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MONTGOMERY COUNTY SCHOOL DISTRICT

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2006

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**

December 11, 2006

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, 2006, 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 opinions.

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, 2006, 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 December 11, 2006, 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 36 through 41 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 accompanying 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 and is not a required part of the basic financial statements. 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
December 11, 2006

Watkins, Ward and Stafford, PLLC

MONTGOMERY COUNTY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

MONTGOMERY COUNTY SCHOOL DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2006

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, 2006. 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 480 students for the 2005-2006 school year. Montgomery County Elementary School (K-6) had 259 students, and Montgomery County High School (7-12) had 221 students. The district is 91% Black and 9% White with 91% of the students eligible for free lunch. The average per pupil expenditure is approximately \$10,204.14.

FINANCIAL HIGHLIGHTS

- Total net assets decreased \$317,656 which represents 19.8% decrease from fiscal year 2005.
- General revenues account for \$3,244,004 in revenue, or 71% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$1,336,329 or 29% of total revenues.
- The District had \$4,897,989 in expenses; only \$1,336,329 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$3,244,004 were inadequate to provide for these programs, since there was a decrease of net assets of \$317,656.
- Among major funds, the General Fund had \$3,099,120 in revenues and \$3,394,310 in expenditures. The General Fund's fund balance decreased \$82,802 from the prior year.
- Capital assets, net of accumulated depreciation, decreased by \$18,780.
- Long-term debt decreased by \$48,728.

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.

Sammie McCaskill

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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*. 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 -34 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 special revenue fund. This required supplementary information can be found on pages 36 - 41 of this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133 and can be found on page 43 of this report.

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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 \$1,289,766 as of June 30, 2006.

By far the largest portion of the District's net assets (63%) 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, 2005 and 2006.

	2005 <u>Amount</u>	2006 <u>Amount</u>
Current assets	\$ 2,223,869	\$ 1,943,540
Capital assets, net	<u>672,502</u>	<u>653,722</u>
Total assets	<u>2,896,371</u>	<u>2,597,262</u>
Current liabilities	328,270	400,545
Long-term debt outstanding	<u>960,679</u>	<u>906,951</u>
Total liabilities	<u>1,288,949</u>	<u>1,307,496</u>
Net assets:		
Invested in capital assets, net of related debt	(312,498)	(276,278)
Restricted	1,652,426	1,387,623
Unrestricted	<u>267,494</u>	<u>178,421</u>
Total net assets	<u>\$ 1,607,422</u>	<u>\$1,289,766</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.

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Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2006 were \$4,580,333. The total cost of all programs and services was \$4,897,989. The following table presents a summary of the changes in net assets for the fiscal years ended June 30, 2006 and 2005, respectively.

	Change in Net Assets		Percentage
	June 30, 2006	June 30, 2005	Change
Revenues:			
Program revenues:			
Charges for services	\$ 74,203	104,956	(29.3%)
Operating grants and contributions	1,262,126	1,243,374	1.5%
General revenues:			
Property taxes	819,781	758,523	8.1%
Grants & contributions not restricted	2,324,600	2,256,770	3.0%
Other	99,623	307,055	(67.6%)
Total revenues	4,580,333	4,670,678	(1.9%)
Expenses:			
Instruction	2,615,072	2,468,570	5.9%
Support services	1,868,608	1,679,170	11.3%
Non-instructional	322,182	340,009	(5.2%)
Sixteenth section	46,032	181,368	(74.6%)
Interest and other expense on long-term liabilities	46,095	49,184	(6.3%)
Total expenses	4,897,989	4,718,301	3.8%
Increase (Decrease) in net assets	(317,656)	(47,623)	(567.0%)
Net Assets, July 1	1,607,422	1,655,045	(2.9%)
Newt Assets, June 30	\$ 1,289,766	1,607,422	(19.8%)

The following are significant current year transactions that have had an impact on the Statement of Activities. The decrease in net assets at June 30, 2006, is primarily due to revenues remaining constant while expenses increased due to state mandated increases in teacher's salaries and the rate of employer matching of retirement expenses.

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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, 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)

Fiscal Year Ended June 30, 2006

	<u>Total Expenses</u>	<u>Net (Expense) Revenue</u>
Instruction	\$ 2,615,072	\$ (1,976,566)
Support services	1,868,608	(1,470,057)
Non-instructional	322,182	(24,326)
Sixteenth section	46,032	(44,616)
Interest on long-term liabilities	46,095	(46,095)
Total expenses	\$ 4,897,989	\$(3,561,660)

- Net cost of governmental activities (\$3,561,660), was financed by general revenue, which is made up of primarily property taxes (\$819,781 and state revenue (\$2,283,410).
- Investment earnings accounted for \$31,093 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 \$1,621,236, a decrease of \$350,787 due primarily to the fact that our current revenue sources have decreased over the last several years due to decrease in enrollment coupled with state mandated pay raises during the fiscal year. \$899,456 or 55% 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 \$721,780 or 45% is reserved or designated to indicate that it is not available for spending because it has already been committed.

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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 \$82,802. The fund balance of Other Governmental Funds showed a decrease of \$15,300. Forestry Escrow had an increase in fund balance of \$9,220. Sixteenth Section Interest Fund has a decrease in fund balance of \$243,465 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 special revenue funds is provided in this report as required supplementary information.

Our General Fund instructional expenditures increased by \$65,098. This increase is due to the hiring of extra personnel. There was also an increase in support services expenditures of \$27,756.

Our Title I Grant Fund instructional expenditures decreased by \$29,295. This decrease was due to our hiring teachers with fewer years experience. There was also an increase in support services of \$26,960.

Our IDEA Part B Grant Fund had an increase in instruction of \$159,219 and an increase in support services of \$29,745. These increases are due to our not having an amount in the original budget because we had not been allocated money at the time the original budget was approved.

Our Forestry Escrow Fund had no change from original to final budget.

Our Sixteenth Section Interest Fund had no change from original to final budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2006, the District's total capital assets were \$2,238,610, including school buildings, buses, other school vehicles and furniture and equipment. This amount represents an increase of \$26,376 from the previous year. Total accumulated depreciation as of June 30, 2006 was \$1,584,888 and total depreciation expense for the year was \$55,345, resulting in total net assets of \$653,722.

Additional information of the District's capital assets can be found in Note 5 on page 31 of this report.

Debt Administration. At June 30, 2006, the District had \$966,951 in limited obligation bonds and other long-term debt outstanding, of which \$60,000 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 \$930,000 as of June 30, 2006.

Additional information of the District's long-term debt can be found in Note 6 on page 32 of this report.

Sammie McCaskill

SUPERINTENDENT OF EDUCATION, MONTGOMERY COUNTY

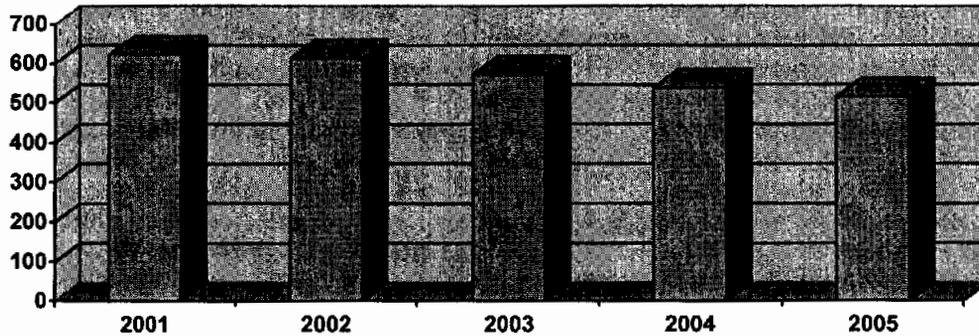
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CURRENT ISSUES

The Montgomery County School District is not financially stable. Net assets decreased during the year by \$317,656 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. We will have only thinnings from fiscal years 2007-2010 with other counties getting part of the revenues.

School Year	Enrollment
2001	623
2002	614
2003	572
2004	538
2005	516



Latest enrollment figures indicate that student enrollment in the District will decline approximately 40 students for the 2006-2007 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 \$10,204 per student at Montgomery County Elementary School and Montgomery County High School. These figures are based on enrollment of 480 students. Average Daily Attendance (ADA) for 2005-2006 was 459 and we received approximately \$4,488 per student ADA from the state.

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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, 2006

Exhibit A

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 1,663,649
Cash with fiscal agents	28,365
Due from other governments	125,718
Accrued interest receivable	1,967
Other receivables, net	19,421
Inventories and prepaid items	6,406
Restricted assets	98,014
Capital assets, not being depreciated:	
Land	12,623
Capital assets, net of accumulated depreciation:	
Buildings	425,205
Improvements other than buildings	26,768
Mobile equipment	178,648
Furniture and equipment	10,478
Total Assets	<u>2,597,262</u>
Liabilities	
Accounts payable and accrued liabilities	288,699
Deferred revenue/Unearned revenue	33,605
Interest payable on long-term liabilities	18,241
Long-term liabilities, due within one year	
Capital related liabilities	60,000
Long-term liabilities, due beyond one year	
Capital related liabilities	870,000
Non-capital related liabilities	36,951
Total Liabilities	<u>1,307,496</u>
Net Assets	
Invested in capital assets, net of related debt	(276,278)
Restricted net assets:	
Expendable:	
School-based activities	813,445
Debt service	72,114
Forestry improvements	384,060
Unemployment benefits	19,990
Non-expendable:	
Sixteenth section	98,014
Unrestricted	178,421
Total Net Assets	<u>\$ 1,289,766</u>

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

Montgomery County School District
Statement of Activities
For the Year Ended June 30, 2006

Exhibit B

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Governmental Activities
Governmental Activities:					
Instruction	\$ 2,615,072	37,298	601,208		(1,976,566)
Support services	1,868,608		398,551		(1,470,057)
Non-instructional	322,182	35,489	262,367		(24,326)
Sixteenth section	46,032	1,416			(44,616)
Interest on long-term liabilities	46,095				(46,095)
Total Governmental Activities	\$ 4,897,989	74,203	1,262,126	-	(3,561,660)
General Revenues:					
Taxes:					
					819,781
Unrestricted grants and contributions:					
					2,283,410
					41,190
					31,093
					67,396
					1,134
					<u>3,244,004</u>
Total General Revenues, Special Items, Extraordinary Items and Transfers					
					<u>3,244,004</u>
Change in Net Assets					
					<u>(317,656)</u>
Net Assets - Beginning					
					<u>1,607,422</u>
Net Assets - Ending					
					<u>\$ 1,289,766</u>

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

Montgomery County School District
Balance Sheet - Governmental Funds
June 30, 2006

Exhibit C

	Major Funds						Total Governmental Funds
	General Fund	Title 1 Fund	IDEA Part B Fund	Forestry Escrow Fund	16th Section Interest Fund	Other Governmental Funds	
ASSETS							
Cash and cash equivalents	\$ 312,639	30,430	53,240	384,060	732,192	246,519	1,759,080
Cash with fiscal agents						28,365	28,365
Due from other governments	41,100					84,618	125,718
Accrued interest receivable					1,966	2,583	4,549
Other receivables, net					11,587		11,587
Due from other funds	16,805						16,805
Inventories and prepaid items						6,406	6,406
Total Assets	\$ 370,544	30,430	53,240	384,060	745,745	368,491	1,952,510

LIABILITIES AND FUND BALANCES

LIABILITIES							
Accounts payable and accrued liabilities	\$ 155,173	29,616	24,417		38,976	40,517	288,699
Due to other funds						8,970	8,970
Deferred revenue		814	28,823			3,968	33,605
Total Liabilities	155,173	30,430	53,240	-	38,976	53,455	331,274
FUND BALANCES							
Fund Balances:							
Reserved for:							
Inventory						6,406	6,406
Ad valorem	122,954						122,954
Debt service						90,356	90,356
Unemployment benefits						19,990	19,990
Forestry improvement purposes				384,060			384,060
Permanent fund purposes						98,014	98,014
Undesignated, reported in:							
General Fund	92,417						92,417
Special Revenue Funds					706,769	100,270	807,039
Total Fund Balances	215,371	-	-	384,060	706,769	315,036	1,621,236
Total Liabilities and Fund Balances	\$ 370,544	30,430	53,240	384,060	745,745	368,491	1,952,510

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, 2006

Exhibit C-1

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 1,621,236
Amounts reported for governmental activities in the statement of net assets are different because:	
1. Capital assets are used in governmental activities and are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$1,584,888.	653,722
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(966,951)
3. Governmental funds recognize interest on long-term debt when it becomes due, however the Statement of Net Assets recognizes interest as it accrues.	(18,241)
Total Net Assets - Governmental Activities	<u>\$ 1,289,766</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, 2006

Exhibit D

	Major Funds							Total Governmental Funds
	General Fund	Title 1 Fund	IDEA Part B Fund	Forestry Escrow Fund	16th Section Interest Fund	Other Governmental Funds		
Revenues:								
Local sources	\$ 859,115						38,298	897,413
State sources	2,198,815						221,200	2,420,015
Federal sources	41,190	368,327	111,867				645,326	1,166,710
Sixteenth section sources				4,835	88,511		2,848	96,194
Total Revenues	3,099,120	368,327	111,867	4,835	88,511		907,672	4,580,332
Expenditures:								
Instruction	1,998,086	191,608	90,665				325,728	2,606,087
Support services	1,396,224	74,604	21,202				368,320	1,860,350
Noninstructional services		29,830					287,666	317,496
Sixteenth section				14,055	31,976			46,031
Debt service:								
Principal							55,000	55,000
Interest							46,805	46,805
Other							550	550
Total Expenditures	3,394,310	296,042	111,867	14,055	31,976		1,084,069	4,932,319
Excess (Deficiency) of Revenues over Expenditures	(295,190)	72,285	-	(9,220)	56,535		(176,397)	(351,987)
Other Financing Sources (Uses):								
Sale of other property	1,200							1,200
Operating transfers in	300,000						161,097	461,097
Operating transfers out	(88,812)	(72,285)			(300,000)			(461,097)
Total Other Financing Sources (Uses)	212,388	(72,285)	-	-	(300,000)		161,097	1,200
Net Change in Fund Balances	(82,802)	-	-	(9,220)	(243,465)		(15,300)	(350,787)
Fund Balances:								
July 1, 2005	298,173	-	-	393,280	950,234		328,414	1,970,101
Increase (Decrease) in reserve for inventory							1,922	1,922
June 30, 2006	\$ 215,371	-	-	384,060	706,769		315,036	1,621,236

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, 2006

Exhibit D-1

	<u>Amount</u>
Net Change in Fund Balances - Governmental Funds	\$ (350,787)
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 purchase amounted to \$36,668 and the depreciation expense expense amounted to \$55,345.	(18,677)
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 Activities.	55,000
4. Governmental funds recognize interest on long-term debt when it becomes due, however, the Statement of Activities recognizes interest as it accrues regardless of when it becomes due.	1,261
5. Gains and losses on the sale or disposals of assets are not reported in the governmental funds, but are reported in the Statement of Activities, net of proceeds.	(103)
6. Increase (decrease) in the inventory is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenditures are (decreased) increased in the Statement of Activities.	1,922
7. Expenses in the Statement of Activities not normally paid with expendable available financial resources are not reported as expenditures in the governmental funds:	
Compensated absences	(6,272)
Change in Net Assets of Governmental Activities	\$ <u><u>(317,656)</u></u>

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

Montgomery County School District
Statement of Fiduciary Net Assets
June 30, 2006

Exhibit E

		<u>Agency Funds</u>
Assets		
Cash and cash equivalents	\$	32,232
Total Assets	\$	<u>32,232</u>
Liabilities		
Accounts payable and accrued liabilities	\$	21,656
Due to other funds		7,835
Due to student clubs		<u>2,741</u>
Total Liabilities	\$	<u>32,232</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, 2006

(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. Funds are

MONTGOMERY COUNTY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2006

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 as are the Fiduciary Fund Financial Statements. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, regardless of when the related cash flow takes place. 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 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.

Title 1 Fund – This is the school district's fund that accounts for the Title 1 grants received by the district.

IDEA Part B Fund – This is the school district's fund that accounts for IDEA Part B special education grants received by the district.

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:

MONTGOMERY COUNTY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2006

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.

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 broad classifications recommended in *Government Accounting, Auditing, and Financial Reporting* as issued in 2005 by the Government Finance Officers Association and 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.

MONTGOMERY COUNTY SCHOOL DISTRICT

**Notes to Financial Statements
For the Year Ended June 30, 2006**

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

Investments are reported at fair value.

H. Inventories and prepaid items.

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.

Prepaid items, such as prepaid insurance, are not reported for governmental fund types since the costs of such items are accounted for as expenditures in the period of acquisition.

I. Capital Assets.

Capital acquisition and construction are reflected as expenditures in the Governmental Fund statements and the related assets are reported as capital assets in the governmental activities column in the government-wide financial statements.

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.

Depreciation is calculated on the straight-line basis for all assets, except land. The following schedule details those thresholds.

	<u>Capitalization Policy</u>	<u>Estimated Useful Life</u>
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 (5)** for details.

MONTGOMERY COUNTY SCHOOL DISTRICT

**Notes to Financial Statements
For the Year Ended June 30, 2006**

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. In the government-wide Statement of Net Assets, long term debt, and other long term obligations are reported as liabilities in the governmental activities column. (See **Note (6)** for details).

K. Interfund Transactions and Balances.

Interfund transactions and balances are the result of timing differences between the date 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 4** for details for interfund transactions, including receivables and payables at year-end.

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."

MONTGOMERY COUNTY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2006

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.

Reserved for debt service – An account that represents that portion of fund balance in the Debt Service Fund which was legally restricted and not available for spending for any other purpose than that for which it is restricted.

Reserved for unemployment benefits – An account that represents a portion of the fund balance that is legally restricted for the payment of unemployment benefits.

Reserved for forestry improvement purposes – An account that represents a portion of the fund balance that is legally restricted for improving sixteenth section forest lands.

Reserved for permanent fund purposes – An account that represents a portion of the fund balance that is legally restricted for investment purposes or borrowing by the school board for capital purposes.

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, 2006

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 only if the payable has matured, for example, an employee retires.

(2) Changes in Accounting Standards.

As required, the Montgomery County School District has implemented Government Auditing Standards Board (GASB) Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* for the current fiscal year. This Statement requires governments to evaluate major events effecting capital assets to determine whether they are impaired. Such events include physical damage, changes in legal or environmental factors, technology changes or obsolescence, changes in the manner or duration of use and construction stoppage. Appropriate note disclosures have been incorporated to comply with the requirements of this standard.

(3) 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. Restrictions on deposits and investments are imposed by statutes as follows:

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's deposits in financial institutions are held in the name of the 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 entity's 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.

MONTGOMERY COUNTY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2006

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). This section permits the following types of investments: (a) certificates of deposits and interest bearing accounts with qualified state depositories; (b) direct United States Treasury obligations; (c) United States Government agency, United States Government instrumentality or United States Government sponsored enterprise obligations, the principal and interest of which are fully guaranteed by the government or enumerated agency of the United States; (d) direct security repurchase agreements and reverse direct security repurchase agreements of any federal book entry of only those securities enumerated in (b) and (c) above; (e) direct obligations issued by the United States of America that are deemed to include securities of, or interest in, and open-end or closed-end any management type investment company or investment trust approved by the State Treasurer and Executive Director of the Department of Finance and Administration. 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. Amounts less than \$100 can be credited to the General 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 \$1,761,663 and \$32,232 respectively. The carrying amount of deposits reported in the government-wide financial statements was: Cash and Cash Equivalents - \$1,663,049 and Restricted Assets - \$98,014. 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 \$2,094,018.

Custodial Credit Risk – Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2006, none of the district's bank balance of \$2,094,018 was exposed to custodial credit risk.

Cash with Fiscal Agents.

The carrying amount of the school district's cash with fiscal agents held by financial institutions was \$28,365.

MONTGOMERY COUNTY SCHOOL DISTRICT

**Notes to Financial Statements
For the Year Ended June 30, 2006**

(4) 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>
Governmental funds:			
General fund	\$	16,805	
Other governmental funds		-	8,970
Fiduciary funds		<u>-</u>	<u>7,835</u>
Total funds	\$	<u>16,805</u>	<u>16,805</u>

The purpose of the inter-fund receivables and payables are for transfers to the general fund for payment of expenditures associated with the displaced student grant and various payroll liabilities. 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>
Governmental funds:			
General fund	\$	300,000	88,812
Title 1 fund		-	72,285
16 th section interest fund			300,000
Other governmental funds		<u>161,097</u>	<u>-</u>
Total funds	\$	<u>461,097</u>	<u>461,097</u>

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. There is also a transfer from the Title 1 Fund to other governmental funds for allocation of various costs. These transfers are consistent with the activities of the fund making the transfer.

MONTGOMERY COUNTY SCHOOL DISTRICT

**Notes to Financial Statements
For the Year Ended June 30, 2006**

(5) Capital Assets.

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

	<u>Balance 7-1-2005</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 6-30-2006</u>
<u>Non-depreciable capital assets</u>				
Land	\$ 12,623	-	-	12,623
Total non-depreciable capital assets	<u>12,623</u>	<u>-</u>	<u>-</u>	<u>12,623</u>
<u>Depreciable capital assets:</u>				
Buildings	1,223,279	-	-	1,223,279
Improvements other than buildings	-	27,883	-	27,883
Mobile equipment	811,427	-	-	811,427
Furniture and equipment	164,905	8,785	(10,292)	163,398
Total depreciable capital assets	<u>2,199,611</u>	<u>36,668</u>	<u>(10,292)</u>	<u>2,225,987</u>
<u>Less accumulated depreciation for:</u>				
Buildings	785,491	12,583	-	798,074
Improvements other than buildings	-	1,115	-	1,115
Mobile equipment	601,615	31,164	-	632,779
Furniture and equipment	152,626	10,483	(10,189)	152,920
Total accumulated depreciation	<u>1,539,732</u>	<u>55,345</u>	<u>(10,189)</u>	<u>1,584,888</u>
Total depreciable capital assets, net	<u>659,879</u>	<u>(18,677)</u>	<u>(103)</u>	<u>641,099</u>
Governmental activities capital assets, net	<u>\$ 672,502</u>	<u>(18,677)</u>	<u>(103)</u>	<u>653,722</u>

Depreciation expense was charged to the following governmental functions:

	<u>Amount</u>
Instruction	\$ 15,259
Support services	35,300
Non-instructional	<u>4,786</u>
Total depreciation expense	\$ <u>55,345</u>

MONTGOMERY COUNTY SCHOOL DISTRICT

**Notes to Financial Statements
For the Year Ended June 30, 2006**

(6) Long-term liabilities:

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

	<u>Balance</u> <u>7-1-2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>6-30-2006</u>	<u>Amounts due</u> <u>Within one</u> <u>Year</u>
A. Limited obligation bonds Payable	\$ 985,000	-	(55,000)	930,000	60,000
B. Compensated absences Payable	<u>30,679</u>	<u>7,720</u>	(<u>1,448</u>)	<u>36,951</u>	-
Total	\$ <u>1,015,679</u>	<u>7,720</u>	(<u>56,448</u>)	<u>966,951</u>	<u>60,000</u>

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</u> <u>Rate</u>	<u>Issue</u> <u>Date</u>	<u>Maturity</u> <u>Date</u>	<u>Amount</u> <u>Issued</u>	<u>Amount</u> <u>Outstanding</u>
State aid capital improvement	Varies	2/01/1998	2/01/2018	\$ <u>1,230,000</u>	<u>930,000</u>
Total				\$ <u>1,230,000</u>	<u>930,000</u>

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

<u>Year Ending</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	70,000	32,170	102,170
2012-2016	410,000	107,113	517,113
2017-2021	<u>195,000</u>	<u>14,160</u>	<u>209,160</u>
Total	\$ <u>930,000</u>	<u>312,073</u>	<u>1,242,073</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.

MONTGOMERY COUNTY SCHOOL DISTRICT

**Notes to Financial Statements
For the Year Ended June 30, 2006**

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.

(7) 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 10.75% 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, 2006, 2005 and 2004 were \$299,594, \$277,472 and \$278,360 respectively, which equaled the required contributions for each year.

MONTGOMERY COUNTY SCHOOL DISTRICT

**Notes to Financial Statements
For the Year Ended June 30, 2006**

(8) 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>
2007	57,168
2008	47,433
2009	34,370
2010	6,143
2011	3,063
2012-2016	6,048
2017-2021	500
2022-2026	500
2027-2031	500
2032-2036	500
2037-2041	<u>300</u>
 Total	 \$ <u>156,525</u>

(9) 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, 2006

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 690,662	694,622	859,115	3,960	164,493
State sources	2,207,144	2,233,742	2,198,815	26,598	(34,927)
Federal sources	40,000	41,500	41,190	1,500	(310)
Total Revenues	<u>2,937,806</u>	<u>2,969,864</u>	<u>3,099,120</u>	<u>32,058</u>	<u>129,256</u>
Expenditures:					
Instruction	1,953,362	2,018,460	1,998,086	(65,098)	20,374
Support services	1,434,620	1,462,376	1,396,224	(27,756)	66,152
Total Expenditures	<u>3,387,982</u>	<u>3,480,836</u>	<u>3,394,310</u>	<u>(92,854)</u>	<u>86,526</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(450,176)</u>	<u>(510,972)</u>	<u>(295,190)</u>	<u>(60,796)</u>	<u>215,782</u>
Other Financing Sources (Uses):					
Sale of transportation equipment		1,200	1,200	1,200	0
Operating transfers in	747,716	753,826	300,000	5,910	453,626
Operating transfers out	(383,102)	(393,199)	(88,812)	(10,087)	(304,387)
Total Other Financing Sources (Uses)	<u>364,614</u>	<u>361,827</u>	<u>212,388</u>	<u>(2,987)</u>	<u>149,239</u>
Net Change in Fund Balances	<u>(85,562)</u>	<u>(149,345)</u>	<u>(82,802)</u>	<u>(63,783)</u>	<u>66,543</u>
Fund Balances:					
July 1, 2005	<u>235,033</u>	<u>298,173</u>	<u>298,173</u>	<u>63,140</u>	<u>0</u>
June 30, 2006	<u>\$ 149,471</u>	<u>148,828</u>	<u>215,371</u>	<u>(643)</u>	<u>66,543</u>

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

Montgomery County School District
Budgetary Comparison Schedule
Title 1
For the Year Ended June 30, 2006

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	\$ 373,261	370,237	368,327	(3,024)	(1,910)
Total Revenues	<u>373,261</u>	<u>370,237</u>	<u>368,327</u>	<u>(3,024)</u>	<u>(1,910)</u>
Expenditures:					
Instruction	222,149	192,854	191,608	29,295	1,246
Support services	48,307	75,267	74,604	(26,960)	663
Noninstructional services	30,130	29,831	29,830	299	1
Total Expenditures	<u>300,586</u>	<u>297,952</u>	<u>296,042</u>	<u>2,634</u>	<u>1,910</u>
Excess (Deficiency) of Revenues over Expenditures	<u>72,675</u>	<u>72,285</u>	<u>72,285</u>	<u>(390)</u>	<u>0</u>
Other Financing Sources (Uses):					
Operating transfers out	<u>(72,675)</u>	<u>(72,285)</u>	<u>(72,285)</u>	<u>390</u>	<u>0</u>
Total Other Financing Sources (Uses)	<u>(72,675)</u>	<u>(72,285)</u>	<u>(72,285)</u>	<u>390</u>	<u>0</u>
Net Change in Fund Balances	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Fund Balances:					
July 1, 2005	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
June 30, 2006	<u>\$ 0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>

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

Montgomery County School District
 Budgetary Comparison Schedule
 IDEA Part B
 For the Year Ended June 30, 2006

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	\$	191,009	111,867	191,009	(79,142)
Total Revenues	0	191,009	111,867	191,009	(79,142)
Expenditures:					
Instruction		159,219	90,665	(159,219)	68,554
Support services		29,745	21,202	(29,745)	8,543
Total Expenditures	0	188,964	111,867	(188,964)	77,097
Excess (Deficiency) of Revenues over Expenditures	0	2,045	0	2,045	(2,045)
Other Financing Sources (Uses):					
Operating transfers out		(2,045)		(2,045)	(2,045)
Total Other Financing Sources (Uses)	0	(2,045)	0	(2,045)	(2,045)
Net Change in Fund Balances	0	0	0	0	0
Fund Balances:					
July 1, 2005	0	0	0	0	0
June 30, 2006	\$ 0	0	0	0	0

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

Montgomery County School District
 Budgetary Comparison Schedule
 Forestry Escrow
 For the Year Ended June 30, 2006

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Sixteenth section sources	\$ 18,725	18,725	4,835	0	(13,890)
Total Revenues	<u>18,725</u>	<u>18,725</u>	<u>4,835</u>	<u>0</u>	<u>(13,890)</u>
Expenditures:					
Sixteenth section	52,000	52,000	14,055	0	37,945
Total Expenditures	<u>52,000</u>	<u>52,000</u>	<u>14,055</u>	<u>0</u>	<u>37,945</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(33,275)</u>	<u>(33,275)</u>	<u>(9,220)</u>	<u>0</u>	<u>24,055</u>
Other Financing Sources (Uses):					
Total Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Change in Fund Balances	<u>(33,275)</u>	<u>(33,275)</u>	<u>(9,220)</u>	<u>0</u>	<u>24,055</u>
Fund Balances:					
July 1, 2005	<u>377,337</u>	<u>377,337</u>	<u>393,280</u>	<u>0</u>	<u>15,943</u>
June 30, 2006	<u>\$ 344,062</u>	<u>344,062</u>	<u>384,060</u>	<u>0</u>	<u>39,998</u>

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

Montgomery County School District
 Budgetary Comparison Schedule
 16th Section Interest
 For the Year Ended June 30, 2006

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Sixteenth section sources	\$ 204,437	176,776	88,511	(27,661)	(88,265)
Total Revenues	<u>204,437</u>	<u>176,776</u>	<u>88,511</u>	<u>(27,661)</u>	<u>(88,265)</u>
Expenditures:					
Sixteenth section	86,300	86,300	31,976	0	54,324
Total Expenditures	<u>86,300</u>	<u>86,300</u>	<u>31,976</u>	<u>0</u>	<u>54,324</u>
Excess (Deficiency) of Revenues over Expenditures	<u>118,137</u>	<u>90,476</u>	<u>56,535</u>	<u>(27,661)</u>	<u>(33,941)</u>
Other Financing Sources (Uses):					
Operating transfers out	(450,000)	(450,000)	(300,000)	0	(150,000)
Total Other Financing Sources (Uses)	<u>(450,000)</u>	<u>(450,000)</u>	<u>(300,000)</u>	<u>0</u>	<u>(150,000)</u>
Net Change in Fund Balances	<u>(331,863)</u>	<u>(359,524)</u>	<u>(243,465)</u>	<u>(27,661)</u>	<u>116,059</u>
Fund Balances:					
July 1, 2005	<u>1,021,489</u>	<u>941,502</u>	<u>950,234</u>	<u>(79,987)</u>	<u>8,732</u>
June 30, 2006	\$ <u><u>689,626</u></u>	<u><u>581,978</u></u>	<u><u>706,769</u></u>	<u><u>(107,648)</u></u>	<u><u>124,791</u></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, 2006**

Budgetary Comparison Schedule

(1) Basis of Presentation.

The Budgetary Comparison Schedules present 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 October 15. 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.

(3) Individual fund disclosures.

The displaced student fund has an excess of expenditures over budget in the amount of \$8,970. The fund with the excess of expenditures over budget is not in violation of state law since the excess resulted from auditor's adjustments.

MONTGOMERY COUNTY SCHOOL DISTRICT

SUPPLEMENTAL INFORMATION

MONTGOMERY COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog Of Federal Domestic Assistance No.	Federal Expenditures
<u>U.S. Department of Agriculture</u>		
Passed through the Mississippi Department of Education:		
Non-cash assistance:		
Food donation	10.550	\$ 15,474
Child nutrition cluster		
School breakfast program	10.553	103,276
National school lunch program	10.555	180,402
Total child nutrition cluster		<u>283,678</u>
Team nutrition grants	10.574	90
Total U.S. Department of Agriculture		<u>299,242</u>
<u>Federal Communications Commission</u>		
Administered through the Universal Service Administrative Company:		
The schools and libraries program of the universal service fund	32.XXX	41,190
Total Federal Communications Commission		<u>41,190</u>
<u>U.S. Department of Education</u>		
Direct Programs:		
Fund for the improvement of education	84.215	85,674
Literacy through school libraries	84.364	96,828
Total		<u>182,502</u>
Passed through Drew Public School District		
Twenty-first century community learning centers	84.287	14
Passed through the Mississippi Department of Education:		
Title I grants to local educational agencies	84.010	368,327
Vocational education - basic grants to states	84.048	10,510
Safe and drug free schools and communities - state grants	84.186	5,513
Even start - state educational agencies	84.213	57,682
Eisenhower professional development state grants	84.281	83,603
State grants for innovative programs	84.298	1,805
Education technology state grants	84.318	14,750
Teacher quality enhancement grants	84.336	877
Grants for state assessments and related activities	84.369	3,125
Hurricane education recovery	84.938	8,970
Total		<u>555,162</u>
Special education cluster:		
Special education - grants to states	84.027	111,867
Special Education - preschool grants	84.173	9,858
Total Special Education Cluster		<u>121,725</u>
Total passed through Mississippi Department of Education		<u>676,887</u>
Total U.S. Department of Education		<u>859,403</u>
Total for All Federal Awards		<u>\$ 1,199,835</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, 2006

Expenditures	Total	Instruction and Other			
		Student Instructional Expenditures	General Administration	School Administration	Other
Salaries and fringe benefits	\$ 3,766,170	2,696,341	358,689	206,416	504,724
Other	1,166,149	396,702	131,611	6,952	630,884
Total	\$ 4,932,319	3,093,043	490,300	213,368	1,135,608

Total number of students * 450

Cost per student \$ 10,961 6,873 1,090 474 2,524

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

Instruction and Other Student Instructional Expenditures - includes the activities dealing directly with the interaction between teachers and students. Included here are the activities of teachers, teachers aides or classroom assistants of any type. (all the 1000, 2100, & 2200 functional codes)

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

School Administration - includes expenditures for the following function: Support Services - School Administration (2400s)

Other - includes all expenditure functions not included in Instruction or Administration Categories

include 100 and 200 range object codes on the "Salaries and fringe benefits" line; all other expenditures on the "Other" line

MONTGOMERY COUNTY SCHOOL DISTRICT

REPORTS ON COMPLIANCE AND INTERNAL CONTROL



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Professional Limited Liability Company
Certified Public Accountants

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**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**

December 11, 2006

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, 2006, which collectively comprise the Montgomery County School District's basic financial statements and have issued our report thereon dated December 11, 2006. 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 opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting 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 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. We did not note any matters involving internal control over financial reporting and its operation that we consider to be 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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests did not disclose any instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance or other matters that we have reported to management of the school district in a separate letter dated December 11, 2006, which is included in this report.

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
December 11, 2006

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**

December 11, 2006

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, 2006. 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 30, 2006.

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
December 11, 2006

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**

December 11, 2006

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, 2006, which collectively comprise Montgomery County School District's basic financial statements and have issued our report thereon dated December 11, 2006. 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 \$16,582 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 instance of noncompliance with other state laws and regulations. Our finding and recommendation and your response is as follows:

Finding

MS Code Section 31-7-13 requires that the district receive at least two written bids, or purchase items at state contract price, or the commodity must be purchased at or below state contract price, for purchases between \$3,501 and \$15,000. We noted one purchase in our testing of general disbursements that should have been purchased using the process listed above, but was not.

Recommendation

We recommend the district comply with MS Code Section 31-7-13 regarding purchases between \$3,501 and \$15,000.

School District's Response

The Montgomery County School District will comply with MS Code Section 31-7-13 regarding purchases between \$3,501 and \$15,000.

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
December 11, 2006

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, 2006**

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? No

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, 2006**

Section 2: Financial Statement Findings

The results of our tests did not disclose any findings related to the financial statements that are required to be reported by Government Auditing Standards.

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.