of this statement.

Montgomery County School District
 Budgetary Comparison Schedule
 Forestry Escrow Fund
 For the Year Ended June 30, 2005

Schedule 1

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive(Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Sixteenth Section Sources	\$ 12,500	\$ 13,725	\$ 36,462	\$ 1,225	\$ 22,737
Total revenues	<u>12,500</u>	<u>13,725</u>	<u>36,462</u>	<u>1,225</u>	<u>22,737</u>
Expenditures:					
Sixteenth Section	40,400	46,800	20,519	(6,400)	26,281
Total expenditures	<u>40,400</u>	<u>46,800</u>	<u>20,519</u>	<u>(6,400)</u>	<u>26,281</u>
Excess(deficiency) of revenues over expenditures	<u>(27,900)</u>	<u>(33,075)</u>	<u>15,943</u>	<u>(5,175)</u>	<u>49,018</u>
Net change in fund balances	<u>(27,900)</u>	<u>(33,075)</u>	<u>15,943</u>	<u>(5,175)</u>	<u>49,018</u>
Fund Balances					
July 1, 2004	<u>377,337</u>	<u>377,337</u>	<u>377,337</u>	-	-
June 30,2005	\$ <u>349,437</u>	\$ <u>344,262</u>	\$ <u>393,280</u>	\$ <u>(5,175)</u>	\$ <u>49,018</u>

The notes to the required supplementary information are an integral part of this statement.

Montgomery County School District
 Budgetary Comparison Schedule
 Sixteenth Section Interest Fund
 For the Year Ended June 30, 2005

Schedule 1

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive(Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Sixteenth Section Sources	\$ 166,783	\$ 299,437	\$ 289,593	\$ 132,654	\$ (9,844)
Total revenues	<u>166,783</u>	<u>299,437</u>	<u>289,593</u>	<u>132,654</u>	<u>(9,844)</u>
Expenditures:					
Sixteenth Section	11,300	166,300	160,848	(155,000)	5,452
Total expenditures	<u>11,300</u>	<u>166,300</u>	<u>160,848</u>	<u>(155,000)</u>	<u>5,452</u>
Excess(deficiency) of revenues over expenditures	<u>155,483</u>	<u>133,137</u>	<u>128,745</u>	<u>(22,346)</u>	<u>(4,392)</u>
Other financing sources(uses):					
Operating transfers out	(400,000)	(220,000)	(200,000)	180,000	20,000
Total other financing sources(uses)	<u>(400,000)</u>	<u>(220,000)</u>	<u>(200,000)</u>	<u>180,000</u>	<u>20,000</u>
Net change in fund balances	<u>(244,517)</u>	<u>(86,863)</u>	<u>(71,255)</u>	<u>157,654</u>	<u>15,608</u>
Fund Balances					
July 1, 2004	<u>1,021,489</u>	<u>1,021,489</u>	<u>1,021,489</u>	-	-
June 30,2005	\$ <u>776,972</u>	\$ <u>934,626</u>	\$ <u>950,234</u>	\$ <u>157,654</u>	\$ <u>15,608</u>

The notes to the required supplementary information are an integral part of this statement.

MONTGOMERY COUNTY SCHOOL DISTRICT

**Notes to the Required Supplementary Information
For the Year Ended June 30, 2005**

Budgetary Comparison Schedule

(1) Basis of Presentation.

The Budgetary Comparison Schedule presents the original legally adopted budget, the final legally adopted budget, the actual data on the GAAP basis, variances between the original budget and the final budget, and variances between the final budget and the actual data.

(2) Budget amendments and revisions.

The budget is adopted by the school board and filed with the taxing authority. Amendments can be made on the approval of the school board. By statute, final budget revisions must be approved on or before the date established by the Mississippi Department of Education. A budgetary comparison is presented for the general fund and each major special revenue fund consistent with accounting principles generally accepted in the United States of America.

MONTGOMERY COUNTY SCHOOL DISTRICT

SUPPLEMENTAL INFORMATION

MONTGOMERY COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

<u>Federal Grantor/ Pass-through Grantor/ Program Title</u>	<u>Catalog Of Federal Domestic Assistance No.</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Agriculture</u>		
Passed through the Mississippi Department of Education:		
Non-cash assistance:		
Food donation	10.550	\$ 18,423
Child nutrition cluster		
School breakfast program	10.553	115,607
National school lunch program	10.555	171,119
Total child nutrition cluster		<u>286,726</u>
Child and adult care food program	10.558	2,567
Total U.S. Department of Agriculture		<u>307,716</u>
<u>U.S. Department of Education</u>		
Direct Program		
Fund for the improvement of education	84.215	<u>73,642</u>
Passed through Drew Public School District		
Twenty-first century community learning centers	84.287	<u>65,051</u>
Passed through the Mississippi Department of Education:		
Title I grants to local educational agencies	84.010	395,075
Vocational education - basic grants to states	84.048	10,716
Safe and drug free schools and communities - state grants	84.186	3,472
Even start - state educational agencies	84.213	79,896
Eisenhower professional development state grants	84.281	94,711
State grants for innovative programs	84.298	5,160
Education technology state grants	84.318	13,641
Teacher quality enhancement grants	84.336	3,654
Total		<u>606,325</u>
Special education cluster:		
Special education - grants to states	84.027	69,965
Special Education - Preschool Grants	84.173	11,897
Total Special Education Cluster		<u>81,862</u>
Total passed through Mississippi Department of Education		<u>688,187</u>
Total U.S. Department of Education		<u>826,880</u>
Total for All Federal Awards		<u>\$ 1,134,596</u>

Notes To Schedule:

1. This schedule was prepared using the same basis of accounting and the same significant accounting policies, as applicable, used for the financial statements.
2. The expenditure amounts include transfers out.
3. The pass - through entities did not assign identifying numbers to the school district.

Montgomery County School District
Schedule Of Instructional, Administrative and Other Expenditures - Governmental Funds
For The Year Ended June 30,2005

<u>Expenditures</u>	<u>Total</u>	<u>Instruction</u>	<u>Administrative</u>	<u>Other</u>
Salaries and fringe benefits	\$ 3,587,036	2,260,373	530,436	796,227
Other	1,151,849	163,941	114,398	873,510
Total	\$ <u>4,738,885</u>	<u>2,424,314</u>	<u>644,834</u>	<u>1,669,737</u>
 Total number of students	 476.94			
 Cost per student	 \$ <u>9,936.02</u>	 <u>5,083.06</u>	 <u>1,352.02</u>	 <u>3,500.94</u>

For purposes of this schedule, the following columnar descriptions are applicable:

Instruction - includes the activities dealing directly with the interaction between teachers and students. Included here are the activities of teachers, teacher aides or classroom assistants of any type - all the 1000 functional codes

Administrative - includes expenditures for the following functions: Support Services - General Administration (2300s); Support Services - School Administration (2400s); Support Services - Business (2500s)

Other - includes all expenditure functions not included in Instruction or Administrative.

MONTGOMERY COUNTY SCHOOL DISTRICT

REPORTS ON COMPLIANCE AND INTERNAL CONTROL



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Certified Public Accountants

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John N. Russell, CPA

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

October 4, 2005

Superintendent and School Board
Montgomery County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Montgomery County School District as of and for the year ended June 30, 2005, and have issued our report thereon dated October 4, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the school district's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our opinion, could adversely affect the school district's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the Schedule of Findings and Questioned Costs as Findings 04-01, 04-02, and 04-03.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all reportable conditions and, accordingly, would not also disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable conditions described in the findings referred to above are not material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the school district's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests did not disclose any instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the school district in a separate letter dated October 4, 2005.

This report is intended solely for the information and use of the school board and management, entities with accreditation overview, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties. However, this report is a matter of public record and its distribution is not limited.

Watkins, Ward and Stafford, PLLC
Louisville, Mississippi
October 4, 2005

Watkins, Ward and Stafford, PLLC



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**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

October 4, 2005

Superintendent and School Board
Montgomery County School District

Compliance

We have audited the compliance of the Montgomery County School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The school district's major federal program is identified in the summary of auditor's results section of the Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the school district's management. Our responsibility is to express an opinion on the school district's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the school district's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the school district's compliance with those requirements.

In our opinion, Montgomery County School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 4, 2005.

Internal Control Over Compliance

The management of the Montgomery County School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the school district's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We did not note any matters involving internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the school board and management, entities with accreditation overview, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Watkins, Ward and Stafford, PLLC
Louisville, Mississippi
October 4, 2005

Watkins, Ward and Stafford, PLLC

MONTGOMERY COUNTY SCHOOL DISTRICT

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
WITH STATE LAWS AND REGULATIONS**



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
 STATE LAWS AND REGULATIONS**

October 4, 2005

Superintendent and School Board
 Montgomery County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Montgomery County School District as of and for the year ended June 30, 2005, which collectively comprise Montgomery County School District's basic financial statements and have issued our report thereon dated October 4, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Section 37-9-18(3), Miss. Code Ann. (1972), states in part, "the auditor shall test to insure that the school district is complying with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), relating to classroom supply funds". As required by the state legal compliance audit program prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain other laws and regulations. However, providing an opinion on compliance with all state laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

The result of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported \$14,682 of classroom supply funds carried over from previous years.

The results of procedures performed to test compliance with certain other state laws and regulations and our audit of the financial statements disclosed the following immaterial instances of noncompliance with other state laws and regulations. Our findings and recommendations and your responses are as follows:

Finding

MS Code Section 37-57-105 requires the notice of tax increase to be published for three weeks in advance of the adoption of the budget when the increase is greater than 4% but not more than 7%. The school district requested a 7% increase but publication of the notice of tax increase was prepared for only two weeks in advance of the adoption of the budget.

Recommendation

We recommend the district comply with MS Code Section 37-57-105 and publish a notice of tax increase for three weeks in advance of the adoption of the budget when the increase is greater than 4% but not more than 7%.

School District's Response

The Montgomery County School District will comply with MS Code Section 37-57-105 and publish a notice of tax increase for three weeks in advance of the adoption of the budget when the increase is greater than 4% but not more than 7%.

Finding

As required by MS Code Section 27-105-5, every public depositor is required to notify the State Treasurer's Office no later than thirty days following its fiscal year end of its name, address, tax identification number and listing of deposit accounts. The district is required to complete this report by July 31 of each fiscal year. For the June 30, 2005 fiscal year this report was not completed and filed until August 15, 2005.

Recommendation

We recommend the district comply with MS Code Section 27-105-5 which requires every public depositor to notify the State Treasurer's Office no later than thirty days following its fiscal year end of its name, address, tax identification number and listing of deposit accounts.

School District's Response

The Montgomery County School District will comply with MS Code Section 27-105-5 and submit to the State Treasurer's Office by July 30 of every fiscal year a listing of deposit accounts.

Finding

MS Code Section 31-7-13 requires that the district advertise for sealed bids for purchases greater than \$15,000 with the lowest and best bid being selected for purchase. An exception to the bid process is if the item purchased is a single source item. The purchase must be designated in the minutes of the board meetings as a single source purchase. We noted one purchase in our testing of general disbursements from Polar Electro, Inc., that was listed as a single source purchase but was not approved as such in the minutes of the board meetings.

Recommendation

We recommend the district comply with MS Code Section 31-7-13 and designate single source purchases in the minutes of the board meetings.

School District's Response

The Montgomery County School District will comply with MS Code Section 31-7-13 and designate single source purchases in the minutes of the board meetings.

The Office of the State Auditor or a public accountant firm will review, on the subsequent year's audit engagement, the findings in this report to insure that corrective action has been taken.

This report is intended solely for the information and use of the school board and management, entities with accreditation overview, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Watkins, Ward and Stafford, PLLC
Louisville, Mississippi
October 4, 2005

Watkins, Ward and Stafford, PLLC

MONTGOMERY COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MONTGOMERY COUNTY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2005

Section 1: Summary of Auditor's Results

Financial Statements:

1. Type of auditor's report issued on the financial statements: Unqualified opinion
2. Material noncompliance relating to the financial statements? No
3. Internal control over financial reporting:
 - a. Material weakness(es) identified? No
 - b. Reportable condition(s) identified that are not considered to be material weaknesses? Yes

Federal Awards:

4. Type of Auditor's report issued on compliance for major federal programs: Unqualified opinion
5. Internal control over major programs:
 - a. Material weakness(es) identified? No
 - b. Reportable condition(s) identified that are not considered to be material weaknesses? No
6. Any audit finding(s) reported as required by Section ____.510(a) of Circular A-133? No
7. Federal Programs identified as major programs:
 - a. Program name: Title I grants to local educational agencies
CFDA# 84.010
8. The dollar threshold used to distinguish between type A and B programs. \$300,000
9. Auditee qualified as a low-risk auditee? Yes
10. Prior fiscal year audit finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary of prior audit findings as discussed in Section __.315(b) of OMB Circular A-133? No

MONTGOMERY COUNTY SCHOOL DISTRICT

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2005**

Section 2: Financial Statement Findings

04-01: Finding

Per examination of internal controls over general disbursements there were four instances noted where a purchase order had not been prepared for a paid invoice for which a purchase order was required.

Recommendation

We recommend that before any invoice is paid there is a properly authorized purchase order prepared.

04-02: Finding

Per recommendation of internal controls over payroll disbursements there were six employees noted who were not approved in the board minutes by name and position. Five of the six employees were substitutes.

Recommendation

We recommend all employees be approved in the board minutes by name and position. This would also include all substitutes.

04-03: Finding

Per examination of activity funds transmittal reports it was noted that reports either aren't being prepared or are being prepared incorrectly. Monthly activity funds should be prepared by personnel at both schools that contains all receipts and disbursements for the month in numerical order.

Recommendation

We recommend personnel at both schools prepare correctly and submit in a timely manner monthly transmittal reports to the central office.

Section 3: Federal Award Findings and Questioned Costs

The results of our tests did not disclose any findings and questioned costs related to the federal awards.

MONTGOMERY COUNTY SCHOOL DISTRICT

CORRECTIVE ACTION PLAN

Sammie McCaskill

SUPERINTENDENT OF EDUCATION, MONTGOMERY COUNTY

P. O. Box 687
Winona, Mississippi 38967
Telephone: 662-283-4533
Fax: 662-283-4584

Financial & Compliance Audit Division

As required by Section ____35(c) of OMB Circular A-133, the Montgomery County School District has prepared and hereby submits the following corrective action plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended June 30, 2005:

<u>Finding</u>	<u>Corrective Action Plan Details</u>
04:01	<p>a. Contact Person Responsible for Corrective Action:</p> <p>Lynea Watson, Finance Officer/Business Manager (662) 283-4533</p> <p>b. Corrective Action Planned:</p> <p>The accounts payable clerk is diligently working to insure that purchase orders are written for all approved requisitions.</p> <p>c. Anticipated Completion Date:</p> <p>October 14, 2005</p>
04:02	<p>a. Contact Person Responsible for Corrective Action:</p> <p>Lynea Watson, Finance Officer/Business Manager (662) 283-4533</p> <p>b. Corrective Action Planned:</p> <p>All employees, including substitutes, will be approved on a yearly basis in the board minutes by name and position.</p> <p>c. Anticipated Completion Date:</p> <p>October 14, 2005</p>

Sammie McCaskill

SUPERINTENDENT OF EDUCATION, MONTGOMERY COUNTY

P. O. Box 687
Winona, Mississippi 38967
Telephone: 662-283-4533
Fax: 662-283-4584

- 04:03
- a. Contact Person Responsible for Corrective Action:

Lynea Watson, Finance Officer/Business Manager
(662) 283-4533

 - c. Corrective Action Planned:

The finance officer/business will meet with the principals and secretaries to stress the importance of filling out the monthly activity funds transmittal reports. It will also be stressed that these reports are to be submitted to the central office no later than 5 working days after the last day of the month. In addition, they will be shown the correct way to fill out the reports.

 - c. Anticipated Completion Date:

October 31, 2005

Sincerely yours,

Sammie McCaskill, Superintendent