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Montgomery County School District

Audited Financial Statements
June 30, 2011

Fortenberry & Ballard, PC
Certified Public Accountants

FINANCIAL AUDIT REPORT

**Montgomery County School District
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FORTENBERRY & BALLARD, PC
CERTIFIED PUBLIC ACCOUNTANTS

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, 2011, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 previously 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, 2011, 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 January 11, 2012, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 and the Schedule of Instructional, Administrative and Other Expenditures for Governmental Funds are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

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 other 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 do not express an opinion or provide any assurance on it.

Fortenberry & Ballard, PC

Fortenberry & Ballard, PC
January 11, 2012

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

Montgomery County School District
Management's Discussion and Analysis
For the Year Ended June 30, 2011

The following discussion and analysis of Montgomery County School District's financial performance provides an overview of the School District's financial activities for the year ended June 30, 2011. The intent of this discussion and analysis is to look at the School District's performance as a whole. Readers are encouraged to review the financial statements and the notes to the financial statements to enhance their understanding of the School District's financial performance.

FINANCIAL HIGHLIGHTS

- Total net assets for 2011 increased \$152,387, including a prior period adjustment of \$34,288, which represents a 26% increase from fiscal year 2010. Total net assets for 2010 decreased \$136,646, which represents a 19 % decrease from fiscal year 2009.
- General revenues amounted to \$3,319,825 and \$3,467,953, or 65% and 66% of all revenues for fiscal years 2011 and 2010, respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for \$1,751,828, or 35% of total revenues for 2011, and \$1,770,714, or 34% of total revenues for 2010.
- The District had \$4,953,554 and \$5,375,313 in expenses for fiscal years 2011 and 2010; only \$1,751,828 for 2011 and \$1,770,714 for 2010 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$3,319,825 for 2011 were adequate to provide for these programs. However, \$3,467,953 for 2010 were not adequate to provide for these programs.
- Among the major funds, the General Fund had \$3,086,581 in revenues and \$2,969,081 in expenditures for 2011, and \$3,129,646 in revenues and \$3,309,175 in expenditures for 2010. The General Fund's fund balance increased by \$80,078 from 2010 to 2011, and decreased by \$162,686 from 2009 to 2010.
- Capital assets, net of accumulated depreciation, decreased by \$2,284 for 2011 and decreased by \$16,118 for 2010. The decrease for 2011 was due to prior period adjustments to mobile equipment and furniture and equipment and their related accumulated depreciation.
- Long-term debt decreased by \$86,026 for 2011 and decreased by \$85,250 for 2010. This decrease was due primarily to principal payments on outstanding long-term debt. In addition, the liability for compensated absences increased by \$409 for 2011 and decreased by \$6 for 2010.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements, which include government-wide financial statements, fund financial statements, and notes to the financial statements. This report also contains required supplemental information, supplemental information, and other information.

Montgomery County School District
Management's Discussion and Analysis
For the Year Ended June 30, 2011

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the District's finances. These statements consist of the Statement of Net Assets and the Statement of Activities, which are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. The current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Assets presents information on all the District's nonfiduciary assets and liabilities, with the difference between the two reported as "net assets." Over time, increases or decreases in the District's net assets may serve as a useful indicator of whether its 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 periods.

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.

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 - Most of the District's general activities are reported in its governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, governmental funds are accounted for using the modified accrual basis of accounting and the flow of current financial resources measurement focus. The approach focus on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at year end. The governmental fund statements provide a detailed view of the District's near term financing requirements.

Montgomery County School District
Management's Discussion and Analysis
For the Year Ended June 30, 2011

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 near term financing decisions. The governmental funds Balance Sheet is reconciled to the Statement of Net Assets, and the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances is reconciled to the Statement of Activities to facilitate this comparison between governmental funds and governmental activities.

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 funds Balance Sheet and in the governmental funds 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.

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. These funds are reported using the accrual basis of accounting. The school district is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

Reconciliation of Government-wide and Fund Financial Statements

The financial statements include two schedules that reconcile the amounts reported on the governmental funds financial statements (modified accrual basis of accounting) with government-wide financial statements (accrual basis of accounting). The following summarizes the major differences between the two statements:

Capital assets used in governmental activities are not reported on governmental funds financial statements.

Capital outlay spending results in capital assets on government-wide financial statements, but is reported as expenditures on the governmental funds financial statements.

Bond and note proceeds result in liabilities on government-wide financial statements, but are recorded as other financing sources on the governmental funds financial statements.

Certain other outflows represent either increases or decreases in liabilities on the government-wide financial statements, but are reported as expenditures on the governmental funds financial statements.

Montgomery County School District
Management's Discussion and Analysis
For the Year Ended June 30, 2011

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 immediately following the basic financial statements.

Required Supplemental Information

In addition to the basic financial statements and accompanying notes, this report also presents budgetary comparison schedules as required supplemental information. 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 as required by the Governmental Accounting Standard Board.

Supplemental Information

Additionally, a Schedule of Expenditures of Federal Awards as required by OMB Circular A-133 and a Schedule of Instructional, Administrative and Other Expenditures for governmental funds can be found in this report.

Other Information

Although not a required part of the basic financial statements, 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.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets

Net assets may serve over time as a useful indicator of the District's financial position. Assets exceeded liabilities by \$746,638 as of June 30, 2011.

The District's financial position is a product of several financial transactions including the net result of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets and the depreciation of capital assets.

Table 1 presents a summary of the District's net assets at June 30, 2011 and June 30, 2010.

Montgomery County School District
Management's Discussion and Analysis
For the Year Ended June 30, 2011

Table 1
Condensed Statement of Net Assets

	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>Percentage Change</u>
Current assets	\$ 802,062	840,711	-5%
Restricted assets	160,209	107,547	49%
Capital assets, net	696,542	698,826	0%
Total assets	<u>1,658,813</u>	<u>1,647,084</u>	1%
Current liabilities	200,196	255,237	-22%
Long-term debt outstanding	711,979	797,596	-11%
Total liabilities	<u>912,175</u>	<u>1,052,833</u>	-13%
Net assets:			
Invested in capital assets, net of related debt	28,743	(54,999)	-152%
Restricted	671,422	682,446	-2%
Unrestricted	46,473	(33,196)	-240%
Total net assets	<u>\$ 746,638</u>	<u>594,251</u>	26%

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

- Decrease in net capital assets in the amount of \$2,284.
- The principal retirement of \$86,026 of long-term debt.

Changes in net assets

The District's total revenues for the fiscal years ended June 30, 2011 and June 30, 2010 were \$5,071,653 and \$5,238,667, respectively. The total cost of all programs and services was \$4,953,554 for 2011 and \$5,375,313 for 2010.

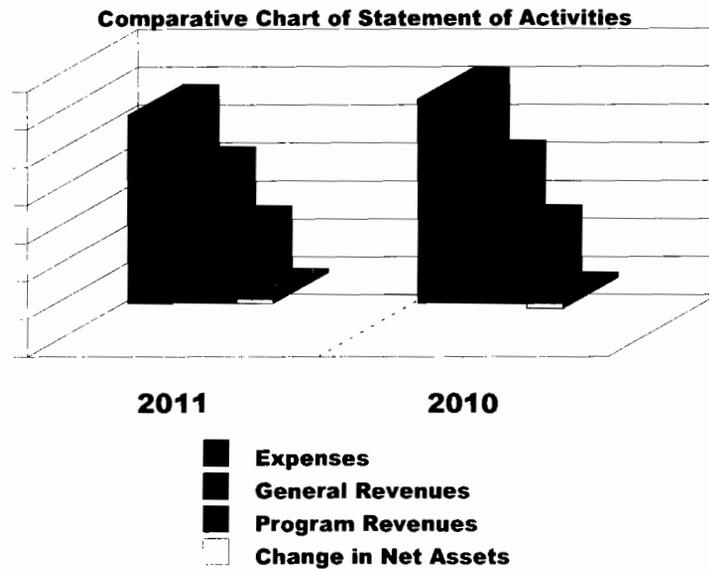
Table 2 presents a summary of the changes in net assets for the fiscal years ended June 30, 2011 and June 30, 2010.

Montgomery County School District
Management's Discussion and Analysis
For the Year Ended June 30, 2011

Table 2
Changes in Net Assets

	<u>Year Ended June 30, 2011</u>	<u>Year Ended June 30, 2010</u>	<u>Percentage Change</u>
Revenues:			
Program revenues:			
Charges for services	\$ 63,906	75,125	-15%
Operating grants and contributions	1,675,364	1,611,498	4%
Capital grants and contributions	<u>12,558</u>	<u>84,091</u>	-85%
Total program revenues	<u>1,751,828</u>	<u>1,770,714</u>	-1%
General revenues:			
Property taxes	1,035,564	1,012,447	2%
Grants and contributions not restricted	2,183,513	2,313,610	-6%
Unrestricted investment earnings	1,617	2,727	-41%
Sixteenth section sources	98,480	135,127	-27%
Other	<u>651</u>	<u>4,042</u>	-84%
Total general revenues	<u>3,319,825</u>	<u>3,467,953</u>	-4%
Total revenues	<u>5,071,653</u>	<u>5,238,667</u>	-3%
Expenses:			
Instruction	2,862,376	3,177,686	-10%
Support services	1,739,992	1,829,906	-5%
Non-instructional	277,282	287,855	-4%
Sixteenth section	38,932	40,860	-5%
Interest on long-term debt	<u>34,972</u>	<u>39,006</u>	-10%
Total expenses	<u>4,953,554</u>	<u>5,375,313</u>	-8%
Increase (Decrease) in net assets	<u>118,099</u>	<u>(136,646)</u>	186%
Net Assets, July 1, as originally reported	594,251	730,897	-19%
Prior Period Adjustment	<u>34,288</u>		
Net Assets, July 1, as restated	<u>628,539</u>	<u>730,897</u>	-14%
Net Assets, June 30	<u>\$ 746,638</u>	<u>594,251</u>	26%

**Montgomery County School District
Management's Discussion and Analysis
For the Year Ended June 30, 2011**



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 functional activity'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.

**Table 3
Net Cost of Governmental Activities**

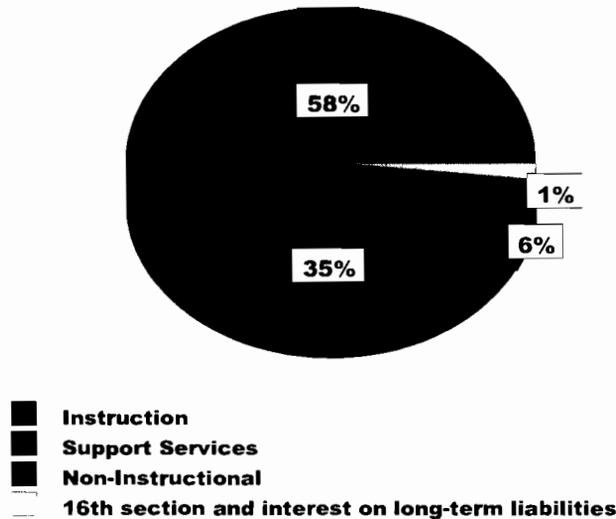
	Total Expenses		
	2011	2010	Percentage Change
Instruction	\$ 2,862,376	3,177,686	-10%
Support services	1,739,992	1,829,906	-5%
Non-instructional	277,282	287,855	-4%
Sixteenth section	38,932	40,860	-5%
Interest on long-term liabilities	34,972	39,006	-10%
Total expenses	\$ 4,953,554	5,375,313	-8%

**Montgomery County School District
Management's Discussion and Analysis
For the Year Ended June 30, 2011**

Net (Expense) Revenue

	<u>2011</u>	<u>2010</u>	<u>Percentage Change</u>
Instruction	\$ (1,829,399)	(2,070,925)	-12%
Support services	(1,285,150)	(1,441,843)	-11%
Non-instructional	(13,273)	(15,379)	-14%
Sixteenth section	(38,932)	(37,446)	4%
Interest on long-term liabilities	(34,972)	(39,006)	-10%
Total net (expense) revenue	\$ (3,201,726)	(3,604,599)	-11%

Expenses per Statement of Activities



- Net cost of governmental activities (\$3,201,726 for 2011 and \$3,604,599 for 2010) was financed by general revenue, which is made up of primarily property taxes (\$1,035,564 for 2011 and \$1,012,447 for 2010) and state and federal revenues (\$2,183,513 for 2011 and \$2,313,610 for 2010). In addition, there was \$98,480 and \$135,127 in Sixteenth Section sources for 2011 and 2010 respectively.
- Investment earnings amounted to \$1,617 for 2011 and \$2,727 for 2010.

Montgomery County School District
Management's Discussion and Analysis
For the Year Ended June 30, 2011

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, unassigned 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 \$774,810, an increase of \$67,505, which includes a decrease in inventory of \$1,533. \$83,107, or 11% of the fund balance is unassigned, represents the residual classification for the general fund's fund balance that has not been assigned to other funds and that has not been restricted or assigned to specific purposes within the general fund. The remaining fund balance of \$691,703, or 89% is either nonspendable, restricted or assigned to indicate that it is not available for spending except only for the purposes to which it is restricted or assigned.

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 \$80,078. The fund balance of Other Governmental Funds showed an increase in the amount of \$1,111, which includes a decrease in inventory of \$1,533. The increase (decrease) in the fund balances for the other major funds were as follows:

<u>Major Fund</u>	<u>Increase (Decrease)</u>
Forestry Escrow Fund	\$ (17,251)
MAEP Retirement Fund	3,222
16 th Section Principal Fund	345

BUDGETARY HIGHLIGHTS

During the year, the District revised the annual operating budget. Budget revisions were made to address and correct the original budgets to reflect more accurately the sources and uses of funding for the School District.

Montgomery County School District
Management's Discussion and Analysis
For the Year Ended June 30, 2011

- Budgeted amounts for revenue from Federal sources from the General Fund were increased during the fiscal year to reflect actual revenue received. Amounts originally budgeted were understated.
- Budgeted amounts for sixteenth section expenditures from the Forestry Escrow Fund were increased during the fiscal year to reflect actual expenditures. Amounts originally budgeted were understated.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2011, the District's total capital assets were \$2,587,840, including land, school buildings, building improvements, improvements other than buildings, buses, other school vehicles and furniture and equipment. This amount represents a decrease of \$34,410 from 2010. Total accumulated depreciation as of June 30, 2011 was \$1,891,298, and total depreciation expense for the year was \$36,572 and accumulated depreciation as of June 30, 2011, resulting in total net capital assets of \$696,542.

Table 4
Capital Assets

	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>Percentage Change</u>
Land	\$ 11,203	11,203	0%
Buildings	286,653	290,179	-1%
Building improvements	70,356	75,058	-6%
Improvements other than buildings	21,191	22,307	-5%
Mobile equipment	193,141	175,583	10%
Furniture and equipment	25,241	30,356	-17%
Leased property under capital leases	88,757	94,140	-6%
Total	\$ <u>696,542</u>	<u>698,826</u>	0%

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

Debt Administration. At June 30, 2011, the District had \$711,979 in outstanding long-term debt, of which \$91,843 is due within one year. The liability for compensated absences increased \$409 from the prior year.

**Montgomery County School District
Management's Discussion and Analysis
For the Year Ended June 30, 2011**

**Table 5
Outstanding Long-Term Debt**

	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>Percentage Change</u>
Limited obligation bonds payable	\$ 605,000	675,000	-10%
Obligations under energy efficiency leases	62,799	78,825	-20%
Compensated absences payable	44,180	43,771	1%
Total	\$ <u>711,979</u>	<u>797,596</u>	-11%

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

CURRENT ISSUES

The Montgomery County School District is not financially stable. Even though net assets increased during the year by \$152,387 as noted on Exhibit B, the District has been relying on Sixteenth Section revenues to supplement operations over the last several years.

The District actively pursues grant funding to supplement the local, state and federal revenues.

Enrollment for the 2010-2011 year decreased by 18% to 331 students.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report or need additional financial information, contact the Superintendent's Office of the Montgomery County School District, Box 687, Winona, MS 38967.

FINANCIAL STATEMENTS

MONTGOMERY COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2011

	Governmental Activities
Assets	
<i>Cash and cash equivalents</i>	\$ 569,032
<i>Due from other governments</i>	227,924
<i>Accrued interest receivable</i>	54
<i>Inventories</i>	5,052
<i>Restricted assets</i>	160,209
<i>Capital assets, non-depreciable:</i>	
<i>Land</i>	11,203
<i>Capital assets, net of accumulated depreciation:</i>	
<i>Buildings</i>	286,653
<i>Building improvements</i>	70,356
<i>Improvements other than buildings</i>	21,191
<i>Mobile equipment</i>	193,141
<i>Furniture and equipment</i>	25,241
<i>Leased property under capital leases</i>	88,757
Total Assets	<u>1,658,813</u>
Liabilities	
<i>Accounts payable and accrued liabilities</i>	186,637
<i>Unearned revenue</i>	824
<i>Interest payable on long-term liabilities</i>	12,735
Long-term liabilities (due within one year):	
<i>Capital related liabilities</i>	91,843
Long-term liabilities (due beyond one year):	
<i>Capital related liabilities</i>	575,956
<i>Non-capital related liabilities</i>	44,180
Total Liabilities	<u>912,175</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	28,743
Restricted For:	
Expendable:	
School based activities	85,513
Debt service	92,615
Forestry improvements	365,818
Unemployment benefits	19,584
Sixteenth section	107,892
Unrestricted	46,473
Total Net Assets	<u>\$ 746,638</u>

The accompanying notes are an integral part of this statement.

MONTGOMERY COUNTY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2011

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions
Governmental Activities:				Governmental Activities	
<i>Instruction</i>	2,862,376	41,449	978,970	12,558	(1,829,399)
<i>Support services</i>	1,739,992	--	454,842	--	(1,285,150)
<i>Noninstructional services</i>	277,282	22,457	241,552	--	(13,273)
<i>Sixteenth section</i>	38,932	--	--	--	(38,932)
<i>Interest on long-term liabilities</i>	34,972	--	--	--	(34,972)
Total Governmental Activities	\$ 4,953,554	\$ 63,906	\$ 1,675,364	\$ 12,558	(3,201,726)

General Revenues:

Taxes:

General purpose levies

1,035,564

Unrestricted grants and contributions:

State

2,026,430

Federal

157,083

Unrestricted investment earnings

1,617

Sixteenth section sources

98,480

Other

651

Total General Revenues**3,319,825**

Change in Net Assets

118,099

Net Assets - Beginning, as originally reported

594,251

Prior Period Adjustment

34,288

Net Assets - Beginning, as restated

628,539

Net Assets - Ending

\$ 746,638

The accompanying notes are an integral part of this statement.

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MONTGOMERY COUNTY SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2011

	General Fund	Forestry Escrow Fund
Assets		
Cash and cash equivalents	\$ 129,096	\$ 366,417
Cash with fiscal agents	--	--
Investments	--	--
Due from other governments	93,805	--
Accrued interest receivable	--	--
Inventories	--	--
Total Assets	\$ 222,901	\$ 366,417
Liabilities and Fund Balances		
Liabilities:		
Accounts payable and accrued liabilities	\$ 132,248	\$ 599
Unearned revenue	--	--
Total Liabilities	132,248	599
Fund balances:		
Nonspendable:		
Permanent fund principal	--	--
Inventory	--	--
Restricted:		
Unemployment benefits	--	--
Forestry improvement purposes	--	365,818
Debt service	--	--
Grant activities	--	--
Food services	--	--
Sixteenth section interest	--	--
Assigned:		
Activity funds	7,546	--
Unassigned		
	83,107	--
Total Fund Balances	90,653	365,818
Total Liabilities and Fund Balances	\$ 222,901	\$ 366,417

The accompanying notes are an integral part of this statement.

EXHIBIT C

MAEP Retirement Fund	16th Section Principal Fund	Other Governmental Funds	Total Governmental Funds
\$ 9,234	\$ 901	\$ 73,519	\$ 579,167
27	--	--	27
43,110	106,937	--	150,047
52,979	--	81,140	227,924
--	54	--	54
--	--	5,052	5,052
<u>\$ 105,350</u>	<u>\$ 107,892</u>	<u>\$ 159,711</u>	<u>\$ 962,271</u>
\$ --	\$ --	\$ 53,790	\$ 186,637
--	--	824	824
--	--	<u>54,614</u>	<u>187,461</u>
--	107,892	--	107,892
--	--	5,052	5,052
--	--	19,584	19,584
--	--	--	365,818
105,350	--	--	105,350
--	--	12,706	12,706
--	--	29,713	29,713
--	--	38,042	38,042
--	--	--	7,546
--	--	--	83,107
<u>105,350</u>	<u>107,892</u>	<u>105,097</u>	<u>774,810</u>
<u>\$ 105,350</u>	<u>\$ 107,892</u>	<u>\$ 159,711</u>	<u>\$ 962,271</u>

MONTGOMERY COUNTY SCHOOL DISTRICT
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2011

Total fund balances for governmental funds	\$ 774,810
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not reported in the funds.	696,542
Liabilities due in one year are not recognized in the funds.	(91,843)
Payables for bond principal which are not due in the current period are not reported in the funds.	(530,000)
Payables for leases which are not due in the current period are not reported in the funds.	(45,956)
Payables for bond interest which are not due in the current period are not reported in the funds.	(12,735)
Payables for compensated absences not due in the current period are not reported in the funds.	(44,180)
Net assets of governmental activities	\$ <u>746,638</u>

The accompanying notes are an integral part of this statement.

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MONTGOMERY COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	General Fund	Forestry Escrow Fund
Revenues:		
Local sources	\$ 1,077,282	\$ --
State sources	1,958,402	--
Federal sources	50,897	--
Sixteenth section sources	--	820
Total Revenues	<u>3,086,581</u>	<u>820</u>
Expenditures:		
Instruction	1,690,892	--
Support services	1,278,189	--
Noninstructional services	--	--
Sixteenth section	--	18,071
Debt service:		
Principal	--	--
Interest	--	--
Total Expenditures	<u>2,969,081</u>	<u>18,071</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	117,500	(17,251)
Other Financing Sources (Uses):		
Transfers in	88,830	--
Transfers out	(126,252)	--
Other financing uses	--	--
Total Other Financing Sources (Uses)	<u>(37,422)</u>	<u>--</u>
Net Change in Fund Balances	80,078	(17,251)
Fund Balances:		
July 1, 2010	10,575	383,069
Increase (decrease) in reserve for inventory	--	--
June 30, 2011	<u>\$ 90,653</u>	<u>\$ 365,818</u>

The accompanying notes are an integral part of this statement.

EXHIBIT D

MAEP Retirement Fund	16th Section Principal Fund	Other Governmental Funds	Total Governmental Funds
\$ 20	\$ --	\$ 23,075	\$ 1,100,377
105,957	--	111,358	2,175,717
--	--	1,644,821	1,695,718
--	345	98,676	99,841
<u>105,977</u>	<u>345</u>	<u>1,877,930</u>	<u>5,071,653</u>
--	--	1,145,475	2,836,367
--	--	454,489	1,732,678
--	--	272,091	272,091
--	--	20,861	38,932
70,000	--	16,026	86,026
32,170	--	3,766	35,936
<u>102,170</u>	<u>--</u>	<u>1,912,708</u>	<u>5,002,030</u>
3,807	345	(34,778)	69,623
--	--	194,337	283,167
--	--	(156,915)	(283,167)
(585)	--	--	(585)
<u>(585)</u>	<u>--</u>	<u>37,422</u>	<u>(585)</u>
3,222	345	2,644	69,038
102,128	107,547	103,986	707,305
--	--	(1,533)	(1,533)
<u>\$ 105,350</u>	<u>\$ 107,892</u>	<u>\$ 105,097</u>	<u>\$ 774,810</u>

MONTGOMERY COUNTY SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

Net change in fund balances - total governmental funds	\$ 69,038
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:	
The depreciation of capital assets used in governmental activities is not reported in the funds.	(36,572)
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	70,000
Repayment of principal is an expenditure in the funds but is not an expense in the SOA.	16,026
(Increase) decrease in accrued interest from beginning of period to end of period.	1,549
Change in inventory is an adjustment to fund balance in the funds but affects expense in the SOA.	(1,533)
Compensated absences are reported as amount earned in SOA but as amount paid in the funds.	(409)
Change in net assets of governmental activities	\$ <u>118,099</u>

The accompanying notes are an integral part of this statement.

MONTGOMERY COUNTY SCHOOL DISTRICT
 STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 JUNE 30, 2011

	Private- Purpose Trust Fund	Agency Funds
Assets		
<i>Cash and other deposits</i>		\$ 14,113
<i>Investments</i>	\$ 19,946	-
Total Assets	<u>\$ 19,946</u>	<u>\$ 14,113</u>
Liabilities		
<i>Accounts Payable & Accrued Liabilities</i>		\$ 11,161
<i>Due to student clubs</i>		2,952
Total Liabilities		<u>\$ 14,113</u>
Net Assets		
<i>Reserved for endowments</i>	\$ 19,946	
Total Net Assets	<u>\$ 19,946</u>	

The accompanying notes are an integral part of this statement.

MONTGOMERY COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	Private- Purpose Trust Fund
Additions	
Investment Income	\$ 9
Total Additions	9
Change in Net Assets	9
Net Assets	
July 1, 2010	19,937
June 30, 2011	\$ 19,946

The accompanying notes are an integral part of this statement.

Montgomery County School District

Notes to the Financial Statements
For the Year Ended June 30, 2011

Montgomery County School District

Notes to the Financial Statements
For the Year Ended June 30, 2011

Note 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. Basis of Presentation

In February 2009, the GASB issued GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The fund balance amounts for governmental funds have been reclassified in accordance with GASB Statement No. 54. As a result, amounts previously reported as reserved and unreserved are now reported as nonspendable, restricted, committed, assigned, or unassigned.

B. 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 is 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.

C. Government-wide and Fund Financial Statements

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the non-fiduciary activities of the District. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental

Montgomery County School District

Notes to the Financial Statements For the Year Ended June 30, 2011

revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's non-fiduciary 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 of 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, are 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 taxes 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 and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported in separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other governmental funds.

The school district reports the following major governmental funds:

General Fund - This is the school district's primary operating fund. The general fund is used to account for and report all financial resources not accounted for and reported in another fund.

Forestry Escrow Fund - This is the school district's fund that is used for improvements to sixteenth section land and timber resources.

Montgomery County School District

Notes to the Financial Statements
For the Year Ended June 30, 2011

MAEP Retirement Fund - This is a debt service fund that accounts for resources that are set aside to retire the limited obligation bond liability of the district. The funds are set aside throughout the Mississippi Adequate Education Program.

Sixteenth Section Principal Fund - This is a permanent fund that accounts for the nonexpendable resources derived from the use of sixteenth section lands held in trust by the school district and from the investment of sixteenth section funds.

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

The school district also reports fiduciary funds which focus on assets and changes in net assets.

The District's fiduciary funds include the following:

Payroll Clearing Fund - This fund serves as a clearing fund for payroll type transactions.

Student Club Funds - These various funds account for the monies raised through school club activities and fund raisers and club related expenditures approved by the individual clubs.

Endowment Fund - This fund is used to fund scholarships for award winners.

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

Special Revenue Funds - Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Debt Service Funds - Debt Service Funds are used to account for and report resources that are restricted, committed, or assigned to expenditure for principal and interest.

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

Montgomery County School District

Notes to the Financial Statements
For the Year Ended June 30, 2011

FIDUCIARY FUNDS

Private-purpose Trust Funds - Private-purpose trust funds are used to report all trust arrangements, other than those properly reported elsewhere, in 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.

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

In the government-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the economic resources measurement focus and the accrual basis of accounting, as are the Fiduciary Fund financial statements. Revenues are recorded when earned, and expenses are recorded when a 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.

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 taxes, 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.

Montgomery County School District

Notes to the Financial Statements
For the Year Ended June 30, 2011

Ad valorem property taxes are levied by the governing authorities 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 the 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 inter-fund activity has been eliminated from the government-wide statements.

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

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing, and Financial Reporting*, 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.

F. Assets, liabilities, and net assets/fund balances

1. Cash, Cash equivalents and Investments

Cash and cash equivalents

Montgomery County School District

Notes to the Financial Statements For the Year Ended June 30, 2011

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 Sections 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 an original maturity greater than three months when acquired.

Investments for the district are reported at fair market value.

2. Receivables and payables

Activities 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 inter-fund loans) or "advances to/from other funds" (i.e., the non-current portion of inter-fund 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.

Montgomery County School District

Notes to the Financial Statements For the Year Ended June 30, 2011

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.

5. Restricted Assets

Certain resources set aside for repayment of debt are classified as restricted assets on the Statement of Net Assets 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 fund.

6. Capital Assets

Capital assets include land, improvements to land, easements, water rights, timber rights, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Capital assets 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 table below.

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.

Montgomery County School District

Notes to the Financial Statements
For the Year Ended June 30, 2011

The following schedule details the capitalization 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.

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 and/or vacation leave in accordance with school district policy. The district pays for unused leave for employees as required to do so by Section 37-7-307(5), Miss. Code Ann. (1972).

The liability for these compensated absences is recorded as a long-term liability 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 liability for compensated absences from expendable available financial resources only if the payable has matured, for example, an employee retires.

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

In the government-wide 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.

Montgomery County School District

Notes to the Financial Statements For the Year Ended June 30, 2011

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 Balances

Fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Governmental fund balance is classified as nonspendable, restricted, committed, assigned or unassigned. Following are descriptions of fund classifications used by the district:

Nonspendable fund balance includes items that cannot be spent. This includes activity that is not in a spendable form (inventories, prepaid amounts, long-term portion of loans/notes receivable, or property held for resale unless the proceeds are restricted, committed, or assigned) and activity that is legally or contractually required to remain intact, such as a principal balance in a permanent fund..

Restricted fund balance includes amounts that have constraints placed upon the use of the resources either by an external party or imposed by law through a constitutional provision or enabling legislation.

Committed fund balance includes amounts that can be used only for the specific purposes pursuant to constraints imposed by a formal action of the School Board, the District's highest level of decision-making authority. This formal action is the formal action that is required to be taken by the Board to establish the commitment. Currently there is no committed fund balance for this school district.

Assigned fund balance includes amounts that are constrained by the District's intent to be used for a specific purpose, but are neither restricted nor committed. For governmental funds, other than the general fund, this is the residual amount within the fund that is not restricted or committed. Assignments of fund balance are created by the District pursuant to authorization established by Board.

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The general fund should be the

Montgomery County School District

Notes to the Financial Statements
For the Year Ended June 30, 2011

only fund that reports a positive unassigned fund balance amount. In other governmental funds, it may be necessary to report a negative unassigned fund balance.

When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) resources are available, it is the District's general policy to use restricted resources first. When expenditures are incurred for purposes for which unrestricted (committed, assigned and unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the District's general policy to spend committed resources first, followed by assigned amounts, and then unassigned amounts.

Note 2 - Cash and Cash Equivalents, Cash with Fiscal Agents 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 excess 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 deposit 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, not to exceed fifty percent of all monies invested with maturities of thirty days or longer; (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 other interests in, any open-end or closed-end management type investment company or investment trust approved by the State Treasurer and the Executive Director of the Department of Finance and

Montgomery County School District

Notes to the Financial Statements For the Year Ended June 30, 2011

Administration, not to exceed twenty percent of invested excess funds. 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. Investment income of less than \$100 can be credited to the General Fund.

Cash and Cash Equivalents

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$579,167 and \$14,113, respectively. The carrying amount of deposits reported in government-wide statements was: cash and cash equivalents \$569,032 and a portion of restricted assets in the amount of \$10,135 (see Note 4). The bank balance was \$831,665.

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, 2011, none of the district's bank balance of \$831,665 was exposed to custodial credit risk.

Cash with Fiscal Agents

The carrying amount of school district's cash with fiscal agents held by financial institutions was \$27. This amount is presented as restricted assets on Exhibit A.

Investments

As of June 30, 2011 the district had the following investments.

<u>Investment Type</u>	<u>Rating</u>	<u>Maturities in (years)</u>	<u>Fair Value</u>
Certificates of Deposit		Less than 1 year	\$ 126,883
Hancock Horizon Treasury Securities			
Money Market Mutual Funds	AAAm	Less than 1 year	43,110
Total Investments			<u>\$ 169,993</u>

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

Montgomery County School District

Notes to the Financial Statements
For the Year Ended June 30, 2011

Credit Risk. State law limits investments to those prescribed in Sections 27-105-33(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. As of June 30, 2011, the district did not have any investments to which this would apply.

Concentration of Credit Risk. Disclosures of investments by amount and issuer for any issuer that represents five percent or more of total investments is required. This requirement does not apply to investments issued or explicitly guaranteed by the U.S. government, investments in mutual funds and external investment pools, and other pooled investments.

Note 3 - Inter-fund Receivables, Payables and Transfers

The following is a summary of inter-fund transactions and balances:

A. Interfund Transfers

<u>Transfers Out</u>	<u>Transfers In</u>	<u>Amount</u>
Other Governmental Funds	General Fund	\$ 88,830
General Fund	Other Governmental Funds	126,252
Other Governmental Funds		<u>68,085</u>
Total		\$ <u><u>283,167</u></u>

The purpose of the transfers was to provide funds for general operating activities. All transfers were routine and consistent with the fund making the transfer.

Note 4 - Restricted Assets

The restricted assets represent the cash and investment balance, totaling \$901 and \$106,937, respectively, of the Sixteenth Section Principal fund (Permanent Fund) which is legally restricted and may not be used for purposes that support the districts's programs.

In addition, the restricted assets represents the cash, cash with fiscal agents and investment balances, totaling \$9,234, \$27 and \$43,110, respectively, of the MAEP Retirement Fund.

Montgomery County School District

Notes to the Financial Statements
For the Year Ended June 30, 2011

Note 5 - Capital Assets

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

	Balance 7-1-2010	Additions	Adjustments	Balance 6-30-2011
<u>Non-depreciable capital assets:</u>				
Land	\$ 11,203			11,203
Total non-depreciable capital assets	11,203	0	0	11,203
<u>Depreciable capital assets:</u>				
Buildings	957,175			957,175
Building improvements	187,204			187,204
Improvements other than buildings	27,883			27,883
Mobile equipment	789,673		(10,855)	778,818
Furniture and equipment	542,135		(23,555)	518,580
Leased property under capital leases	106,977			106,977
Total depreciable capital assets	2,611,047	0	(34,410)	2,576,637
<u>Less accumulated depreciation for:</u>				
Buildings	666,996	3,526		670,522
Building improvements	112,146	4,702		116,848
Improvements other than buildings	5,576	1,116		6,692
Mobile equipment	614,090	17,944	(46,357)	585,677
Furniture and equipment	511,779	3,901	(22,341)	493,339
Leased property under capital leases	12,837	5,383		18,220
Total accumulated depreciation	1,923,424	36,572	(68,698)	1,891,298
Total depreciable capital assets, net	687,623	(36,572)	34,288	685,339
Governmental activities capital assets, net	\$ 698,826	(36,572)	34,288	696,542

Adjustments were made to correctly present capital assets at year end.

Depreciation expense was charged to the following governmental functions:

	<u>Amount</u>
Instruction	\$ 25,601
Support services	7,314
Non-instructional	3,657
Total depreciation expense	\$ 36,572

Note 6 - Long-Term Liabilities

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

Montgomery County School District

Notes to the Financial Statements
For the Year Ended June 30, 2011

	Balance 7-1-2010	Additions	Reductions	Balance 6-30-2011	Amounts due within one year
A. Limited obligation bonds payable	\$ 675,000		70,000	605,000	75,000
B. Obligations under energy efficiency leases	78,825		16,026	62,799	16,843
C. Compensated absences payable	43,771	409		44,180	
Total	\$ 797,596	409	86,026	711,979	91,843

A. Limited obligation bonds payable

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
State Aid Capital Improvement Bonds, Series 1998	4.5-4.8%	2/1/1998	2/1/2018	\$ <u>1,230,000</u>	<u>605,000</u>

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

Year Ending June 30	Principal	Interest	Total
2012	\$ 75,000	28,880	103,880
2013	80,000	25,318	105,318
2014	80,000	21,517	101,517
2015	85,000	17,418	102,418
2016	90,000	13,680	103,680
2017-2018	195,000	14,160	209,160
Total	\$ <u>605,000</u>	<u>120,973</u>	<u>725,973</u>

This debt will be retired from the MAEP Retirement 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 the Adequate Education 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 leases

Debt currently outstanding is as follows:

Montgomery County School District

Notes to the Financial Statements For the Year Ended June 30, 2011

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Master Lease Purchase - Series 2008A	5.03%	04-01-08	04-01-15	\$ <u>106,977</u>	<u>62,799</u>

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

1. Obligations under energy efficiency leases issue of April 1, 2008:

Year Ending June 30	Principal	Interest	Total
2012	\$ 16,843	2,949	19,792
2013	17,701	2,091	19,792
2014	18,602	1,190	19,792
2015	9,653	243	9,896
Total	\$ <u>62,799</u>	<u>6,473</u>	<u>69,272</u>

This debt will be retired from the District Maintenance Fund.

C. Compensated absences payable

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.

Note 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 9.00% 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, 2011 was 12.00% of the annual covered

Montgomery County School District

Notes to the Financial Statements For the Year Ended June 30, 2011

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, 2011, 2010 and 2009 were \$311,772, \$350,979, and \$314,688, respectively, which equaled the required contributions for each year.

Note 8 - Sixteenth Section Lands

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

Year Ending June 30	Amount
2012	\$ 87,653
2013	87,653
2014	76,187
2015	33,950
2016	100
2017 - 2021	500
2022 - 2026	500
2027 - 2031	500
2032 - 2036	500
2037 - 2041	150
Total	\$ 287,693

Note 9 - Risk Management

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

Montgomery County School District

Notes to the Financial Statements
For the Year Ended June 30, 2011

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 72 school districts and covers risks of loss arising from injuries to the member's employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of 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 up 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. The district has not had an additional assessment for excess losses incurred by the pool.

Note 10 - Prior Period Adjustments

A summary of significant fund balance adjustments is as follows:

Exhibit B - Statement of Activities

<u>Explanation</u>	<u>Amount</u>
1 To correctly present capital asset at the end of the year.	\$ <u>34,288</u>

Note 11 - 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.

Litigation - The school district is party to legal proceedings, many of which occur in the normal course of governmental operations. It is not possible at the present time to estimate the outcome or liability, if any, of the school district with respect to the various proceedings. However, the school district's legal counsel believes that ultimate liability resulting from these lawsuits will not have a material adverse effect on the financial condition of the school district.

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REQUIRED SUPPLEMENTAL INFORMATION

MONTGOMERY COUNTY SCHOOL DISTRICT

Exhibit 1

Budgetary Comparison Schedule
 General Fund
 For the Year Ended June 30, 2011

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 1,127,159	1,136,309	1,077,282	9,150	(59,027)
State sources	1,973,627	1,988,230	1,958,402	14,603	(29,828)
Federal sources	45,000	100,000	50,897	55,000	(49,103)
Total Revenues	<u>3,145,786</u>	<u>3,224,539</u>	<u>3,086,581</u>	<u>78,753</u>	<u>(137,958)</u>
Expenditures:					
Instruction	1,756,102	1,763,740	1,690,892	(7,638)	72,848
Support services	1,295,901	1,340,793	1,278,189	(44,892)	62,604
Total Expenditures	<u>3,052,003</u>	<u>3,104,533</u>	<u>2,969,081</u>	<u>(52,530)</u>	<u>135,452</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>93,783</u>	<u>120,006</u>	<u>117,500</u>	<u>26,223</u>	<u>(2,506)</u>
Other Financing Sources (Uses):					
Transfers In	503,385	533,993	88,830	30,608	(445,163)
Transfers Out	(543,767)	(603,135)	(126,252)	(59,368)	476,883
Total Other Financing Sources (Uses)	<u>(40,382)</u>	<u>(69,142)</u>	<u>(37,422)</u>	<u>(28,760)</u>	<u>31,720</u>
Net Change in Fund Balances	<u>53,401</u>	<u>50,864</u>	<u>80,078</u>	<u>(2,537)</u>	<u>29,214</u>
Fund Balances:					
July 1, 2010	<u>22,824</u>	<u>0</u>	<u>10,575</u>	<u>(22,824)</u>	<u>10,575</u>
June 30, 2011	<u>\$ 76,225</u>	<u>50,864</u>	<u>90,653</u>	<u>(25,361)</u>	<u>39,789</u>

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

MONTGOMERY COUNTY SCHOOL DISTRICT

Exhibit 2

Budgetary Comparison Schedule
 Forestry Escrow Fund
 For the Year Ended June 30, 2011

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Sixteenth section sources	\$ 17,000	17,000	820	0	(16,180)
Total Revenues	<u>17,000</u>	<u>17,000</u>	<u>820</u>	<u>0</u>	<u>(16,180)</u>
Expenditures:					
Sixteenth section	13,500	18,300	18,071	(4,800)	229
Total Expenditures	<u>13,500</u>	<u>18,300</u>	<u>18,071</u>	<u>(4,800)</u>	<u>229</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>3,500</u>	<u>(1,300)</u>	<u>(17,251)</u>	<u>(4,800)</u>	<u>(15,951)</u>
Net Change in Fund Balances	<u>3,500</u>	<u>(1,300)</u>	<u>(17,251)</u>	<u>(4,800)</u>	<u>(15,951)</u>
Fund Balances:					
July 1, 2010	394,688	394,688	383,069	0	(11,619)
June 30, 2011	<u>\$ 398,188</u>	<u>393,388</u>	<u>365,818</u>	<u>(4,800)</u>	<u>(27,570)</u>

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

NOTES TO THE REQUIRED SUPPLEMENTAL INFORMATION

Montgomery County School District

Notes to the Required Supplemental Information
For the Year Ended June 30, 2011

Budgetary Comparison Schedule

(1) Basis of Presentation

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

(2) Budget Amendments and Revisions

The budget is adopted by the school board and filed with the taxing authority. Amendments can be made on the approval of the school board. By statute, final budget revisions must be approved on or before October 15. A budgetary comparison is presented for the general fund and each major special revenue fund consistent with accounting principles generally accepted in the United States of America.

SUPPLEMENTAL INFORMATION

Montgomery County School District
 Schedule of Expenditure of Federal Awards
 For the Year Ended June 30, 2011

Schedule 1

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	\$ 81,651
National School Lunch Program	10.555	171,219
Total child nutrition cluster		<u>252,870</u>
Total passed-through Mississippi Department of Education		<u>252,870</u>
Total U.S. Department of Agriculture		<u>252,870</u>
<u>Federal Communications Commission</u>		
Administered through Universal Service Administrative Company:		
The Schools and Libraries Program of the Universal Service Fund	32.xxx	41,275
Total Federal Communications Commission		<u>41,275</u>
<u>U.S. Department of Education</u>		
Passed-through the Mississippi Department of Education:		
Title I Cluster:		
Title I Grants to Local Educational Agencies	84.010	327,018
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	68,081
Total Title I Cluster		<u>395,099</u>
Education Technology Cluster:		
Education Technology State Grants	84.318	4,189
ARRA - Enhancing Education Through Technology Grant, Recovery Act	84.386	5,600
Total Education Technology Cluster		<u>9,789</u>
Safe and Drug Free Schools and Communities - State Grants	84.186	642
Even Start - State Educational Agencies	84.213	128,346
Twenty-first Century Community Learning Centers	84.287	267,620
Reading First State Grants	84.357	178,665
Improving Teacher Quality - State Grants	84.367	80,412
ARRA - State Fiscal Stabilization Funds - Education State Grants, Recovery Act	84.394	115,808
Education Jobs Fund	84.410	86,458
Subtotal		<u>857,951</u>
Special Education Cluster:		
Special Education - Grants to States	84.027	119,451
Special Education - Preschool Grants	84.173	5,463
ARRA - Special Education Grants to States, Recovery Act	84.391	2,836
ARRA - Special Education - Preschool Grants, Recovery Act	84.392	1,363
Total special education cluster		<u>129,113</u>
Total passed-through the Mississippi Department of Education		<u>1,391,952</u>
Total U.S. Department of Education		<u>1,391,952</u>
Total for All Federal Awards		<u>\$ 1,686,097</u>

NOTES TO SCHEDULE

1. This schedule was prepared using the same basis of accounting and 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, 2011

Schedule 2

Expenditures	Total	Instruction and Other Student Instructional Expenditures	General Administration	School Administration	Other
Salaries and fringe benefits	\$ 3,594,902	2,611,353	427,885	211,497	344,167
Other	1,407,128	713,806	90,773	4,329	598,220
Total	\$ 5,002,030	3,325,159	518,658	215,826	942,387
Total number of students *	331				
Cost per student	\$ 15,112	10,046	1,567	652	2,847

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); Support Services - Business (2500s)

School Administration - includes expenditures for the following functions: 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.

OTHER INFORMATION

MONTGOMERY COUNTY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
General Fund
Last Four Years

"UNAUDITED"

	2011	2010*	2009*	2008*
Revenues:				
Local sources	\$ 1,077,282	1,063,753	1,032,262	978,576
State sources	1,958,402	2,005,462	2,201,317	2,297,022
Federal sources	50,897	60,431	59,140	375,391
Total Revenues	3,086,581	3,129,646	3,292,719	3,650,989
Expenditures:				
Instruction	1,690,892	1,958,186	2,021,688	2,059,683
Support services	1,278,189	1,350,989	1,355,901	1,993,626
Total Expenditures	2,969,081	3,309,175	3,377,589	4,053,309
Excess (Deficiency) of Revenues over Expenditures	117,500	(179,529)	(84,870)	(402,320)
Other Financing Sources (Uses):				
Inception of capital leases				106,977
Sale of transportation equipment				801
Operating transfers in	88,830	145,159	201,374	435,000
Operating transfers out	(126,252)	(128,316)	(125,581)	(130,490)
Total Other Financing Sources (Uses)	(37,422)	16,843	75,793	412,288
Net Change in Fund Balances	80,078	(162,686)	(9,077)	9,968
Fund Balances:				
July 1,	10,575	173,261	182,338	172,370
June 30,	\$ 90,653	10,575	173,261	182,338

*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

	2011	2010*	2009*	2008*
Revenues:				
Local sources	\$ 1,100,377	1,088,584	1,066,035	1,017,628
State sources	2,175,717	2,236,374	2,440,733	2,521,000
Federal sources	1,695,718	1,772,825	1,123,990	1,295,526
Sixteenth section sources	99,841	140,884	159,019	570,460
Total Revenues	<u>5,071,653</u>	<u>5,238,667</u>	<u>4,789,777</u>	<u>5,404,614</u>
Expenditures:				
Instruction	2,836,367	3,163,038	2,708,881	2,627,295
Support services	1,732,678	1,828,836	1,726,277	2,313,511
Noninstructional services	272,091	288,410	309,105	296,138
Sixteenth section	38,932	40,860	78,838	425,487
Debt service:				
Principal	86,026	85,250	77,902	60,000
Interest	35,936	39,933	45,022	41,080
Other		585	585	550
Total Expenditures	<u>5,002,030</u>	<u>5,446,912</u>	<u>4,946,610</u>	<u>5,764,061</u>
Excess (Deficiency) of Revenues over Expenditures	<u>69,623</u>	<u>(208,245)</u>	<u>(156,833)</u>	<u>(359,447)</u>
Other Financing Sources (Uses):				
Inception of capital leases				106,977
Sale of transportation equipment				801
Operating transfers in	283,167	273,475	326,955	634,161
Operating transfers out	(283,167)	(273,475)	(326,955)	(634,161)
Other financing uses	(585)			
Total Other Financing Sources (Uses)	<u>(585)</u>	<u>0</u>	<u>0</u>	<u>107,778</u>
Net Change in Fund Balances	<u>69,038</u>	<u>(208,245)</u>	<u>(156,833)</u>	<u>(251,669)</u>
Fund Balances:				
July 1, as originally reported	707,305	914,601	1,069,585	1,305,495
Prior period adjustment				18,088
July 1, as restated	<u>707,305</u>	<u>914,601</u>	<u>1,069,585</u>	<u>1,323,583</u>
Increase (Decrease) in reserve for inventory	(1,533)	949	1,849	(2,329)
June 30,	<u>\$ 774,810</u>	<u>707,305</u>	<u>914,601</u>	<u>1,069,585</u>

*SOURCE - PRIOR YEAR AUDIT REPORTS

REPORTS ON INTERNAL CONTROL AND COMPLIANCE

FORTENBERRY & BALLARD, PC
CERTIFIED PUBLIC ACCOUNTANTS

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 Montgomery County School District as of and for the year ended June 30, 2011, and have issued our report thereon dated January 11, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Montgomery County School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Montgomery County School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Montgomery County School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Montgomery County School District's internal control over financial reporting.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Montgomery County 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

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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*.

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.

FORTENBERRY & BALLARD, PC

Fortenberry & Ballard, PC
January 11, 2012

Certified Public Accountants

FORTENBERRY & BALLARD, PC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE WITH OMB CIRCULAR A-133

Superintendent and School Board
Montgomery County School District

Compliance

We have audited the Montgomery County School District's compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The Montgomery County School District's major federal programs are identified in the summary of the 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 each of its major federal programs 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, the Montgomery County School District complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

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 Montgomery County School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance, and

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to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the school district's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. 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.

FORTENBERRY & BALLARD, PC

Fortenberry & Ballard, PC
January 11, 2012

Certified Public Accountants

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

FORTENBERRY & BALLARD, PC
CERTIFIED PUBLIC ACCOUNTANTS

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, 2011, which collectively comprise Montgomery County School District's basic financial statements and have issued our report thereon dated January 11, 2012. 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 ensure 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 \$5,395 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 ensure 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 did not disclose any instances of noncompliance with other state laws and regulations.

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.

FORTENBERRY & BALLARD, PC

Fortenberry & Ballard, PC
January 11, 2012

Certified Public Accountants

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Montgomery County School District
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2011

Section I: Summary of Auditor's Results

Financial Statements:

1. Type of auditor's report issued: Unqualified.
2. Internal control over financial reporting:
 - a. Material weakness(es) identified? No.
 - b. Significant deficiency(ies) identified? None reported.
3. Noncompliance material to financial statements noted? No.

Federal Awards:

4. Internal control over major programs:
 - a. Material weakness(es) identified? No.
 - b. Significant deficiency(ies) identified? None reported.
5. Type of auditor's report issued on compliance for major federal programs: Unqualified.
6. Any audit findings disclosed that are to be reported in accordance with Section 510(a) of OMB Circular A-133? No.
7. Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.010, 84.389	Title I Cluster
84.394	ARRA - State Fiscal Stabilization Fund, Recovery Act

8. Dollar threshold used to distinguish between type A and type B programs: \$300,000.
9. Auditee qualified as a low-risk auditee? Yes.

Section II: Financial Statements Findings

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

Section III: Federal Award Findings and Questioned Costs

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