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MONTGOMERY COUNTY SCHOOL DISTRICT

AUDIT REPORT

JUNE 30, 2008

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**

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, 2008, which collectively comprise the Montgomery County 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, 2008, 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 June 11, 2009, 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 considered in assessing the results of our audit.

The Managements Discussion and Analysis on pages 5 through 13 and the Budgetary Comparison Schedule and corresponding notes on pages 41 through 45 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 on 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 Funds 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.

The other supplemental information section, which includes the Statement of Revenues, Expenditures and Changes in Fund Balances, General Fund, Last Four Years and the Statement of Revenues, Expenditures and Changes in Fund Balances, All Governmental Funds, Last Four Years, is presented for purposes of additional analysis as required by the Mississippi Department of Education and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Watkins, Ward and Stafford, PLLC
Louisville, Mississippi
June 11, 2009

Watkins, Ward and Stafford, PLLC

MONTGOMERY COUNTY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

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MONTGOMERY COUNTY SCHOOL DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2008

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, 2008. 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 439 students for the 2007-2008 school year with a final ADA count of 419. Montgomery County Elementary School (K-6) had 215 students, and Montgomery County High School (7-12) had 224 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 \$13,757.

FINANCIAL HIGHLIGHTS

- Total net assets decreased \$161,630 which represents 14.9% decrease from fiscal year 2007.
- General revenues account for \$4,176,333 in revenue, or 77.3% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$1,228,281 or 22.7% of total revenues.
- The District had \$5,584,332 in expenses; only \$1,228,281 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$4,176,333 were inadequate to provide for these programs, since there was a decrease of net assets of \$161,630.
- Among major funds, the General Fund had \$3,650,989 in revenues and \$4,053,309 in expenditures. The General Fund's fund balance increased \$9,968 from the prior year.
- Capital assets, net of accumulated depreciation, increased by \$123,996.
- Long-term debt increased by \$49,108. This includes the liability for compensated absences increasing by \$2,131.

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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

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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 and 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 and Statement of Changes in Fiduciary Net Assets on pages 21 and 22, respectively.

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 23 -39 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 schedule has been provided for the General Fund and each additional major special revenue fund. This required supplementary information can be found on pages 41 - 45 of this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133 and can be found on page 47 of this report.

A schedule of instructional, administrative and other expenditures – governmental funds can be found on page 48 of this report. Also a statement of revenues, expenditures and changes in fund balances – General Fund and All Governmental Funds for the last four years can be located on pages 50 and 51, respectively. These reports are required by the Mississippi Department of Education.

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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 \$925,675 as of June 30, 2008.

By far the largest portion of the District's net assets (47.6%) reflects its investment in Forestry Escrow Funds.

The following table presents a summary of the District's net assets for the fiscal years ended June 30, 2007 and 2008.

	2007 Amount	2008 Amount
Current assets	\$ 1,529,775	\$ 1,316,550
Capital assets, net	704,389	828,385
Total assets	<u>2,234,164</u>	<u>2,144,935</u>
Current liabilities	241,397	264,690
Long-term debt outstanding	905,462	954,570
Total liabilities	<u>1,146,859</u>	<u>1,219,260</u>
Net assets:		
Invested in capital assets, net of related debt	(165,611)	(88,592)
Restricted	1,116,008	869,522
Unrestricted	136,908	144,745
Total net assets	<u>\$ 1,087,305</u>	<u>\$ 925,675</u>

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

- The principal retirement of \$60,000 of long-term debt.
The issuance of an energy efficiency lease of \$106,977.

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Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2008 were \$5,404,614. The total cost of all programs and services was \$5,584,332. The following table presents a summary of the changes in net assets for the fiscal years ended June 30, 2007 and 2008.

	Change in Net Assets		Percentage Change
	June 30, 2007	June 30, 2008	
Revenues:			
Program revenues:			
Charge for services	\$ 94,927	\$ 154,251	62.5%
Operating grants and contributions	1,173,016	1,074,030	(8.4%)
General revenues:			
Property taxes	822,436	932,170	13.3%
Grants & contributions not restricted	2,606,966	2,742,495	5.2%
Other	202,696	501,668	147.5%
Total revenues	<u>4,900,041</u>	<u>5,404,614</u>	10.3%
Expenses:			
Instruction	2,656,838	2,660,162	0.1%
Support services	2,073,199	2,157,443	4.1%
Non-instructional	305,987	299,002	(2.3%)
Sixteenth section	23,678	425,487	1697.0%
Interest on long-term liabilities	43,206	42,238	(2.2%)
Total expense	<u>5,102,908</u>	<u>5,584,332</u>	9.4%
Decrease in net assets	\$ (202,867)	\$ (179,718)	(11.4%)
Net Assets, July 1	1,289,766	1,087,305	(15.7%)
Prior Period Adjustment	406	18,088	4355.2%
Net Assets, July 1 Restated	<u>1,290,172</u>	<u>1,105,393</u>	(14.3%)
Net Assets, June 30	<u>1,087,305</u>	<u>925,675</u>	(14.9%)

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, 2008, is primarily due to revenues remaining constant while expenses increased due to state mandated increases in teachers' pay scale from 25 years to 35 years.

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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.

Net Cost of Governmental Activities

	<u>Total Expenses</u>	
	<u>2007</u>	<u>2008</u>
Instruction	\$2,656,838	\$ 2,660,162
Support services	2,073,199	2,157,443
Non-instructional	305,987	299,002
Sixteenth section	23,678	425,487
Interest on long-term liabilities	43,206	42,238
Total expenses	\$ 5,102,908	\$ 5,584,332

	<u>2007</u>	<u>2008</u>
	Instruction	(\$ 2,074,150)
Support services	(1,687,006)	(1,891,522)
Non-instructional	(21,542)	(19,307)
Sixteenth section	(9,061)	(352,342)
Interest on long-term liabilities	(43,206)	(42,238)
Total net (expenses)revenues	(\$ 3,834,965)	\$(4,356,051)

- Net cost of governmental activities (\$4,356,051), was financed by general revenue, which is made up of primarily property taxes (\$932,170) and state and federal revenue (\$2,742,495).
- Other revenues include Sixteenth section revenues of \$472,940, investment earnings of \$27,005 and miscellaneous revenues of \$1,723.

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 \$1,069,585, a decrease of \$235,910 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 and retirement matching increases during the fiscal year. \$391,157 or 36.6% 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 \$678,428 or 63.4% 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 increase in fund balance in the General Fund for the fiscal year was \$9,968. The fund balance of Other Governmental Funds showed an increase of \$31,927. Forestry Escrow had an increase in fund balance of \$44,908. Sixteen Section Fund has a decrease in fund balance of \$338,472 due to pro rata revenue paid 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 decreased by \$20,215. This decrease is due replacing personnel with less years experience. The General Fund federal revenue increased by \$335,400 due to e-rate providing 90% of Polycom equipment funding. There was also an increase in support services expenditures of \$371,583 due to the purchase of Polycom equipment.

Our Title 1 fund revenue and expenditures increased by \$18,495 each due to carryover funds from 2006-2007.

Our Forestry Escrow Fund revenue increased by \$72,013 due to a timber sale generating more revenue than expected and expenditures increased by \$19,442 due to replants and herbicide spraying.

Our Sixteenth Section Interest Fund revenues increase by \$414,946 due to a timber sale generating more revenue than expected. Expenditures increased by \$309,691 due to increase in amount of shared revenue sent to other school districts.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2008, the District's total capital assets were \$2,524,546, including school buildings, buses, other school vehicles and furniture and equipment. This amount represents an increase of \$202,063 from the previous year. Total accumulated depreciation as of June 30, 2008 was \$1,696,161 and total depreciation expense for the year was \$141,187, resulting in total net assets of \$828,385.

Capital Assets at June 30
(Net of Depreciation)

	Capital Assets, Net of Depreciation	
	2007	2008
Land	\$ 12,203	\$ 11,203
Buildings	319,611	297,233
Building Improvements	93,012	87,027
Improvements other than buildings	25,653	24,537
Mobile Equipment	140,088	126,812
Furniture and Equipment	113,822	178,875
Leased Property Under Capital Lease	0	102,698
Total	<u>\$ 704,389</u>	<u>\$ 828,385</u>

Additional information of the District's capital assets can be found in Note 5 on page 34 of this report.

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Debt Administration. At June 30, 2008, the District had \$954,570 in limited obligation bonds and other long-term debt outstanding, of which \$77,363 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 \$810,000 as of June 30, 2008.

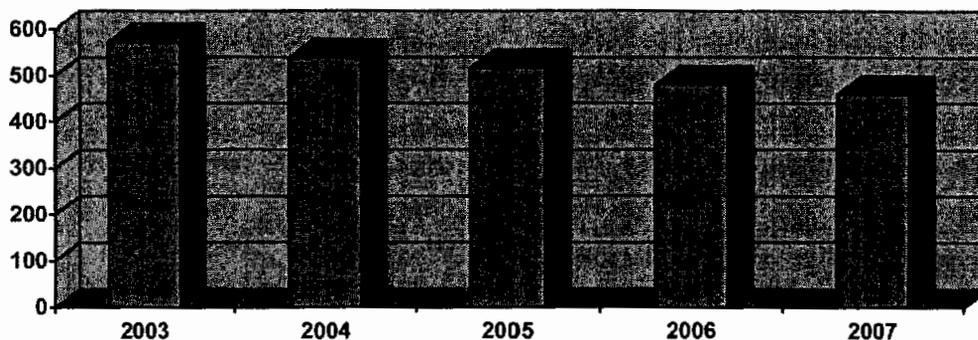
Additional information of the District's long-term debt can be found in Note 6 on page 35 of this report.

CURRENT ISSUES

The Montgomery County School District is not financially stable. Net assets decreased during the year by \$161,630 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
2003	572
2004	538
2005	516
2006	480
2007	460



Latest enrollment figures indicate that student enrollment in the District will decline approximately 20 students for the 2008-2009 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 \$14,667 per student at Montgomery County Elementary School and Montgomery County High School. These figures are based on enrollment of 460 students. Average Daily Attendance (ADA) for 2007-2008 was 393 and we received approximately \$4,690 per student ADA from the state.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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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, 2008

Exhibit A

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 1,017,047
Due from other governments	143,744
Inventories	3,787
Restricted assets	151,972
Capital assets, non-depreciable:	
Land	11,203
Capital assets, net of accumulated depreciation:	
Buildings	297,233
Building improvements	87,027
Improvements other than buildings	24,537
Mobile equipment	126,812
Furniture and equipment	178,875
Leased property under capital leases	<u>102,698</u>
Total Assets	<u><u>2,144,935</u></u>
Liabilities	
Accounts payable and accrued liabilities	241,753
Unearned revenue	5,212
Interest payable on long-term liabilities	17,725
Long-term liabilities, due within one year	
Capital related liabilities	77,363
Long-term liabilities, due beyond one year	
Capital related liabilities	839,614
Non-capital related liabilities	<u>37,593</u>
Total Liabilities	<u><u>1,219,260</u></u>
Net Assets	
Invested in capital assets, net of related debt	(88,592)
Restricted net assets:	
Expendable:	
School-based activities	221,849
Debt service	82,189
Forestry improvements	441,021
Unemployment benefits	19,426
Non-expendable:	
Sixteenth section	105,037
Unrestricted	<u>144,745</u>
Total Net Assets	<u><u>\$ 925,675</u></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, 2008

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:					
Instruction	\$ 2,660,162	44,493	565,027		(2,050,642)
Support services	2,157,443		285,921		(1,891,522)
Non-instructional	299,002	36,613	243,082		(19,307)
Sixteenth section	425,487	73,145			(352,342)
Interest on long-term liabilities	42,238				(42,238)
Total Governmental Activities	\$ 5,584,332	154,251	1,074,030	0	(4,356,051)
General Revenues:					
Taxes:					
				General purpose levies	932,170
Unrestricted grants and contributions:					
				State	2,367,104
				Federal	375,391
				Unrestricted investment earnings	27,005
				Sixteenth section sources	472,940
				Other	1,723
				Total General Revenues	4,176,333
				Change in Net Assets	(179,718)
				Net Assets - Beginning	1,087,305
				Prior Period Adjustments	18,088
				Net Assets - Beginning - Restated	1,105,393
				Net Assets - Ending	\$ 925,675

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

Montgomery County School District
 Balance Sheet - Governmental Funds
 June 30, 2008

Exhibit C

	Major Funds					Total Governmental Funds
	General Fund	Title 1 Fund	Forestry Escrow Fund	Sixteenth Section Interest Fund	Other Governmental Funds	
ASSETS						
Cash and cash equivalents	\$ 297,624	27,308	442,799	143,203	116,350	1,027,284
Cash with fiscal agents					29	29
Investments					138,809	138,809
Due from other governments	43,252			87	100,405	143,744
Accrued interest receivable					2,897	2,897
Inventories					3,787	3,787
Total Assets	\$ 340,876	27,308	442,799	143,290	362,277	1,316,550
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable and accrued liabilities	\$ 158,538	24,497	1,778	8,710	48,230	241,753
Unearned revenue		2,811			2,401	5,212
Total Liabilities	158,538	27,308	1,778	8,710	50,631	246,965
Fund Balances:						
Reserved for:						
Inventory					3,787	3,787
Ad valorem	9,243					9,243
Debt service					99,914	99,914
Unemployment benefits					19,426	19,426
Forestry improvement purposes			441,021			441,021
Permanent fund purposes					105,037	105,037
Undesignated, reported in:						
General Fund	173,095					173,095
Special Revenue Funds				134,580	83,482	218,062
Total Fund Balances	182,338		441,021	134,580	311,646	1,069,585
Total Liabilities and Fund Balances	\$ 340,876	27,308	442,799	143,290	362,277	1,316,550

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, 2008

Exhibit C-1

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 1,069,585
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>	
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 \$1,696,161	828,385
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(954,570)
3. Governmental funds recognize interest on long-term debt when it becomes due, however the Statement of Net Assets recognizes interest as it accrues.	(17,725)
Total Net Assets - Governmental Activities	\$ <u><u>925,675</u></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, 2008

Exhibit D

	Major Funds				Other Governmental Funds	Total Governmental Funds
	General Fund	Title 1 Fund	Forestry Escrow Fund	Sixteenth Section Interest Fund		
Revenues:						
Local sources	\$ 978,576				39,052	1,017,628
State sources	2,297,022				223,978	2,521,000
Federal sources	375,391	359,880			560,255	1,295,526
Sixteenth section sources			75,649	491,274	3,537	570,460
Total Revenues	3,650,989	359,880	75,849	491,274	826,822	5,404,614
Expenditures:						
Instruction	2,059,683	180,148			387,464	2,627,295
Support services	1,993,626	89,383			230,502	2,313,511
Noninstructional services		21,678			274,460	298,138
Sixteenth section			30,741	394,746		425,487
Debt service:						
Principal					60,000	60,000
Interest					41,080	41,080
Other					550	550
Total Expenditures	4,053,309	291,209	30,741	394,746	994,056	5,764,061
Excess (Deficiency) of Revenues over Expenditures	(402,320)	68,671	44,908	96,528	(167,234)	(359,447)
Other Financing Sources (Uses):						
Inception of capital leases	106,977					106,977
Sale of transportation equipment	801					801
Operating transfers in	435,000				199,161	634,161
Operating transfers out	(130,490)	(68,671)		(435,000)		(634,161)
Total Other Financing Sources (Uses)	412,288	(68,671)	0	(435,000)	199,161	107,778
Net Change in Fund Balances	9,968	0	44,908	(338,472)	31,927	(251,669)
Fund Balances:						
July 1, 2007	172,370	0	396,113	473,052	283,960	1,305,495
Prior period adjustments					18,088	18,088
July 1, 2007, as restated	172,370	0	396,113	473,052	282,048	1,323,583
Increase (Decrease) in reserve for inventory					(2,329)	(2,329)
June 30, 2008	\$ 182,338	0	441,021	134,580	311,646	1,069,585

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, 2008**

Exhibit D-1

	<u>Amount</u>
Net Change in Fund Balances - Governmental Funds	\$ (251,669)
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 \$281,963 and the depreciation expense amounted to \$141,187.	140,776
2. Proceeds of general long term debt are reported as other financing sources in the governmental funds, however these proceeds increase long-term liabilities in the government-wide financial statements.	(106,977)
3. 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.	60,000
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.	(608)
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.	(16,780)
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.	(2,329)
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	(2,131)
Change in Net Assets of Governmental Activities	\$ <u><u>(179,718)</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, 2008

Exhibit E

	Private-Purpose Trust Funds	Agency Funds
	<u> </u>	<u> </u>
Assets		
Cash and cash equivalents	\$ 0	19,361
Investments	19,600	
Accrued interest receivable	13	
	<u> </u>	<u> </u>
Total Assets	\$ 19,613	19,361
	<u> </u>	<u> </u>
Liabilities		
Accounts payable and accrued liabilities	\$ 0	15,438
Due to student clubs		3,923
	<u> </u>	<u> </u>
Total Liabilities	\$ 0	19,361
	<u> </u>	<u> </u>
Net Assets		
Reserved for endowments	\$ 19,613	
	<u> </u>	
Total Net Assets	\$ 19,613	
	<u> </u>	

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

Montgomery County School District
Statement of Changes in Fiduciary Net Assets
June 30, 2008

Exhibit F

	<u>Private-Purpose Trust Funds</u>
Additions	
Interest on investments	\$ 13
Contributions and donations from private sources	<u> 19,600</u>
Total Additions	<u> 19,613</u>
 Change in Net Assets	 <u> 19,613</u>
 Net Assets	
July 1, 2007	<u> 0</u>
June 30, 2008	<u>\$ 19,613</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, 2008

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.

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 to which each member was elected by the citizens of each defined county district.

For financial reporting purposes, Montgomery County School District has included all funds and organizations. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District.

B. Basis of Presentation.

Government-wide Financial Statements:

The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support.

MONTGOMERY COUNTY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2008

B. Basis of Presentation (Continued):

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

1. Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.
2. *Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.
3. *Unrestricted net assets* consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements:

Separate financial statements are provided for governmental, proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

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 I Fund – This is the school district's fund that operates the Title I grants to local education agencies passed through the Mississippi Department of Education.

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 fund is used to account for the proceeds of timber sales, forest products and rental revenues on 16th section land leases that are legally restricted to expenditures for specified purposes.

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

MONTGOMERY COUNTY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2008

B. Basis of Presentation (Continued):

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUND TYPES

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

Private-purpose Trust Funds – Private-purpose trust funds are used to report all trust arrangements, other than those properly reported elsewhere, under which the principal and income benefit individuals, private organizations or other governments.

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.

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 accrual basis of accounting as are the Fiduciary Fund financial statements. Revenues are recorded when earned and expenses are recorded when the liability is incurred or economic asset used, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Measurable means knowing or being able to reasonably estimate the amount. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and judgments, are recorded only when payment is due.

MONTGOMERY COUNTY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2008

C. Measurement Focus and Basis of Accounting (Continued).

Federal grants and assistance awards made on the basis of entitlement periods are recorded as receivables and revenues when entitlement occurs. Federal reimbursement type grants are recorded as revenues when the related expenditures are recognized. Use of grant resources is conditioned upon compliance with terms of the grant agreements and applicable federal regulations, which include subjecting grants to financial and compliance audits.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual.

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.

Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

The effect of interfund activity has been eliminated from the government-wide statements.

Revenues from the Mississippi Adequate Education Program Revenues are appropriated on a fiscal year basis and are recorded at the time the revenues are received from the State of Mississippi.

D. Account Classifications.

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental 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, 2003* 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.

MONTGOMERY COUNTY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2008

F. Assets, liabilities, and net assets or equity.

1. Cash, Cash equivalents and Investments

Cash and cash equivalents

The district's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. 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.

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 deposit are classified as investments if they have a maturity greater than three months when acquired.

Investments for the district are reported at fair market value.

2. Receivables and payables.

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e. the current portion of interfund loans) or advances to/from other funds (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

3. Due from Other Governments

Due from other governments represents amounts due from the State of Mississippi, and various grants and reimbursements from other governments.

4. 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.

MONTGOMERY COUNTY SCHOOL DISTRICT

**Notes to Financial Statements
For the Year Ended June 30, 2008**

5. Restricted Assets.

Certain resources set aside for repayment of debt are classified as restricted assets on the balance sheet because their use is limited by applicable debt statutes. Also, the nonexpendable portion of the Permanent Fund, if applicable, is classified as restricted assets because the 16th Section Principal fund is not available for use by the district except as provided for under state statute for loans from this account.

6. Capital Assets.

Capital assets, which include property, plant, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost or estimated historical cost based on appraisals or deflated current replacement cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the thresholds in the following table and estimated useful lives in excess of two years.

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.

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 5 for details.

MONTGOMERY COUNTY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2008

7. Compensated Absences.

Employees of the school district accumulate sick leave at a minimum amount as required by state law. A greater amount may be provided by school district policy provided that it does not exceed the provisions for leave as provided in Sections 25-3-93 and 25-3-95. 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 the compensated absence liability payable from expendable available financial resources only if the payable has matured, for example, an employee retires.

8. Long-term Liabilities, Deferred Debt Expenses, and Bond Discounts/Premiums.

In the government-wide proprietary and component unit financial statements, outstanding debt is reported as liabilities. Bond issue cost, bond discounts or premiums, and the difference between reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the effective interest method.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures. See Note 6 for details.

9. Fund Equity.

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

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.

MONTGOMERY COUNTY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2008

9. Fund Equity (Continued):

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 improving sixteenth section forest lands.

Unreserved, undesignated – An account that represents the portion of fund balance that is expendable available financial resources.

2. Cash and Cash Equivalents, Cash with Fiscal Agent, and Investments

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 the school districts' deposits in financial institutions is 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 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 Deposit 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). 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 the 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.

MONTGOMERY COUNTY SCHOOL DISTRICT

**Notes to Financial Statements
For the Year Ended June 30, 2008**

2. Cash and Cash Equivalents, Cash with Fiscal Agent, and Investments (Continued):

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 \$1,128,332 (which includes \$101,048 in certificates of deposit with original maturities beyond three months and reported on Exhibit C as investments) and \$38,961 (which includes \$19,600 in certificates of deposit with original maturities beyond three months and reported on Exhibit E as investments), respectively. The carrying amount of deposits reported in the government-wide financial statements was; cash and cash equivalents - \$1,017,047, 16th Section Principal Fund (Permanent Fund) cash \$1,092 and \$101,048 of certificates of deposits with original maturities beyond three months and MAEP Retirement Fund cash of \$9,145, cash held with fiscal agents in the amount of \$29 and \$37,761 of investments held in Hancock Bank, which are all included in Restricted Assets. The bank balance of \$1,229,717 represents cash and cash equivalents of \$1,109,069 and certificates of deposit of \$120,648 with original maturities beyond three months that are reported as investments on Exhibit C in the financial statements.

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, 2008, none of the district's bank balance of \$1,229,717 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 \$29.

Investments.

The restricted assets of \$151,972 (which includes restricted cash of \$10,237, and \$101,048 of certificates of deposit with original maturities beyond three months, \$29 in cash held with fiscal agents, \$37,761 in investments with Hancock Bank and accrued interest receivable of \$2,897) reported on the Statement of Net Assets represent the investment balance of the 16th Section Principal Fund and MAEP Retirement Fund, which is legally restricted and may not be used for purposes that support the district's programs.

MONTGOMERY COUNTY SCHOOL DISTRICT

**Notes to Financial Statements
For the Year Ended June 30, 2008**

2. Cash and Cash Equivalents, Cash with Fiscal Agent, and Investments (Continued):

As of June 30, 2008, the district had the following investments:

Investment Type	Maturities (in years)	Fair Value	Rating
Hancock Horizon Treasury			
Securities Money Market Mutual Fund	Less than 1 year	\$ 37,761	AA AM
Certificate of Deposits	1 year	<u>120,648</u>	Not Rated
Total Investments		<u>\$ 158,409</u>	

Interest Rate Risk. The district does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. State law limits investments to those prescribed in Sections 27-105-53(d) and 27-105-33(e), Miss. Code Ann. (1972). The district does not have a formal investment policy that would further limit its investment choices or one that addresses credit risk.

Custodial Credit Risk – Investments. Custodial credit risk is defined as the risk that, in the event of the failure of the counterparty, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The district does not have a formal investment policy that addresses custodial credit risk. The investments in the Hancock Horizon Treasury Securities Money Market Mutual Funds are uninsured and unregistered and are not backed by the full faith and credit of the federal government.

3. Interfund Receivables, Payables and Transfers.

The following is a summary of interfund transactions and balances:

A. Interfund Transfers

Transfer Out	Transfer In	Amount
General Fund	Other governmental funds	\$ 130,490
Title I Fund	Other governmental funds	68,671
16th Section Interest Fund	General fund	<u>435,000</u>
Total		<u>\$ 634,161</u>

The primary purpose of interfund transfers was to provide funds for daily operations. All interfund transfers were routine and consistent with the activities of the fund making the transfer.

MONTGOMERY COUNTY SCHOOL DISTRICT

**Notes to Financial Statements
For the Year Ended June 30, 2008**

4. Restricted Assets.

The restricted assets represent the cash balance totaling \$1,092, \$101,048 in certificates of deposit with original maturities beyond three months, and accrued interest receivable of \$2,897, 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. In addition, the restricted assets represent the cash balance totaling \$9,145, cash held with fiscal agent totaling \$29, and \$37,761 in investments held with Hancock Bank of the MAEP Limited Obligation Bond Fund.

MONTGOMERY COUNTY SCHOOL DISTRICT

**Notes to Financial Statements
For the Year Ended June 30, 2008**

5. Capital Assets.

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

	Balance 7/1/2007	Additions	Retirements	Adjustments and Reclasses	Balance 6/30/2008
Non-depreciable capital assets:					
Land	\$ 12,203		(1,000)		11,203
Total non-depreciable capital assets	12,203	-	(1,000)	-	11,203
Depreciable capital assets:					
Buildings	1,036,075		(78,900)		957,175
Building improvements	187,204				187,204
Improvements other than buildings	27,883				27,883
Mobile equipment	699,582			6,000	705,582
Furniture and equipment	359,536	174,986		(6,000)	528,522
Leased property under capital leases		106,977			106,977
Total depreciable capital assets	2,310,280	281,963	(78,900)	-	2,513,343
Less accumulated depreciation for:					
Buildings	716,464	6,598	(63,120)		659,942
Building improvements	94,192	5,985			100,177
Improvements other than buildings	2,230	1,116			3,346
Mobile equipment	559,494	14,647		4,629	578,770
Furniture and equipment	245,714	108,562		(4,629)	349,647
Leased property under capital leases		4,279			4,279
	1,618,094	141,187	(63,120)	-	1,696,161
Total depreciable capital assets, net	692,186	140,776	(15,780)	-	817,182
Governmental activities capital assets, net	\$ 704,389	140,776	(16,780)	-	828,385

MONTGOMERY COUNTY SCHOOL DISTRICT

**Notes to Financial Statements
For the Year Ended June 30, 2008**

Depreciation expense was charged to the following governmental functions:

Governmental activities:

Instruction	\$ 16,953
Support services	123,159
Non-instructional	<u>1,075</u>
 Total Depreciation Expense	 <u>\$ 141,187</u>

6. Long-term Liabilities:

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

	Balance <u>7/1/2007</u>	Additions	Reductions	Balance <u>6/30/2008</u>	Amounts due within one year
A. Limited obligation bonds payable	\$ 870,000		(60,000)	810,000	65,000
B. Obligations under energy efficiency lease		106,977		106,977	12,363
C. Compensated absences payable	<u>35,462</u>	<u>2,131</u>		<u>37,593</u>	
 Total	 <u>\$ 905,462</u>	 <u>109,108</u>	 <u>(60,000)</u>	 <u>954,570</u>	 <u>77,363</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 Rate(s)</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
State aid capital improvement bonds Series 1998	4.5%-4.8%	2/1/1998	2/1/2018	\$ <u>1,230,000</u>	<u>810,000</u>
 Total				 <u>\$ 1,230,000</u>	 <u>810,000</u>

MONTGOMERY COUNTY SCHOOL DISTRICT

**Notes to Financial Statements
For the Year Ended June 30, 2008**

Details of the district's June 30, 2008 limited obligation bonds indebtedness are as follow:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 65,000	38,380	103,380
2010	70,000	35,390	105,390
2011	70,000	32,170	102,170
2012	75,000	28,880	103,880
2013	80,000	25,318	105,318
2014-2018	<u>450,000</u>	<u>67,075</u>	<u>517,075</u>
Total	\$ <u>810,000</u>	<u>227,213</u>	<u>1,037,213</u>

This debt will be retired from the MAEP debt service fund.

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.

B. Obligations under energy efficiency lease.

Debt currently outstanding is as follows:

<u>Description</u>	<u>Rate(s)</u>	<u>Date</u>	<u>Date</u>	<u>Issued</u>	<u>Outstanding</u>
MS Master Lease Purchase Program - Series 2008A	6.50%	4/1/2008	4/1/2010	\$ 106,977	106,977
Total				\$ <u>106,977</u>	<u>106,977</u>

MONTGOMERY COUNTY SCHOOL DISTRICT

**Notes to Financial Statements
For the Year Ended June 30, 2008**

Details of the district's June 30, energy efficiency lease payable are as follows:

1. Obligations under energy efficiency lease issued April 1, 2008

Year Ending June 30	Principal	Interest and Maintenance Charges	Total
2009	\$ 12,363	6,932	19,295
2010	94,614	5,936	100,550
Total	\$ 106,977	12,868	119,845

This debt will be retired from the District Maintenance Fund.

C. As more fully explained in Note 1(F)(7), 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 employer's rate for fiscal year ended June 30, 2008 was 11.85% 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, 2008, 2007 and 2006 were \$324,820, \$312,968, and \$299,594, respectively, which equaled the required contributions for each year.

MONTGOMERY COUNTY SCHOOL DISTRICT

**Notes to Financial Statements
For the Year Ended June 30, 2008**

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 there from 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</u>	<u>Amount</u>
2009	\$ 45,174
2010	16,947
2011	13,867
2012	13,867
2013	2,835
2014-2018	1,250
2019-2023	1,250
2024-2028	1,250
2029-2033	1,250
Thereafter	<u>700</u>
 Total	 \$ <u><u>98,390</u></u>

9. Prior period Adjustments/Exhibits.

A summary of significant fund equity adjustments is as follows:

Exhibit B – Statement of Activities

<u>Explanation</u>	<u>Amount</u>
1. Understatement of due from other governments on prior year audit	<u>\$ 18,088</u>
Total	<u>\$ 18,088</u>

Exhibit D – Statement of Revenues, Expenditures and Changes in Fund Balances

<u>Explanation</u>	<u>Amount</u>
Understatement of due from other governments on prior year audit	<u>\$ 18,088</u>
Total	<u>\$ 18,088</u>

MONTGOMERY COUNTY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2008

10. Contingencies.

Federal Grants. The school district has received federal grants for specific purposes that are subject to audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowances resulting from the grantor audit may become a liability of the school district.

11. Subsequent Events.

On October 14, 2008, the board approved the purchase of security cameras totaling \$35,971.

12. Risk Management.

The school district is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; error and omission; 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 School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of approximately 95 school districts and one community college and covers risks of loss arising from injuries to the members' 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 MSBAWCT contributes quarterly to a fund held in trust by Wells Fargo in Portland, Oregon. The funds in the trust account are used to pay any claim up to \$750,000. For a claim exceeding \$750,000, MSBAWCT has insurance which will pay the excess to the statutory amount required by the Mississippi Workers Compensation Commission Act. If total claims during a year were to deplete the trust account, then the member school districts would be required to pay for the deficiencies.

MONTGOMERY COUNTY SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

Montgomery County School District
 Budgetary Comparison Schedule
 General Fund
 For the Year Ended June 30, 2008

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 1,053,997	987,067	978,576	(66,930)	(8,491)
State sources	2,342,604	2,293,131	2,297,022	(49,473)	3,891
Federal sources	40,000	375,400	375,391	335,400	(9)
Total Revenues	<u>3,436,601</u>	<u>3,655,598</u>	<u>3,650,989</u>	<u>218,997</u>	<u>(4,609)</u>
Expenditures:					
Instruction	2,079,346	2,059,131	2,059,683	20,215	(552)
Support services	<u>1,513,874</u>	<u>1,885,457</u>	<u>1,993,626</u>	<u>(371,583)</u>	<u>(108,169)</u>
Total Expenditures	<u>3,593,220</u>	<u>3,944,588</u>	<u>4,053,309</u>	<u>(351,368)</u>	<u>(108,721)</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(156,619)</u>	<u>(288,990)</u>	<u>(402,320)</u>	<u>(132,371)</u>	<u>(113,330)</u>
Other Financing Sources (Uses):					
Inception of capital leases			106,977	0	106,977
Sale of transportation equipment		801	801	801	0
Operating transfers in	627,695	796,588	435,000	168,893	(361,588)
Operating transfers out	<u>(456,315)</u>	<u>(491,961)</u>	<u>(130,490)</u>	<u>(35,646)</u>	<u>361,471</u>
Total Other Financing Sources (Uses)	<u>171,380</u>	<u>305,428</u>	<u>412,288</u>	<u>134,048</u>	<u>106,860</u>
Net Change in Fund Balances	<u>14,761</u>	<u>16,438</u>	<u>9,968</u>	<u>1,677</u>	<u>(6,470)</u>
Fund Balances:					
July 1, 2007	<u>172,370</u>	<u>172,370</u>	<u>172,370</u>	<u>0</u>	<u>0</u>
June 30, 2008	<u>\$ 187,131</u>	<u>188,808</u>	<u>182,338</u>	<u>1,677</u>	<u>(6,470)</u>

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

Montgomery County School District
 Budgetary Comparison Schedule
 Title 1 Fund
 For the Year Ended June 30, 2008

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	\$ 367,946	386,441	359,880	18,495	(26,561)
Total Revenues	<u>367,946</u>	<u>386,441</u>	<u>359,880</u>	<u>18,495</u>	<u>(26,561)</u>
Expenditures:					
Instruction	188,071	200,847	180,148	(12,776)	20,699
Support services	61,226	93,910	89,383	(32,684)	4,527
Noninstructional services	49,978	23,013	21,678	26,965	1,335
Total Expenditures	<u>299,275</u>	<u>317,770</u>	<u>291,209</u>	<u>(18,495)</u>	<u>26,561</u>
Excess (Deficiency) of Revenues over Expenditures	<u>68,671</u>	<u>68,671</u>	<u>68,671</u>	<u>0</u>	<u>0</u>
Other Financing Sources (Uses):					
Operating transfers out	(68,671)	(68,671)	(68,671)	0	0
Total Other Financing Sources (Uses)	<u>(68,671)</u>	<u>(68,671)</u>	<u>(68,671)</u>	<u>0</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, 2007	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
June 30, 2008	<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
 Forestry Escrow Fund
 For the Year Ended June 30, 2008

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
	Revenues:				
Sixteenth section sources	\$ 18,500	90,513	75,649	72,013	(14,864)
Total Revenues	18,500	90,513	75,649	72,013	(14,864)
Expenditures:					
Sixteenth section	11,300	30,742	30,741	(19,442)	1
Total Expenditures	11,300	30,742	30,741	(19,442)	1
Excess (Deficiency) of Revenues over Expenditures	7,200	59,771	44,908	52,571	(14,863)
Other Financing Sources (Uses):					
Total Other Financing Sources (Uses)	0	0	0	0	0
Net Change in Fund Balances	7,200	59,771	44,908	52,571	(14,863)
Fund Balances:					
July 1, 2007	381,496	381,496	396,113	0	14,617
June 30, 2008	\$ 388,696	441,267	441,021	52,571	(246)

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, 2008

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
	Original	Final		Positive (Negative)	
				Original to Final	Final to Actual
Revenues:					
Sixteenth section sources	\$ 165,529	580,475	491,274	414,946	(89,201)
Total Revenues	165,529	580,475	491,274	414,946	(89,201)
Expenditures:					
Sixteenth section	85,800	395,491	394,746	(309,691)	745
Total Expenditures	85,800	395,491	394,746	(309,691)	745
Excess (Deficiency) of Revenues over Expenditures	79,729	184,984	96,528	105,255	(88,456)
Other Financing Sources (Uses):					
Operating transfers out	(300,000)	(435,000)	(435,000)	(135,000)	0
Total Other Financing Sources (Uses)	(300,000)	(435,000)	(435,000)	(135,000)	0
Net Change in Fund Balances	(220,271)	(250,016)	(338,472)	(29,745)	(88,456)
Fund Balances:					
July 1, 2007	390,221	390,221	473,052	0	82,831
June 30, 2008	\$ 169,950	140,205	134,580	(29,745)	(5,625)

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, 2008**

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 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.

MONTGOMERY COUNTY SCHOOL DISTRICT

SUPPLEMENTAL INFORMATION

Montgomery County School District
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2008

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:		
Child nutrition cluster		
School breakfast program	10.553	92,813
National school lunch program	10.555	190,127
Total		<u>282,940</u>
Total U.S. Department of Agriculture		<u>282,940</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	375,391
Total Federal Communications Commission		<u>375,391</u>
<u>U.S. Department of Education</u>		
Direct programs:		
Fund for the improvement of education	84.215	10,186
Total		<u>10,186</u>
Passed through the Mississippi Department of Education:		
Title I, grants to local educational agencies	84.010	359,880
Career and technical education - basic grants to states	84.048	1,158
Safe and drug free schools and communities - state grants	84.186	8,146
Even start - state educational agencies	84.213	47,766
State grants for innovative programs	84.298	792
Education technology state grants	84.318	3,098
Improving teacher quality - state grants	84.367	90,439
Grants for state assessments and related activities	84.369	2,584
Total		<u>513,863</u>
Special Education Cluster:		
Special Education - Grants to States	84.027	132,136
Special Education - Preschool Grants	84.173	8,920
Total Special Education Cluster		<u>141,056</u>
Total U.S. Department of Education		<u>665,105</u>
Total for All Federal Awards		<u>\$ 1,323,436</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, 2008

<u>Expenditures</u>	<u>Total</u>	<u>Instruction and Other Student Instructional Expenditures</u>	<u>General Administration</u>	<u>School Administration</u>	<u>Other</u>
Salaries and fringe benefits \$	3,704,954	2,659,036	349,801	212,962	483,155
Other	2,059,107	771,175	153,701	7,389	1,126,842
Total	\$ 5,764,061	3,430,211	503,502	220,351	1,609,997
Total number of students*	419				
Cost per student	\$ 13,757	8,187	1,202	526	3,842

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.

* Includes the number of students reported on the ADA report submission for month 9, which is the final submission for the fiscal year.

Note: 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

OTHER SUPPLEMENTAL INFORMATION

Montgomery County School District
Statement of Revenues, Expenditures and Changes in Fund Balances
General Fund
Last Four Years

"UNAUDITED"

	2008	2007*	2006*	2005*
Revenues:				
Local sources	\$ 978,576	870,191	859,115	801,511
State sources	2,297,022	2,191,964	2,198,815	2,129,506
Federal sources	375,391	310,294	41,190	21,307
Total Revenues	3,650,989	3,372,449	3,099,120	2,952,324
Expenditures:				
Instruction	2,059,683	2,057,901	1,998,086	1,758,350
Support services	1,993,626	1,662,469	1,396,224	1,319,442
Total Expenditures	4,053,309	3,720,370	3,394,310	3,077,792
Excess (Deficiency) of Revenues over Expenditures	(402,320)	(347,921)	(295,190)	(125,468)
Other Financing Sources (Uses):				
Inception of capital leases	106,977			
Sale of transportation equipment	801			
Sale of other property		25,000	1,200	2,762
Operating transfers in	435,000	378,000	300,000	201,209
Operating transfers out	(130,490)	(98,080)	(88,812)	(85,730)
Total Other Financing Sources (Uses)	412,288	304,920	212,388	118,241
Net Change in Fund Balances	9,968	(43,001)	(82,802)	(7,227)
Fund Balances:				
July 1,	172,370	215,371	298,173	305,400
June 30,	\$ 182,338	172,370	215,371	298,173

*SOURCE - PRIOR YEAR AUDIT REPORTS

Montgomery County School District
Statement of Revenues, Expenditures and Changes in Fund Balances
All Governmental Funds
Last Four Years

"UNAUDITED"

	2008	2007*	2006*	2005*
Revenues:				
Local sources	\$ 1,017,628	911,981	897,413	841,609
State sources	2,521,000	2,391,716	2,420,015	2,354,895
Federal sources	1,295,526	1,388,265	1,166,710	1,145,248
Sixteenth section sources	570,460	183,499	96,194	328,925
Total Revenues	5,404,614	4,875,461	4,580,332	4,670,677
Expenditures:				
Instruction	2,627,295	2,658,794	2,606,087	2,424,315
Support services	2,313,511	2,124,369	1,860,350	1,695,766
Noninstructional services	296,138	304,741	317,496	331,946
Sixteenth section	425,487	23,678	46,031	181,367
Debt service:				
Principal	60,000	60,000	55,000	55,000
Interest	41,080	43,780	46,805	49,940
Other	550	550	550	550
Total Expenditures	5,764,061	5,215,912	4,932,319	4,738,884
Excess (Deficiency) of Revenues over Expenditures	(359,447)	(340,451)	(351,987)	(68,207)
Other Financing Sources (Uses):				
Inception of capital leases	106,977			
Sale of transportation equipment	801			
Sale of other property		25,000	1,200	2,762
Operating transfers in	634,161	553,403	461,097	286,939
Operating transfers out	(634,161)	(553,403)	(461,097)	(286,939)
Total Other Financing Sources (Uses)	107,778	25,000	1,200	2,762
Net Change in Fund Balances	(251,669)	(315,451)	(350,787)	(65,445)
Fund Balances:				
July 1,	1,305,495	1,621,236	1,970,101	2,036,922
Prior period adjustments	18,088			
July 1, as restated	1,323,583	1,621,236	1,970,101	2,036,922
Increase (Decrease) in reserve for inventory	(2,329)	(290)	1,922	(1,376)
June 30,	\$ 1,069,585	1,305,495	1,621,236	1,970,101

*SOURCE - PRIOR YEAR AUDIT REPORTS

MONTGOMERY COUNTY SCHOOL DISTRICT

REPORTS ON INTERNAL CONTROLS AND COMPLIANCE



Watkins, Ward and Stafford
Professional Limited Liability Company
Certified Public Accountants

James L. Stafford, CPA	Marsha L. McDonald, CPA
Harry W. Stevens, CPA	Wanda S. Holley, CPA
Paul A. Ray, CPA	Robin Y. McCormick, CPA/PFS
S. Keith Winfield, CPA	J. Randy Scrivner, CPA
William B. Staggers, CPA	Kimberly S. Caskey, CPA
Aubrey R. Holder, CPA	Susan M. Lummus, CPA
David M. Howell, CPA	Thomas J. Brwder, CPA
Michael W. McCully, CPA	Stephen D. Flake, CPA
Mort Stroud, CPA	John N. Russell, CPA
Gary C. Hamilton, CPA	Kenny R. Dickerson, CPA
R. Steve Sinclair, CPA	Thomas A. Davis, CPA
Michael L. Pierce, CPA	Anita L. Goodrum, 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**

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 Montgomery County School District as of and for the year ended June 30, 2008, which collectively comprise Montgomery County School District's basic financial statements and have issued our report thereon dated June 11, 2009. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the school district's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the school district's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in the internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as Findings 2008-1, 2008-2, 2008-3, and 2008-4, to be significant deficiencies in internal control over financial reporting

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the school district's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

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 disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance or other matters that we have reported to management of the school district in a separate letter dated June 11, 2009, which is included in this report.

Montgomery County School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit Montgomery County School District's responses and, accordingly, we express no opinion on them.

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
June 11, 2009

Watkins, Ward and Stafford, PLLC



Watkins, Ward and Stafford
 Professional Limited Liability Company
 Certified Public Accountants

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 John N. Russell, CPA
 Kenny R. Dickerson, CPA
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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**

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, 2008. The school district's major federal program is identified in the summary of auditor's results section of the accompanying 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 program for the year ended June 30, 2008.

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 the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the school district's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the school board and management, others within the entity, 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
June 11, 2009

Watkins, Ward and Stafford, PLLC

MONTGOMERY COUNTY SCHOOL DISTRICT

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



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Certified Public Accountants

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

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, 2008, which collectively comprise Montgomery County School District's basic financial statements and have issued our report thereon dated June 11, 2009. 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)(a), 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 state 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 results 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 \$2,620 of classroom supply funds carried over from previous years.

Section 37-9-18(3)(b), Miss. Code Ann. (1972), states in part, "the auditor shall test to insure correct and appropriate coding at the function level. The audit must include a report showing the correct and appropriate functional level expenditure codes in expenditures by the school district."

The results of our procedures performed to test compliance with the requirements of Section 37-9-18(3)(b), Miss. Code Ann. (1972), disclosed no instances of noncompliance related to incorrect or inappropriate functional level expenditure coding.

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 state 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 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:

Superintendent Should Provide the Board with Monthly Financials By Fund

1. Finding

Section 37-9-18, Miss Code Ann. (1972), states, "The Superintendent of schools shall furnish to the school board a financial statement of receipts and disbursements, by funds, on or before the last working day of the following month covering the prior month."

Per discussions with the business manager, superintendent, and board secretary the board is provided quarterly fund financial for review. This review is not notated in the board minutes.

Inadequate controls over adherence to Section 37-9-18, Miss Code Ann. (1972), resulted in this noncompliance.

Noncompliance with Section 37-9-18, Miss Code Ann. (1972), limits the board's oversight ability and its knowledge of the district's monthly financial status.

Recommendation

We recommend the superintendent comply with Section 37-9-18, Miss Code Ann. (1972), by providing monthly fund financials to the board for review and discussion. Additionally, the board minutes should reflect this action.

School District's Response

The superintendent will comply with Section 37-9-18, Miss Code Ann. (1972), by providing monthly fund financials to the board for review and discussion. Additionally, the board minutes will reflect this action.

Adequate Surety Bond Coverage Should Be on File

2. Finding

Section 37-6-15, Miss Code Ann. (1972), states, "Before entering upon the discharge of the duties of his office, each member of the school board shall give a surety bond in the penal sum of Fifty Thousand Dollars (\$50,000.00)..."

During our review of surety bonds, it was noted that the bond for one board member expired on January 1, 2007, and was not reinstated until October 19, 2007. During this period, the individual was an active board member.

Inadequate control over adherence to Section 37-6-15, Miss Code Ann. (1972), resulted in this noncompliance.

Insufficient surety bond coverage could result in a loss of funds to the district.

Recommendation

We recommend the district comply with Section 37-6-15, Miss Code Ann. (1972), and ensure required bond coverage is retained on all potential positions.

School District's Response

The district will comply with Section 37-6-15, Miss Code Ann. (1972), and ensure required bond coverage is retained on all potential positions.

Transfers of Sixteenth Section Interest Funds Should be Board Approved

3. Finding

Section 29-3-117, Miss Code Ann. (1972), states, "All expendable sixteenth section revenues to which a school district shall become entitled...shall be paid into the maintenance or building fund of the school district entitled thereto on order of the board of education."

During our review of transfers, we noted one instance in which the district transferred \$335,000 from the Sixteenth Section Interest Fund to the District Maintenance Fund prior to the board approving this transfer and recording it in the minutes.

Inadequate controls related to the transfer of expendable sixteenth section revenues resulted in a transfer prior to board approval.

Transferring sixteenth section funds in advance of board approval results in noncompliance with Section 29-3-117, Miss Code Ann. (1972).

Recommendation

We recommend the district comply with Section 29-3-117, Miss Code Ann. (1972), and ensure all transfers are approved prior to the actual transfer and recorded in the board minutes.

School District's Response

The district will comply with Section 29-3-117, Miss Code Ann. (1972), and ensure all transfers are approved prior to the actual transfer and recorded in the board minutes.

Retirees Should Complete PERS Form 4B

4. Finding

The Mississippi Public Employees' Retirement System (PERS) required school districts hiring PERS service retirees to file PERS Form 4B "Certification/Acknowledgement of Reemployment of Retiree" with the PERS office within five days from the date of employment of the retiree.

The district hired two PERS service retirees in fiscal year 2008. Of the two, we noted PERS Form 4B was not filed for one of the employees.

Inadequate controls related to the filing of PERS Form 4B resulted in the Form 4B not being filed for one employee.

The retiree's retirement income could be affected by the district not filing PERS Form 4B with PERS upon reemployment of retirees each year. In addition, PERS may assess a penalty per occurrence payable by the district not filing PERS Form 4B within five days of re-employment.

Recommendation

We recommend the district implement procedures to ensure that the district files PERS Form 4B for all retirees rehired by the school district within five days of re-employment.

School District's Response

The district will implement procedures to ensure that the district files PERS Form 4B for all retirees rehired by the school district within five days of re-employment. The payroll department will check all employees hired for the school year at the beginning of August and any retirees rehired will have PERS Form 4B filed at that time.

One Source Only Purchases Should Be Documented in the Board Minutes

5. Finding

Section 31-7-13 (m)(viii), Miss Code Ann. (1972), states "In connection with the purchase of noncompetitive items only available from one source, a certification of the conditions and circumstances requiring the purchase shall be filed by the governing authority with the board of the governing authority. Upon receipt of that certification, the board of the governing authority may, in writing, authorize the purchase, which authority shall be noted on the minutes of the board at the next regular meeting thereafter."

Per our examination of the district's compliance with state purchasing laws we noted one purchase that was made as a one source only purchase that was not documented as a one source only purchase in the board minutes. Sufficient documentation existed to indicate that the transaction was actually a one source only purchase however there was no documentation in the board minutes approving the purchase as a one source only purchase.

Inadequate controls over one source only purchases resulted in a one source only purchase not being approved in the board minutes.

The district could inadvertently violate Section 31-7-13 (m)(viii), Miss Code Ann. (1972), regarding one source only purchases.

Recommendation

We recommend the district comply with Section 31-7-13 (m)(viii), Miss Code Ann. (1972), and document approval for all one source only purchases in the board minutes.

School District's Response

The district will comply with Section 31-7-13 (m)(viii), Miss Code Ann. (1972), and document approval for all one source only purchases in the board minutes.

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

Montgomery County School District's responses to the findings included in this report were not audited and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the school board and management, entities with the 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
June 11, 2009

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, 2008**

Section 1: Summary of Auditor's Results

Financial Statements:

- | | |
|--|-------------|
| 1. Type of auditor's report issued on the financial statements: | Unqualified |
| 2. Material noncompliance relating to the financial statements? | No |
| 3. Internal control over financial reporting: | |
| a. Material weakness(es) identified? (Yes or No) | No |
| b. Significant deficiency(ies) 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 |
| 5. Internal control over major programs: | |
| a. Material weakness(es) identified? (Yes or No) | No |
| b. Significant deficiency(ies) identified that are not considered to be material weaknesses? | None Reported |
| 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. Title 1 grants to local educational agencies
CFDA #84.010 | |
| 8. The dollar threshold used to distinguish between type A and type 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 schedule 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, 2008

Section 2: Financial Statement Findings

Significant deficiencies, not considered to be material weaknesses

Controls over general disbursements should be strengthened

2008-1 Finding

During our testing of general disbursements of the school district we noted the following control deficiencies:

- There were five instances noted where a purchase order was prepared after goods or service were ordered
- There were six instances noted where there was no receiving documentation noted for a transaction that had been paid
- One instance was noted where a travel voucher was prepared incorrectly in that the calculation for mileage paid the employee was incorrect
- One instance was noted where a check was mailed without the Superintendent's signature of approval (There was no signature on the check at all)
- One instance was noted where the Superintendent did not approve a purchase requisition
- It was noted that game officials for school athletic events do not sign any kind of attendance roster for that event, therefore there is no actual supporting documentation for payments to game officials

Inadequate controls over general disbursements could result in unauthorized or unallowed disbursements being made by the district and not being detected by management.

Recommendation

We recommend that goods and services are not ordered until a properly authorized purchase requisition and order are prepared. We also recommend that invoices remain unpaid until adequate receiving documentation is obtained for that invoice. All travel vouchers should be reviewed and recalculated for agreement with district policy prior to approval and payment. All checks should be signed by the Superintendent prior to being mailed. All game officials should sign some form of attendance roster to ensure that payments are made to officials that actually did referee the applicable athletic event.

School District Response

The district will not order goods and services until a properly authorized purchase requisition and order are prepared. The district will not pay invoices until adequate receiving documentation is obtained for the invoices. All travel vouchers will be reviewed and recalculated for agreement with district policy prior to approval and payment. All checks will be signed by the Superintendent prior to being mailed. All game officials will sign a form of attendance roster to ensure that payments are made to officials that actually did referee the applicable athletic event.

MONTGOMERY COUNTY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2008

Controls over payroll disbursements should be strengthened

2008-2 Finding

During our testing of payroll disbursements of the school district we noted the following control deficiencies:

- There was one instance noted where an employee was not approved in the board minutes.
- There was one instance noted where an employee did not have a signed w-4 or state withholding report on file.
- It appears that substitute employees do not prepare and sign a w-4 or state withholding report.

Inadequate controls over payroll disbursements could result in unauthorized payments to employees. Employees not completing and signing w-4 and state withholding reports could result in Internal Revenue Service and/or Mississippi State Tax Commission penalties being assessed to the school district.

Recommendation

We recommend that all employees be approved by the board prior to employment and the approval be adequately documented in the board minutes. We also recommend that all employees complete and sign a w-4 and state withholding form.

School District's Response

The district will have all employees approved by the board prior to employment and the approval will be adequately documented in the board minutes. The district will have all employees sign a w-4 and state withholding form.

MONTGOMERY COUNTY SCHOOL DISTRICT

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2008**

Controls Over Overtime Paid to Central Office Staff Should Be Strengthened

2008-3 Finding

Per our review of the annual payroll of central office staff we noted that the Superintendent is not approving overtime pay for central office staff. We reviewed the timekeeping records and board approved payment scale for central office staff. We did reconcile all central office staff payroll to time keeping records with no exception; however, we noted that the time keeping records are not being approved by the Superintendent prior to payment.

We believe payments of overtime to central office staff should be approved by the Superintendent to ensure that there is no abuse in this area and that payments to central office personnel are made in accordance with board approved salary rates and are for actual hours worked.

Recommendation

We recommend that the Superintendent approve all overtime worked by central office personnel.

School District Response

The district will have the Superintendent approve all overtime worked by central office personnel.

Controls Over Activity Fund Receipts Should Be Strengthened

2008-4 Finding

Per our review of activity fund receipts we noted the following control deficiencies:

- We noted that in a majority of instances information regarding pre-numbered tickets is not being reported on school athletic event forms so that the cash collected can be reconciled with the number of tickets sold for that athletic event.
- We noted one instance where \$18 cash was withheld from cash collected at an athletic event to reimburse an employee for gas. This procedure circumvented the district's purchasing policies.
- We noted that personnel at one school are substituting a copy of the cash receipts journal instead of preparing a monthly transmittal report to the central office.

Inadequate controls over decentralized cash receipts could result in misappropriation of cash in these areas.

Recommendation

We recommend that all school event forms contain information about pre-numbered tickets so that cash collected can be reconciled with ticket information. All deposits should be made intact on a timely basis with no amounts withheld for reimbursement. Also monthly transmittal forms should be prepared on a timely basis and submitted to the central office.

MONTGOMERY COUNTY SCHOOL DISTRICT

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2008**

School District Response

The district will ensure that all school event forms contain information about pre-numbered tickets so that cash collected can be reconciled with ticket information. All deposits will be made intact on a timely basis with no amounts withheld for reimbursement. The district will ensure that monthly transmittal forms are prepared on a timely basis and submitted 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.